

TEAM INC  
Form 10-K  
August 13, 2007  
Table of Contents

---

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

**Washington D.C. 20549**

---

**FORM 10-K**

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

For the fiscal year ended May 31, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-08604

---

**TEAM, INC.**

(Exact name of registrant as specified in its charter)

**TEXAS**  
(State of incorporation)

**74-1765729**  
(I.R.S. Employer Identification No.)

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

**77511**  
(Zip Code)

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

---

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

Edgar Filing: TEAM INC - Form 10-K

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

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

---

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

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

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

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

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

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

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

As of August 1, 2007, 8,941,643 shares of the registrant's common stock were outstanding, of which 7,730,499 were held by non-affiliates. The aggregate market value of common stock held by non-affiliates of the registrant (based upon the closing sales price of \$46.86 per share on The NASDAQ Global Select Market on such date) was \$362,251,183. For purposes of the foregoing calculation only, all directors, executive officers and known 5% beneficial owners have been deemed affiliates.

**Documents Incorporated by Reference**

Portions of our definitive proxy statement for the 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this report. These will be filed no later than September 28, 2007.

---

**Table of Contents****FORM 10-K INDEX**

<b><u>PART I</u></b>		1
ITEM 1.	<b><u>BUSINESS</u></b>	1
	<u>General Description of Business</u>	1
	<u>Acquisitions and Dispositions</u>	2
	<u>Description of Segments</u>	2
	<u>Narrative Description of Business</u>	2
	<u>Service Lines</u>	4
	<u>Available Information</u>	6
ITEM 1.A	<b><u>RISK FACTORS</u></b>	6
ITEM 1.B	<b><u>UNRESOLVED STAFF COMMENTS</u></b>	8
ITEM 2.	<b><u>PROPERTIES</u></b>	8
ITEM 3.	<b><u>LEGAL PROCEEDINGS</u></b>	8
ITEM 4.	<b><u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u></b>	9
<b><u>PART II</u></b>		10
ITEM 5.	<b><u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u></b>	10
ITEM 6.	<b><u>SELECTED FINANCIAL DATA</u></b>	11
ITEM 7.	<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	12
ITEM 7A.	<b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	19
ITEM 8.	<b><u>CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u></b>	20
ITEM 9.	<b><u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u></b>	20
ITEM 9A.	<b><u>CONTROLS AND PROCEDURES</u></b>	20
ITEM 9B.	<b><u>OTHER INFORMATION</u></b>	21
<b><u>PART III</u></b>		22
ITEM 10.	<b><u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u></b>	22
ITEM 11.	<b><u>EXECUTIVE COMPENSATION</u></b>	22
ITEM 12.	<b><u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u></b>	22
ITEM 13.	<b><u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u></b>	22
ITEM 14.	<b><u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u></b>	22
<b><u>PART IV</u></b>		23
ITEM 15.	<b><u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u></b>	23
<b><u>SIGNATURES</u></b>		49

---

**Table of Contents**

*Certain items required in Part III of this Form 10-K can be found in our 2007 Proxy Statement and are incorporated herein by reference. A copy of the 2007 Proxy Statement will be provided, without charge, to any person who receives a copy of this Form 10-K and submits a written request to Ted Owen, Senior Vice President and Chief Financial Officer, TEAM, Inc., 200 Hermann Drive, Alvin, Texas, 77511.*

**PART I**

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. In this document, we make certain forward-looking statements, including statements regarding our plans, strategies, objectives, expectations, intentions and resources that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We do not undertake to update, revise or correct any of the forward-looking information. Our forward-looking statements should be read in conjunction with our disclosures beginning on page 12 of this report under the heading: CAUTIONARY STATEMENT FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. The following discussion should also be read in conjunction with the audited consolidated financial statements and the notes thereto.

**ITEM 1. BUSINESS**

**General Description of Business**

Our corporate headquarters is located at 200 Hermann Drive, Alvin, Texas, 77511 and our telephone number is (281) 331-6154. On December 28, 2006 we transferred the listing of our common stock from the American Stock Exchange ( AMEX ) to the NASDAQ Global Select Market ( NASDAQ ), at which time we began trading on the NASDAQ under the symbol TISI . 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 primarily utilized in heavy industries. We offer an array of complimentary service lines including:

leak repair,

hot tapping,

fugitive emissions control,

field machining,

technical bolting,

field valve repair,

non-destructive testing,

field heat treating.

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

We offer these service lines in over 70 branch locations throughout the United States, Aruba, Canada, Singapore, Trinidad and Venezuela. As a result of a recent acquisition, subsequent to our fiscal year end, we have over 80 branch locations at the time of this report (Please see Note 16 to our Audited Consolidated Financial Statements).

---

## **Table of Contents**

### **Acquisitions and Dispositions**

On June 1, 2007, subsequent to our year end, we acquired all of the stock of Aitec Inc. and related companies ( Aitec ) for \$33.8 million, subject to a working capital adjustment. Aitec, is a non-destructive testing inspection services company headquartered near Toronto with 13 service locations across Canada. Financing for the acquisition was obtained through senior credit facility provided through our U.S. bank syndicate. The acquisition will be accounted for using the purchase method of accounting. We are in the early stages of determining the fair values of the assets and liabilities assumed. We believe the Aitec acquisition makes Team the second-largest inspection service provider in Canada (Please see Note 16 to our Audited Consolidated Financial Statements).

In November 2005, we sold all of the outstanding stock of our wholly-owned subsidiary, Climax Portable Machine Tools, Inc. ( Climax ) for approximately \$14.5 million and recognized subsequent sale price adjustments of approximately \$0.2 million. Climax was engaged in equipment sales and rental and was a designer and manufacturer of portable metal cutting machinery used for industrial maintenance at customer locations.

In August 2004, we acquired substantially all assets of Cooperheat-MQS, Inc., ( Cooperheat-MQS ) which was based in Houston, Texas and had two primary service offerings field heat treating and non-destructive testing and inspection services. At the time of the acquisition, Cooperheat-MQS was operating under Chapter 11 of the U.S. Bankruptcy Code and was generally believed to have been ranked as the number one or number two leading service provider in each of its service lines.

### **Description of Segments**

Prior to the sale of Climax in November 2005, we operated as two business segments, industrial services and equipment sales and rentals. As a result of the sale of Climax, we now operate in only one segment industrial services.

The significance of the Cooperheat-MQS acquisition within the industrial services segment has led to the creation of two divisions. Our TMS division (previously referred to as the Team Mechanical Services division) provides services of leak repair, hot tapping, emissions control monitoring, on-site field machining, technical bolting, field valve repair and fugitive emissions monitoring. Our TCM division (previously referred to as the Team Cooperheat-MQS division) comprises our field heat treatment, non-destructive testing and inspection services. The industrial services segment is the aggregation of these two divisions because of their similar economic characteristics (Please see Note 13 of our Audited Consolidated Financial Statements).

### **Narrative Description of Business**

Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of 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, original equipment manufacturers ( OEMs ), distributors and end users. Our products and services are used in several distinct industries across a broad geographic reach. In fiscal 2007, our revenues by geographic region originated in the United States 87%, Canada 8% and other locations outside of North America 5% (Please see Note 13 of our Audited Consolidated Financial Statements).

**Employees.** At May 31, 2007, we had approximately 3,400 employees and contractors in our worldwide operations. Our Canadian employees predominantly are unionized. Our employees in the United States and outside North America predominantly are not unionized. There have been no employee work stoppages to date and we believe our relations with our employees are good.

## **Table of Contents**

**Casualty Insurance.** We carry insurance that we believe to be appropriate for the businesses in which we are engaged. Under our insurance policies, we have per occurrence self-insured retention limits of \$150,000 per individual claimant, determined on an annual basis, for medical liability and \$250,000 per case for automobile and workers' compensation. We have obtained fully insured layers of coverage above such self-retention limits.

