

TEAM INC  
Form 10-K  
August 06, 2010  
[Table of Contents](#)

[Index to Financial Statements](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington D.C. 20549**

**FORM 10-K**

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

For the fiscal year ended May 31, 2010

OR

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

For the transition period from to

Commission File Number 001-08604

**TEAM, INC.**

(Exact name of registrant as specified in its charter)

TEXAS

74-1765729

Edgar Filing: TEAM INC - Form 10-K

(State of Incorporation)  
**200 Hermann Drive, Alvin, Texas**  
(Address of Principal Executive Offices)  
**Registrant's telephone number, including area code: (281) 331-6154**

(I.R.S. Employer Identification No.)  
**77511**  
(Zip Code)

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each Class</b>	<b>Name of Each Exchange on which Registered</b>
Common Stock, \$.30 par value	The NASDAQ Global Select Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the completion of the most recent second quarter:

Voting common stock (November 30, 2009) \$ 244,838,224  
For purposes for the foregoing calculation only, all directors, executive officers, the Team, Inc. Salary Deferral Plan and Trust and known 5% or greater beneficial owners have been deemed affiliates. The 5% beneficial owners have been determined based on summarized December 31, 2009 Section 13 filings.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

## Edgar Filing: TEAM INC - Form 10-K

As of August 5, 2010

Common Stock, par value \$.30 per share

18,989,250 shares

### **Documents Incorporated by Reference**

Portions of our definitive proxy statement for the 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this report. These will be filed no later than September 28, 2010.

**Table of Contents****Index to Financial Statements****FORM 10-K INDEX**

<b><u>PART I</u></b>		1
ITEM 1.	<b><u>BUSINESS</u></b>	1
	<u>General Information</u>	1
	<u>Narrative Description of Business</u>	1
	<u>Description of Segment and Divisions</u>	3
	<u>Acquisitions and Dispositions</u>	3
	<u>Marketing and Customers</u>	3
	<u>Seasonality</u>	4
	<u>Employees</u>	4
	<u>Regulation</u>	4
	<u>Compliance Matters</u>	5
	<u>Intellectual Property</u>	5
	<u>Competition</u>	5
	<u>Available Information</u>	5
ITEM 1A.	<b><u>RISK FACTORS</u></b>	6
ITEM 1B.	<b><u>UNRESOLVED STAFF COMMENTS</u></b>	9
ITEM 2.	<b><u>PROPERTIES</u></b>	9
ITEM 3.	<b><u>LEGAL PROCEEDINGS</u></b>	9
ITEM 4.	<b><u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u></b>	10
<b><u>PART II</u></b>		11
ITEM 5.	<b><u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u></b>	11
ITEM 6.	<b><u>SELECTED FINANCIAL DATA</u></b>	14
ITEM 7.	<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	15
ITEM 7A.	<b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	25
ITEM 8.	<b><u>CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u></b>	26
ITEM 9.	<b><u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u></b>	26
ITEM 9A.	<b><u>CONTROLS AND PROCEDURES</u></b>	26
ITEM 9B.	<b><u>OTHER INFORMATION</u></b>	26
	<u>Management's Annual Report on Internal Control Over Financial Reporting</u>	27
<b><u>PART III</u></b>		28
ITEM 10.	<b><u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u></b>	28
ITEM 11.	<b><u>EXECUTIVE COMPENSATION</u></b>	28
ITEM 12.	<b><u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u></b>	28
ITEM 13.	<b><u>CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</u></b>	28
ITEM 14.	<b><u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u></b>	28
<b><u>PART IV</u></b>		29
ITEM 15.	<b><u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u></b>	29
<b><u>SIGNATURES</u></b>		57

---

**Table of Contents**

**Index to Financial Statements**

*Certain items required in Part III of this Form 10-K can be found in our 2010 Proxy Statement and are incorporated herein by reference. A copy of the 2010 Proxy Statement will be provided, without charge, to any person who receives a copy of this Form 10-K and submits a written request to Team, Inc., Attn: Corporate Secretary, 200 Hermann Drive, Alvin, Texas, 77511.*

**PART I**

**ITEM 1. BUSINESS**

**General Information**

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](http://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:

Non-destructive Testing,

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.

**Narrative Description of Business**

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

## Edgar Filing: TEAM INC - Form 10-K

services are also provided across a broad geographic reach. For our fiscal year ended May 31, 2010, our revenues by geographic region originated in the United States (71%), Canada (20%), Europe (5%) and other foreign locations (4%). While we continue to develop different types of services and products which meet the needs of our customers, the following discussion describes the primary services we currently offer:

***Non-destructive Testing Services.*** We offer inspection and evaluation of piping, piping components and equipment to determine the present condition and predict remaining operability. Our inspection services use all the common methods of non-destructive testing, including radiography, ultrasound, magnetic particle and dye penetrate, higher end robotic and newly developed advanced technology systems. Many of the visual inspection programs we provide require specialized training to industry and regulatory standards. Inspection services are

## **Table of Contents**

### **Index to Financial Statements**

marketed to our traditional industrial customer base, and customers outside our traditional customer base, such as the aerospace and automotive industries. Inspection services frequently require industry recognized training and certification processes. We maintain training and certification programs which are designed to meet or exceed industry standards.

**Field Heat Treating Services.** Our field heat treating services include electric resistance and gas-fired combustion, primarily utilized by industrial users to enhance the metallurgical properties of their process piping and equipment. Electric resistance heating is the transfer of high energy power sources through attached heaters to the plant component to preheat weld joints, to remove contaminants and moisture prior to welding and post-weld heat treatments to relieve metal thermal stresses induced by the welding process. Specialty heat treating processes are performed using gas-fired combustion on large pressure vessels for stress relieving, to bake specialty paint coatings and controlled drying of abrasion and temperature resistant refractories. Special high frequency heating, commonly called induction heating, is used to expand metal parts for assembly or disassembly, expansion of large bolting for industrial turbines and stress relieving projects which is cost prohibitive for electric resistance or gas-fired combustion.

**Leak Repair Services.** Our leak repair services consist of on-stream repairs of leaks in pipes, valves, flanges and other parts of piping systems and related equipment. Our on-stream repairs utilize both standard and custom-designed clamps and enclosures for piping systems. We use specially developed techniques, sealants and equipment for repairs. Many of our repairs are furnished as interim measures which allow plant systems to continue operating until more permanent repairs can be made during turnarounds. Our leak repair services involve inspection of the leak by our field crew who record pertinent information about the faulty part of the system and transmit the information to our engineering department for determination of appropriate repair techniques. Repair materials such as clamps and enclosures are custom designed and manufactured at our ISO-9001 certified manufacturing centers and delivered to the job site. We maintain an inventory of raw materials and semi-finished clamps and enclosures to reduce the time required to manufacture the finished product.

**Fugitive Emissions Control Services.** We provide fugitive volatile organic chemical ( VOC ) emission leak detection services that include identification, monitoring, data management and reporting primarily for the chemical, refining and natural gas processing industries. These services are designed to monitor and record VOC emissions from specific process equipment and piping components as required by environmental regulations and customer requests, typically assisting the customer in enhancing an ongoing maintenance program and/or complying with present and/or future environmental regulations. We provide specialty trained technicians in the use of portable organic chemical analyzers and data loggers to measure potential leaks at designated plant components maintained in customer or our proprietary databases. The measured data is used to prepare standard reports in compliance with U.S. Environmental Protection Agency ( EPA ) and local regulatory requirements. We also provide enhanced custom-designed reports to customer specifications.

**Hot Tapping Services.** Our hot tapping services consist of providing a full range of hot tapping, Line-stop® and Freeze-stop® services with capabilities for up to 48" diameter pipelines. Hot tapping services involve utilizing special equipment to cut a hole in a pressurized pipeline so that a new branch pipe can be connected onto the existing pipeline without interrupting operations. Line-stop® services permit the line to be depressurized downstream so that maintenance work can be performed on the piping system. We typically perform these services by mechanically cutting into the pipeline similar to a hot tap and installing a special plugging device to stop the process flow. The Hi-stop® is a proprietary and patented procedure that allows stopping of the process flow in extreme pressures and temperatures. In some cases, we may use a line freezing procedure by injecting liquid nitrogen into installed special external chambers around the pipe to stop the process flow.

**Field Machining Services and Technical Bolting Services.** We use portable machining equipment to repair or modify machinery, equipment, vessels and piping systems not easily removed from a permanent location. As opposed to conventional machining processes where the work piece rotates and the cutting tool is

---

## **Table of Contents**

### **Index to Financial Statements**

fixed, in field machining, the work piece remains fixed in position and the cutting tool rotates. Other common descriptions for this service are on-site or in-place machining. Field machining services include flange facing, pipe cutting, line boring, journal turning, drilling and milling. We provide customers technical bolting as a complimentary service to field machining during turnaround or maintenance activities. These services involve the use of hydraulic or pneumatic equipment with industry standard bolt tightening techniques to achieve reliable and leak-free connections following plant maintenance turnarounds or expansion projects. Additional services include bolt disassembly and hot bolting, which is a process to remove and replace a bolt as the process is operating.

**Field Valve Repair Services.** We perform on-site repairs to manual and control valves, pressure and safety relief valves as well as specialty valve actuator diagnostics and repair. We are certified and authorized to perform testing and repairs to pressure and safety relief valves by The National Board of Boiler and Pressure Vessel Inspectors. This certification requires specific procedures, testing and documentation to maintain the safe operation of these essential plant valves. We provide special transportable trailers to the plant site which contain specialty machines to manufacture valve components without removing the valve from the piping system. In addition, we provide preventive maintenance programs for VOC specific valves and valve data management programs.

### **Description of Segment and Divisions**

We operate in only one segment industrial services. Within the industrial services segment, we are organized as two divisions. Our TCM division provides the services of non-destructive testing and field heat treating. Our TMS division provides the services of leak repair, fugitive emissions control, hot tapping, 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 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 provided through a network of field branch locations 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. While TCM and TMS division field locations are generally separate, 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.

### **Acquisitions and Dispositions**

On January 9, 2008, we acquired all the stock of Leak Repairs Specam ( LRS ), a specialty industrial services company. LRS currently provides a range of services similar to those offered by our TMS division, including on-stream leak sealing, hot tapping, fugitive emissions monitoring, field machining and bolting services. LRS is headquartered near Vlissingen, The Netherlands and has four service locations in The Netherlands and Belgium. The purchase price of the acquisition was \$18.6 million plus working capital adjustments, professional fees and net of cash acquired. Financing for the acquisition was obtained through a revolving line of credit with our bank syndicate.

### **Marketing and Customers**

Our industrial services are marketed principally by personnel based at our service locations. We believe that these service locations are situated to facilitate timely responses to customer needs with on-call expertise, which is an important feature of selling and providing our services. Our array of integrated services also allows us to benefit from the procurement trends of many of our customers who are seeking reductions in the number of contractors and vendors in their facilities. No customer accounted for 10% or more of consolidated revenues during any of the last three fiscal years.



## **Table of Contents**

### **Index to Financial Statements**

Generally, customers are billed on a time and materials basis, although some work may be performed pursuant to a fixed-price bid. Services are usually performed pursuant to purchase orders issued under written customer agreements. While most purchase orders provide for the performance of a single job, some provide for services to be performed on a run and maintain basis. Substantially all our agreements and contracts may be terminated by either party on short notice. The agreements generally specify the range of services to be performed and the hourly rates for labor. While many contracts cover specific plants or locations, we also enter into multiple-site regional or national contracts, which cover multiple plants or locations.

### **Seasonality**

We experience some seasonal fluctuations. Historically, the refining industry has scheduled plant shutdowns (commonly referred to as turnarounds ) for the fall and spring seasons. Large turnarounds can significantly impact our revenues.

### **Employees**

At May 31, 2010, we had approximately 3,100 employees in our worldwide operations. Our employees in the U.S. are predominantly not unionized. Our Canadian employees and certain employees outside of North America, primarily Europe, are unionized. There have been no employee work stoppages to date and we believe our relations with our employees and their representative organizations are good. One of our U.S. subsidiaries is a party to a collective bargaining agreement with certain employees that requires the subsidiary to pay specified wages, provide certain benefits to their union employees and contribute certain amounts to multi-employer pension plans and employee benefit trusts. If the participating subsidiary withdrew from, or otherwise terminated, participation in the multi-employer pension plan and it were to otherwise become under-funded, the subsidiary could be assessed liabilities for additional contributions related to the under-funding of this plan. The collective bargaining agreement has typically been renegotiated and renewed on similar terms.

### **Regulation**

A significant portion of our business activities are subject to foreign, federal, state and local laws and regulations. These regulations are administered by various foreign, federal, state and local health and safety and environmental agencies and authorities, including the Occupational Safety and Health Administration of the U.S. Department of Labor and the EPA. From time to time, we are also subject to a wide range of reporting requirements, certifications and compliance as prescribed by various federal and state governmental agencies that include, but are not limited to, the Nuclear Regulatory Commission, Chemical Safety Board, Department of Transportation and Federal Aviation Administration. Expenditures relating to such regulations are made in the normal course of our business and are neither material nor place us at any competitive disadvantage. We do not currently expect compliance with such laws will require us to make material expenditures.

