TEAM INC
Form 10-Q
October 09, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended August 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period to

Commission file number 001-08604

TEAM, INC.

(Exact name of registrant as specified in its charter)

Texas	**74-1765729**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**
200 Hermann Drive, Alvin, Texas	**77511**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (281) 331-6154

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

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

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

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

On October 7, 2008, there were 18,820,827 shares of the Registrant s common stock outstanding.

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Certification of CEO Pursuant to Section 302
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PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands except share and per share data)

	August 31, 2008 (unaudited)	May 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 8,454	$ 6,600
Receivables, net of allowance of $3,918 and $3,586	121,416	126,854
Inventory	18,604	16,408
Income tax receivable	3,460	834
Deferred income taxes	1,120	687
Prepaid expenses and other current assets	6,092	6,831
Total Current Assets	159,146	158,214
Property, plant and equipment, net	56,308	56,138
Intangible assets, net of accumulated amortization of $1,417 and $1,308	1,084	1,276
Goodwill	58,276	62,904
Other assets, net	3,546	1,929
Total Assets	$ 278,360	$ 280,461
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities	$ 6,165	$ 6,249
Accounts payable	16,599	21,462
Other accrued liabilities	22,180	25,636
Insurance note payable	2,472	3,397
Total Current Liabilities	47,416	56,744
Deferred income taxes	5,792	6,137
Long-term debt	97,925	96,818
Total Liabilities	151,133	159,699
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; 18,809,577 and 18,580,171 shares issued	5,643	5,574
Additional paid-in capital	59,640	55,250
Retained earnings	62,324	57,367
Accumulated other comprehensive income	(380)	2,571
Total Stockholders Equity	127,227	120,762

Total Liabilities and Stockholders Equity	$	278,360	$	280,461

See notes to unaudited consolidated condensed financial statements.

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TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands except per share data)

	Three Months Ended August 31, 2008 (unaudited)	Three Months Ended August 31, 2007 (unaudited)
Revenues	$ 123,338	$ 103,488
Operating expenses	84,229	71,181
Gross margin	39,109	32,307
Selling, general and administrative expenses	29,658	24,536
Earnings from unconsolidated affiliates	264	
Operating income	9,715	7,771
Interest expense, net	1,447	1,754
Earnings before income taxes	8,268	6,017
Provision for income taxes	3,311	2,505
Net income	$ 4,957	$ 3,512
Net income per share - Basic	$ 0.27	$ 0.19
Net income per share - Diluted	$ 0.25	$ 0.18
Weighted averages shares outstanding		
Basic	18,684	18,023
Diluted	19,907	19,585

See notes to unaudited consolidated condensed financial statements.

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TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended August 31,	
	2008 (unaudited)	2007 (unaudited)
Net income	$ 4,957	$ 3,512
Foreign currency translation adjustment	(6,111)	154
Interest rate swap		(123)
Foreign currency hedge	1,318	
Tax provision	1,842	(56)
Comprehensive income	$ 2,006	$ 3,487

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TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended August 31, 2008 (unaudited)	Three Months Ended August 31, 2007 (unaudited)
Cash Flows From Operating Activities:		
Net income	$ 4,957	$ 3,512
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from unconsolidated affiliates	(264)	
Depreciation and amortization	2,913	2,278
Loss on asset sales	(4)	(3)
Amortization of deferred loan costs	72	77
Allowance for doubtful accounts	332	639
Minority interest in earnings and other		(69)
Deferred income taxes	(778)	(578)
Non-cash compensation cost	1,008	405
Changes in assets and liabilities, net of effects from business acquisitions:		
(Increase) decrease:		
Accounts receivable	5,106	2,914
Inventories	(2,196)	(975)
Prepaid expenses and other current assets	740	1,961
Increase (decrease):		
Accounts payable	(4,863)	(4,669)
Other accrued liabilities	(3,456)	2,235
Income taxes payable		1,688
Income taxes receivable	(408)	
Net cash provided by operating activities	3,159	9,415
Cash Flows From Investing Activities:		
Capital expenditures	(4,301)	(3,522)
Proceeds from sale of assets	18	11
Business acquisitions, net of cash acquired		(35,371)
Increase in other assets, net	(1,500)	(94)
Net cash used in investing activities	(5,783)	(38,976)
Cash Flows From Financing Activities:		
Net borrowings under revolving credit agreement	4,742	33,980
Payments related to term loans and financing arrangements	(1,584)	(1,528)
Tax benefit of stock option exercises	1,953	568
Insurance note payments	(925)	(1,549)
Proceeds from note receivable	111	
Loan financing fees	(36)	(86)
Issuance of common stock	1,498	834
Net cash provided by financing activities	5,759	32,219
Effect Of Exchange Rate Changes On Cash	(1,281)	283
Net increase in cash and cash equivalents	1,854	2,941
Cash and cash equivalents at beginning of period	6,600	4,335

Cash and cash equivalents at end of period	$ 8,454	$ 7,276

See notes to unaudited consolidated condensed financial statements.