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

From time-to-time, in the operation of our environmental consulting and engineering services, the assets of which were sold in 1996, we handled small quantities of certain hazardous wastes or other substances generated by our customers. Under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (the Superfund Act), the EPA is authorized to take administrative and judicial action to either cause parties who are responsible under the Superfund Act for cleaning up any unauthorized release of hazardous substances to do so, or to clean up such hazardous substances and to seek reimbursement of the costs thereof from the responsible parties, who are jointly and severally liable for such costs under the Superfund Act. The EPA may also bring suit for treble damages from responsible parties who unreasonably refuse to voluntarily participate in such a clean up or funding thereof. Responsible parties include anyone who owns or operates the facility where the release occurred (either currently and/or at the time such hazardous substances were disposed of), or who by contract arranges for disposal, treatment, or transportation for disposal or treatment of a hazardous substance, or who accepts hazardous substances for transport to disposal or treatment facilities selected by such person from which there is a release. We believe that our risk of liability is minimized since our handling consisted solely of maintaining and storing small samples of materials for laboratory analysis that are classified as hazardous. Due to its prohibitive costs, we accordingly do not currently carry insurance to cover liabilities which we may incur under the Superfund Act or similar environmental statutes.

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

**Marketing and Customers.** Our industrial services are marketed principally by personnel based at our locations. We believe that these operating and office locations are situated to facilitate timely responses to customer needs, which is an important feature of selling and providing our services. We have developed a cross-marketing program to utilize our sales personnel in offering many of our services. No customer accounted for 10% or more of consolidated revenues during any of the last three years.

Generally, customers are billed on a time and materials basis although some work may be performed pursuant to a fixed-price bid. Services are usually performed pursuant to purchase orders issued under written customer agreements. While some purchase orders provide for the performance of a single job, others provide for services to be performed for a term of one year or less. In addition, we are a party to certain long-term contracts, which are enabling agreements only. Substantially all long-term agreements may be terminated by either party on short notice. The agreements generally specify the range of services to be performed and the hourly rates for labor. While contracts have traditionally covered specific plants or locations, we have recently entered into multiple-site regional or national contracts, which cover multiple plants or locations.

---

## **Table of Contents**

We frequently provide various limited warranties for certain of our repair services. To date, there have been no significant warranty claims filed against us.

**Seasonality.** We experience some seasonal fluctuations. Historically, the refining industry has scheduled plant shutdowns (commonly referred to as turnarounds ) for the fall and spring seasons. Turnaround activities in that sector can have a significant impact on our workload.

**Competition.** In general, competition stems from other outside service contractors and customers in-house maintenance departments. We believe we have a competitive advantage over most service contractors due to the quality, training and experience of our technicians, our nationwide and increasingly international service capability, and our broad range of services, as well as our technical support and manufacturing capabilities supporting the service network. However, there are other competitors that may offer a similar range of coverage or services and include, but are not limited to, Furmanite Corporation, T.D. Williamson, Inc., Acuren Group, Inc. and JV Industrial Companies.

### **Service Lines**

We attribute our success to the quality and timely performance of the services provided by our skilled technicians, our proprietary techniques and materials and our ability to meet the demanding needs of our customers operations. We have continued to develop different types of services and products which complement our existing industrial service markets. Our rigorous in-house safety programs, technician training and quality control programs are all designed to ensure safety and compliance with customers requirements. The following discussion describes those services:

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

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

**Emissions Control Services.** We provide fugitive volatile organic chemical ( VOC ) emission leak detection services that include identification, monitoring, data management and reporting primarily for the chemical, refining and natural gas processing industries. These services are designed to monitor and record VOC emissions from specific process equipment and piping components as required by environmental regulations and



## **Table of Contents**

customer requests, typically assisting the customer in enhancing an ongoing maintenance program and/or complying with present and/or future environmental regulations. We provide specialty trained technicians in the use of portable organic chemical analyzers and data loggers to measure potential leaks at designated plant components maintained in customer or our proprietary databases. The measured data is used to prepare standard reports in compliance with EPA and local regulatory requirements. We also provide enhanced custom-design reports to customer specifications.

***Field Machining and Technical Bolting Services.*** This service involves the use of portable machining equipment to repair or modify machinery, equipment, vessels and piping systems not easily removed from a permanent location. As opposed to conventional machining processes where the work piece rotates and the cutting tool is fixed, in field machining, the work piece remains fixed in position and the cutting tool rotates. Other common descriptions for this service are on-site or in-place machining. Field machining services include flange facing, pipe cutting, line boring, journal turning, drilling, and milling. Technical bolting services are often provided to customers as a complimentary service to field machining during turnaround or maintenance activities. These services involve the use of hydraulic or pneumatic equipment with industry standard bolt tightening techniques to achieve reliable and leak-free connections during plant maintenance turnarounds and capital projects. Additional services include bolt disassembly using hot bolting which is a process to remove and replace a bolt as the process is operating.

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

***Non-destructive Testing and Inspection Services.*** Inspection services consist of the examination and evaluation of piping, piping components and equipment to determine the present condition and predict remaining operability. Our inspection services use all the common methods of non-destructive testing, including radiography, ultrasound, magnetic particle and dye penetrate, as well as, higher end robotic and newly developed advanced technology systems. Many of the visual inspection programs we provide require specialized training to industry and regulatory standards. We provide these services as part of planned construction, maintenance programs and on demand. We provide reports based on industry and national standards. Inspection services are marketed to the same industrial customer base as our other services as well as outside our traditional customer base such as the aerospace and automotive industries. The inspection services are the only services we provide which require industry recognized training and certification processes. We maintain training and certification programs which meet or exceed industry standards.

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

---

## **Table of Contents**

### **Available Information**

As a public company, we are required to file periodic reports with the Securities and Exchange Commission ( SEC ) within established deadlines. Any document we file with the SEC may be viewed or copied at the SEC 's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Additional information regarding the Public Reference Room can be obtained by calling the SEC at (800) SEC-0330. Our SEC filings are also available to the public through the SEC 's website located at <http://www.sec.gov>.

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

### **ITEM 1A. RISK FACTORS**

We caution the reader that our list of risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. We cannot predict such risk factors, nor can we assess the impact, if any, of such risk factors on our business or the extent to which any factors may cause actual results to differ materially from those projected. The following risks and uncertainties, among others, should be considered in evaluating our outlook of future Company performance.

***We sell our services in highly competitive markets, which puts pressure on our profit margins and limits our ability to maintain or increase the market share of our services.*** The markets for our services can be fragmented and highly competitive. No assurances can be made that we will continue to maintain our pricing model and our profit margins or increase our market share.

***No assurances can be made that we will be successful in hiring or retaining members of a skilled technical workforce.*** We have a skilled technical workforce and an industry recognized technician training program for each of our service lines that prepares new employees as well as further trains our existing employees. The competition for these individuals is intense. The loss of the services of a number of these individuals or failure to attract new employees could adversely affect our ability to perform our obligations on our customers' projects or maintenance and consequently could negatively impact the demand for our products and services and consequently our financial condition and operating results.

***Our operations and properties are subject to extensive governmental regulation under environmental laws.*** These laws and regulations can impose substantial sanctions for violations or operational changes that may limit our services. We must conform our operations to applicable regulatory requirements and adapt to changes in such requirements in all locations in which we operate. These actions may increase the overall costs of providing our services.

***We may incur material costs as a result of general liability and warranty claims, which could adversely affect our financial condition, results of operations and cash flows.*** These claims may result from catastrophic events to which we may be at fault or have indemnified certain parties deemed to be at fault. While we maintain insurance coverage with respect to certain liability claims, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against product liability claims. In addition, liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. An unsuccessful defense of a liability claim could have an adverse affect on our business, results of operations

---

**Table of Contents**

and financial condition and cash flows. Even if we are successful in defending against a claim relating to our services, claims of this nature could cause our customers to lose confidence in our services and our Company.