From time to time, in the operation of our environmental consulting and engineering services, the assets of which were sold in 1996, we handled small quantities of certain hazardous wastes or other substances generated by our customers. Under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (the Superfund Act ), the EPA is authorized to take administrative and judicial action to either cause parties who are responsible under the Superfund Act for cleaning up any unauthorized release of hazardous substances to do so, or to clean up such hazardous substances and to seek reimbursement of the costs thereof from the responsible parties, who are jointly and severally liable for such costs under the Superfund Act. The EPA may also bring suit for treble damages from responsible parties who unreasonably refuse to voluntarily participate in such a clean up or funding thereof. Responsible parties include anyone who owns or operates the facility where the release occurred (either currently and/or at the time such hazardous substances were disposed of), or who by contract arranges for disposal, treatment, transportation for disposal or treatment of a hazardous substance, or who accepts hazardous substances for transport to disposal or treatment facilities selected by such person from which there is a release. We believe that our risk of liability is minimized since our handling consisted solely of maintaining and storing small samples of materials for laboratory analysis that are classified

---

## **Table of Contents**

### **Index to Financial Statements**

as hazardous. Due to its prohibitive costs, we accordingly do not currently carry insurance to cover liabilities which we may incur under the Superfund Act or similar environmental statutes.

### **Compliance Matters**

During an internal management review of our TMS branch operations in Trinidad in the Spring of 2009, we were informed 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 Securities and Exchange Commission ( SEC ).

The report of the independent investigator was delivered to the Audit Committee in March 2010 and to the DOJ and SEC in May 2010. 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 or is undertaking remedial action on 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.

As of May 31, 2010, 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 depends 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.

### **Intellectual Property**

While we are the holder of various patents, trademarks, trade secrets and licenses, we do not consider any single intellectual property to be material to our consolidated business operations.

### **Competition**

In general, competition stems from a large number of other outside service contractors. More than 100 different competitors are currently active in our markets. We believe we have a competitive advantage over most service contractors due to the quality, training and experience of our technicians, our nationwide and increasingly international service capability, our broad range of services, and our technical support and manufacturing capabilities supporting the service network. However, there are other competitors that may offer a similar range of coverage or services and include, but are not limited to, Acuren Group, Inc., Furmanite Corporation, JV Industrial Companies, Mistras Group, Inc. and T.D. Williamson, Inc.

### **Available Information**

As a public company, we are required to file periodic reports with the SEC within established deadlines. Any document we file with the SEC may be viewed or copied at the SEC's Public Reference Room at

---

**Table of Contents**

**Index to Financial Statements**

100 F Street, N.E., Washington, D.C. 20549. Additional information regarding the Public Reference Room can be obtained by calling the SEC at (800) SEC-0330. Our SEC filings are also available to the public through the SEC's website located at [www.sec.gov](http://www.sec.gov).

Our internet website address is [www.teamindustrialservices.com](http://www.teamindustrialservices.com). Information contained on our website is not part of this report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, Proxy Statements and current reports on Form 8-K filed with (or furnished to) the SEC are available on our website, free of charge, as soon as reasonably practicable after we file or furnish such material. We also post our code of business conduct and ethics, our governance principles and the charters of our board's committees on our website. Our governance documents are available in print to any stockholder that makes a written request to Team, Inc., Attn: Corporate Secretary, 200 Hermann Drive, Alvin, Texas, 77511.

**ITEM 1A. RISK FACTORS**

The risk factors described below should be carefully considered in addition to other information contained or incorporated by reference herein. We operate in a continually changing business environment and new risk factors emerge from time to time. We cannot predict such risk factors, nor can we assess the impact, if any, of such risk factors on our business or the extent to which any factors may cause actual results to differ materially from those projected. The following risks and uncertainties should be considered in evaluating our outlook of future Company performance.

***The current economic environment may affect our customers demand for our services.*** The current economic recession has reduced the availability of liquidity and credit and, in many cases, reduced demand for our customers' products. Continued disruption of the credit markets could also adversely affect our customers' ability to finance on-going maintenance and new projects, resulting in contract cancellations or suspensions, and project delays. An extended or deepening recession may result in further plant closures or other contractions in our customer base. These factors may also adversely affect our ability to collect payment for work we have previously performed. Furthermore, our ability to expand our business could be limited if, in the future, we are unable to increase our credit capacity under favorable terms or at all. Such disruptions, should they occur, could materially impact our results of operations, financial position or cash flows.

***Our revenues are heavily dependent on certain industries.*** Sales of our services are dependent on customers in certain industries, particularly the refining and petrochemical industries. As experienced in the past, and as expected to occur in the future, downturns characterized by diminished demand for services in these industries could have a material impact on our results of operations, financial position or cash flows.

***We sell our services in highly competitive markets, which places pressure on our profit margins and limits our ability to maintain or increase the market share of our services.*** Our competition generally stems from other outside service contractors, many of whom offer a similar range of services. The current economic recession has generally reduced demand for industrial services and thus created a more competitive bidding environment for new and existing work. No assurances can be made that we will continue to maintain our pricing model and our profit margins or increase our market share.

***No assurances can be made that we will be successful in maintaining or renewing our contracts with our customers.*** A significant portion of our contracts and agreements with customers may be terminated by either party on short notice. Although we actively pursue the renewal of our contracts, we cannot assure that we will be able to renew these contracts or that the terms of the renewed contracts will be as favorable as the existing contracts. If we are unable to renew or replace these contracts, or if we renew on less favorable terms, we may suffer a material reduction in revenue and earnings.

***No assurances can be made that we will be successful in hiring or retaining members of a skilled technical workforce.*** We have a skilled technical workforce and an industry recognized technician training program for each of our service lines that prepares new employees as well as further trains our existing

## **Table of Contents**

### **Index to Financial Statements**

employees. The competition for these individuals is intense. The loss of the services of a number of these individuals, or failure to attract new employees, could adversely affect our ability to perform our obligations on our customers' projects or maintenance and consequently could negatively impact the demand for our products and services.

***Unsatisfactory safety performance can affect customer relationships, result in higher operating costs and negatively impact our ability to hire and retain a skilled technical workforce.*** Our workers are subject to the normal hazards associated with providing services at industrial facilities. Even with proper safety precautions, these hazards can lead to personal injury, loss of life, destruction of property, plant and equipment, lower employee morale and environmental damage. We are intensely focused on maintaining a strong safety environment and reducing the risk of accidents to the lowest possible level. Poor safety performance may limit or eliminate potential revenue streams from many of our largest customers and may materially increase our future insurance and other operating costs. Although we maintain insurance coverage, such coverage may be inadequate to protect us from all expenses related to these risks.

***Our operations and properties are subject to extensive governmental regulation under environmental laws.*** Environmental laws and regulations can impose substantial sanctions for violations or operational changes that may limit our services. We must conform our operations to applicable regulatory requirements and adapt to changes in such requirements in all locations in which we operate. These actions may increase the overall costs of providing our services. Some of our services involve handling or monitoring highly regulated materials, including hazardous wastes. Environmental laws and regulations generally impose limitations and standards for regulated materials and require us to obtain permits and comply with various other requirements. The improper characterization, handling, disposal or monitoring of regulated materials or any other failure by us to comply with increasingly complex and strictly enforced federal, state and local environmental laws and regulations or associated environmental permits could subject us to the assessment of administrative, civil and criminal penalties, the imposition of investigatory or remedial obligations, or the issuance of injunctions that could restrict or prevent our ability to operate our business and complete contracted services. A defect in our services or faulty workmanship could result in an environmental liability if, as a result of the defect or faulty workmanship, a contaminant is released into the environment.

***We currently maintain liability insurance to limit any potential loss, but there can be no assurance that our insurance will fully protect us against a claim or loss.*** We perform services in hazardous environments on or around high-pressure, high temperature systems and our employees are exposed to a number of hazards, including exposure to hazardous materials, explosion hazards and fire hazards. Incidents that occur at these large industrial facilities or systems, regardless of fault, may be catastrophic and adversely impact our employees and third parties by causing serious personal injury, loss of life, damage to property or the environment, and interruption of operations. Our contracts typically require us to indemnify our customers for injury, damage or loss arising out of our presence at our customers' location, regardless of fault, or the performance of our services and provide for warranties for materials and workmanship. We may also be required to name the customer as an additional insured under our insurance policies. We maintain insurance coverage against these and other risks associated with our business in accordance with standard industry practice. This insurance may not protect us against liability for some kinds of events, including events involving pollution, product or professional liability, losses resulting from business interruption or acts of terrorism or damages from breach of contract by the Company. We cannot assure you that our insurance will be adequate in risk coverage or policy limits to cover all losses or liabilities that we may incur. Moreover, in the future, we cannot assure that we will be able to maintain insurance at levels of risk coverage or policy limits that we deem adequate. Any future damages caused by our products or services that are not covered by insurance or are in excess of policy limits could have a material adverse effect on our results of operations, financial position or cash flows.

***We are involved and are likely to continue to be involved in legal proceedings, which will increase our costs and, if adversely determined, could have a material effect on our results of operations, financial position or cash flows.*** We are currently a defendant in legal proceedings arising from the operation of our business and it is reasonable to expect that we will be named in future actions. Most of the legal proceedings against us arise

## **Table of Contents**

### **Index to Financial Statements**

out of the normal course of performing services at customer facilities, and include claims for workers' compensation, personal injury and property damage. Legal proceedings can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. An unsuccessful defense of a liability claim could have an adverse effect on our business, results of operations, financial condition or cash flows.

***Economic, political and other risks associated with international operations could adversely affect our business.*** A significant portion of our operations are conducted and located outside the United States and, accordingly, our business is subject to risks associated with doing business internationally, including changes in foreign currency exchange rates, instability in political or economic conditions, difficulty in repatriating cash proceeds, differing employee relations, trade protection measures, and difficulty in administering and enforcing corporate policies which may be different than the normal business practices of local cultures. In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us such as the FCPA. Our international business operations may include projects in countries where corruption is prevalent. Although we have, and continue, to implement policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors or agents, including those representing us in countries where practices which violate such U.S. laws may be customary, will not take actions in violation of our policies and procedures. Any violation of foreign or U.S. laws by our employees, contractors or agents, even if such violation is prohibited by our policies and procedures, could have a material adverse effect on our results of operations, financial position or cash flows.

***Our growth strategy entails risk for investors.*** We intend to continue to pursue acquisitions in, or complementary, to the specialty maintenance and construction services industry to complement and diversify our existing business. We may not be able to continue to expand our market presence through attractive acquisitions, and any future acquisitions may present unforeseen integration difficulties or costs. From time to time, we make acquisitions of other businesses that enhance our services or the geographic scope. No assurances can be made that we will realize the cost savings, synergies or revenue enhancements that we may anticipate from any acquisition, or that we will realize such benefits within the time frame that we expect. If we are not able to address the challenges associated with acquisitions and successfully integrate acquired businesses, or if our integrated product and service offerings fail to achieve market acceptance, our business could be adversely affected. The consideration paid in connection with an acquisition may also affect our share price or future financial results depending on the structure of such consideration. To the extent we issue stock or other rights to purchase stock, including options or other rights, existing shareholders may be diluted and earnings per share may decrease. In addition, acquisitions may result in the incurrence of additional debt.

***The price of our outstanding securities may be volatile.*** It is possible that in some future quarter or quarters our revenues, operating results or other measures of financial performance will not meet the expectations of public stock market analysts or investors, which could cause the price of our outstanding securities to decline or be volatile. Historically, our quarterly and annual sales and operating results have fluctuated. We expect fluctuations to continue in the future. In addition to general economic and political conditions, the following factors may affect our sales and operating results: the timing of significant customer orders, the timing of planned maintenance projects at customer facilities, changes in competitive pricing, wide variations in profitability by product line, variations in operating expenses, rapid increases in raw material and labor costs, the timing of announcements or introductions of new products or services by us, our competitors or our respective customers, the acceptance of those services, our ability to adequately meet staffing requirements with qualified personnel, relative variations in manufacturing efficiencies and costs, and the relative strength or weakness of international markets. Since our quarterly and annual revenues and operating results vary, we believe that period-to-period comparisons are not necessarily meaningful and you should not rely on those comparisons as indicators of our future performance.

***Our business may be adversely impacted by work stoppages, staffing shortages and other labor matters.*** At May 31, 2010, we had approximately 3,100 employees and contractors, approximately 500 of whom were located in Canada and Europe where employees predominantly are represented by unions. Although

---

**Table of Contents**

**Index to Financial Statements**

we believe that our relations with our employees are good and we have had no strikes or work stoppages, no assurances can be made that we will not experience these and other types of conflicts with labor unions, works councils, other groups representing employees, or our employees generally, or that any future negotiations with our labor unions will not result in significant increases in the cost of labor.

***Climate change legislation or regulations restricting emissions of greenhouse gases could result in reduced demand for our services and products.*** Recent scientific studies have suggested that emissions of certain gases, commonly referred to as greenhouse gases may be contributing to warming of the earth's atmosphere. As a result, there have been a variety of regulatory developments, proposals or requirements and legislative initiatives that have been introduced in the United States (and other parts of the world) that are focused on restricting the emission of carbon dioxide, methane and other greenhouse gases. The adoption and implementation of any regulations which impose limiting emissions of carbon dioxide and other greenhouse gases from customers for whom we provide repair and maintenance services could affect demand for our products and services.

