

TEAM INC  
Form 10-Q  
January 08, 2009  
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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 November 30, 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)

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**Texas**  
(State or other jurisdiction of  
incorporation or organization)

**74-1765729**  
(I.R.S. Employer  
Identification Number)

**200 Hermann Drive, Alvin, Texas**  
(Address of principal executive offices)

**77511**  
(Zip Code)

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

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

On December 31, 2008 there were 18,830,109 shares of the Registrant's common stock outstanding.

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**TEAM, INC.**

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**Index to Financial Statements****PART I FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
TEAM, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS**

(in thousands except share and per share data)

|  | November 30, 2008<br>(unaudited) | May 31, 2008 |
|--|----------------------------------|--------------|
| <b>ASSETS</b>  |                                  |              |
| Current Assets:  |                                  |              |
| Cash and cash equivalents  | \$ 9,265                         | \$ 6,600     |
| Receivables, net of allowance of \$4,325 and \$3,586   | 135,047                          | 126,854      |
| Inventory  | 18,941                           | 16,408       |
| Income tax receivable  | 343                              | 834          |
| Deferred income taxes  | 785                              | 687          |
| Prepaid expenses and other current assets  | 5,077                            | 6,831        |
| Total Current Assets   | 169,458                          | 158,214      |
| Property, plant and equipment, net   | 57,386                           | 56,138       |
| Intangible assets, net of accumulated amortization of \$1,487 and \$1,308                                      | 1,036                            | 1,276        |
| Goodwill   | 52,844                           | 62,904       |
| Other assets, net  | 3,782                            | 1,929        |
| Total Assets   | \$ 284,506                       | \$ 280,461   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                  |              |
| Current Liabilities:   |                                  |              |
| Current portion of long-term debt  | \$ 6,107                         | \$ 6,249     |
| Accounts payable   | 20,086                           | 21,462       |
| Other accrued liabilities  | 24,335                           | 25,636       |
| Insurance notes payable  | 1,549                            | 3,397        |
| Total Current Liabilities  | 52,077                           | 56,744       |
| Deferred income taxes  | 2,940                            | 6,137        |
| Long-term debt   | 98,459                           | 96,818       |
| Total Liabilities  | 153,476                          | 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; 18,830,109 and 18,580,171 shares issued | 5,649                            | 5,574        |
| Additional paid-in capital   | 61,042                           | 55,250       |
| Retained earnings  | 72,541                           | 57,367       |
| Accumulated other comprehensive income (loss)  | (8,202)                          | 2,571        |
| Total Stockholders' Equity   | 131,030                          | 120,762      |

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|                                    |        |    |         |    |         |
|------------------------------------|--------|----|---------|----|---------|
| Total Liabilities and Stockholders | Equity | \$ | 284,506 | \$ | 280,461 |
|------------------------------------|--------|----|---------|----|---------|

See notes to unaudited consolidated condensed financial statements.

**Index to Financial Statements****TEAM, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS****(in thousands except per share data)**

|  | <b>Three Months Ended<br/>November 30,</b> |             | <b>Six Months Ended<br/>November 30,</b> |             |
|--|--|-------------|--|-------------|
|  | <b>2008</b>                                | <b>2007</b> | <b>2008</b>                              | <b>2007</b> |
| Revenues                                     | \$ 148,752                                 | \$ 122,310  | \$ 272,090                               | \$ 225,798  |
| Operating expenses                           | 98,667                                     | 80,456      | 182,896                                  | 151,637     |
| Gross margin                                 | 50,085                                     | 41,854      | 89,194                                   | 74,161      |
| Selling, general and administrative expenses | 32,132                                     | 27,301      | 61,790                                   | 51,840      |
| Earnings from unconsolidated affiliates      | 411  |             | 675                                      |             |
| Operating income                             | 18,364                                     | 14,553      | 28,079                                   | 22,321      |
| Interest expense, net                        | 1,378                                      | 1,713       | 2,825                                    | 3,464       |
| Earnings before income taxes                 | 16,986                                     | 12,840      | 25,254                                   | 18,857      |
| Provision for income taxes                   | 6,769                                      | 5,024       | 10,080                                   | 7,529       |
| Net income                                   | \$ 10,217                                  | \$ 7,816    | \$ 15,174                                | \$ 11,328   |
| Net income per share-Basic                   | \$ 0.54                                    | \$ 0.43     | \$ 0.81                                  | \$ 0.63     |
| Net income per share-Diluted                 | \$ 0.51                                    | \$ 0.40     | \$ 0.76                                  | \$ 0.58     |
| Weighted averages shares outstanding:        |  |             |  |             |
| Basic  | 18,823                                     | 18,164      | 18,752                                   | 18,044      |
| Diluted                                      | 19,853                                     | 19,685      | 19,881                                   | 19,550      |

See notes to unaudited consolidated condensed financial statements.