***Economic, political and other risks associated with international operations could adversely affect our business.*** A portion of our operations are conducted and located outside the United States and, accordingly, our business is subject to risks associated with doing business internationally, including changes in foreign currency exchange rates, instability in political or economic conditions, differing employee relations, trade protection measures, and difficulty in administering and enforcing corporate policies which may be different than the normal business practices of local cultures.

***Our business depends on the levels of capital investment and maintenance expenditures by our customers, which in turn are affected by the cyclical nature of their markets and their liquidity.*** The ability of our customers to finance capital investment and maintenance expenditures, and therefore, hire us for projects, may be affected by factors independent of those conditions such as liquidity constraints or postponing projects until favorable financial capital markets are present.

***We may not be able to continue to expand our market presence through attractive acquisitions, and any future acquisitions may present unforeseen integration difficulties or costs.*** From time to time, we make acquisitions of other business that enhance our services or the geographic scope of our Company. No assurances can be made that we will realize the cost savings, synergies or revenue enhancements that we may anticipate from any acquisition, or that we will realize such benefits within the time frame that we expect. If we are not able to address the challenges associated with acquisitions and successfully integrate acquired businesses, or if our integrated product and service offerings fail to achieve market acceptance, our business could be adversely affected.

***Our level of indebtedness could have important consequences to us.*** Our level of indebtedness may make it more difficult for us to satisfy our obligations with respect to our indebtedness, increase our vulnerability to general adverse economic conditions, industry conditions and rising interest rates, limit our ability to take advantage of business opportunities as a result of various restrictive covenants in our debt agreements, place us at a competitive disadvantage compared to our competitors that have less debt or limit our ability to borrow money or sell stock to fund our working capital, capital expenditures, acquisitions or other corporate requirements.

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

***Our business may be adversely impacted by work stoppages, staffing shortages, and other labor matters.*** At May 31, 2007, we had approximately 3,400 employees and contractors, approximately 200 of whom were located in Canada where employees predominantly are represented by unions. Our acquisition of Aitec, subsequent to year end, added approximately another 300 employees in Canada. Although we believe that our relations with our employees are good and we have had no strikes or work stoppages, no

---

**Table of Contents**

assurances can be made that we will not in the future experience these and other types of conflicts with labor unions, works councils, other groups representing employees, or our employees generally, or that any future negotiations with our labor unions will not result in significant increases in the cost of labor.

***Other risk factors include, but are not limited to:***

the effects of extreme weather conditions such as hurricanes;

acts of terrorism aimed at either our facilities or our customer facilities that could impair our ability to conduct business;

rulings, judgments or settlements in litigation or other legal or regulatory matters including unexpected environmental remediation costs in excess of any reserves or insurance coverage;

legislation or regulatory action, including the introduction or enactment of federal, state or foreign legislation or rulemakings, which may adversely affect our business or operations including changes in tax laws in the United States or in foreign countries; and

overall economic conditions.

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We own real estate and office facilities in the Alvin, Texas area totaling approximately 88,000 square feet. These facilities are comprised of a corporate office and training building and a manufacturing facility for clamps, enclosures and sealants. Additionally, we own facilities in, or near, Houston, Texas, Milwaukee, Wisconsin, and Edmonton, Alberta, which are utilized in the industrial services operations. All of those facilities are pledged as security for our banking facility (Please see Note 8 of our Audited Consolidated Financial Statements). We also lease approximately 80 office and/or plant and shop facilities at separate locations in thirty-one states, Puerto Rico and in Aruba, Canada, Singapore, Trinidad and Venezuela.

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

**ITEM 3. LEGAL PROCEEDINGS**

In August 2005, we were served 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 dispute arises out of the sale by Mr. Barker to Mr. Lescroart of stock in Thermal Solutions, Inc. ( TSI ). Subsequently, we acquired all of the outstanding stock of TSI in April 2004, allegedly for a much higher price than Mr. Lescroart paid Mr. Barker in July 2003. Mr. Lescroart, a member of our Board of Directors. The plaintiff claims damages in excess of \$1,000,000. We intend to vigorously defend this action and do not believe that we have any legal liability under the suit and, further, believe we are entitled to be indemnified from any loss we may incur under the terms of the Stock

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

Purchase Agreement related to the TSI acquisition. We have filed a motion for summary judgment seeking dismissal from the case. The motion is currently pending before the judge.

**Table of Contents**

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

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

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

On December 28, 2006 we transferred the listing of our common stock from the AMEX to the NASDAQ, at which time we began trading on the NASDAQ under the symbol TISI. The table below reflects the high and low closing sales prices of our common stock on the AMEX and NASDAQ by quarter for the fiscal years ended May 31, 2007 and 2006, respectively.

	Sales Price	
	High	Low
<b>2007</b>		
Quarter Ended:		
August 31, 2006	\$ 32.00	\$ 23.82
November 30, 2006	32.00	23.99
February 28, 2007	36.76	29.85
May 31, 2007	39.65	32.38
<b>2006</b>		
Quarter Ended:		
August 31, 2005	\$ 23.75	\$ 17.90
November 30, 2005	25.90	20.40
February 28, 2006	30.70	20.93
May 31, 2006	34.57	26.60

**Holdings**

There were 230 holders of record of our common stock as of July 3, 2007, excluding beneficial owners of stock held in street name. Although exact information is unavailable, we estimate there are approximately 8,760 additional beneficial owners.

**Dividends**

No dividends were declared or paid in 2007, 2006 or 2005, and we are not permitted to pay cash dividends without the consent of our primary lender. Accordingly, we have no present intention to pay cash dividends in the foreseeable future. Additionally, any future dividend payments will continue to depend on our financial condition, market conditions and other matters deemed relevant by the Board of Directors.

**Stock Split**

On July 25, 2007, subsequent to year end, our Board of Directors approved a two-for-one stock split in the form of a 100% stock dividend payable on August 29, 2007 to all shareholders of record on August 15, 2007. This action will double the total number of common shares outstanding to nearly 18 million shares (Please see Note 16 to our Audited Consolidated Financial Statements).

**Equity Compensation Plans**

This information has been omitted from this report on Form 10-K as we intend to file such information in our definitive proxy statement no later than 120 days following the close of our fiscal year ended May 31, 2007. The information required regarding equity compensation plans is hereby incorporated by reference.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following is a summary of selected financial information for the five years ended May 31, 2007 (amounts in thousands, except per share data):

	Twelve Months Ended May 31,				
	2007	2006	2005	2004	2003
Revenues	\$ 318,348	\$ 259,838	\$ 193,035	\$ 94,546	\$ 81,022
Net income from continuing operations	15,515	10,630	4,284	5,263	4,184
Net income from discontinued operations (1)		6	504	513	218
Net income	\$ 15,515	\$ 10,636	\$ 4,788	\$ 5,776	\$ 4,402
Net income per share: Basic					
From continuing operations	\$ 1.77	\$ 1.26	\$ 0.53	\$ 0.68	\$ 0.54
From discontinued operations (1)	0.00	0.00	0.06	0.07	0.03
Total	\$ 1.77	\$ 1.26	\$ 0.59	\$ 0.75	\$ 0.57
Net income per share: Diluted					
From continuing operations	\$ 1.64	\$ 1.16	\$ 0.48	\$ 0.62	\$ 0.50
From discontinued operations (1)	0.00	0.00	0.05	0.07	0.03
Total	\$ 1.64	\$ 1.16	\$ 0.53	\$ 0.69	\$ 0.53
Weighted averages shares outstanding					
Basic	8,770	8,413	8,140	7,709	7,707
Diluted	9,433	9,199	8,982	8,429	8,369
Cash dividend declared, per common share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Balance Sheet data:					
	2007	2006	May 31, 2005	2004	2003
Total assets	\$ 171,054	\$ 139,971	\$ 143,326	\$ 74,396	\$ 52,224
Long-term debt and other long-term liabilities	\$ 49,260	\$ 40,208	\$ 62,089	\$ 18,308	\$ 10,567
Stockholders' equity	\$ 84,203	\$ 63,885	\$ 48,942	\$ 42,299	\$ 31,735
Working capital	\$ 70,229	\$ 49,219	\$ 49,089	\$ 27,712	\$ 19,713

(1) Discontinued operations consist of the operating results of Climax and interest on debt allocated to such operations.