***Other risk factors.*** Other risk factors may include interruption of our operations, or the operations of our customers due to fire, hurricanes, earthquakes, power loss, telecommunications failure, terrorist attacks, labor disruptions, health epidemics and other events beyond our control.

Any one of these factors, or a combination of these factors, could materially affect our future results of operations, business financial position or cash flows and whether any forward-looking statements in this Form 10-K ultimately prove to be accurate.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We own several facilities used in our operations. Our 88,000 square foot facility in Alvin, Texas consists of our corporate office, primary training facility and ISO-9001 certified manufacturing facility for clamps, enclosures and sealants. Our 11,000 square foot facility in Pearland, Texas is used as an equipment distribution center to support regional operations. Our 18,000 square foot facility in Houston, Texas, 10,000 square foot facility in Milwaukee, Wisconsin, and our 17,000 square foot facility in Edmonton, Alberta are offices for our branch service locations in those areas. All other facilities used in our operations are provided through operating leases.

Included in property, plant and equipment is \$7.5 million pertaining to land in or around Houston. This primarily consists of \$6.8 million attributable to 50 acres purchased in October 2007 to construct future facilities to replace those currently in Alvin, Texas and Pearland, Texas. Due to the current economic recession and its effect on our growth, we have postponed construction of the future facilities until such time as the industrial services sector recovers.

We believe that our property and equipment are adequate for our current needs, although additional investments are expected to be made in property and equipment for expansion, replacement of assets at the end of their useful lives and in connection with corporate development activities.

**ITEM 3. 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. Approximately one hundred lawsuits have been filed against Con Ed, the City of New York and us in the

**Table of Contents**

**Index to Financial Statements**

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 intend to vigorously defend 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 and have placed our insurers on notice. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**Table of Contents****Index to Financial Statements****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock is listed on the NASDAQ under the ticker symbol "TISI". The table below reflects the high and low sales prices of our common stock on the NASDAQ by quarter for the fiscal years ended May 31, 2010 and 2009, respectively.

	<b>Sales Price</b>	
	<b>High</b>	<b>Low</b>
<b>2010</b>		
Quarter Ended:		
August 31, 2009	\$ 18.25	\$ 13.75
November 30, 2009	\$ 19.69	\$ 15.68
February 28, 2010	\$ 20.75	\$ 15.58
May 31, 2010	\$ 18.97	\$ 14.70
<b>2009</b>		
Quarter Ended:		
August 31, 2008	\$ 39.66	\$ 30.94
November 30, 2008	\$ 39.43	\$ 19.89
February 28, 2009	\$ 27.89	\$ 12.87
May 31, 2009	\$ 15.87	\$ 10.32



**Table of Contents****Index to Financial Statements****Performance Graph**

The following performance graph compares the performance of our common stock to the NASDAQ Composite Index and a Peer Group Index. The comparison assumes \$100 was invested on May 31, 2005 in our common stock, the NASDAQ Composite Index and in the Peer Group Index. The values of each investment are based on share price appreciation, with reinvestment of all dividends, assuming any were paid. For each graph, the investments are assumed to have occurred at the beginning of each period presented. The following companies are included in the Peer Group Index used in the graph: Furmanite Corporation, Matrix Service Company, T-3 Energy Services, and Versar, Inc.

	5/05	5/06	5/07	5/08	5/09	5/10
Team, Inc.	\$ 100.00	\$ 165.53	\$ 206.26	\$ 337.26	\$ 148.95	\$ 158.32
NASDAQ Composite	\$ 100.00	\$ 106.38	\$ 129.32	\$ 124.24	\$ 87.03	\$ 111.18
Peer Group	\$ 100.00	\$ 263.01	\$ 443.80	\$ 574.90	\$ 211.81	\$ 254.66

Notes: The above information was provided by Research Data Group, Inc.

**Holders**

There were 181 holders of record of our common stock as of August 5, 2010 excluding beneficial owners of stock held in street name.

**Dividends**

No cash dividends were declared or paid during the fiscal years ended May 31, 2010, 2009 and 2008. We are not permitted to pay cash dividends without the consent of our bank syndicate. Accordingly, we have no present intention to pay cash dividends in the foreseeable future. Additionally, any future dividend payments will continue to depend on our financial condition, market conditions and other matters deemed relevant by the Board of Directors.

**Table of Contents**

**Index to Financial Statements**

**Description of Securities**

On July 25, 2007, we announced a two-for-one stock split in the form of a 100 percent dividend payable on August 29, 2007, to all shareholders of record on August 15, 2007. To fund the requirement of new shares, we utilized approximately 1 million shares of treasury stock and issued an additional 8 million shares of common stock. All share and per share information has been retroactively adjusted to reflect the stock split.

**Securities Authorized for Issuance Under Equity Compensation Plans**

This information has been omitted from this report on Form 10-K as we intend to file such information in our definitive proxy statement no later than 120 days following the close of our fiscal year ended May 31, 2010. The information required regarding equity compensation plans is hereby incorporated by reference.

**Table of Contents****Index to Financial Statements****ITEM 6. SELECTED FINANCIAL DATA**

The following is a summary of selected financial information for the five years ended May 31, 2010 (amounts in thousands, except per share data):

	Twelve Months Ended May 31,				
	2010	2009	2008	2007	2006
Revenues	\$ 453,869	\$ 497,559	\$ 478,475	\$ 318,348	\$ 259,838
Net income from continuing operations	12,275	22,911	23,623	15,515	10,630
Net income from discontinued operations (1)					6
Net income	\$ 12,275	\$ 22,911	\$ 23,623	\$ 15,515	\$ 10,636
Net income per share: Basic					
From continuing operations	\$ 0.65	\$ 1.22	\$ 1.30	\$ 0.88	\$ 0.63
From discontinued operations (1)	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.65	\$ 1.22	\$ 1.30	\$ 0.88	\$ 0.63
Net income per share: Diluted					
From continuing operations	\$ 0.63	\$ 1.16	\$ 1.20	\$ 0.82	\$ 0.58
From discontinued operations (1)	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.63	\$ 1.16	\$ 1.20	\$ 0.82	\$ 0.58
Weighted average shares outstanding					
Basic	18,923	18,793	18,226	17,540	16,826
Diluted	19,510	19,725	19,676	18,866	18,398
Cash dividend declared, per common share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
	2010	2009	May 31, 2008	2007	2006
Balance Sheet data:					
Total assets	\$ 264,989	\$ 275,921	\$ 280,461	\$ 171,054	\$ 139,971
Long-term debt and other long-term liabilities	\$ 56,795	\$ 82,628	\$ 102,955	\$ 49,260	\$ 40,208
Stockholders' equity	\$ 165,192	\$ 146,501	\$ 120,762	\$ 84,203	\$ 63,885
Working capital	\$ 107,343	\$ 109,845	\$ 100,470	\$ 70,229	\$ 49,219

- (1) Discontinued operations consist of the operating results of Climax, an equipment rental company, and interest on debt allocated to such operations.

---

**Table of Contents**

**Index to Financial Statements**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following review of our results of operations and financial condition should be read in conjunction with Item 1 Business, Item 1A Risk Factors, Item 2 Properties, and Item 8 Consolidated Financial Statements and Supplementary Data, included in this Form 10-K.

**CAUTIONARY STATEMENT FOR THE PURPOSE OF**

**SAFE HARBOR PROVISIONS OF THE**

**PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, other written or oral statements that constitute forward-looking statements may be made by us or on behalf of the Company in other materials we release to the public including all statements, other than statements of historical facts, included or incorporated by reference in this Form 10-K, that address activities, events or developments which we expect or anticipate will or may occur in the future. You can generally identify our forward-looking statements by the words anticipate, believe, expect, plan, intend, estimate, projection, predict, budget, forecast, goal, guidance, target, will, could, should, may and similar expressions.

We based our forward-looking statements on our reasonable beliefs and assumptions, and 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. We wish to ensure that such statements are accompanied by meaningful cautionary statements, so as to obtain the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including, but not limited to the statements under Risk Factors. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

This Management's Discussion and Analysis of Financial Condition and Results of Operations is provided as a supplement to the accompanying consolidated financial statements and notes to help provide an understanding of our financial condition, changes in financial condition, and results of operations.

**General Information**

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:

Non-destructive Testing,

Field Heat Treating,

Leak Repair,

Hot Tapping,

Fugitive Emissions Control,

Field Machining,

**Table of Contents****Index to Financial Statements**

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 industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries municipalities, shipbuilding, OEM distributors and some of the world's largest engineering and construction firms. Our products and services are provided across a broad geographic reach.

**Year Ended May 31, 2010 Compared to Year Ended May 31, 2009**

The following table sets forth the components of revenue and operating income from our operations for fiscal year 2010 and 2009 (in thousands):

	Year ended May 31, 2010	Year ended May 31, 2009	Increase (Decrease)	
			\$	%
Revenues:				
TCM Division	\$ 259,227	\$ 270,420	\$ (11,193)	(4)%
TMS Division	194,642	227,139	(32,497)	(14)%
Total revenues	453,869	497,559	(43,690)	(9)%
Gross margin:				
TCM Division	76,322	81,654	(5,332)	(7)%
TMS Division	59,683	75,405	(15,722)	(21)%
Total gross margin	136,005	157,059	(21,054)	(13)%
SG&A expenses:				
Field operations	89,104	96,571	(7,467)	(8)%
Corporate costs	18,944	20,190	(584)	(3)%
Severance charges	662		(662)	100%
Non-recurring investigation costs	3,153		3,153	100%
Total SG&A	111,863	116,761	(4,898)	(4)%
Earnings from unconsolidated affiliates	635	973	(338)	(35)%
Operating income	\$ 24,777	\$ 41,271	\$ (16,494)	(40)%

**Revenues.** Our revenues for the year ended May 31, 2010 were \$453.9 million compared to \$497.6 million for the year ended May 31, 2009, a decrease of \$43.7 million or 9%. Revenues for our TCM division for the year ended May 31, 2010 were \$259.2 million compared to \$270.4 million for the year ended May 31, 2009, a decrease of \$11.2 million or 4%. Revenues for our TMS division for the year ended May 31, 2010 were \$194.6 million compared to \$227.1 million for the year ended May 31, 2009, a decrease of \$32.5 million or 14%. Fiscal year 2009 benefitted from the best first half financial results in Team history, as the effects of the recession did not begin to affect Team until the third quarter of fiscal 2009. Specifically, revenues in the first half of fiscal year 2010 were \$224.2 million, sequentially down \$47.9 million or 18% from the record first half in the prior year. The decline from the record-setting first half of fiscal year 2009 reflects the change in spending habits of our customers who sought to cancel or delay projects, cut discretionary project spending, and delay maintenance when and where possible. The decline was particularly significant in Canadian Oil Sands, which accounted for one-half of the first half decline in revenues due to the cessation of new projects. While several industrial sectors which we serve are more economically distressed than others, nearly all our customers have adopted more conservative near-term spending postures. As a result, during the recession we have seen more frequent deferrals and downsizing of turnarounds, a shift to reduced spending by many customers, and more discussions with our customers about pricing adjustments. In spite of the difficult end market environment, we experienced overall revenue growth of 4% in the fourth quarter of the year ended May 31, 2010.



---

**Table of Contents**

**Index to Financial Statements**

**Gross Margin.** Our gross margin for the year ended May 31, 2010 was \$136.0 million compared to \$157.1 million for the year ended May 31, 2009, a decrease of \$21.1 million or 13%. Gross margin as a percentage of revenue was 30% for the year ended May 31, 2010 compared to 32% for the year ended May 31, 2009. Gross margin for our TCM division for the year ended May 31, 2010 was \$76.3 million compared to \$81.7 million for the year ended May 31, 2009, a decrease of \$5.3 million or 7%. TCM division gross margin as a percentage of revenue was 29% for the year ended May 31, 2010 and 30% for the year ended May 31, 2009. Gross margin for our TMS division was \$59.7 million for the year ended May 31, 2010 compared to \$75.4 million for the year ended May 31, 2009, a decrease of \$15.7 million or 21%. TMS division gross margin as a percentage of revenue was 31% for the year ended May 31, 2010 and 33% for the year ended May 31, 2009. The decline in gross margin percentage is attributable to pricing pressures related to recently quoted work and less absorption of indirect costs resulting from lower activity levels.

**Selling, General and Administrative Expenses.** Our SG&A expenses for the year ended May 31, 2010 were \$111.9 million compared to \$116.8 million for the year ended May 31, 2009, a decrease of \$4.9 million or 4%. SG&A expenses for the year ended May 31, 2010 include \$0.7 million of severance charges related to staff reductions and \$3.2 million of professional fees related to investigation costs (please see Note 16 to our consolidated financial statements). Excluding these non-routine severance charges and investigation costs, SG&A expenses for the year ended May 31, 2010 were \$108.0 million, a decrease of \$8.7 million or 7%. SG&A expenses as a percentage of revenue, adjusted to exclude non-recurring severance charges and investigation costs, were 24% for the year ended May 31, 2010 roughly comparable with 23% for the year ended May 31, 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 the joint venture not reflected in our consolidated revenues for the year ended May 31, 2010 and 2009 were \$7.5 million and \$12.6 million, respectively.