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**TEAM, INC. AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

|   | <b>Three Months Ended<br/>November 30,</b> |             | <b>Six Months Ended<br/>November 30,</b> |             |
|---|--|-------------|--|-------------|
|   | <b>2008</b>                                | <b>2007</b> | <b>2008</b>                              | <b>2007</b> |
| Net income                              | \$ 10,217                                  | \$ 7,816    | \$ 15,174                                | \$ 11,328   |
| Foreign currency translation adjustment | (12,907)                                   | 154         | (19,016)                                 | 2,758       |
| Interest rate swap                      | (213)                                      | (123)       | (215)                                    | (581)       |
| Foreign currency hedge                  | 2,171                                      |             | 3,489                                    |             |
| Tax provision                           | 3,127                                      | (59)        | 4,969                                    | (825)       |
| Comprehensive income                    | \$ 2,395                                   | \$ 7,788    | \$ 4,401                                 | \$ 12,680   |

See notes to unaudited consolidated condensed financial statements.

**Index to Financial Statements****TEAM, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(in thousands)**

|   | <b>Six Months Ended<br/>November 30,</b> |             |
|---|--|-------------|
|   | <b>2008</b>                              | <b>2007</b> |
| <b>Cash Flows From Operating Activities:</b>                                      |  |             |
| Net income  | \$ 15,174                                | \$ 11,328   |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |             |
| Earnings from unconsolidated affiliates   | (675)                                    |             |
| Depreciation and amortization   | 5,940                                    | 4,941       |
| Loss on asset sales   | 8  | 15          |
| Amortization of deferred loan costs   | 145                                      | 137         |
| Allowance for doubtful accounts   | 739                                      | 1,394       |
| Minority interest in earnings and other   |  | (10)        |
| Deferred income taxes   | (3,295)                                  | 12          |
| Non-cash compensation cost  | 2,180                                    | 1,048       |
| Changes in assets and liabilities, net of effects from business acquisitions:     |  |             |
| (Increase) decrease:  |  |             |
| Accounts receivable   | (8,932)                                  | (15,994)    |
| Inventories   | (2,533)                                  | (1,551)     |
| Prepaid expenses and other current assets   | 1,754                                    | 3,140       |
| Increase (decrease):  |  |             |
| Accounts payable  | (1,376)                                  | 139         |
| Other accrued liabilities   | (1,301)                                  | 1,764       |
| Income taxes payable  |  | 2,361       |
| Income taxes receivable   | 2,709                                    |             |
| Net cash provided by operating activities   | 10,537                                   | 8,724       |
| <b>Cash Flows From Investing Activities:</b>                                      |  |             |
| Capital expenditures  | (8,994)                                  | (14,135)    |
| Proceeds from sale of assets  | 92                                       | 13          |
| Business acquisitions, net of cash acquired                                       |  | (34,528)    |
| Increase in other assets, net   | (1,500)                                  | (596)       |
| Net cash used in investing activities   | (10,402)                                 | (49,246)    |
| <b>Cash Flows From Financing Activities:</b>                                      |  |             |
| Net borrowings under revolving credit agreements                                  | 10,288                                   | 43,100      |
| Payments related to term loans and financing arrangements                         | (3,142)                                  | (2,429)     |
| Tax benefit of stock option exercises   | 1,980                                    | 1,475       |
| Insurance note payments   | (1,848)                                  | (2,839)     |
| Proceeds from note receivable   | 168                                      | 119         |
| Loan financing fees   | (66)                                     | (69)        |
| Proceeds from exercise of stock options   | 1,572                                    | 1,687       |
| Net cash provided by financing activities   | 8,952                                    | 41,044      |
| Effect Of Exchange Rate Changes On Cash   | (6,422)                                  | 913         |
| Net increase in cash and cash equivalents   | 2,665                                    | 1,435       |
| Cash and cash equivalents at beginning of period                                  | 6,600                                    | 4,335       |



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|  |          |          |
|--|----------|----------|
| Cash and cash equivalents at end of period | \$ 9,265 | \$ 5,770 |
|--|----------|----------|

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 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 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

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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 were \$2.3 million and \$0.1 million as of November 30, 2008 and May 31, 2008, respectively. Revenues of unconsolidated affiliates not included in our consolidated results were \$3.5 million and \$8.7 million for the three and six month periods ended November 30, 2008. 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

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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 Statement 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

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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*, 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 and 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 our revenues are recognized when services are rendered or when product is shipped and risk of ownership passes to the customer. However, due to various contractual terms with our customers, at the end of any reporting period there may be earned but unbilled revenue that is accrued to properly match revenues with related costs. At November 30, 2008 and May 31, 2008, the amount of earned but unbilled revenue included in accounts receivable was \$6.9 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.

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There were 647,000 and zero options to purchase shares of common stock outstanding during the three month periods ended November 30, 2008 and 2007, excluded from 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. All outstanding options to purchase shares of common stock during the six month periods ended November 30, 2008 and 2007, were included in the computation of diluted earnings per share.

**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 Statement 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 fiscal years 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 Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 ( FASB No. 161 ). FASB No. 161 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. FASB No. 161 is effective for fiscal years beginning after November 15, 2008. We do not anticipate FASB No. 161 will have a material effect on our results of operations, financial position or cash flows.