---

**Table of Contents**

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

The following review of our results of operations and financial condition should be read in conjunction with Item 1 Business, Item 1A Risk Factors, Item 2 Properties, and Item 8, Consolidated Financial Statements and Supplementary Data, included in this Form 10-K. Our consolidated balance sheets, consolidated statements of operations, and consolidated statements of cash flows have been recast to present the operating results of Climax as discontinued operations for all periods presented.

**CAUTIONARY STATEMENT FOR THE PURPOSE OF**

**SAFE HARBOR PROVISIONS OF THE**

**PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, other written or oral statements that constitute forward-looking statements may be made by us or on behalf of the Company. You can identify our forward-looking statements by the words anticipate, believe, expect, plan, intend, estimate, project, projection, predict, budget, forecast, goal, guidance, target, will, could, should, may and similar expressions.

We based our forward-looking statements on our reasonable beliefs and assumptions, and our current expectations, estimates and projections about ourselves and our industry. We caution that these statements are not guarantees of future performance and involve risks, uncertainties and assumptions that we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. We wish to ensure that such statements are accompanied by meaningful cautionary statements, so as to obtain the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995. Accordingly, you should carefully consider the statements under Risk Factors, which address factors that could cause our actual results to differ materially from those set forth in forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

**Overview**

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 primarily utilized in heavy industries. We offer an array of complimentary service lines including:

leak repair,

hot tapping,

fugitive emissions control,

field machining,

technical bolting,

field valve repair,

non-destructive testing,

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

field heat treating.

We offer these service lines in over 70 branch locations throughout the United States, Aruba, Canada, Singapore, Trinidad and Venezuela. As a result of our acquisition of Aitec on June 1, 2007, subsequent to our fiscal year end, we have over 80 branch locations.

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, original equipment manufacturers, distributors and end users. Our products and services are used in several distinct industries across a broad geographic reach. In 2007, our revenues by geographic region originated in the United States 87%, Canada 8% and other locations outside of North America 5% (Please see Note 13 of our Audited Consolidated Financial Statements).

**Table of Contents****Fiscal 2007 Compared to Fiscal 2006**

The following table sets forth the components of revenue and operating income from our continuing operations for fiscal 2007 and 2006 (in thousands):

	2007	2006	Increase	
			\$	%
<b>Revenues:</b>				
TCM	\$ 171,030	\$ 143,233	\$ 27,797	19%
TMS	147,318	116,605	30,713	26%
Total revenues	318,348	259,838	58,510	23%
<b>Gross margin:</b>				
TCM	54,478	42,918	11,560	27%
TMS	55,684	46,211	9,473	20%
Total gross margin	110,162	89,129	21,033	24%
<b>S, G &amp; A expenses:</b>				
Industrial services	65,377	56,662	8,715	15%
Corporate costs	14,448	11,090	3,358	30%
Total S, G&A	79,825	67,752	12,073	18%
Operating income	\$ 30,337	\$ 21,377	\$ 8,960	42%

**Revenues.** Our revenues from continuing operations in 2007 were \$318.3 million compared to \$259.8 million in 2006, an increase of \$58.5 million or 23%. Revenue growth continues to be broad based across all service lines and geographic regions. Revenues for our TCM division in 2007 were \$171.0 million compared to \$143.2 million in 2006, an increase of \$27.8 million or 19%. Revenues for our TMS division in 2007 were \$147.3 million compared to \$116.6 million in 2006, an increase of \$30.7 million, or 26%. Both divisions benefited from increases in demand and increases in pricing on newly quoted jobs, with approximately half of the overall increase attributable to large national accounts.

**Gross Margin.** Our gross margin from continuing operations in 2007 was \$110.2 million compared to \$89.1 million in 2006, an increase of \$21.1 million or 24%. Gross margin as a percentage of sales was relatively consistent with the prior year as improvements in TCM divisional gross margin percentages during the current year offset decreases in TMS divisional gross margin percentages. Gross margin for our TCM division in 2007 was \$54.5 million compared to \$42.9 million in 2006, an increase of \$11.6 million or 27%. TCM gross margins as a percentage of revenue was 32% in 2007 and 30% in 2006 and improved as a result of our increased focus on underperforming branches acquired in the Cooperheat MQS acquisition. Gross margin for our TMS division was \$55.7 million in 2007 compared to \$46.2 million in 2006, an increase of \$9.5 million or 21%. TMS gross margin as a percentage of revenue was 38% in 2007 and 40% in 2006 down slightly from the Katrina/Rita hurricane influenced prior year period in which there was an abundance of high margin projects.

**Selling, General, and Administrative Expenses.** Our SG&A from continuing operations in 2007 was \$79.8 million compared to \$67.8 million in 2006, an increase of \$12.0 million or 18%. This reflects investments in our network of over 70 physical branch locations, primarily across North America. Approximately \$8.6 million of the increase in SG&A was due to field operations and \$3.4 million of the increase was due to centralized corporate support costs. The \$3.4 million increase in corporate support costs in the current period included \$1.4 million of stock based employee compensation expense and approximately \$1.0 million of costs incurred for an internal investigation (Please see Note 15 to our Audited Consolidated Financial Statements). SG&A as a percentage of revenue was 25% in 2007 compared to 26% in 2006.

**Interest.** Interest expense was \$4.2 million in 2007 as compared to \$4.0 million in 2006. This increase is the result of higher interest rates on our LIBOR based debt and higher levels of outstanding borrowings during the year (Please see the discussion of liquidity and capital resources below).

**Table of Contents**

**Taxes.** The provision for income taxes was \$10.6 million on pretax income of \$26.1 million for 2007. The provision for income taxes was \$6.8 million on pretax income of \$17.4 million for 2006. The effective tax rate for fiscal 2007 was 41% compared to 39% for fiscal 2006. The rate differential is due to the mixture of non-deductible expenses in relation to taxable income and the mixture of state and foreign taxes to which the income is subject.

**Fiscal 2006 Compared to Fiscal 2005**

As a context for the discussion below, the results of our operations and financial condition were significantly and materially impacted by the Cooperheat-MQS acquisition in fiscal year 2005. This acquisition more than doubled the size of our industrial services segment. We organized the operations of the industrial services segment into the TMS and TCM divisions. TMS comprises our previously existing mechanical services offerings (leak repair, hot tapping, field machining and technical bolting, field valve repair and fugitive emissions control). TCM comprises our field heat treatment and non-destructive testing services. The following table sets forth the components of revenue and operating income from our continuing operations for fiscal 2006 and 2005 (in thousands):

	2006	2005	Increase	
			\$	%
<b>Revenues:</b>				
TCM	\$ 143,233	\$ 99,268	\$ 43,965	44%
TMS	116,605	93,767	22,838	24%
Total revenues	259,838	193,035	66,803	35%
<b>Gross margin:</b>				
TCM	42,918	30,183	12,735	42%
TMS	46,211	34,615	11,596	34%
Total gross margin	89,129	64,798	24,331	38%
<b>S, G &amp; A expenses:</b>				
Industrial services	56,662	45,513	11,149	25%
Corporate costs	11,090	9,737	1,353	14%
Total S,G&A	67,752	55,250	12,502	23%
Operating income	\$ 21,377	\$ 9,548	\$ 11,829	124%

**Revenues.** Our revenues from continuing operations in 2006 were \$259.8 million compared to \$193.0 million in 2005, an increase of \$66.8 million or 35%. The increase was partially due to broad based growth across virtually all regions and service lines and due to our Cooperheat-MQS acquisition in August 2004. Cooperheat-MQS comprises the majority of the TCM division. The increase was also broad based with approximately \$9 million of the increase coming from Canada. Revenues for our TCM division in 2006 were \$143.2 million compared to \$99.3 million in 2005, an increase of \$43.9 million or 44%. Fiscal year 2006 included a full year of Cooperheat-MQS operations while fiscal year 2005 included 9 months of Cooperheat-MQS operations. Revenues for our TMS division in 2006 were \$116.6 million compared to \$93.8 million in 2005, an increase of \$22.8 million, or 24%. For both divisions, the current fiscal year was characterized by increased capital and maintenance budgets for many of our customers, penetration of our services into new industries and increases in turnaround work as customers realize the current trends contributing to their increased margins are likely to remain for the foreseeable future.