**Interest.** Interest expense was \$2.8 million for the year ended May 31, 2010 compared to \$4.9 million for the year ended May 31, 2009. This decrease is the result of lower levels of outstanding borrowings during the year and lower interest rates applied to those borrowings.

**Foreign Currency (Gain) Loss.** Foreign currency transaction losses were \$1.6 million for the twelve months ended May 31, 2010. Currency transaction losses were primarily due to fluctuations between the Venezuelan Bolivar and the U.S. Dollar. Team operates a small service location in Punta Fijo, Venezuela, whose annual revenues have historically been less than one percent of Team's consolidated revenues for all periods presented. Venezuela is accounted for as a hyperinflationary economy (please see Note 17 to our consolidated financial statements).

**Taxes.** The provision for income taxes was \$8.2 million on pretax income of \$20.4 million for the year ended May 31, 2010. The provision for income taxes was \$13.5 million on pretax income of \$36.4 million for the year ended May 31, 2009. The effective tax rate for fiscal year 2010 was 40% compared to 37% for fiscal year 2009. The higher effective tax rate for fiscal year 2010 is primarily due to the recognition of employment tax credits in the prior year, lower overall pre-tax income and the mixture of state and foreign taxes to which the income is subject.



**Table of Contents****Index to Financial Statements****Year Ended May 31, 2009 Compared to Year Ended May 31, 2008**

The following table sets forth the components of revenue and operating income from our operations for fiscal year 2009 and 2008 (in thousands):

	Year ended May 31, 2009	Year ended May 31, 2008	Increase (Decrease) \$	%
Revenues:				
TCM Division	\$ 270,420	\$ 274,531	\$ (4,111)	(1)%
TMS Division	227,139	203,944	23,195	11%
Total revenues	497,559	478,475	19,084	4%
Gross margin:				
TCM Division	81,654	84,145	(2,491)	(3)%
TMS Division	75,405	71,520	3,885	5%
Total gross margin	157,059	155,665	1,394	1%
SG&A expenses:				
Field operations	96,571	91,390	5,181	6%
Corporate costs	20,190	18,402	1,788	10%
Total SG&A	116,761	109,792	6,969	6%
Earnings from unconsolidated affiliates	973		973	100%
Operating income	\$ 41,271	\$ 45,873	\$ (4,602)	(10)%

**Revenues.** Our revenues for the year ended May 31, 2009 were \$497.6 million compared to \$478.5 million for the year ended May 31, 2008, an increase of \$19.1 million or 4%. Our revenues for the year ended May 31, 2009 include incremental revenues associated with the LRS acquisitions of \$14.2 million. Revenues for our TCM division for the year ended May 31, 2009 were \$270.4 million compared to \$274.5 million for the year ended May 31, 2008, a decrease of \$4.1 million or 1%. Revenues for our TMS division (inclusive of LRS) for the year ended May 31, 2009 were \$227.1 million compared to \$203.9 million for the year ended May 31, 2008, an increase of \$23.2 million or 11%. The increase in revenues during the current year was primarily due to the positive sales environment in the first half of our 2009 fiscal year. The effects of the economic recession did not dramatically affect our revenues until the second half of our fiscal year. Specifically, revenues for the second half of the fiscal year were \$225.5 million, sequentially down \$46.6 million or 17% from the first half of the year, and down \$27.2 million or 11% from the same period in the prior year. This second half decrease reflects the change in spending habits of our customers who sought to cancel or delay projects, cut discretionary project spending, and delay maintenance when and where possible. While several industrial sectors which we serve are more economically distressed than others, nearly all our customers have adopted more conservative near-term spending postures. As a result, we have seen more frequent deferrals and downsizing of turnarounds, a shift to reduced spending by many customers, and more discussions about the need for rate adjustments. Consistent with these observations, we experienced recent revenue softness in virtually all service lines and geographic areas. Additionally, exchange rate fluctuations, specifically between the United States and Canada, further adversely affected revenues by \$19.0 million.

**Gross Margin.** Our gross margin for the year ended May 31, 2009 was \$157.1 million compared to \$155.7 million for the year ended May 31, 2008, an increase of \$1.4 million or 1%. Gross margin as a percentage of revenue was 32% for the year ended May 31, 2009 compared to 33% for the year ended May 31, 2008. Gross margin for our TCM division for the year ended May 31, 2009 was \$81.7 million compared to \$84.1 million for the year ended May 31, 2008, a decrease of \$2.5 million or 3%. TCM division gross margin as a percentage of revenue was 30% for the year ended May 31, 2009 and 31% for the year ended May 31, 2008. Gross margin for our TMS division (inclusive of LRS) was \$75.4 million for the year ended May 31, 2009 compared to \$71.5 million for the year ended May 31, 2008, an increase of \$3.9 million or 5%. TMS division gross margin as a percentage of revenue was 33% for the year ended May 31, 2009 and 35% for the year ended May 31, 2008.



**Table of Contents****Index to Financial Statements**

**Selling, General and Administrative Expenses.** Our SG&A expenses for the year ended May 31, 2009 was \$116.8 million compared to \$109.8 million for the year ended May 31, 2008, an increase of \$7.0 million or 6%. This reflects investments in our network of over 100 locations. Approximately \$5.2 million of the increase in SG&A expenses was due to field operations and \$1.8 million of the increase was due to centralized corporate support costs. The \$1.8 million increase in corporate support costs in the current period included a \$1.4 million increase of stock based employee compensation expense. SG&A expenses as a percentage of revenue was 23% for the year ended May 31, 2009 consistent with the year ended May 31, 2008.

**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.

**Interest.** Interest expense was \$4.9 million for the year ended May 31, 2009 compared to \$6.5 million for the year ended May 31, 2008. This decrease is the result of lower levels of outstanding borrowings during the year and lower interest rates applied to those borrowings.

**Taxes.** The provision for income taxes was \$13.5 million on pretax income of \$36.4 million for the year ended May 31, 2009. The provision for income taxes was \$15.8 million on pretax income of \$39.4 million for the year ended May 31, 2008. The effective tax rate for fiscal year 2009 was 37% compared to 40% for fiscal year 2008. The lower effective tax rate for fiscal year 2009 is primarily due to the recognition of employment and research tax credits 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. We also, from time to time, may choose to access the equity markets to either purchase or issue securities.

**Vendor Financing.** Vendor financing primarily consists of an enterprise agreement with a vendor for server and desktop volume licensing with software assurance for a term of three years. Financing for the agreement was provided by the vendor under a three year, \$0.9 million non-interest bearing note (the Software Licensing Note ) with monthly payments of \$26,901. The Software Licensing Note has been discounted at 3.5%, which approximated our effective borrowing rate at the time we entered into the agreement. At May 31, 2010, the outstanding principal balance of the Software Licensing Note was \$0.5 million.

**Leasing Arrangements.** We enter into operating leases to rent facilities and obtain vehicles and equipment for our field operations. Our obligations under non-cancellable operating leases, primarily consisting of facility and auto leases, were approximately \$25.4 million at May 31, 2010 and are as follows (in thousands):

<b>Twelve Months Ended May 31,</b>	<b>Operating Leases</b>
2011	\$ 10,763
2012	5,028
2013	3,739
2014	2,325
2015	1,329
Thereafter	2,223
<b>Total</b>	<b>\$ 25,407</b>

Total rent expense resulting from operating leases for the twelve months ended May 31, 2010, 2009 and 2008 was \$19.4 million, \$19.9 million and \$18.7 million, respectively.



## Table of Contents

### Index to Financial Statements

**Bank Facility.** In May 2007, we amended and restated our existing banking facility comprised of a term loan and a revolving credit facility. Our existing banking facility, further amended in June 2008, provides us with a \$145 million revolving line of credit and a \$15 million term loan through a banking syndicate (please see Note 8 to our consolidated financial statements). In January 2008, we amended our existing banking facility to allow us to borrow in Euros or U.S. Dollars. Our existing banking facility, as amended (collectively, the Credit Facility), bears interest based on a variable Eurodollar rate option (LIBOR plus 1.25% at May 31, 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 .25% that are applied to unused borrowing capacity. It also contains financial covenants and restrictions on the creation of liens on assets, the acquisition or sale of subsidiaries and the incurrence of certain liabilities. At May 31, 2010, we were in compliance with all covenants of the Credit Facility.

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 on March 1, 2010. On June 1, 2010 the interest rate swap expired. Changes in the cash flows of the interest rate swap are 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 is designated as a cash flow hedge, with the changes in fair value, to the extent the swap agreement is effective, recognized in other comprehensive income until the hedged interest expense is recognized in earnings. Losses reclassified from accumulated other comprehensive income into earnings will be located in interest expense.

On February 12, 2008, we borrowed 12.3 million under the Credit Facility to serve 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 offset translation gains or losses attributable to our investment in our European operations.

In October 2008, our Canadian subsidiary entered into a revolving credit facility with a bank (the Canadian Line of Credit). The Canadian Line of Credit allows our subsidiary to borrow up to \$7.5 million Canadian (approximately \$7.2 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 lending rate (2.25% at May 31, 2010) and mature in May 2012.

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 May 31, 2010 and May 31, 2009, we were contingently liable for outstanding stand-by letters of credit totaling \$8.8 million and \$6.8 million, respectively. 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.

**Stock Repurchase Plan.** Subsequent to year-end, the board of directors authorized management to repurchase, in open market transactions, up to \$15 million of the Company's outstanding common shares. The timing and actual number of shares repurchased will depend on a variety of factors including regulatory restrictions on price, timing, volume, corporate and other regulatory requirements and other market conditions. Shares repurchased under the repurchase plan will be available to fund employee benefit programs as well as for a variety of other corporate purposes.

## **Table of Contents**

### **Index to Financial Statements**

**Restrictions On Cash.** Included in our cash and cash equivalents at May 31, 2010, is \$5.1 million of cash in Europe and \$1.6 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 (please see Note 17 to our consolidated financial statements).

**Cashflows Attributable to Our Operations.** For the year ended May 31, 2010, cash provided by operating activities was \$43.8 million. Net income of \$12.3 million, when adjusted for non-cash items such as depreciation and amortization, deferred financing costs, allowance for doubtful accounts, non-cash compensation and deferred tax charges, was \$30.4 million.

**Cashflows Attributable to Our Investing Activities.** For the year ended May 31, 2010, cash used in investing activities was \$8.0 million, consisting primarily of \$7.7 million of capital expenditures (we incurred approximately \$16.4 million and \$25.6 million for capital expenditures during fiscal years 2009 and 2008, respectively). Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly. We anticipate capital expenditures for the next twelve months to be approximately \$8 million to \$10 million for equipment.

**Cashflows Attributable to Our Financing Activities.** For the year ended May 31, 2010, cash used in financing activities was \$33.7 million. Repayments of amounts outstanding under the Credit Facility used \$30.8 million of cash.

**Effect of Exchange Rate Changes on Cash.** For the year ended May 31, 2010, the effect of exchange rate changes on cash was a negative impact of \$2.1 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.

### **Critical Accounting Policies**

The process of preparing financial statements in accordance with Generally Accepted Accounting Principles in the U.S. ( GAAP ) requires our management to make estimates and judgments. It is possible that materially different amounts could be recorded if these estimates and judgments change or if actual results differ from these estimates and judgments. We have identified the following six critical accounting policies that require a significant amount of estimation and judgment and are considered to be important to the portrayal of our financial position and results of operations:

Revenue Recognition,

Valuation of Intangible Assets,

Income Taxes,

Workers Compensation, Auto, Medical and General Liability Accruals,

Allowance for Doubtful Accounts Receivable, and

Estimated Useful Lives.

**Revenue Recognition.** We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the Financial Accounting Standards Board ( FASB ) or 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.

## Edgar Filing: TEAM INC - Form 10-K

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 May 31, 2010 and May 31, 2009, the amount of earned but unbilled revenue included in accounts receivable was \$8.6 million and \$6.5 million, respectively.

## Table of Contents

### Index to Financial Statements

**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 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.

Our annual goodwill impairment test is conducted as of May 31 of each year by first comparing the estimated fair value of the reporting unit to which the intangible asset is attributable and then comparing the implied fair value of goodwill with its carrying amount. The estimated fair value of the reporting unit is determined by using discounted future cash flow estimates. The reporting units used for purposes of computing the annual impairment test of goodwill, pursuant to ASC 350, are the divisions one level below our industrial services segment. All goodwill assigned to those reporting units is attributable to business acquisitions that are part of those units. There was \$55.7 million and \$56.5 million of goodwill at May 31, 2010 and 2009, respectively. Based upon results of the annual impairment testing there have been no impairments of goodwill.

**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 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.

Management believes future sources of taxable income, reversing temporary differences and other tax planning strategies will be sufficient to realize assets for which no reserve has been established. While we have considered these factors in assessing the need for a valuation allowance, there is no assurance that a valuation allowance would not need to be established in the future if information about future years change. Any change in the valuation allowance would impact our income tax provision and net income in the period in which such a determination is made. As of May 31, 2010, we believe that it is more likely than not that we will have sufficient future taxable income to allow us to realize the benefits of the net deferred tax assets. Our belief is based upon our track record of consistent earnings over the past five years and projections of future taxable income over the periods in which the deferred tax assets are deductible. Accordingly, no valuation allowance has been recorded.