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TEAM, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED

FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Introduction. Unless otherwise indicated, the terms Team, Inc., Team, the Company, we, our and us are used in this report to refer to Tea Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. We are incorporated in the State of Texas and our company website can be found at *www.teamindustrialservices.com* . Our corporate headquarters is located at 200 Hermann Drive, Alvin, Texas, 77511 and our telephone number is (281) 331-6154. Our stock is traded on the NASDAQ 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 complimentary services including:

- leak repair,
- hot tapping,
- fugitive emissions control,
- field machining,
- technical bolting,
- field valve repair,
- non-destructive testing, and
- field heat treating.

We offer these services in over 100 locations throughout the United States and international markets including Aruba, Belgium, Canada, Singapore, The Netherlands, Trinidad and Venezuela.

Basis for Presentation. These interim financial statements are unaudited, but in the opinion of our management, reflect all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of results for such periods. The consolidated condensed balance sheet at May 31, 2008 is derived from the May 31, 2008 audited consolidated financial statements. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in our annual report on Form 10-K for the fiscal year ended May 31, 2008.

***Consolidation*.** Our consolidated condensed financial statements include the financial statements of Team, Inc. and our majority 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. Our share of the net income of these entities is included in earnings from unconsolidated affiliates in our consolidated condensed statements of operations and our investment in these entities is included in other long-term assets as a single amount in our consolidated condensed balance sheets. Investments in net assets of unconsolidated affiliates accounted for using the equity method totaled $1.9 million and $0.1 million as of August 31, 2008 and May 31, 2008, respectively. Certain amounts in prior years have been reclassified to conform to the current year presentation.

Use of Estimates. Our accounting policies conform to Generally Accepted Accounting Principles in the United States (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 bank debt 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 credit facility.

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

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

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

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

Goodwill and Other Intangible Assets. Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are instead tested for impairment at least annually in accordance with the provisions of the Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets* . 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 FASB Statement No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*

Income Taxes. We follow the guidance in FASB No. 109, *Accounting for Income Taxes* (FASB No. 109) 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 FASB Statement No. 5, *Accounting for Contingencies* (FASB No. 5), 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 individual workers compensation and automobile liability claims, our self-insured retention is $250,000 per occurrence. Multiple claims or combined workers compensation and auto liability claims are aggregated for a self-insured retention of $350,000 per occurrence. For medical claims, our self-insured retention is $150,000 per individual claimant determined on an annual basis. For general liability claims, our self-insured retention is $250,000 per occurrence. We maintain insurance for claims that exceed such self-retention limits. The insurance is subject to terms, conditions, limitations and exclusions that may not fully compensate us for all losses. Our estimates and judgment could change based on new information, changes in laws or regulations, changes in management s plans or intentions, or the outcome of legal proceedings, settlements or other factors. If different estimates and judgments were applied with respect to these matters, it is likely that reserves would be recorded for different amounts.

Revenue Recognition. We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the FASB or the Securities & Exchange Commission, (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

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our revenues are recognized when services are rendered or when product is shipped and risk of ownership passes to the customer. However, due to various contractual terms with our customers, at the end of any reporting period there may be earned but unbilled revenue that is accrued to properly match revenues with related costs. At August 31, 2008 and May 31, 2008, the amount of earned but unbilled revenue included in accounts receivable was $8.4 million and $7.5 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.

All options to purchase shares of common stock outstanding during the three month periods ended August 31, 2008 and 2007, were included in the computation of diluted earnings per share because the options exercise prices were less than the average market price of common shares during the periods.

Foreign Currency. For subsidiaries whose functional currency is not the U.S. Dollar, assets and liabilities are translated at period ending rates of exchange and revenues and expenses are translated at period average exchange rates. Translation adjustments for the asset and liability accounts are included as a separate component of accumulated other comprehensive income in stockholders equity. There were no material transaction gains or losses in any periods presented.

Accounting Principles Not Yet Adopted

FASB No. 141R. In December 2007, the FASB issued FASB No. 141 (revised 2007), *Business Combinations* (FASB No. 141R) which replaces FASB No. 141, *Business Combinations* . FASB No. 141R applies to all business combinations, including combinations among mutual entities and combinations by contract alone. FASB No. 141R requires that all business combinations will be accounted for by applying the acquisition method. FASB No. 141R is effective for business combinations consummated in periods beginning on or after December 15, 2008. Early application is prohibited. We do not anticipate FASB No. 141R will have a material effect on our results of operations, financial position, or cash flows.

FASB No. 161. In March 2008, the FASB issued FASB No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (FASB No. 161). FASB N