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

**FASB No. 157.** In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* ( FASB No. 157 ). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements for financial assets and liabilities, as well as for 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 FASB No. 157, however, may change current practice within an organization. FASB No. 157 is effective January 1, 2008, applied prospectively. In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which provided a one-year deferral for the implementation of FASB No. 157 for certain non-financial assets and liabilities measured on a nonrecurring basis. Effective June 1, 2008, we adopted the provisions of FASB No. 157 relating to financial assets and liabilities. The adoption of FASB No. 157 with respect to financial assets and liabilities did not have a material financial impact on our consolidated results of operations or financial condition. We are currently evaluating the impact of implementation with respect to non-financial assets and liabilities measured on a nonrecurring basis on our consolidated financial statements, which will be primarily limited to asset impairments including goodwill, intangible assets and other long-lived assets, assets acquired and liabilities assumed in a business combination.

**FASB No. 159.** In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* ( FASB No. 159 ), which permits an entity to choose to measure financial instruments and certain other items similar to

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financial instruments at fair value. All subsequent changes to fair value for the financial instrument would be reported in earnings. FASB No. 159 is effective June 1, 2008. We did not adopt the fair value option permitted under this statement.

**FIN No. 48.** In June 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB No. 109* ( FIN 48 ), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB No. 109. The interpretation prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

In May 2007, the FASB issued Financial Interpretation No. 48-1, *Definition of Settlement in FASB Interpretation No. 48* ( FIN 48-1 ), which provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits.

We adopted the provisions of FIN 48 on June 1, 2007. The adoption of FIN 48 did not have a material impact on our consolidated financial condition, results of operations or cash flows. In accordance with FIN 48, paragraph 19, our policy is to recognize interest and penalties related to unrecognized tax benefits through the tax provision. Our adoption of FIN 48 was consistent with FIN 48-1. At the beginning of the current year we had liabilities for tax uncertainties of \$2.2 million, which included \$0.5 million of interest. The statute of limitations for the tax uncertainties expired during the current year. As these liabilities are associated with a prior acquisition, the resultant reduction of recorded liabilities was applied to reduce the balance of goodwill and as such had no effect on our effective tax rate.

Set forth below is a reconciliation of the changes in our unrecognized tax benefits associated with FIN 48 (in thousands):

|  |          |
|--|----------|
| Balance at May 31, 2008                              | \$ 2,218 |
| Decrease due to expiration of statute of limitations | (2,218)  |
| Balance at November 30, 2008                         | \$       |

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. We believe there is appropriate support for the income tax positions taken and to be taken on our tax 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.

**Index to Financial Statements****2. ACQUISITIONS AND DISPOSITIONS**

On January 9, 2008 we acquired all the stock of Leak Repair Specam, ( 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 final 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)      |
|----------------------------------|------------------|
| Accounts receivable              | \$ 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</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> |

On June 1, 2007 we acquired all the stock of Aitec, Inc. ( Aitec ). The final purchase price of \$34.7 million includes working capital adjustments of \$0.1 million and professional fees of \$0.8 million. Aitec is a non-destructive testing and inspection services company headquartered near Toronto, Ontario with 13 service locations across Canada. 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)      |
|----------------------------------|------------------|
| Accounts receivable              | \$ 12,983        |
| Inventory                        | 382              |
| Prepays and other current assets | 1,415            |
| Property, plant and equipment    | 4,460            |
| Intangible assets Non-competes   | 1,250            |
| Goodwill                         | 20,622           |
| <b>Total Assets</b>              | <b>\$ 41,112</b> |
| Accounts payable                 | \$ 3,251         |
| Accrued liabilities and other    | 3,021            |
| Deferred taxes                   | 99               |
| <b>Total Liabilities Assumed</b> | <b>6,371</b>     |
| <b>Net Assets Acquired</b>       | <b>\$ 34,741</b> |

**3. RECEIVABLES**



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A summary of accounts receivable as of November 30, 2008 and May 31, 2008 is as follows (in thousands):

|                                 | November 30, 2008<br>(unaudited) | May 31, 2008   |
|---------------------------------|----------------------------------|----------------|
| Trade accounts receivable       | \$ 132,495                       | \$ 122,941     |
| Unbilled revenues               | 6,877                            | 7,499          |
| Allowance for doubtful accounts | (4,325)                          | (3,586)        |
| <br>Total                       | <br>\$ 135,047                   | <br>\$ 126,854 |

**Index to Financial Statements****4. INVENTORY**

A summary of inventory as of November 30, 2008 and May 31, 2008 is as follows (in thousands):

|                  | November 30, 2008<br>(unaudited) | May 31, 2008 |
|------------------|----------------------------------|--------------|
| Raw materials    | \$ 3,353                         | \$ 2,817     |
| Work in progress | 504                              | 498          |
| Finished goods   | 15,084                           | 13,093       |
| Total            | \$ 18,941                        | \$ 16,408    |

**5. PROPERTY, PLANT AND EQUIPMENT**

A summary of property, plant and equipment as of November 30, 2008 and May 31, 2008 is as follows (in thousands):

|   | November 30, 2008<br>(unaudited) | May 31, 2008 |
|---|----------------------------------|--------------|
| Land                                      | \$ 898                           | \$ 986       |
| Buildings and leasehold improvements      | 7,687                            | 7,643        |
| Machinery and equipment                   | 79,110                           | 74,063       |
| Furniture and fixtures                    | 1,561                            | 1,508        |
| Computers and computer software           | 4,902                            | 4,596        |
| Automobiles                               | 2,186                            | 2,273        |
| Construction in progress                  | 8,629                            | 8,559        |
| Total                                     | 104,973                          | 99,628       |
| Accumulated depreciation and amortization | (47,587)                         | (43,490)     |
| Property, plant and equipment, net        | \$ 57,386                        | \$ 56,138    |

At November 30, 2008 \$0.4 million of capitalized interest is included in property, plant and equipment.