**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



## **Table of Contents**

### **Index to Financial Statements**

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.

***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. To account for those accounts receivable that will eventually be deemed uncollectible we establish an allowance. The allowance for doubtful accounts is based on a combination of our historical experience and management's review of long outstanding accounts receivable. The allowance for doubtful accounts was \$4.9 million and \$3.7 million at May 31, 2010 and 2009, respectively.

***Estimated Useful Lives.*** The estimated useful lives of our long-lived assets are used to compute depreciation expense, future asset retirement obligations and are also used in impairment testing. Estimated useful lives are based, among other things, on the assumption that we provide an appropriate level of associated capital expenditures and maintenance while the assets are still in operation. Without these continued associated capital expenditures and maintenance, the useful lives of these assets could decrease significantly. Estimated useful lives could be impacted by such factors as future energy prices, environmental regulations, various legal factors and competition. If the useful lives of these assets were found to be shorter than originally estimated, depreciation expense may increase, liabilities for future asset retirement obligations may be insufficient and impairments in carrying values of tangible and intangible assets may result.

### ***Accounting Principles Not Yet Adopted***

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

### ***Newly Adopted Accounting Principles***

***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.

***ASC 855.*** In May 2009, the FASB issued an update to its guidance in ASC 855, *Subsequent Events*, ( ASC 855 ) which established principles and requirements for subsequent events. The statement details the period after the balance sheet date during which the Company should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the Company should recognize events or transactions occurring after the balance sheet date in its financial statements and the required disclosures for such events. This statement is effective for interim or annual reporting periods ending after June 15, 2009. This pronouncement did not have a material effect on our results of operations, financial position or cash flows.

***ASC 805.*** In December 2007, the FASB updated ASC 805, *Business Combinations* ( ASC 805 ) which applies to all business combinations, including combinations among mutual entities and combinations by contract alone. The update to ASC 805 requires that all business combinations will be accounted for by applying the

## **Table of Contents**

### **Index to Financial Statements**

beginning on or after December 15, 2008. As we completed no business acquisitions in the current fiscal year, the adoption of this update as of June 1, 2009 had no effect on our consolidated financial statements.

**ASC 815.** In March 2008, the FASB issued an update to ASC 815, *Derivatives and Hedging* ( ASC 815 ) which requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how such derivative instruments affect an entity's financial position, financial performance and cash flows. This update became effective for us on November 15, 2008 and did not have a material effect on our results of operations, financial position or cash flows.

**ASC 820.** In September 2006, the FASB issued ASC 820, *Fair Value Measurements and Disclosures* ( ASC 820 ). This statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements for financial assets and liabilities, as well as any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. It applies under other accounting pronouncements that require or permit fair value measurements, and does not require any new fair value measurements. The application of ASC 820, however, may change current practice within an organization. ASC 820 was effective January 1, 2008 and applied prospectively. Effective June 1, 2008, we adopted the provisions of ASC 820 relating to financial assets and liabilities. The adoption of ASC 820 did not have a material financial impact on our consolidated results of operations, financial condition or cash flows.

In February 2007, the FASB issued an update to ASC 820, which permits an entity to choose to measure financial instruments and certain other items similar to financial instruments at fair value. All subsequent changes to fair value for the financial instrument would be reported in earnings. This update was effective June 1, 2008. We did not adopt the fair value option permitted under this statement.

In October 2008, the FASB issued an update to ASC 820. This update clarifies the application of ASC 820 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This update was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of this update had no effect on our results of operations, financial position or cash flows.

In April 2009, the FASB issued an update to its guidelines in ASC 820 to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This update requires those disclosures to be summarized financial information at interim reporting periods. This update also requires that companies disclose in the body or in the accompanying notes of the summarized financial information for interim reporting periods and in the financial statements for annual reporting periods the fair value of all instruments for which it is practical to estimate that fair value, whether recognized or not in the statement of financial position. Fair value information disclosed in the notes shall be presented together with the related carrying amount in a form that makes it clear the fair value and carrying amount represents assets or liabilities and how the carrying amount relates to what is reported in the statement of financial position. This update to ASC 820 became effective for us on June 15, 2009 and did not have a material effect on our results of operations, financial position or cash flows.

**ASC 605.** In June 2006, the FASB issued an update to ASC 605, *Principal Agent Considerations*, ( ASC 605 ). The update stated that the presentation of tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer and disclosed on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. In addition, for any such taxes that are reported on a gross basis, an entity should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The update to ASC 605 is effective for reporting periods beginning after December 15, 2006. The adoption of this update on June 1, 2007 did not have a material effect on our results of operations, financial position or cash flows.

## **Table of Contents**

### **Index to Financial Statements**

#### **ITEM 7A. 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 year ended May 31, 2010, the exchange rate with the Euro decreased from \$1.4126 per Euro to \$1.2276 per Euro, a decrease of 13%. During the same period, the exchange rate with the Canadian Dollar increased from \$0.9123 per Canadian Dollar to \$0.9558 per Canadian Dollar, an increase of 5%. 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. We had \$1.0 million of foreign currency translation losses in other comprehensive income for the year ended May 31, 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 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 May 31, 2010, our Venezuelan subsidiary had \$1.5 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. This resulted in currency related losses in the third quarter of \$2.1 million. 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, we began to use the Venezuelan central bank's official published rate (5.30 Bolivars per U.S. Dollar at May 31, 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 \$0.2 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 is designated as a cash flow hedge, with the changes in fair value, to the extent the swap agreement is effective, recognized in other comprehensive income until the hedged interest expense is recognized in earnings.

---

**Table of Contents**

**Index to Financial Statements**

**ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our financial statements and financial statement schedules, found at the end of this annual report on Form 10-K, are incorporated herein by reference.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There have been no disagreements concerning accounting and financial disclosures with our independent accountants during any of the periods presented.

**ITEM 9A. CONTROLS AND PROCEDURES**

***Limitations on Effectiveness of Control.*** Our management, including the principal executive and financial officers, 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 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 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 May 31, 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 Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the fourth quarter of fiscal year 2010.

**ITEM 9B. OTHER INFORMATION**

None

**Table of Contents**

**Index to Financial Statements**

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Internal control over financial reporting cannot provide absolute assurance of achieving financial objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

We have used the framework set forth in the report entitled *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of our internal control over financial reporting. We have concluded that our internal control over financial reporting was effective as of May 31, 2010.

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

/s/ TED W. OWEN  
**Ted W. Owen**  
Principal Financial Officer and Principal Accounting Officer

**Table of Contents**

**Index to Financial Statements**

**PART III**

The information for the following items of Part III has been omitted from this Report on Form 10-K since we will file, not later than 120 days following the close of our fiscal year ended May 31, 2010, our definitive proxy statement. The information required by Part III will be included in that proxy statement and such information is hereby incorporated by reference, with the exception of the information under the headings Compensation Committee Report.

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**ITEM 11. EXECUTIVE COMPENSATION**

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

---

**Table of Contents**

**Index to Financial Statements**

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

**(a) 1. Financial Statements**

The financial statements and notes thereto can be found on the following pages:

<u>Reports of Independent Registered Public Accounting Firm</u>	30
<u>Consolidated Balance Sheets as of May 31, 2010 and 2009</u>	32
<u>Consolidated Statements of Income for the Years Ended May 31, 2010, 2009 and 2008</u>	33
<u>Consolidated Statements of Comprehensive Income for the Years Ended May 31, 2010, 2009 and 2008</u>	34
<u>Consolidated Statements of Stockholders' Equity for the Years Ended May 31, 2010, 2009 and 2008</u>	35
<u>Consolidated Statements of Cash Flows for the Years Ended May 31, 2010, 2009 and 2008</u>	36
<u>Notes to Consolidated Financial Statements</u>	37

---

**Table of Contents**

**Index to Financial Statements**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Team, Inc. and Subsidiaries:

We have audited Team, Inc. and Subsidiaries' internal control over financial reporting as of May 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Team, Inc. and Subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Team, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of May 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Team, Inc. and Subsidiaries as of May 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended May 31, 2010, and our report dated August 6, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Houston, Texas

August 6, 2010



**Table of Contents**

**Index to Financial Statements**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Team, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Team, Inc. and Subsidiaries as of May 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended May 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Team, Inc. and Subsidiaries as of May 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Team, Inc. and Subsidiaries' internal control over financial reporting as of May 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 6, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Houston, Texas

August 6, 2010

**Table of Contents****Index to Financial Statements****TEAM, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(in thousands, except share and per share data)**

	2010	May 31, 2009
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 12,610	\$ 12,632
Receivables, net of allowance of \$4,934 and \$3,662	109,368	114,279
Inventory	19,733	19,647
Income tax receivable		1,461
Deferred income taxes	2,646	944
Prepaid expenses and other current assets	5,988	7,674
Total Current Assets	150,345	156,637
Property, plant and equipment, net	55,229	59,582
Intangible assets, net of accumulated amortization of \$2,010 and \$1,734	1,498	953
Goodwill	55,739	56,453
Other assets, net	2,081	2,296
Deferred income taxes	97	
Total Assets	\$ 264,989	\$ 275,921
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 313	\$ 4,813
Accounts payable	19,010	14,928
Other accrued liabilities	21,781	23,102
Insurance note payable		3,949
Income tax payable	1,877	
Deferred income taxes	21	
Total Current Liabilities	43,002	46,792
Deferred income taxes	8,947	5,939
Long-term debt	47,848	76,689
Total Liabilities	99,797	129,420
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; 18,988,250 and 18,836,709 shares issued	5,696	5,651
Additional paid-in capital	69,380	63,125
Retained earnings	92,553	80,278
Accumulated other comprehensive loss	(2,437)	(2,553)
Total Stockholders' Equity	165,192	146,501
Total Liabilities and Stockholders' Equity	\$ 264,989	\$ 275,921

## Edgar Filing: TEAM INC - Form 10-K

See notes to consolidated financial statements.

**Table of Contents****Index to Financial Statements**

**TEAM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share data)

	<b>Twelve Months Ended May 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Revenues	\$ 453,869	\$ 497,559	\$ 478,475
Operating expenses	317,864	340,500	322,810
Gross margin	136,005	157,059	155,665
Selling, general and administrative expenses	111,863	116,761	109,792
Earnings from unconsolidated affiliates	635	973	
Operating income	24,777	41,271	45,873
Interest expense, net	2,764	4,923	6,467
Foreign currency loss (gain)	1,580	(51)	24
Earnings before income taxes	20,433	36,399	39,382
Provision for income taxes	8,158	13,488	15,759
Net income	\$ 12,275	\$ 22,911	\$ 23,623
Net income per share: Basic	\$ 0.65	\$ 1.22	\$ 1.30
Net income per share: Diluted	\$ 0.63	\$ 1.16	\$ 1.20
Weighted average shares outstanding			
Basic	18,923	18,793	18,226
Diluted	19,510	19,725	19,676

See notes to consolidated financial statements.

**Table of Contents**

**Index to Financial Statements**

**TEAM, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

	Twelve Months Ended May 31,		
	2010	2009	2008
Net income	\$ 12,275	\$ 22,911	\$ 23,623
Foreign currency translation adjustment	(967)	(9,541)	4,935
Interest rate swap	816	(151)	(665)
Foreign currency hedge	2,276	1,767	(1,163)
Tax provision	(2,009)	2,801	(1,181)
Comprehensive income	\$ 12,391	\$ 17,787	\$ 25,549

See notes to consolidated financial statements.

**Table of Contents****Index to Financial Statements****TEAM, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY****(in thousands)**

	<b>Common Shares</b>	<b>Treasury Shares</b>	<b>Common Stock</b>	<b>Treasury Stock</b>	<b>Additional Paid in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Stockholders Equity</b>
Balance at June 1, 2007	19,896	(1,018)	\$ 2,984	\$ (5,032)	\$ 49,159	\$ 36,447	\$ 645	\$ 84,203
Net income						23,623		23,623
Foreign currency translation adjustment, net of tax							3,052	3,052
Foreign currency hedge, net of tax							(716)	(716)
Interest rate swap, net of tax							(410)	(410)
Non-cash compensation					3,329			3,329
Shares issued	1		1		59			60
Stock split	(2,035)	1,018	2,397	5,032	(4,726)	(2,703)		
Exercise of stock options	718		191		3,117			3,308
Tax benefit from exercise of stock options					4,313			4,313
Balance at May 31, 2008	18,580		5,573		55,251	57,367	2,571	120,762
Net income						22,911		22,911
Foreign currency translation adjustment, net of tax							(6,119)	(6,119)
Foreign currency hedge, net of tax							1,089	1,089
Interest rate swap, net of tax							(94)	(94)
Non-cash compensation					4,626			4,626
Shares issued	4		1		134			135
Stock split								
Exercise of stock options and vesting of stock awards	253		77		1,544			1,621
Tax benefit of exercise of stock options					1,570			1,570
Balance at May 31, 2009	18,837		5,651		63,125	80,278	(2,553)	146,501
Net income						12,275		12,275
Foreign currency translation adjustment, net of tax							(1,783)	(1,783)
Foreign currency hedge, net of tax							1,395	1,395
Interest rate swap, net of tax							504	504
Non-cash compensation					5,009			5,009
Shares issued	4		1		59			60
Exercise of stock options and vesting of stock awards	147		44		612			656
Tax benefit of exercise of stock options					575			575
Balance at May 31, 2010	18,988		\$ 5,696	\$	\$ 69,380	\$ 92,553	\$ (2,437)	\$ 165,192

See notes to consolidated financial statements.