**Gross Margin.** Our gross margin from continuing operations in 2006 was \$89.1 million compared to \$64.8 million in 2005, an increase of \$24.3 million or 38%. Gross margin as a percentage of sales improved by approximately one percentage point. Gross margin for our TCM division in 2006 was \$42.9 million compared to \$30.2 million in 2005, an increase of \$12.7 million or 42%. The improvement in TCM gross margins is due to increased revenues described above. TCM gross margins as a percentage of revenue remained unchanged at 30%. Gross margin for our TMS division was \$46.2 million in 2006 compared to \$34.6 million in 2005, an increase of \$11.6 million or 34%. The improvement in TMS gross margins is due to increased revenues described above and

## Table of Contents

improved gross margin as a percentage of those revenues. TMS gross margin as a percentage of revenue increased to 40% in 2006 from 37% in 2005. The increase in gross margin as a percentage of sales was due to broad based efficiencies and operating leverage from increased revenues as well as the completion of several low margin jobs in the prior year.

**Selling, General, and Administrative Expenses.** Our SG&A in 2006 was \$67.8 million compared to \$55.3 million in 2005, an increase of \$12.5 million or 23%. The increase was primarily attributable to investments in people, processes and systems to support the growth of the business, particularly in the field operations. Approximately \$11.1 million of the increase in SG&A was due to field operations and \$1.4 million of the increase was due to corporate costs. Expense related to Sarbanes-Oxley Section 404 compliance ( SOX ) increased \$0.5 million due to the timing of services. Approximately \$0.9 million of first year implementation costs are included in fiscal 2006 expense. We anticipate approximately \$0.7 million of second year implementation costs will occur in fiscal 2007. Overall, our total SOX cost pertaining to the second year of SOX implementation are expected to be \$1.4 million compared to \$2.0 million in the first year of implementation and SG&A as a percentage of revenue decreased to 26% in 2006 from 29% in 2005 as we were able to leverage the investments we made in these areas.

**Interest.** Interest expense was \$4.0 million in 2006 as compared to \$2.3 million in 2005. This increase is the result of higher interest rates on our LIBOR based debt and higher levels of outstanding borrowings during the fiscal year. Please see the discussion of liquidity and capital resources below.

**Taxes.** The provision for income taxes was \$6.8 million on pretax income of \$17.4 million for 2006. The effective tax rate for fiscal 2006 was 39% compared to 41% for fiscal 2005. The rate differential is due to the mixture of non-deductible expenses in relation to taxable income and the mixture of state and foreign taxes to which the income is subject.

## **Liquidity and Capital Resources**

Financing for our operations, consists primarily of vendor financing and leasing arrangements, a bank facility and cash flows attributable to our operations. We believe that the liquidity we derive from our vendor financing and leasing arrangements, bank facility and cash flows attributable to our operations is more than sufficient to fund our capital expenditures, debt maturities and other business needs.

**Vendor Financing.** In January 2006, we entered into a three year enterprise agreement with Microsoft for server and desktop volume licensing with software assurance. Financing for the agreement was provided under a three year non-interest bearing note (the Software Licensing Note ) with monthly payments of \$28,998. The Software Licensing Note has been discounted at 7.3%, which approximated our effective borrowing rate at the time we entered into the agreement. At May 31, 2007, the outstanding principal balance of the Software Licensing Note was \$0.6 million.

**Leasing Arrangements.** We also enter into operating leases to obtain equipment for our field operations and administrative functions. Our obligations under non-cancellable operating leases, primarily consisting of facility and auto leases, were approximately \$18.8 million at May 31, 2007 and are as follows (in thousands):

Twelve Months Ended May 31,	Operating Leases
2008	\$ 5,433
2009	3,151
2010	2,283
2011	2,503
2012	1,751
Thereafter	3,672
<b>Total</b>	<b>\$ 18,793</b>

**Table of Contents**

**Bank Facility.** On May 31, 2007, in anticipation of our acquisition of Aitec (Please see Note 16 of our Audited Consolidated Financial Statements), we amended and restated our existing banking facility comprised of a term loan and a revolving credit facility (the Credit Facility ). The Credit Facility provides us with a \$120 million revolving line of credit and a \$15 million term loan. The Credit Facility bears interest at a LIBOR based interest rate (currently LIBOR plus 1.5%) and matures in May 2012. The Credit Facility is secured by virtually all of our assets and contains financial covenants and restrictions on the creation of liens on assets, the acquisition or sale of subsidiaries and the incurrence of certain liabilities. At May 31, 2007 we were in compliance with all financial covenants contained in the Credit Facility. At May 31, 2007, there are \$1.3 million of capitalized loan costs which are being amortized over the life of the Credit Facility.

In May 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 floating rate 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 decreasing 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, therefore, the changes in fair value, to the extent the swap agreement is effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings.

In order to secure our insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. At May 31, 2007, we were contingently liable for outstanding stand-by letters of credit totaling \$4.8 million.

**Cashflows Attributable to Our Operations.** For fiscal year 2007, cash provided by operating activities was \$6.7 million. Net income from continuing operations of \$15.5 million, when adjusted for non-cash items such as depreciation and amortization, deferred financing costs, allowance for doubtful accounts and deferred tax charges, was \$28.0 million, of which, \$21.3 million was used to fund our working capital requirements.

**Cashflows Attributable to Our Investing Activities.** For fiscal year 2007, cash used in investing activities was \$15.5 million, consisting primarily of \$16.5 million of capital expenditures. We incurred approximately \$16.5 million, \$7.1 million and \$4.2 million for capital expenditures during fiscal years 2007, 2006 and 2005, respectively. Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly. We anticipate capital expenditures for the next twelve months to increase, as a result of increased business activity, to be in a range of approximately \$15 million to \$20 million.

**Cashflows Attributable to Our Financing Activities.** For fiscal year 2007, cash provided by financing activities was \$10.5 million. Borrowings under the Credit Facility provided \$12.3 million of cash and \$3.1 million was provided by the issuance of our common stock in connection with our stock option compensation plans and was offset by \$4.3 million in principal payments under our Credit Facility and other financings.

**Critical Accounting Policies**

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

Revenue Recognition

Valuation of Intangible Assets

**Table of Contents**

Income Taxes

Workers Compensation, Auto, Medical and General Liability Accruals

Allowance for Doubtful Accounts Receivable

Estimated Useful Lives

**Revenue Recognition.** We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the Financial Accounting Standards Board ( FASB ) or the SEC. Most of our projects are short-term in nature and we predominantly derive revenues by providing a variety of industrial services on a time and material basis. For all of these services our revenues are recognized when services are rendered or when product is shipped and risk of ownership passes to the customer. However, due to various contractual terms with our customers, at the end of any reporting period there may be earned but unbilled revenue that is accrued to properly match revenues with related costs. At May 31, 2007 and 2006, the amount of earned but unbilled revenue was \$6.6 million and \$3.8 million, respectively. For services performed pursuant to a fixed price bid, revenues are recognized upon completion of the job. Costs associated with such jobs are deferred until completion, resulting in deferred costs of \$0.4 million and \$0.1 million at May 31, 2007 and 2006, respectively.