**6. OTHER ACCRUED LIABILITIES**

A summary of other accrued liabilities as of November 30, 2008 and May 31, 2008 is as follows (in thousands):

|   | November 30, 2008<br>(unaudited) | May 31, 2008 |
|---|----------------------------------|--------------|
| Payroll and other compensation expenses | \$ 12,917                        | \$ 15,111    |
| Insurance accruals                      | 4,856                            | 4,087        |
| Property, sales and other taxes         | 2,155                            | 1,770        |
| Auto lease rebate                       | 693                              | 992          |
| Other                                   | 3,714                            | 3,676        |
| Total                                   | \$ 24,335                        | \$ 25,636    |

**7. LONG-TERM DEBT**

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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. 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

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(currently LIBOR plus 1.5%) 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. 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 November 30, 2008 there were \$1.1 million of capitalized loan costs which are being amortized over the life of the Credit Facility. At November 30, 2008 we were in compliance with all financial covenants of the Credit Facility.

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 \$6 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 a LIBOR based interest rate (LIBOR + 1.5% at period end) and mature in May 2012.

A summary of long-term debt as of November 30, 2008 and May 31, 2008 is as follows (in thousands):

|   | November 30, 2008<br>(unaudited) | May 31, 2008 |
|---|----------------------------------|--------------|
| Revolving loan portion of the Credit Facility | \$ 92,118                        | \$ 92,298    |
| Canadian Line of Credit                       | 4,831                            |              |
| Term loan portion of the Credit Facility      | 7,500                            | 10,500       |
| Software Licensing Note                       | 92                               | 232          |
| Auto loans                                    | 25                               | 37           |
|   | 104,566                          | 103,067      |
| Current maturities                            | (6,107)                          | (6,249)      |
| Long-term debt, excluding current maturities  | \$ 98,459                        | \$ 96,818    |

FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( FASB No. 133 ), 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 earnings. 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.

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 begins with a notional value of \$30 million effective June 1, 2007 and decreases to \$16.3 million by March 1, 2010. 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.

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.

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In order to secure our insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. At November 30, 2008 we were contingently liable for outstanding stand-by letters of credit totaling \$6.8 million. Outstanding letters of credit reduce amounts available under our Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the Credit Facility.

**8. 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 November 30, 2008 there were approximately 2,537,000 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, restricted 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 November 30, 2008. Shares issued in connection with our share-based compensation are issued out of authorized but unissued common stock. Compensation expense related to share-based compensation totaled \$2.2 million and \$1.0 million for the six months ended November 30, 2008 and 2007, respectively, and \$1.2 million and \$0.6 million for the three months ended November 30, 2008 and 2007, respectively. Tax benefits related to share-based compensation were \$2.0 million and \$1.5 million for the six months ended November 30, 2008 and 2007, respectively and zero and \$0.9 million for the three months ended November 30, 2008 and 2007, respectively. At November 30, 2008, \$13.2 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 estimated fair value of our stock option awards over the vesting periods of the awards. Stock options generally have a ten year term and become fully exercisable after a period ranging from three to four years from the date of grant. Transactions involving our stock options during the six months ended November 30, 2008 and 2007 are summarized below:

|  | Six Months Ended<br>November 30, 2008 |                                       | Six Months Ended<br>November 30, 2007 |                                       |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|  | No. of<br>Options<br>(in thousands)   | Weighted<br>Average<br>Exercise Price | No. of<br>Options<br>(in thousands)   | Weighted<br>Average<br>Exercise Price |
| Shares under option, beginning of period | 2,627                                 | \$ 15.37                              | 2,822                                 | \$ 8.60                               |
| Changes during the period:               |                                       |                                       |                                       |                                       |
| Granted                                  |                                       |                                       | 630                                   | 30.38                                 |
| Exercised                                | 246                                   | 6.38                                  | 408                                   | 4.16                                  |
| Canceled                                 | 2                                     | 30.33                                 | 158                                   | 12.47                                 |
| Shares under option, end of period       | 2,379                                 | 16.29                                 | 2,886                                 | 13.83                                 |
| Exercisable at end of period             | 1,414                                 | \$ 11.93                              | 1,396                                 | \$ 7.05                               |

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Options exercisable at November 30, 2008 had a weighted average remaining contractual life of 6.3 years. For total options outstanding at November 30, 2008, the range of exercise prices and remaining contractual lives are as follows:

| Range of Prices    | No. of<br>Options<br>(in thousands) | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Life<br>(in years) |
|--------------------|-------------------------------------|---------------------------------------|--|
| \$0.00 to \$3.21   | 183                                 | \$ 2.32                               | 2.45   |
| \$3.21 to \$6.41   | 90                                  | \$ 4.19                               | 4.20   |
| \$6.41 to \$9.62   | 561                                 | \$ 8.42                               | 6.10   |
| \$9.62 to \$12.82  | 190                                 | \$ 11.24                              | 7.19   |
| \$12.82 to \$16.03 | 648                                 | \$ 15.00                              | 7.64   |
| \$16.03 to \$32.05 | 707                                 | \$ 30.21                              | 8.89   |
|                    | 2,379                               | \$ 16.29                              | 7.08   |