**Table of Contents****Index to Financial Statements**

**TEAM, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

	<b>Twelve Months Ended May 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 12,275	\$ 22,911	\$ 23,623
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,509	12,116	11,285
Amortization of deferred loan costs	311	189	278
Foreign currency loss (gain)	1,580	(51)	24
Earnings from unconsolidated affiliates	(635)	(973)	(8)
Deferred income taxes	(782)	2,350	2,299
Writedown of fixed assets	85		
Non-cash compensation cost	5,009	4,761	3,329
Changes in assets and liabilities, net of effects from business acquisitions:			
(Increase) decrease:			
Accounts receivable	4,382	7,396	(22,054)
Inventory	(311)	(3,461)	(3,929)
Prepaid expenses and other current assets	1,616	(300)	1,148
Increase (decrease):			
Accounts payable	4,324	(6,545)	5,780
Other accrued liabilities	35	(1,158)	2,960
Income taxes	3,399	1,727	
<b>Net cash provided by operating activities</b>	<b>43,797</b>	<b>38,962</b>	<b>24,735</b>
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(7,711)	(16,383)	(25,612)
Proceeds from sale of assets	82	136	47
Distributions from joint venture	600		
(Increase) decrease in other assets, net	(925)	1,500	(1,934)
Acquisition of minority interest			(297)
Business acquisitions, net of cash acquired			(53,261)
<b>Net cash used in investing activities</b>	<b>(7,954)</b>	<b>(14,747)</b>	<b>(81,057)</b>
<b>Cash Flows From Financing Activities:</b>			
(Payments) borrowings under revolving credit agreement	(26,250)	(13,428)	53,120
Payments related to term loans	(4,813)	(6,000)	(4,852)
Tax benefit of stock option exercises	575	1,570	4,313
Loan financing fees			(99)
Insurance note payments	(3,949)		
Issuance of common stock	716	1,621	3,368
<b>Net cash (used in) provided by financing activities</b>	<b>(33,721)</b>	<b>(16,237)</b>	<b>55,850</b>
<b>Effect of exchange rate changes on cash</b>	<b>(2,144)</b>	<b>(1,946)</b>	<b>2,737</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(22)</b>	<b>6,032</b>	<b>2,265</b>



# Edgar Filing: TEAM INC - Form 10-K

Cash and cash equivalents at beginning of year	12,632	6,600	4,335
Cash and cash equivalents at end of year	\$ 12,610	\$ 12,632	\$ 6,600
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	\$ 2,678	\$ 5,336	\$ 5,720
Income taxes	\$ 4,666	\$ 7,909	\$ 8,952

See notes to consolidated financial statements.

**Table of Contents****Index to Financial Statements****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**

**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 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 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) analyzing tangible and intangible assets 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 and (6) estimating the useful lives of our assets.

**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.

**Inventories.** Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories include 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 ASC 350, *Intangibles Goodwill and Other*. 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.

**Table of Contents****Index to Financial Statements**

Our annual goodwill impairment test is conducted as of May 31 of each year by first comparing the estimated fair value of the reporting unit to which the intangible asset is attributable and then comparing the implied fair value of goodwill with its carrying amount. The estimated fair value of the reporting unit is determined by using discounted future cash flow estimates. The reporting units used for purposes of computing the annual impairment test of goodwill, pursuant to ASC 350, are the divisions one level below our industrial segment. All goodwill assigned to those reporting units is attributable to business acquisitions that are part of those units. There was \$55.7 million and \$56.5 million of goodwill at May 31, 2010 and 2009, respectively. Based upon results of the annual impairment testing there have been no impairments of goodwill. A summary of goodwill as of May 31, 2010 and 2009 is as follows (in thousands):

	<b>Twelve Months Ended May 31,</b>	
	<b>2010</b>	<b>2009</b>
Balance at beginning of year	\$ 56,453	\$ 62,904
Acquisitions and purchase price adjustments		(3,097)
Foreign currency adjustments	(714)	(3,354)
Balance at end of year	\$ 55,739	\$ 56,453

**Income Taxes.** We follow the guidance in ASC 740, *Income Taxes* 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 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. To account for those accounts receivable that will eventually be deemed uncollectible we establish an allowance. 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* 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,

## **Table of Contents**

### **Index to Financial Statements**

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 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 billing 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 May 31, 2010 and May 31, 2009, the amount of earned but unbilled revenue included in accounts receivable was \$8.6 million and \$6.5 million, respectively.

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

**Earnings Per Share.** Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share are computed by dividing net income by the sum of (1) the weighted-average number of shares of common stock outstanding during the period and (2) the dilutive effect of the assumed exercise of stock options using the treasury stock method. There is no difference, for any of the years presented, in the amount of net income (numerator) used in the computation of basic and diluted earnings per share. With respect to the number of weighted average shares outstanding (denominator), diluted shares reflects only the pro forma exercise of options to acquire common stock to the extent that the options' exercise prices are less than the average market price of common shares during the period.

Options to purchase 796,000, 695,000 and 659,000 shares of common stock were outstanding during the twelve month periods ended May 31, 2010, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares during the period.

**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 income.

### ***Accounting Principles Not Yet Adopted***

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

### ***Newly Adopted Accounting Principles***

**ASC 105.** In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles*. 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.

## **Table of Contents**

### **Index to Financial Statements**

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.

**ASC 855.** In May 2009, the FASB issued an update to its guidance in ASC 855, *Subsequent Events*, which established principles and requirements for subsequent events. The statement details the period after the balance sheet date during which the Company should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the Company should recognize events or transactions occurring after the balance sheet date in its financial statements and the required disclosures for such events. This statement is effective for interim or annual reporting periods ending after June 15, 2009. This pronouncement did not have a material effect on our results of operations, financial position or cash flows.

**ASC 805.** In December 2007, the FASB updated ASC 805, *Business Combinations* which applies to all business combinations, including combinations among mutual entities and combinations by contract alone. The update to ASC 805 requires that all business combinations will be accounted for by applying the acquisition method. The update of ASC 805 is effective for business combinations consummated in fiscal years beginning on or after December 15, 2008. As we completed no business acquisitions in the current fiscal year, the adoption of this update as of June 1, 2009 had no effect on our consolidated financial statements.

**ASC 815.** In March 2008, the FASB issued an update to ASC 815, *Derivatives and Hedging* which requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how such derivative instruments affect an entity's financial position, financial performance and cash flows. This update became effective for us on November 15, 2008 and did not have a material effect on our results of operations, financial position or cash flows.

**ASC 820.** In September 2006, the FASB issued ASC 820, *Fair Value Measurements and Disclosures*. This statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements for financial assets and liabilities, as well as any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. It applies under other accounting pronouncements that require or permit fair value measurements, and does not require any new fair value measurements. The application of ASC 820, however, may change current practice within an organization. ASC 820 was effective January 1, 2008 and applied prospectively. Effective June 1, 2008, we adopted the provisions of ASC 820 relating to financial assets and liabilities. The adoption of ASC 820 did not have a material financial impact on our consolidated results of operations, financial condition or cash flows.

In February 2007, the FASB issued an update to ASC 820, which permits an entity to choose to measure financial instruments and certain other items similar to financial instruments at fair value. All subsequent changes to fair value for the financial instrument would be reported in earnings. This update was effective June 1, 2008. We did not adopt the fair value option permitted under this statement.

In October 2008, the FASB issued an update to ASC 820. This update clarifies the application of ASC 820 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This update was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of this update had no effect on our results of operations, financial position or cash flows.

In April 2009, the FASB issued an update to its guidelines in ASC 820 to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This update requires those disclosures to be summarized financial information at interim reporting periods. This update also requires that companies disclose in the body or in the accompanying notes of the summarized financial information for interim reporting periods and in the financial statements for annual reporting periods the fair value of all instruments for which it is practical to estimate that fair value, whether

**Table of Contents****Index to Financial Statements**

recognized or not in the statement of financial position. Fair value information disclosed in the notes shall be presented together with the related carrying amount in a form that makes it clear the fair value and carrying amount represents assets or liabilities and how the carrying amount relates to what is reported in the statement of financial position. This update to ASC 820 became effective for us on June 15, 2009 and did not have a material effect on our results of operations, financial position or cash flows.

**ASC 605.** In June 2006, the FASB issued an update to ASC 605, *Principal Agent Considerations*. The update stated that the presentation of tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer and disclosed on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. In addition, for any such taxes that are reported on a gross basis, an entity should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The update to ASC 605 is effective for reporting periods beginning after December 15, 2006. The adoption of this update on June 1, 2007 did not have a material effect on our results of operations, financial position or cash flows.

**2. ACQUISITIONS AND DISPOSITIONS**

On January 9, 2008, we acquired all the stock of LRS, a specialty industrial services company. LRS provides a range of services similar to those offered by our TMS division including on-stream leak sealing, hot tapping, fugitive emissions monitoring, field machining and bolting services. LRS is headquartered near Vlissingen, The Netherlands and has four service locations in The Netherlands and Belgium. The purchase price of the acquisition including working capital adjustments, professional fees, and net of cash acquired, was \$18.6 million. Financing for the acquisition was obtained through our banking syndicate. Information regarding the allocation of the purchase price to our acquisition, including intangible assets amortizing over five years, is set forth below (in thousands):

	(unaudited)
Receivables	\$ 6,030
Inventory	579
Prepays and other current assets	760
Property, plant and equipment	1,499
Intangible assets Trade-mark	237
Goodwill	13,737
<b>Total Assets Acquired</b>	<b>\$ 22,842</b>
Accounts payable	\$ 1,871
Accrued liabilities and other	2,412
<b>Total Liabilities Assumed</b>	<b>4,283</b>
<b>Net Assets Acquired</b>	<b>\$ 18,559</b>

**3. RECEIVABLES**

A summary of accounts receivable as of May 31, 2010 and 2009 is as follows (in thousands):

	2010	May 31, 2009
Trade accounts receivable	\$ 105,714	\$ 111,465
Unbilled revenues	8,588	6,476
Allowance for doubtful accounts	(4,934)	(3,662)

Edgar Filing: TEAM INC - Form 10-K

Total

\$ 109,368

\$ 114,279

**Table of Contents****Index to Financial Statements**

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote. The following summarizes the activity in the allowance for doubtful accounts as of May 31, 2010 and 2009 (in thousands):

	<b>Twelve Months Ended May 31,</b>	
	<b>2010</b>	<b>2009</b>
Balance at beginning of year	\$ 3,662	\$ 3,586
Provision for doubtful accounts	2,522	3,406
Write-off of bad debts	(1,250)	(3,330)
Balance at end of year	\$ 4,934	\$ 3,662

**4. INVENTORY**

A summary of inventory as of May 31, 2010 and 2009 is as follows (in thousands):

	<b>May 31,</b>	
	<b>2010</b>	<b>2009</b>
Raw materials	\$ 2,988	\$ 3,071
Work in progress	528	674
Finished goods	16,217	15,902
Total	\$ 19,733	\$ 19,647

**5. PROPERTY, PLANT AND EQUIPMENT**

A summary of property, plant and equipment as of May 31, 2010 and 2009 is as follows (in thousands):

	<b>May 31,</b>	
	<b>2010</b>	<b>2009</b>
Land	\$ 964	\$ 945
Buildings and leasehold improvements	8,263	7,939
Machinery and equipment	91,091	88,129
Furniture and fixtures	1,357	1,659
Computers and computer software	5,987	5,942
Automobiles	2,404	2,311
Construction in progress	8,085	8,081
Total	118,151	115,006
Accumulated depreciation and amortization	(62,922)	(55,424)
Property, plant, and equipment, net	\$ 55,229	\$ 59,582

At May 31, 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 May 31, 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 current economic recession and its effect on our growth,



## Edgar Filing: TEAM INC - Form 10-K

we have postponed construction of the future facilities until such time as the industrial services sector recovers, and accordingly, starting in the third quarter of fiscal year 2009, ceased to further capitalize interest until the project resumes.