**Valuation of Intangible Assets.** Intangible assets primarily consists of goodwill. 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 FASB Statement No. 142, *Goodwill and Other Intangible Assets* ( FASB No. 142 ). 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* ( FASB No. 144 ).

Our annual goodwill impairment test is conducted by first comparing the estimated fair value of the reporting unit to which the intangible asset is attributable and then comparing the implied fair value of goodwill with its carrying amount. The estimated fair value of the reporting unit is determined by using discounted future cash flow estimates. The reporting units used for purposes of computing the annual impairment test of goodwill, pursuant to FASB No. 142, are the TCM and TMS divisions, both of which comprise our industrial services segment. All goodwill assigned to those reporting units is attributable to business acquisitions that are part of those units. There was \$26.5 million of goodwill at May 31, 2007 and 2006, all of which is attributable to the TCM division. Based upon results of the annual impairment testing, last conducted in May 2007, there have been no impairments of goodwill.

**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 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.

---

**Table of Contents**

Management believes future sources of taxable income, reversing temporary differences and other tax planning strategies will be sufficient to realize assets for which no reserve has been established. While we have considered these factors in assessing the need for a valuation allowance, there is no assurance that a valuation allowance would not need to be established in the future if information about future years change. Any change in the valuation allowance would impact our income tax provision and net income in the period in which such a determination is made. As of May 31, 2007 we believe that it is more likely than not that we will have sufficient future taxable income to allow us to realize the benefits of the net deferred tax assets. Our belief is based upon our track record of consistent earnings growth over the past five years and projections of future taxable income over the periods in which the deferred tax assets are deductible. Accordingly, no valuation allowance has been recorded.

***Workers Compensation, Auto, Medical and General Liability Accruals.*** In accordance with FASB Statement No. 5, *Accounting for Contingencies* ( FASB No. 5 ), we record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review our loss contingencies on an ongoing basis to ensure that we have appropriate reserves recorded on our balance sheet. These reserves are based on historical experience with claims incurred but not received, estimates and judgments made by management, applicable insurance coverage for litigation matters, and are adjusted as circumstances warrant. For workers compensation and automobile liability claims, our self-insured retention is \$250,000 per case. For medical claims, our self-insured retention is \$150,000 per individual claimant determined on an annual basis. We have obtained fully insured layers of coverage above such self-retention limits. Our estimates and judgment could change based on new information, changes in laws or regulations, changes in management's plans or intentions, or the outcome of legal proceedings, settlements or other factors. If different estimates and judgments were applied with respect to these matters, it is likely that reserves would be recorded for different amounts.

***Allowance for Doubtful Accounts.*** In the ordinary course of business, a percentage of our accounts receivable are not collected due to billing disputes, customer bankruptcies, dissatisfaction with the services we performed and other various reasons. To account for those accounts receivable that will eventually be deemed uncollectible we establish an allowance. The allowance for doubtful accounts is based on a combination of our historical experience and management's review of long outstanding accounts receivable. The allowance for doubtful accounts was \$2.3 million and \$1.3 million at May 31, 2007 and 2006, respectively.

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

***Accounting Principles Not Yet Adopted***

In June 2006, the FASB's Emerging Issues Task Force (the EITF or Task Force) issued consensus 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* ( EITF 06-3 ). In EITF 06-3, the Task Force reached a consensus that the presentation of tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer and disclosed on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. In addition, for any such taxes that are reported on a gross basis, an entity should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. EITF 06-3 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of this statement on our financial statements.



---

## **Table of Contents**

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ( FASB No. 157 ). FASB No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurement. Where applicable, this statement simplifies and codifies fair value related guidance previously issued within U.S. GAAP. FASB No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management currently does not anticipate FASB No. 157 to have a material effect on our results of operations or financial position.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB No. 109, *Accounting for Income Taxes* ( FIN 48 ), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of the interpretation on our financial statements, which the Company is required to adopt beginning in our first fiscal quarter of 2007.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( FASB No. 159 ). FASB No. 159 permits entities to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. It also creates presentation and disclosure requirements that will enhance comparability between entities that choose different measurement attributes for similar types of assets and liabilities. FASB No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We currently do not anticipate FASB No. 159 to have a material effect on our results of operations or financial position.

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

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB No. 108 ). SAB No. 108 addresses how the effects of prior year uncorrected financial statement misstatements should be considered in current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both balance sheet and income statement approaches and to evaluate whether either approach results in quantifying an error that is material after all of the relevant quantitative and qualitative factors are considered. SAB No. 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006 and is effective for our fiscal year ending May 31, 2007. The adoption of SAB No. 108 did not have a material effect on our financial position or results of operations.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have operations in foreign countries with a functional currency that is not the United States Dollar. We are exposed to market risk, primarily related to foreign currency fluctuations related to these operations.

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 continue 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 \$30.0 million beginning 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, therefore, the changes in fair value, to the extent

## **Table of Contents**

the swap agreement is effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings.

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

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

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

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

### **ITEM 9A. CONTROLS AND PROCEDURES**

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

***Evaluation of Disclosure Controls and Procedures.*** As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). This evaluation included consideration of the various processes carried out under the direction of our disclosure committee in an effort to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC. This evaluation also considered the work completed relating to our compliance with Section 404 of the Sarbanes-Oxley Act of 2002, which is further described below.

Based on this evaluation, our CEO and CFO concluded that, as of May 31, 2007, our disclosure controls and procedures were operating effectively to ensure that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the requisite time periods and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

***Changes in Internal Control Over Financial Reporting.*** There were no changes in our internal control over financial reporting (as defined in Rules 13a-13(f) and 15d-15(f) of the Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the fourth quarter of fiscal 2006.

### **ITEM 9B. OTHER INFORMATION**

None



---

**Table of Contents**

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

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

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

We have used the framework set forth in the report entitled *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of our internal control over financial reporting. We have concluded that our internal control over financial reporting was effective as of May 31, 2007. KPMG LLP, an independent registered public accounting firm, has issued an attestation report on our assessment of our internal control over financial reporting.

/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

**ITEM 9B. OTHER INFORMATION**

None

**Table of Contents**

**PART III**

The information for the following items of Part III has been omitted from this Report on Form 10-K since we will file, not later than 120 days following the close of our fiscal year ended May 31, 2007, our definitive proxy statement. The information required by Part III will be included in that proxy statement and such information is hereby incorporated by reference, with the exception of the information under the headings Compensation Committee Report and Comparison of Total Shareholders Return.

- Item 10. Directors, Executive Officers and Corporate Governance**
  
- Item 11. Executive Compensation**
  
- Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**
  
- Item 13. Certain Relationships and Related Transactions, and Director Independence**
  
- Item 14. Principal Accountant Fees and Services**

**Table of Contents**

**PART IV**

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

**(a) 1. Financial Statements**

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

<u>Reports of Independent Registered Public Accounting Firm</u>	25
<u>Consolidated Balance Sheets as of May 31, 2007 and 2006</u>	26
<u>Consolidated Statements of Operations for the Years Ended May 31, 2007, 2006 and 2005</u>	27
<u>Consolidated Statements of Comprehensive Income for the Years Ended May 31, 2007, 2006 and 2005</u>	28
<u>Consolidated Statements of Stockholders' Equity for the Years Ended May 31, 2007, 2006 and 2005</u>	29
<u>Consolidated Statements of Cash Flows for the Years Ended May 31, 2007, 2006 and 2005</u>	30
<u>Notes to Consolidated Financial Statements</u>	31

---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Team, Inc. and Subsidiaries:

We have audited management's assessment, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*, that Team, Inc. and Subsidiaries maintained effective internal control over financial reporting as of May 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Team, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Team, Inc. and Subsidiaries maintained effective internal control over financial reporting as of May 31, 2007, is fairly stated, in all material respects, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Team, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of May 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Team, Inc. and Subsidiaries as of May 31, 2007 and 2006, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended May 31, 2007, and our report dated August 13, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Houston, Texas