During the three and six months ended November 30, 2008 we granted 27,383 performance awards with a weighted average fair value of \$27.53 and 132,761 stock units with a weighted average fair value of \$27.39. Performance awards and stock units are either settled with common stock or cash upon vesting. We determine the fair value of each performance award and stock unit based on the intrinsic value of the award, determined as 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. Stock units generally vest over four years, although stock units granted to our non-employee directors vest immediately. Transactions involving our stock units during the six months ended November 30, 2008 are summarized below:

|                                  | Six Months Ended<br>November 30, 2008 | Weighted<br>Average<br>Fair Value |
|----------------------------------|---------------------------------------|-----------------------------------|
| No. of Stock<br>Units            |                                       |                                   |
| Stock units, beginning of period |                                       | \$                                |
| Changes during the period:       |                                       |                                   |
| Granted                          | 132,761                               | 27.53                             |
| Vested and settled               | 2,032                                 | 36.91                             |
| Canceled                         |                                       |                                   |
| Stock units, end of period       | 130,729                               | \$ 27.38                          |

**9. ENTITY WIDE DISCLOSURES**

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

|               | Three Months Ended<br>November 30, 2008<br>(unaudited) | Three Months Ended<br>November 30, 2007<br>(unaudited) | Six Months Ended<br>November 30, 2008<br>(unaudited) | Six Months Ended<br>November 30, 2007<br>(unaudited) |
|---------------|--|--|--|--|
| Revenues      |  |  |  |  |
| United States | \$ 98,856  | \$ 93,039  | \$ 177,795   | \$ 169,084   |
| Canada        | 36,844   | 25,149   | 70,041   | 48,706   |
| Europe        | 7,899  | 499  | 14,162   | 905  |

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|                         |            |            |            |            |
|-------------------------|------------|------------|------------|------------|
| Other foreign countries | 5,153      | 3,623      | 10,092     | 7,103      |
| Total                   | \$ 148,752 | \$ 122,310 | \$ 272,090 | \$ 225,798 |

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|                         | November 30, 2008<br>(unaudited) | May 31, 2008 |
|-------------------------|----------------------------------|--------------|
| Total Assets            |                                  |              |
| United States           | \$ 152,815                       | \$ 169,491   |
| Canada                  | 94,963                           | 73,788       |
| Europe                  | 24,968                           | 25,800       |
| Other foreign countries | 11,760                           | 11,382       |
| Total                   | \$ 284,506                       | \$ 280,461   |

**10. 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.

**11. FAIR VALUE MEASUREMENTS**

Effective June 1, 2008 we adopted the provisions of FASB No. 157, which among other things, requires enhanced disclosures about assets and liabilities carried at fair value.

As defined in FASB No. 157, 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. FASB No. 157 establishes a fair value hierarchy such that Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market, Level 2 measurements include quoted market prices for identical assets or liabilities in an active market which have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets, and Level 3 measurements include those that are unobservable and of a highly subjective measure.

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of November 30, 2008. As required by FASB No. 157, 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):

|                                 | Quoted Prices in<br>Active Markets for<br>Identical Items (Level 1)<br>(unaudited) | Significant Other<br>Observable<br>Inputs (Level 2)<br>(unaudited) | Significant<br>Unobservable<br>Inputs (Level 3)<br>(unaudited) | Total<br>(unaudited) |
|---------------------------------|--|--|--|----------------------|
| Assets:                         |  |  |  |                      |
| Euro denominated long-term debt | \$   | \$ 2,327   | \$   | \$ 2,327             |
| Total Assets                    | \$   | \$ 2,327   | \$   | \$ 2,327             |
| Liabilities:                    |  |  |  |                      |
| Interest rate swap              | \$   | \$ 886   | \$   | \$ 886               |
| Total Liabilities               | \$   | \$ 886   | \$   | \$ 886               |



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|                     |    |    |       |    |    |       |
|---------------------|----|----|-------|----|----|-------|
| Total Net Liability | \$ | \$ | 1,441 | \$ | \$ | 1,441 |
|---------------------|----|----|-------|----|----|-------|

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of this report, and the consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, including Critical Accounting Policies, included in our Annual Report on Form 10-K for the year ended May 31, 2008.

We based our forward-looking statements on our current expectations, estimates and projections about ourselves and our industry. We caution that these statements are not guarantees of future performance and involve risks, uncertainties and assumptions that we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual results may differ materially from the future performance that we have expressed or forecast in the forward-looking statements. Differences between actual results and any future performance suggested in these forward-looking statements could result from a variety of factors, including those listed beginning on page 6 of our Annual Report on Form 10-K for the year ended May 31, 2008. Due to recent events, additional risk factors that may effect our forward-looking statements include:

***The current worldwide financial crisis may affect our customer base, subcontractors and suppliers and could materially affect our profits.***

The current worldwide financial crisis has reduced the availability of liquidity and credit. Continued disruption of the credit markets could adversely affect our customers ability to finance on-going maintenance and new projects, resulting in contract cancellations or suspensions, and project delays. Furthermore, our ability to expand our business could be limited if, in the future, we are unable to increase our credit capacity under our Credit Facility on favorable terms or at all. Such disruptions, should they occur, could materially impact our results of operations, financial position or cash flows.