**Table of Contents****Index to Financial Statements****6. OTHER ACCRUED LIABILITIES**

A summary of other accrued liabilities as of May 31, 2010 and 2009 is as follows (in thousands):

	<b>May 31,</b>	
	<b>2010</b>	<b>2009</b>
Payroll and other compensation expenses	\$ 13,521	\$ 14,698
Insurance accruals	5,253	5,020
Property, sales and other non-income related taxes	841	1,082
Auto lease rebate	108	446
Other	2,058	1,856
Total	\$ 21,781	\$ 23,102

**7. INCOME TAXES**

Income tax expense for the years ended May 31, 2010, 2009 and 2008 was as follows (in thousands):

	<b>Twelve Months Ended May 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Income tax expense attributable to income	\$ 8,158	\$ 13,488	\$ 15,759
Taxes allocated to stockholders' equity, related to compensation expense recognized for tax purposes in excess of amounts recognized for financial reporting purposes	(575)	(1,565)	(4,313)
Taxes allocated to stockholders' equity, related to foreign currency translation adjustments	816	(3,422)	1,883
Taxes allocated to stockholders' equity, related to interest rate swap	312	(57)	(255)
Taxes allocated to stockholders' equity, related to foreign currency hedge	881	678	(447)
Total	\$ 9,592	\$ 9,122	\$ 12,627

Income tax expense attributable to income for the years ended May 31, 2010, 2009 and 2008 was as follows (in thousands):

	<b>Current</b>	<b>Deferred</b>	<b>Total</b>
Year ended May 31, 2010:			
U.S. Federal	\$ 5,120	\$ (514)	\$ 4,606
State & local	875	(34)	841
Foreign jurisdictions	2,945	(234)	2,711
	\$ 8,940	\$ (782)	\$ 8,158
Year ended May 31, 2009:			
U.S. Federal	\$ 4,383	\$ 2,226	\$ 6,609
State & local	911	235	1,146
Foreign jurisdictions	5,844	(111)	5,733
	\$ 11,138	\$ 2,350	\$ 13,488

# Edgar Filing: TEAM INC - Form 10-K

Year ended May 31, 2008:			
U.S. Federal	\$ 7,608	\$ 1,899	\$ 9,507
State & local	1,243	198	1,441
Foreign jurisdictions	4,609	202	4,811
	\$ 13,460	\$ 2,299	\$ 15,759

**Table of Contents****Index to Financial Statements**

The components of pretax income for the years ended May 31, 2010, 2009 and 2008 were as follows (in thousands):

	<b>Twelve Months Ended May 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Domestic	\$ 12,234	\$ 19,524	\$ 25,993
Foreign	8,199	16,875	13,389
	<b>\$ 20,433</b>	<b>\$ 36,399</b>	<b>\$ 39,382</b>

Income tax expense attributable to income differed from the amounts computed by applying the U.S. Federal income tax rate of 35% to pretax income from continuing operations as a result of the following (in thousands):

	<b>Twelve Months Ended May 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Pre-tax Income	\$ 20,433	\$ 36,399	\$ 39,382
Computed income taxes at statutory rate	\$ 7,152	\$ 12,740	\$ 13,784
State income taxes, net of federal benefit	556	816	1,018
Foreign tax differential	(205)	(192)	103
Production activity deduction	(358)	(75)	(120)
Non-deductible expenses	305	339	415
Tax credits	(381)	(1,081)	
Stock options	690	803	601
Other	399	138	(42)
Total provision for income tax	\$ 8,158	\$ 13,488	\$ 15,759

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands):

	<b>May 31,</b>	
	<b>2010</b>	<b>2009</b>
Deferred tax assets:		
Accrued compensation & benefits	\$ 1,052	\$ 987
Receivables	1,090	910
Inventory	582	612
Vendor rebates	42	172
Stock options	2,610	1,458
Foreign currency translation and other equity adjustments		1,385
Other	250	173
Total gross deferred tax assets	5,626	5,697
Deferred tax liabilities:		
Property, plant and equipment	(6,549)	(6,338)
Goodwill and intangible costs	(2,493)	(2,033)
Foreign currency translation and other equity adjustments	(621)	

# Edgar Filing: TEAM INC - Form 10-K

Unremitted earnings of foreign subsidiaries	(420)	(420)
Prepays	(1,512)	(1,901)
Other	(256)	
Total gross deferred tax liabilities	(11,851)	(10,692)
Net deferred liability	\$ (6,225)	\$ (4,995)

**Table of Contents****Index to Financial Statements**

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projection for future taxable income over the periods in which the deferred tax assets are deductible, we believe it is more likely than not that we will realize the benefits of these deductible temporary differences and therefore a valuation allowance is not necessary at May 31, 2010.

At May 31, 2010, undistributed earnings of foreign operations totaling \$5.0 million were considered to be permanently reinvested. We have recognized no deferred tax liability for the remittance of such earnings to the U.S. since it is our intention to utilize those earnings in the foreign operations. Generally, such earnings become subject to U.S. tax upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability on such undistributed earnings.

We adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes* ( ASC 740-10 ) on June 1, 2007. The adoption of ASC 740-10 did not have a material impact on our consolidated financial condition, results of operations or cash flows. At May 31, 2010, we have established liabilities for tax uncertainties of \$0.3 million, inclusive of interest. To the extent these uncertainties are ultimately resolved favorably, the resultant reduction of recorded liabilities would have an effect on our effective tax rate. We do not believe that any of the liabilities recorded for tax uncertainties will be effectively settled in the next 12 months. In accordance with ASC 740-10 our policy is to recognize interest and penalties related to unrecognized tax benefits through the tax provision.

We file income tax returns in the U.S. with federal and state jurisdictions as well as various foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for fiscal years prior to fiscal year 2005. While we believe there is appropriate support for the income tax positions taken, and to be taken, on our returns, and that our accruals for tax liabilities are adequate for all open tax years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. The income tax laws and regulations are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our tax positions that may have a material effect on our results of operations, financial position or cashflows.

Set forth below is a reconciliation of the changes in our unrecognized tax benefits associated with ASC 740-10 (in thousands):

Balance at June 1, 2009	\$ 125
Additions based on tax positions related to the current year	176
Additions based on tax positions related to prior years	20
Reductions resulting from a lapse of the applicable statute of limitations	
Balance at May 31, 2010	\$ 321

We do not believe that in the next 12 months any of the \$0.3 million of liabilities recorded for tax uncertainties will be effectively settled.

**8. LONG-TERM DEBT, DERIVATIVES AND LETTERS OF CREDIT**

In May 2007, we amended and restated our Credit Facility comprised of a term loan and a revolving credit facility. Our Credit Facility, further amended in June 2008, provides us with a \$145 million revolving line of credit and a \$15 million term loan through a banking syndicate. In January 2008, we amended our Credit Facility to allow us to borrow in Euros or U.S. Dollars. Our Credit Facility bears interest based on a variable Eurodollar

**Table of Contents****Index to Financial Statements**

rate option (LIBOR plus 1.25% at May 31, 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 .25% that are applied to unused borrowing capacity. It also contains financial covenants and restrictions on the creation of liens on assets, the acquisition or sale of subsidiaries and the incurrence of certain liabilities. At May 31, 2010, we were in compliance with all covenants of the Credit Facility.

In October 2008, our Canadian subsidiary entered into the Canadian Line of Credit. The Canadian Line of Credit allows our subsidiary to borrow up to \$7.5 million Canadian (approximately \$7.2 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 (2.25% at May 31, 2010) and mature in May 2012.

Vendor financing primarily consists of a Software Licensing Note with a vendor for server and desktop volume licensing with software assurance for a term of three years. The Software Licensing Note was provided by the vendor under a three year, \$0.9 million non-interest bearing note and has been discounted at approximately 3.5%, which approximated our effective borrowing rate at the time we entered into the agreement, and the discount of \$0.1 million is being amortized to interest expense over a three year period.

A summary of long-term debt as of May 31, 2010 and May 31, 2009 is as follows (in thousands):

	May 31,	
	2010	2009
Revolving loan portion of the Credit Facility	\$ 47,636	\$ 76,164
Canadian Line of Credit		
Term loan portion of the Credit Facility		4,500
Vendor financing	525	838
	48,161	81,502
Current maturities	(313)	(4,813)
Long-term debt, excluding current maturities	\$ 47,848	\$ 76,689

Future maturities of long-term debt are as follows (in thousands):

2011	\$ 313
2012	47,848
Thereafter	
	\$ 48,161

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 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 counter party credit risk to our derivative contracts when valuing our derivative instruments.





**Table of Contents****Index to Financial Statements**

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 are 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 is designated as a cash flow hedge, with the changes in fair value, to the extent the swap agreement is effective, recognized in other comprehensive income until the hedged interest expense is recognized in earnings.

The amounts recognized in other comprehensive income, and reclassified into income, for the twelve months ended May 31, 2010 and 2009, are as follows (in thousands):

	<b>Gain (Loss) Recognized in Other Comprehensive Income Twelve Months Ended May 31,</b>		<b>Loss Reclassified from Other Comprehensive Income to Earnings Twelve Months Ended May 31,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Economic hedge	\$ 2,276	\$ 1,767	\$	\$
Interest rate swap	\$ (49)	\$ (151)	\$ (865)	\$ (744)

On February 12, 2008, we borrowed 12.3 million under the Credit Facility to serve 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):

	<b>Classification</b>	<b>2010 Balance Sheet Location</b>	<b>Fair Value</b>	<b>Classification</b>	<b>2009 Balance Sheet Location</b>	<b>Fair Value</b>
Economic hedge	Liability	Long-term debt	\$ 2,880	Liability	Long-term debt	\$ 604
Interest rate swap	Liability	Other liabilities		Liability	Other liabilities	(816)
<b>Total Derivatives</b>			<b>\$ 2,880</b>			<b>\$ (212)</b>

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 May 31, 2010 and May 31, 2009, we were contingently liable for outstanding stand-by letters of credit totaling \$8.8 million and \$6.8 million, respectively. 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.



**Table of Contents****Index to Financial Statements**

We enter into operating leases to rent facilities and obtain equipment for our field operations. Our obligations under non-cancellable operating leases, primarily consisting of facility and auto leases, were approximately \$25.4 million at May 31, 2010 and are as follows (in thousands):

<b>Twelve Months Ended May 31,</b>	<b>Operating Leases</b>
2011	\$ 10,763
2012	5,028
2013	3,739
2014	2,325
2015	1,329
Thereafter	2,223
<b>Total</b>	<b>\$ 25,407</b>

Total rent expense resulting from operating leases for the twelve months ended May 31, 2010, 2009 and 2008 was \$19.4 million, \$19.9 million and \$18.7 million, respectively.

**9. FAIR VALUE MEASUREMENTS**

Effective June 1, 2008, we adopted the provisions of 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 May 31, 2010. 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):

	<b>Quoted Prices in Active Markets for Identical Items (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Liabilities:</b>				
Euro denominated long-term debt	\$	\$ 2,880	\$	\$ 2,880
Interest rate swap				
<b>Total Liabilities</b>	<b>\$</b>	<b>\$ 2,880</b>	<b>\$</b>	<b>\$ 2,880</b>



**Table of Contents****Index to Financial Statements****10. SHARE BASED COMPENSATION**

We have adopted stock incentive plans and other arrangements pursuant to which our Board of Directors may grant stock options, restricted stock, stock units, stock appreciation rights, common stock or performance awards to officers, directors and key employees. At May 31, 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 of Directors at the time of grant and may vary.

Our share-based payments consist primarily of stock options, stock units 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 May 31, 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 \$5.0 million, \$4.7 million and \$3.3 million for the years ended May 31, 2010, 2009 and 2008, respectively. Tax benefits related to share-based compensation were \$0.6 million, \$1.6 million and \$4.3 million for the years ended May 31, 2010, 2009 and 2008, respectively. At May 31, 2010, \$8.2 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of three 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 specify vesting period for those options. Stock options generally have a ten year term. Transactions involving our stock options during the years ended May 31, 2010, 2009 and 2008 are summarized below:

	Year Ended May 31, 2010		Year Ended May 31, 2009		Year Ended May 31, 2008	
	No. of Options (in thousands)	Weighted Average Exercise Price	No. of Options (in thousands)	Weighted Average Exercise Price	No. of Options (in thousands)	Weighted Average Exercise Price
Shares under option, beginning of year	2,354	\$ 16.24	2,627	\$ 15.37	2,822	\$ 8.58
Changes during the year:						
Granted		\$		\$	736	\$ 30.22
Exercised	(107)	\$ 8.35	(253)	\$ 6.41	(718)	\$ 4.63
Canceled	(30)	\$ 23.56	(20)	\$ 26.96	(213)	\$ 14.31
Expired	(4)	\$ 16.56		\$		\$
Shares under option, end of year	2,213	\$ 16.50	2,354	\$ 16.24	2,627	\$ 15.37
Exercisable at end of year	1,807	\$ 14.22	1,505	\$ 12.19	1,178	\$ 8.34

For stock options, we determine the fair value of each stock option at the grant date using a Black-Scholes model, with the following weighted-average assumptions used for grants made during the years ended May 31, 2010, 2009 and 2008:

	2010	2009	2008
Risk-free interest rate	N/A	N/A	4.4%
Volatility factor of the expected market price of the Company's common stock	N/A	N/A	40.2%
Expected dividend yield percentage	N/A	N/A	0.0%
Weighted average expected life	N/A	N/A	7 Yrs

**Table of Contents****Index to Financial Statements**

Options exercisable at May 31, 2010 had a weighted average remaining contractual life of 5.3 years. For total options outstanding at May 31, 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	150	\$ 2.54	1.3
\$3.21 to \$6.41	88	\$ 4.19	2.7
\$6.41 to \$9.62	513	\$ 8.47	4.6
\$9.62 to \$12.82	189	\$ 11.24	5.7
\$12.82 to \$16.03	600	\$ 14.95	6.1
\$16.03 to \$32.05	673	\$ 30.17	7.4
	2,213	\$ 16.50	5.7

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 our Chairman 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 years ended May 31, 2010 and 2009 are summarized below:

	Year Ended May 31, 2010	Weighted Average Fair Value	Year Ended May 31, 2009	Weighted Average Fair Value
No. of Performance Awards (in thousands)			No. of Performance Awards (in thousands)	
Performance Awards, beginning of period	28	\$ 27.39		\$
Changes during the period:				
Granted	30	\$ 16.42	28	\$ 27.39
Vested and settled	(7)	\$ 27.39		\$
Canceled		\$		\$
Performance Awards, end of period	51	\$ 20.84	28	\$ 27.39

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 stock units and common stock to our directors which vest immediately. Transactions involving our stock units during the years ended May 31, 2010 and 2009 are summarized below:

	Year Ended May 31, 2010	Weighted Average Fair Value	Year Ended May 31, 2009	Weighted Average Fair Value
No. of Stock Units (in thousands)			No. of Stock Units (in thousands)	
Stock units, beginning of period	127	\$ 27.39		\$
Changes during the period:				

# Edgar Filing: TEAM INC - Form 10-K

Granted	170	\$ 16.55	133	\$ 27.53
Vested and settled	(45)	\$ 24.56	(2)	\$ 36.91
Canceled	(5)	\$ 23.76	(4)	\$ 27.39
Stock units, end of period	247	\$ 20.53	127	\$ 27.39

50

## **Table of Contents**

### **Index to Financial Statements**

#### **11. STOCK SPLIT**

On July 25, 2007, we announced a two-for-one stock split in the form of a 100 percent stock dividend payable on August 29, 2007 to all shareholders of record on August 15, 2007. To fund the requirement of new shares, we utilized approximately 1 million shares of treasury stock and issued an additional 8 million shares of common stock. All share and per share information has been retroactively adjusted to reflect the stock split.