August 13, 2007

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Team, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Team, Inc. and Subsidiaries as of May 31, 2007 and 2006, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended May 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Team, Inc. and Subsidiaries as of May 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9 to the consolidated financial statements, effective June 1, 2006 the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Team, Inc.'s internal control over financial reporting as of May 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 13, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Houston, Texas

August 13, 2007



**Table of Contents****TEAM, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

	May 31,	
	2007	2006
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 4,335	\$ 2,578
Receivables, net of allowance of \$2,348 and \$1,255	84,496	68,487
Inventories	11,518	10,525
Deferred income taxes		781
Prepaid expenses and other current assets	7,164	2,460
Total Current Assets	107,513	84,831
Property, plant and equipment, net	35,166	26,448
Intangible assets, net of accumulated amortization of \$792 and \$542	458	708
Goodwill	26,452	26,452
Other assets, net	1,465	1,532
Total Assets	\$ 171,054	\$ 139,971
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 4,862	\$ 5,899
Accounts payable	10,560	7,978
Other accrued liabilities	15,906	16,898
Insurance note payable	4,734	
Current income taxes payable		4,837
Deferred income taxes	1,222	
Total Current Liabilities	37,284	35,612
Deferred income taxes	486	404
Long-term debt	48,774	39,804
Total Liabilities	86,544	75,820
Minority interest	307	266
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; 9,948,219 and 9,658,957 shares issued	2,984	2,898
Treasury stock at cost, 1,018,308 shares	(5,032)	(5,032)
Additional paid-in capital	49,159	44,723
Retained earnings	36,447	20,932
Accumulated other comprehensive income	645	364
Total Stockholders' Equity	84,203	63,885
Total Liabilities and Stockholders' Equity	\$ 171,054	\$ 139,971

See notes to consolidated financial statements.



**Table of Contents**

**TEAM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

	Twelve Months Ended May 31,		
	2007	2006	2005
Revenues	\$ 318,348	\$ 259,838	\$ 193,035
Operating expenses	208,186	170,709	128,237
Gross margin	110,162	89,129	64,798
Selling, general and administrative expenses	79,825	67,752	55,250
Operating income	30,337	21,377	9,548
Interest expense, net	4,204	3,992	2,306
Earnings before income taxes	26,133	17,385	7,242
Provision for income taxes	10,618	6,755	2,958
Income from continuing operations	15,515	10,630	4,284
Discontinued operations:			
Income from discontinued operations, net of tax		6	504
Net income	\$ 15,515	\$ 10,636	\$ 4,788
Net income per share: Basic			
From continuing operations	\$ 1.77	\$ 1.26	\$ 0.53
From discontinued operations	0.00	0.00	0.06
Total	\$ 1.77	\$ 1.26	\$ 0.59
Net income per share: Diluted			
From continuing operations	\$ 1.64	\$ 1.16	\$ 0.48
From discontinued operations	0.00	0.00	0.05
Total	\$ 1.64	\$ 1.16	\$ 0.53
Weighted averages shares outstanding			
Basic	8,770	8,413	8,140
Diluted	9,433	9,199	8,982

See notes to consolidated financial statements.

**Table of Contents**

**TEAM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

	Twelve Months Ended May 31,		
	2007	2006	2005
Net income	\$ 15,515	\$ 10,636	\$ 4,788
Foreign currency translation adjustment	429	302	246
Tax provision	(148)	(114)	(118)
Comprehensive income	\$ 15,796	\$ 10,824	\$ 4,916

See notes to consolidated financial statements.

**Table of Contents****TEAM, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(in thousands)

	Common Stock	Treasury Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at June 1, 2004	\$ 2,715	\$ (5,032)	\$ 39,060	\$ 5,508	\$ 48	\$ 42,299
Net income				4,788		4,788
Foreign currency translation adjustment					128	128
Shares issued	1		59			60
Non-cash compensation			237			237
Exercise of stock options	62		830			892
Tax benefit from exercise of stock options			538			538
Balance at May 31, 2005	2,778	(5,032)	40,724	10,296	176	48,942
Net income				10,636		10,636
Foreign currency translation adjustment					188	188
Shares issued	5		118			123
Non-cash compensation			385			385
Exercise of stock options	115		2,034			2,149
Tax benefit from exercise of stock options			1,462			1,462
Balance at May 31, 2006	2,898	(5,032)	44,723	20,932	364	63,885
Net income				15,515		15,515
Foreign currency translation adjustment					281	281
Shares issued	1		59			60
Non-cash compensation			1,425			1,425
Exercise of stock options	85		1,626			1,711
Tax benefit from exercise of stock options			1,326			1,326
Balance at May 31, 2007	\$ 2,984	\$ (5,032)	\$ 49,159	\$ 36,447	\$ 645	\$ 84,203

See notes to consolidated financial statements.

**Table of Contents**

**TEAM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Twelve Months Ended May 31,		
	2007	2006	2005
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 15,515	\$ 10,636	\$ 4,788
Less income attributable to discontinued operations		(6)	(504)
Income attributable to continuing operations	15,515	10,630	4,284
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of intangible assets	7,777	6,345	5,135
Amortization of deferred loan costs	446	415	460
Allowance for doubtful accounts	1,094	1,183	943
Minority interest in earnings and other	(303)	(107)	22
Deferred income taxes	2,085	(482)	655
Non-cash compensation cost	1,425	235	287
Changes in assets and liabilities, net of effects from business acquisitions:			
(Increase) decrease:			
Accounts receivable	(17,103)	(10,747)	(24,813)
Inventories	(993)	(667)	(613)
Prepaid expenses and other current assets	30	(452)	823
Increase (decrease):			
Accounts payable	2,582	(3,536)	5,100
Other accrued liabilities	(992)	3,986	2,146
Income taxes payable	(4,837)	2,509	1,471
Net cash provided by (used in) operating activities	\$ 6,726	\$ 9,312	\$ (4,100)
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(16,497)	(7,081)	(4,231)
Proceeds from sale of Equipment Rental Segment		14,689	
Proceeds from sale of assets	262	196	15
(Increase) decrease in other assets, net	746	133	(529)
Business acquisitions, net of cash acquired			(33,940)
Net cash provided by (used in) investing activities	\$ (15,489)	\$ 7,937	\$ (38,685)
<b>Cash Flows From Financing Activities:</b>			
Borrowings (payments) under revolving credit agreement	12,250	(15,062)	22,408
Borrowings related to term loans and financing arrangements			25,000
Payments related to term loans and financing arrangements	(4,317)	(3,831)	(2,250)
Loan financing fees	(510)	(189)	(1,773)
Issuance of common stock	3,097	2,272	892
Net cash provided by (used in) financing activities	10,520	(16,810)	44,277
<b>Cash flows of discontinued operations:</b>			
Operating cash flows		(1,939)	1,184
Investing cash flows		(223)	(702)
Financing cash flows		308	
Net cash provided by (used in) discontinued operations		(1,854)	482
Net increase (decrease) in cash and cash equivalents	1,757	(1,415)	1,974

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

Cash and cash equivalents at beginning of year	2,578	3,993	2,019
Cash and cash equivalents at end of year	\$ 4,335	\$ 2,578	\$ 3,993
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	\$ 4,034	\$ 4,471	\$ 2,379
Income taxes	\$ 13,078	\$ 5,928	\$ 2,277
Significant non-cash transactions:			
Software Licensing Note	\$	\$ 854	\$

See notes to consolidated financial statements.

---

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**

**Introduction.** Our corporate headquarters is located at 200 Hermann Drive, Alvin, Texas, 77511 and our telephone number is (281) 331-6154. On December 28, 2006, we transferred the listing of our common stock from the AMEX to the NASDAQ, at which time we began trading on the NASDAQ under the symbol TISI. 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 primarily utilized in heavy industries. We offer an array of complimentary service lines including:

leak repair,

hot tapping,

fugitive emissions control,

field machining,

technical bolting,

field valve repair,

non-destructive testing,

field heat treating.