***Fluctuations in commodity prices may affect our customers investment decisions and therefore subject us to risks of cancellation, delays in existing work, or changes in the timing and funding of new awards.***

Commodity prices can affect our customers in a number of ways. Fluctuations in commodity prices can have a direct effect on our customers' profitability and cash flow and, therefore, their willingness to continue to invest or make new capital investments. Rising commodity prices can negatively impact the potential returns on investments that are planned, as well as those in progress. Our customers may defer new investment or cancel or delay existing projects.

**General Description of Business**

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

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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, pulp and paper, and steel industries as well as some of the world's largest engineering and construction firms, shipbuilding, Original Equipment Manufacturers (OEMs), distributors and end users. Our products and services are provided across a broad geographic reach.

**Three Months Ended November 30, 2008 Compared to Three Months Ended November 30, 2007**

The following table sets forth the components of revenue and operating income from our operations for the three months ended November 30, 2008 and 2007 (in thousands):

|   | Three Months ended<br>November 30,<br>2008<br>(unaudited) | Three Months ended<br>November 30,<br>2007<br>(unaudited) | Increase |      |
|---|---|---|----------|------|
|   |   |   | \$       | %    |
| <b>Revenues:</b>                        |   |   |          |      |
| TCM division                            | \$ 76,126   | \$ 73,396   | \$ 2,730 | 4%   |
| TMS division                            | 72,626  | 48,914  | 23,712   | 48%  |
| Total revenues                          | 148,752   | 122,310   | 26,442   | 22%  |
| <b>Gross Margin:</b>                    |   |   |          |      |
| TCM division                            | 23,465  | 23,369  | 96       |      |
| TMS division                            | 26,620  | 18,485  | 8,135    | 44%  |
| Total gross margin                      | 50,085  | 41,854  | 8,231    | 20%  |
| <b>SG&amp;A Expenses:</b>               |   |   |          |      |
| Field operations                        | 27,082  | 23,254  | 3,828    | 16%  |
| Corporate costs                         | 5,050   | 4,047   | 1,003    | 25%  |
| Total SG&A                              | 32,132  | 27,301  | 4,831    | 18%  |
| Earnings From Unconsolidated Affiliates | 411   |   | 411      | 100% |
| Operating Income                        | \$ 18,364   | \$ 14,553   | \$ 3,811 | 26%  |

**Revenues.** Our revenues for the three months ended November 30, 2008 were \$148.8 million compared to \$122.3 million for the three months ended November 30, 2007, an increase of \$26.4 million or 22%. Our revenues for the three months ended November 30, 2008 include incremental revenues associated with the recent LRS acquisition of \$7.4 million. Revenues for our TCM division for the three months ended November 30, 2008 were \$76.1 million compared to \$73.4 million for the three months ended November 30, 2007, an increase of \$2.7 million or 4%. Revenues of unconsolidated affiliates not included in our results for the three months ended November 30, 2008, and attributable to our TCM division, were \$3.5 million. Revenues for our TMS division (inclusive of LRS) for the three months ended November 30, 2008 were \$72.6 million compared to \$48.9 million for the three months ended November 30, 2007, an increase of \$23.7 million, or 48%. TMS division organic growth was 33%. Euro and Canadian foreign currency exchange rates adversely impacted our revenue growth by approximately \$5.9 million.

**Gross Margin.** Our gross margin for the three months ended November 30, 2008 was \$50.1 million compared to \$41.9 million for the three months ended November 30, 2007, an increase of \$8.2 million or 20%. Gross margin as a percentage of revenue was 34% for the three months ended November 30, 2008 and 2007. Gross margin for our TCM division for the three months ended November 30, 2008 was \$23.5 million compared to \$23.4 million for the three months ended November 30, 2007, an increase of approximately \$0.1 million. Gross margin for our TMS division (inclusive of LRS) was \$26.6 million for the three months ended November 30, 2008 compared to \$18.5 million for the three months ended November 30, 2007, an increase of \$8.1 million or 44%.

**Selling, General, and Administrative Expenses.** Our SG&A for the three months ended November 30, 2008 was \$32.1 million compared to \$27.3 million for the three months ended November 30, 2007, an increase of \$4.8 million or 18%. Approximately \$3.8 million of the increase in SG&A was due to field operations and \$1.0 million of the increase was due to centralized corporate support costs. The \$1.0 million increase in corporate support costs in the current period included a \$0.6 million increase in share-based employee compensation.



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expense and cost directly attributable to hurricanes of \$0.7 million (damages and repairs). SG&A as a percentage of revenue was 22% for the three months ended November 30, 2008, consistent with the three months ended November 30, 2007.

**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 and all technicians working on behalf of the joint venture are our employees. Revenues of the joint venture, and excluded from our results, were \$3.5 million for the three months ended November 30, 2008.