#### **12. EMPLOYEE BENEFIT PLANS**

Under the Team, Inc. Salary Deferral Plan (the Plan), contributions are made to the Plan by qualified employees at their election and our matching contributions to the Plan are made at specified rates. Our contributions to the Plan in fiscal years 2010, 2009 and 2008, were approximately \$1.8 million, \$2.6 million and \$2.2 million, respectively, and are included in selling, general and administrative expenses.

#### **13. COMMITMENTS AND CONTINGENCIES**

We have, from time to time, provided temporary leak repair services for the steam operations of 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. Approximately one hundred lawsuits have been filed against Con Ed, the City of New York and us 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 intend to vigorously defend 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 and have placed our insurers on notice. 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 consolidated 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.

#### **14. 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 provides the services of non-destructive testing 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 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 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



**Table of Contents****Index to Financial Statements**

service the business requirements of our customers. While TCM and TMS division field locations are generally separate, 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 United States and other countries are as follows for the fiscal years ended May 31, 2010, 2009 and 2008 (in thousands):

	<b>Total Revenues</b>	<b>Total Assets</b>
<b>FY 2010</b>		
United States	\$ 323,036	\$ 188,280
Canada	91,482	44,015
Europe	23,218	24,142
Other foreign countries	16,133	8,552
	<b>\$ 453,869</b>	<b>\$ 264,989</b>
<b>FY 2009</b>		
United States	\$ 350,001	\$ 180,889
Canada	112,930	62,678
Europe	23,443	25,353
Other foreign countries	11,185	7,001
	<b>\$ 497,559</b>	<b>\$ 275,921</b>
<b>FY 2008</b>		
United States	\$ 346,074	\$ 169,491
Canada	106,121	73,788
Europe	12,322	25,044
Other foreign countries	13,958	12,138
	<b>\$ 478,475</b>	<b>\$ 280,461</b>

**15. 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 \$1.1 million and \$1.1 million as of May 31, 2010 and 2009, respectively. Revenues from the joint venture not reflected in our consolidated revenues were \$7.5 million and \$12.6 million as of May 31, 2010 and 2009, respectively.

**16. INTERNAL INVESTIGATION**

During an internal management review of our TMS branch operations in Trinidad in the Spring of 2009, we were informed 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 FCPA or other applicable laws. Consequently, 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 initial findings to the DOJ and to the SEC.

The report of the independent investigator was delivered to the Audit Committee in March 2010 and to the DOJ and SEC in May 2010. The investigation concluded that improper payments of limited size were made to employees of foreign government owned enterprises in Trinidad,

## Edgar Filing: TEAM INC - Form 10-K

but determined that the improper payments were not made, or authorized by, employees outside the one TMS Trinidad branch. The investigation of our other

---

**Table of Contents**

**Index to Financial Statements**

foreign operations did not result in any findings of significance and management has remediated or is undertaking remedial action on 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.

As of May 31, 2010, 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 depends 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.

**17. VENEZEULA S HIGHLY INFLATIONARY ECONOMY**

Team operates a small service location in Punta Fijo, Venezuela, whose annual revenues have historically been less than one percent of Team's consolidated revenues for all periods presented. At May 31, 2010, our Venezuelan subsidiary had \$1.5 million of net assets, \$1.6 million of cash on hand and a balance of \$0.1 million in other comprehensive losses related to translated losses on our Venezuelan operations. Foreign currency transaction losses (gains) were \$1.6 million, \$(0.1) million and \$0.0 million for the twelve months ended May 31, 2010, 2009 and 2008, respectively.

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. This resulted in currency related losses in the third quarter of \$2.1 million. 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, we began to use the Venezuelan central bank's official published rate (5.30 Bolivars per U.S. Dollar at May 31, 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. Due to the uncertain economic and political environment in Venezuela, it is very difficult to repatriate cash flows of these operations.

**Table of Contents****Index to Financial Statements****18. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)**

The following is a summary of selected quarterly financial data for the years ended May 31, 2010 and 2009 (in thousands, except per share data):

	Year ended May 31, 2010				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	\$ 100,937	\$ 123,292	\$ 104,112	\$ 125,528	\$ 453,869
Operating income	\$ 2,664	\$ 10,277	\$ 2,092	\$ 9,744	\$ 24,777
Net income (loss)	\$ 1,125	\$ 5,841	\$ (427)	\$ 5,736	\$ 12,275
Net income (loss) per share: Basic	\$ 0.06	\$ 0.31	\$ (0.02)	\$ 0.30	\$ 0.65
Net income (loss) per share: Diluted	\$ 0.06	\$ 0.30	\$ (0.02)	\$ 0.29	\$ 0.63

	Year ended May 31, 2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	\$ 123,338	\$ 148,752	\$ 104,266	\$ 121,203	\$ 497,559
Operating income	\$ 9,715	\$ 18,364	\$ 3,470	\$ 9,722	\$ 41,271
Net income	\$ 4,957	\$ 10,217	\$ 2,181	\$ 5,556	\$ 22,911
Net income per share: Basic	\$ 0.27	\$ 0.54	\$ 0.12	\$ 0.29	\$ 1.22
Net income per share: Diluted	\$ 0.25	\$ 0.51	\$ 0.11	\$ 0.29	\$ 1.16

## **Table of Contents**

### **Index to Financial Statements**

### **3. Exhibits**

#### **Exhibit**

#### **Number**

- 3.1 Second Restated Articles of Incorporation of the Company, as amended through August 31, 1999, (filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the year ended May 31, 1999).
- 3.2 Bylaws of the Company (filed as Exhibit 4.2 to the Company's Registration Statement on Form S-2, File No. 33-31663).
- 4.1 Certificate representing shares of common stock of Company (filed as Exhibit 4(1) to the Company's Registration Statement on Form S-1, File No. 2-68928).
- 10.1 Team, Inc. Salary Deferral Plan (filed as Exhibit 99(a) to the Company's Registration Statement on Form S-8, File No. 333-74062).
- 10.2 Team, Inc. Restated Non-Employee Directors' Stock Option Plan as amended and restated August 1, 2009 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 30, 2009).
- 10.3 Standard Restricted Stock Option Award Agreement by and between Philip J. Hawk and Team, Inc. dated November 2, 1998 (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1998).
- 10.4 First Amendment to Price Vested Restricted Stock Option Award Agreement by and between Philip J. Hawk and Team, Inc. dated October 1, 2001 (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2002).
- 10.5 Second Amendment dated July 11, 2002 to Price Vested Restricted Stock Option Award Agreement by and between Philip J. Hawk and Team, Inc (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended May 31, 2002).
- 10.6 1998 Incentive Stock Option Plan dated January 29, 1998 as amended through June 24, 2004 (filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended May 31, 2004).
- 10.7 Stock Purchase Agreement dated as of April 1, 2004, by and among Team, Inc., Team Industrial Services, Inc. ( Team Industrial ), Thermal Solutions, Inc. ( TSI ), the TSI shareholders named therein and Michael J. Urban as the shareholder representative (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed April 16, 2004).
- 10.8 Escrow Agreement dated April 15, 2004 by and among Team, Inc., Team Industrial, TSI, the TSI shareholders named therein, Michael J. Urban as the shareholder representative and Compass Bank (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 16, 2004).
- 10.9 Asset Purchase Agreement dated July 16, 2004 by and among International Industrial Services, Inc., Cooperheat-MQS, Inc., Team Acquisition Corp. and Team, Inc. (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed, dated July 16, 2004, filed July 20, 2004).
- 10.11 Team, Inc. 2004 Restricted Stock Option and Award Plan dated June 24, 2004 (filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended May 31, 2004).
- 10.12 Consulting Agreement between Team, Inc. and Emmett J. Lescroart dated July 30, 2004 (filed as Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended May 31, 2004).
- 10.13 Restricted Stock Award Agreement by and between Kenneth M. Tholan and Team, Inc. dated September 23, 2004. (filed as Exhibit 10.1 to the Company Quarterly Report on Form 10-Q for the quarter ended February 28, 2005).

## **Table of Contents**

### **Index to Financial Statements**

#### **Exhibit**

#### **Number**

10.14	Employment Agreement by and between Philip J. Hawk and Team, Inc. dated January 31, 2005. (filed as Exhibit 10.2 to the Company Quarterly Report on Form 10-Q for the quarter ended February 28, 2005).
10.16	Stock Purchase Agreement by and among Climax Technologies, Inc., Team Investment, Inc., Team, Inc. and Climax Portable Machine Tools, Inc. dated November 30, 2005 (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed December 6, 2005).
10.19	Cancellation Agreement Philip J. Hawk Employment Agreement with Team, Inc. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter ended February 28, 2007).
10.20	Team, Inc. 2006 Stock Incentive Plan (as Amended and Restated August 1, 2009) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 30, 2009).
10.21	Form of Stock Unit Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 17, 2008).
10.22	Form of Performance-Based Stock Unit Agreement (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 17, 2008).
10.23	Share Purchase Agreement dated May 13, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 17, 2007).
10.24	Amended and Restated Credit Agreement dated as of May 31, 2007 among Team, Inc. as the Borrower, Bank of America, NA, as Administrative Agent, Swing Line Lender and L/C Issuer, and other Lenders Party thereto (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 6, 2007).
10.25	First Amendment to Amended and Restated Credit Agreement dated January 29, 2008 among Team, Inc. as the Borrower, Bank of America, NA, as Administrative Agent, Swing Line Lender and L/C Issuer, and other Lenders Party thereto (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008).
10.26	Commitment Increase Agreement dated June 13, 2008 to the Amended and Restated Credit Agreement among Team, Inc. as the Borrower, Bank of America, NA, as Administrative Agent, Swing Line Lender and L/C Issuer, and other Lenders Party thereto (filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended May 31, 2008).
10.27	Second Amendment to Amended and Restated Credit Agreement dated July 16, 2010 among Team, Inc. as the borrower, Bank of America, NA, as Administrative Agent, Swing Line Lender and L/C Issuer, and other Lenders Party thereto.
14.1	Code of Ethics (filed as Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended May 31, 2003).
21	Subsidiaries of the Company.
23.1	Consent of Independent Registered Public Accounting Firm KPMG LLP
31.1	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Management contract or compensation plan or arrangement.

Table of ContentsIndex to Financial Statements**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 August 6, 2010.

TEAM, INC.

By: /s/ PHILIP J. HAWK  
**Philip J. Hawk**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the dates indicated.

/s/ PHILIP J. HAWK	Chief Executive Officer and Director	August 6, 2010
<b>(Philip J. Hawk)</b>		
/s/ VINCENT D. FOSTER	Director	August 6, 2010
<b>(Vincent D. Foster)</b>		
/s/ JACK M. JOHNSON, JR.	Director	August 6, 2010
<b>(Jack M. Johnson, Jr.)</b>		
/s/ EMMETT J. LESCROART	Director	August 6, 2010
<b>(Emmett J. Lescroart)</b>		
/s/ ROBERT A. PEISER	Director	August 6, 2010
<b>(Robert A. Peiser)</b>		
/s/ LOUIS A. WATERS	Director	August 6, 2010
<b>(Louis A. Waters)</b>		
/s/ SIDNEY B. WILLIAMS	Director	August 6, 2010
<b>(Sidney B. Williams)</b>		
/s/ TED W. OWEN	Executive Vice President and Chief	August 6, 2010
<b>(Ted W. Owen)</b>	Financial Officer (Principal	

Edgar Filing: TEAM INC - Form 10-K

Financial Officer and Principal Accounting  
Officer)

57