**Interest.** Interest expense was \$1.4 million for the three months ended November 30, 2008 compared to \$1.7 million for the three months ended November 30, 2007. The reduction in interest expense is due to decreasing borrowing rates offset by increased debt levels.

**Taxes.** The provision for income taxes was \$6.8 million on pretax income of \$17.0 million for the three months ended November 30, 2008. The provision for income taxes was \$5.0 million on pretax income of \$12.8 million for the three months ended November 30, 2007. The effective tax rate for the three months ended November 30, 2008 was 40% compared to 39% for the three months ended November 30, 2007. The rate differential is due to the mixture of domestic and foreign taxes to which the income is subject.

**Six Months Ended November 30, 2008 Compared to Six Months Ended November 30, 2007**

The following table sets forth the components of revenue and operating income from our operations for the six months ended November 30, 2008 and 2007 (in thousands):

|   | Six Months ended<br>November 30, 2008<br>(unaudited) | Six Months ended<br>November 30, 2007<br>(unaudited) | Increase |      |
|---|--|--|----------|------|
|   |  |  | \$       | %    |
| Revenues:                               |  |  |          |      |
| TCM division                            | \$ 141,381   | \$ 133,195   | \$ 8,186 | 6%   |
| TMS division                            | 130,709  | 92,603   | 38,106   | 41%  |
| Total revenues                          | 272,090  | 225,798  | 46,292   | 21%  |
| Gross Margin:                           |  |  |          |      |
| TCM division                            | 43,534   | 40,295   | 3,239    | 8%   |
| TMS division                            | 45,660   | 33,866   | 11,794   | 35%  |
| Total gross margin                      | 89,194   | 74,161   | 15,033   | 20%  |
| SG&A Expenses:                          |  |  |          |      |
| Field operations                        | 51,626   | 44,099   | 7,527    | 17%  |
| Corporate costs                         | 10,164   | 7,741  | 2,423    | 31%  |
| Total SG&A                              | 61,790   | 51,840   | 9,950    | 19%  |
| Earnings From Unconsolidated Affiliates | 675  |  | 675      | 100% |
| Operating Income                        | \$ 28,079  | \$ 22,321  | \$ 5,758 | 26%  |

**Revenues.** Our revenues for the six months ended November 30, 2008 were \$272.1 million compared to \$225.8 million for the six months ended November 30, 2007, an increase of \$46.3 million or 21%. Our revenues for the six months ended November 30, 2008 include incremental revenues associated with the recent LRS acquisition of \$13.3 million. Revenues for our TCM division for the six months ended November 30, 2008 were \$141.4 million compared to \$133.2 million for the six months ended November 30, 2007, an increase of \$8.2 million or 6%. Revenues of unconsolidated affiliates not included in our results for the six months ended November 30, 2008, and attributable to our TCM division, were \$8.7 million. Revenues for our TMS division (inclusive of LRS) for the six months ended November 30, 2008 were \$130.7 million compared to \$92.6 million for the six months ended November 30, 2007, an increase of \$38.1 million, or 41%. TMS division organic growth was 27%. Euro and Canadian foreign currency exchange rates adversely impacted our revenue growth by approximately \$3.3 million.

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**Gross Margin.** Our gross margin for the six months ended November 30, 2008 was \$89.2 million compared to \$74.2 million for the six months ended November 30, 2007, an increase of \$15.0 million or 20%. Gross

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margin as a percentage of revenue was 33% for the six months ended November 30, 2008 and 2007. Gross margin for our TCM division for the six months ended November 30, 2008 was \$43.5 million compared to \$40.3 million for the six months ended November 30, 2007, an increase of \$3.2 million or 8%. Gross margin for our TMS division (inclusive of LRS) was \$45.7 million for the six months ended November 30, 2008 compared to \$33.9 million for the period ended November 30, 2007, an increase of \$11.8 million or 35%.

***Selling, General, and Administrative Expenses.*** Our SG&A for the six months ended November 30, 2008 was \$61.8 million compared to \$51.8 million for the six months ended November 30, 2007, an increase of \$10.0 million or 19%. Approximately \$7.5 million of the increase in SG&A was due to field operations and \$2.4 million of the increase was due to centralized corporate support costs. The \$2.4 million increase in corporate support costs in the current period included a \$1.2 million increase in share-based employee compensation expense and \$0.7 million of costs directly attributable to hurricane (damages and repairs). SG&A as a percentage of revenue was 23% for the six months ended November 30, 2008, consistent with the six months ended November 30, 2007.

***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 and all technicians working on behalf of the joint venture are our employees. Revenues of the joint venture, and excluded from our results, were \$8.7 million for the six months ended November 30, 2008.

***Interest.*** Interest expense was \$2.8 million for the six months ended November 30, 2008 compared to \$3.5 million for the six months ended November 30, 2007. The reduction in interest expense is due to decreasing borrowing rates offset by increased debt levels.

***Taxes.*** The provision for income taxes was \$10.1 million on pretax income of \$25.3 million for the six months ended November 30, 2008. The provision for income taxes was \$7.5 million on pretax income of \$18.9 million for the six months ended November 30, 2007. The effective tax rate for the six months ended November 30, 2008 and 2007 was 40%.

## **Liquidity and Capital Resources**

Financing for our operations consists primarily of vendor financing and leasing arrangements, banking facilities and cash flows attributable to our operations, which we believe are sufficient to fund our capital expenditures, debt maturities and other business needs.

***Cashflows Attributable to Our Operations.*** For the six months ended November 30, 2008, cash provided by operating activities was \$10.5 million. Net income from continuing operations of \$15.2 million and cash used for working capital was \$9.7 million. Working capital was adversely affected by approximately \$5 million of receivables relating to a large project in which we were a subcontractor and in which payment was delayed pending the resolution of a dispute between the general contractor and end customer. Payment of these receivables occurred in December 2008, subsequent to period end.

***Cashflows Attributable to Our Investing Activities.*** For the six months ended November 30, 2008, cash used in investing activities was \$10.4 million, consisting primarily of \$1.5 million to fund our Alaska joint venture and \$9.0 million of capital expenditures. Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly. We anticipate capital expenditures for the fiscal year 2009 to be approximately \$15 million to \$20 million.

***Cashflows Attributable to Our Financing Activities.*** For the six months ended November 30, 2008, cash provided by financing activities was \$9.1 million. Borrowings under the Credit Facility and Canadian Line of Credit provided \$10.3 million of cash and \$1.7 million was provided by the issuance of our common stock in connection with our stock option compensation plans and was offset by \$3.1 million in principal payments under our Credit Facility and other financings.

***Effect of Exchange Rate Changes On Cash.*** For the six months ended November 30, 2008, the effect of exchange rate changes on cash was a negative impact of \$6.6 million. We have significant operations in Europe



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and Canada and the negative impact is primarily due to the currency volatility between the US and these economies. During the six months ended November 30, 2008 the exchange rate with the Euro decreased from \$1.55 per Euro to \$1.27 per Euro, a decrease of 18%. During the same period, the exchange rate with the Canadian Dollar decreased from near parity with the US Dollar to \$0.81 per Canadian Dollar, a decrease of 19%.

### **Critical Accounting Estimates**

We disclosed our critical accounting estimates in our Annual Report on Form 10-K for the year ended May 31, 2008. No significant changes have occurred to those policies except our adoption of FASB No. 157 effective June 1, 2008. FASB No. 157 requires enhanced disclosures about assets and liabilities carried at fair value. The following financial assets and liabilities are recorded at fair value as of November 30, 2008: (1) Interest rate swap, (2) Euro denominated long-term debt under our Credit Facility and (3) Canadian Dollar denominated long-term debt under our Canadian Line of Credit.

As defined in FASB No. 157, 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. FASB No. 157 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 effects of restrictions 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. As part of adopting FASB No. 157, we did not have a transition adjustment to our retained earnings.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have operations in foreign countries with a functional currency that is not the U.S. Dollar. We are exposed to market risk, primarily related to foreign currency fluctuations related to these operations. A significant part of these assets relate to our operations in Europe and Canada. During the six months ended November 30, 2008 the exchange rate with the Euro decreased from \$1.55 per Euro to \$1.27 per Euro, a decrease of 18%. During the same period, the exchange rate with the Canadian Dollar decreased from near parity with the U.S. Dollar to \$0.81 per Canadian Dollar, a decrease of 19%. For foreign subsidiaries whose function 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 \$12.9 million and \$19.0 million of foreign currency translation losses in comprehensive income for the three and six months ended November 30, 2008, respectively.

We carry Euro based debt 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. 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.

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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, and expect to utilize, 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 million beginning on June 1, 2007 and decreasing to \$16.3 million by March 1, 2010. 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.

### **ITEM 4. 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 November 30, 2008, 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 second quarter of fiscal 2009.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

In October 2008, a final settlement was reached among all of the parties in a lawsuit styled Paulette Barker, as named Executor for the Estate of Robert Barker, et. al. v. Emmett J. Lescroart, Michael Urban, Team, Inc. et. al., Case Number 355868-402 in the Probate Court #1, Harris County, Texas. The final settlement did not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

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. Multiple separate 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 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.

In February 2007, one of our employees sustained serious injuries as a result of a fire at the Valero McKee Refinery in Sunray, Texas. The employee and his family made a demand on Valero for compensation related to his injuries. Pursuant to the terms of our contract, we indemnified Valero for losses they incurred as a result of claims by our employee. In September, 2008, a final settlement was reached among our employee, our insurers, Valero and us. Our insurance provided coverage for the claims subject to our self insured retention. The final settlement did not have a material 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.

**ITEM 1A. RISK FACTORS**

Item 1A. Risk Factors beginning on page 5 of our Annual Report on Form 10-K for the year ended May 31, 2008 includes a detailed discussion of our risk factors.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS**

**NONE**

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**ITEM 5. OTHER INFORMATION**

NONE

**ITEM 6. EXHIBITS**

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

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**SIGNATURES**

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

Date: January 8, 2009

TEAM, INC.  
(Registrant)

/s/ PHILIP J. HAWK  
**Philip J. Hawk**

**Chairman and Chief Executive Officer**

/s/ TED W. OWEN  
**Ted W. Owen, Senior Vice President and**

**Chief Financial Officer**

**(Principal Financial Officer and**

**Principal Accounting Officer)**