We offer these service lines in over 70 branch locations throughout the United States, Aruba, Canada, Singapore, Trinidad and Venezuela. As a result of our acquisition of Aitec on June 1, 2007, subsequent to our fiscal year end we have over 80 branch locations (Please see Note 16).

**Consolidation.** Our consolidated 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. Minority interest is recognized for the portion not owned by us. Certain amounts in prior years have been reclassified to conform to the current year presentation.

**Use of Estimates.** Our accounting policies conform to GAAP. Our most significant accounting policies are described below. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect our reported financial position and results of operations. We review significant estimates and judgments affecting our consolidated financial statements on a recurring basis and record the effect of any necessary adjustments prior to their publication. Estimates and judgments are based on information available at the time such estimates and judgments are made. Adjustments made with respect to the use of these estimates and judgments often relate to information not previously available. Uncertainties with respect to such estimates and judgments are inherent in the preparation of financial statements. Estimates and judgments are used in, among other things, (1) aspects of revenue recognition, (2) analyzing tangible and intangible assets for possible impairment, (3) assessing future tax exposure and the realization of tax assets, (4) estimating various factors used to accrue liabilities for workers compensation, auto, medical and general liability (5) establishing an allowance for uncollectible accounts receivable, and (6) estimating the useful lives of our assets.



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

***Fair Value of Financial Instruments.*** The Company's 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

**Table of Contents**

due to the short-term maturity of these instruments. The fair values of the Company's credit facility are representative of their carrying values based upon the variable rate terms and management's opinion that the current rates offered to the Company 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.

**Inventories.** Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories include material, labor, and certain fixed overhead costs.

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

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

**Goodwill and Other Intangible Assets.** Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are instead tested for impairment at least annually in accordance with the provisions of FASB No. 142. 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 No. 144.

Our annual goodwill impairment test is conducted by first comparing the estimated fair value of the reporting unit to which the intangible asset is attributable and then comparing the implied fair value of goodwill with its carrying amount. The estimated fair value of the reporting unit is determined by using discounted future cash flow estimates. The reporting units used for purposes of computing the annual impairment test of goodwill, pursuant to FASB No. 142, are the TCM and TMS divisions, both of which comprise our industrial services segment. All goodwill assigned to those reporting units is attributable to business acquisitions that are part of those units. There was \$26.5 million of goodwill at May 31, 2007 and 2006. All of which is attributable to the TCM division. Based upon results of the annual impairment testing, last conducted in May 2007, there have been no impairments of goodwill. A summary of goodwill as of May 31, 2007 and 2006 is as follows (in thousands):

	Twelve Months Ended May 31,	
	2007	2006
Balance at beginning of year	\$ 26,452	\$ 26,452
Acquisitions and purchase price adjustments		
Impairments		
Balance at end of year	\$ 26,452	\$ 26,452

**Income Taxes.** We follow the guidance in 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

---

**Table of Contents**

our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax payable and related tax expense together with assessing temporary differences resulting from differing treatment of certain items, such as depreciation, for tax and accounting purposes. These differences can result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that it is more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax assets will not be realized, we must establish a valuation allowance. We consider all available evidence, both positive and negative, to determine whether, based on the weight of the evidence, a valuation allowance is needed. Evidence used includes information about our current financial position and our results of operations for the current and preceding years, as well as all currently available information about future years, including our anticipated future performance, the reversal of deferred tax liabilities and tax planning strategies.

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

***Workers Compensation, Auto, Medical and General Liability Accruals.*** In accordance with FASB No. 5, we record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review our loss contingencies on an ongoing basis to ensure that we have appropriate reserves recorded on our balance sheet. These reserves are based on historical experience with claims incurred but not received, estimates and judgments made by management, applicable insurance coverage for litigation matters, and are adjusted as circumstances warrant. For workers' compensation and automobile liability claims, our self-insured retention is \$250,000 per case. For medical claims, our self-insured retention is \$150,000 per individual claimant determined on an annual basis. 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.

***Revenue Recognition.*** We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the FASB or the SEC. Most of our projects are short-term in nature and we predominantly derive revenues by providing a variety of industrial services, on a time and material basis. For all of these services our revenues are recognized when services are rendered or when product is shipped and risk of ownership passes to the customer. However, due to various contractual terms with our customers, at the end of any reporting period there may be earned but unbilled revenue that is accrued to properly match revenues with related costs. At May 31, 2007 and 2006 the amount of earned but unbilled revenue was \$6.6 million and \$3.8 million, respectively. For services performed pursuant to a fixed price bid, revenues are recognized upon completion of the job. Costs associated with such jobs are deferred until completion, resulting in deferred costs of \$0.4 million and \$0.1 million at May 31, 2007 and 2006, 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.

---

## **Table of Contents**

Options to purchase 104,500, 107,000, and 84,500 shares of common stock were outstanding during the years ended May 31, 2007, 2006 and 2005, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares during the period.

**Foreign Currency.** For subsidiaries whose functional currency is not the United States dollar, assets and liabilities are translated at year-end rates of exchange and revenues and expenses are translated at average exchange rates during the period. Translation adjustments for the asset and liability accounts are included as a separate component of accumulated other comprehensive loss in stockholders' equity. Currency transaction gains and losses are recorded in other SG&A, net on the consolidated statements of operations.

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

In June 2006, the EITF issued consensus EITF 06-3. In EITF 06-3, the Task Force reached a consensus that the presentation of tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer and disclosed on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. In addition, for any such taxes that are reported on a gross basis, an entity should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. EITF 06-3 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of this EITF on our financial statements.

In September 2006, the FASB issued FASB No. 157. FASB No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurement. Where applicable, this statement simplifies and codifies fair value related guidance previously issued within U.S. GAAP. FASB No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management currently does not anticipate FASB No. 157 to have a material effect on our results of operations or financial position.

In July 2006, the FASB issued FIN 48, to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of the interpretation on our financial statements, which the Company is required to adopt beginning in our first fiscal quarter of 2007.

In February 2007, the FASB issued FASB No. 159. FASB No. 159 permits entities to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. It also creates presentation and disclosure requirements that will enhance comparability between entities that choose different measurement attributes for similar types of assets and liabilities. FASB No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We currently do not anticipate FASB No. 159 to have a material effect on our results of operations or financial position.

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

In September 2006, the SEC staff issued SAB No. 108. SAB No. 108 addresses how the effects of prior year uncorrected financial statement misstatements should be considered in current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both balance sheet and income statement approaches and to evaluate whether either approach results in quantifying an error that is material after all of the relevant quantitative and qualitative factors are considered. SAB No. 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006 and is effective for our fiscal year ending May 31, 2007. The adoption of SAB No. 108 did not have a material effect on our financial position or results of operations.

**Table of Contents****2. ACQUISITIONS AND DISPOSITIONS**

On June 1, 2007, subsequent to our year end, we acquired all of the stock of Aitec for \$33.8 million, subject to a working capital adjustment. 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 an amended and restated Credit Facility provided through our bank syndicate (Please see Note 8 and 16).

In November 2005, we sold all of the outstanding stock of our wholly-owned subsidiary, Climax, for approximately \$14.5 million plus subsequent purchase price adjustments of approximately \$0.2 million. Climax was engaged in equipment sales and rental and was a designer and manufacturer of portable metal cutting machinery used for industrial maintenance at customer locations. We recognized a pre-tax gain on the sale of Climax of \$1.5 million, net of costs and expenses associated with the transaction of approximately \$0.9 million, including approximately \$0.2 million of cash bonuses paid to certain Climax personnel.

The assets and liabilities of Climax at the time of sale were as follows (in thousands):

	<b>Climax</b>
Receivables	\$ 2,618
Inventories	2,785
Prepaid expenses and other current	97
<b>Total Current Assets</b>	<b>5,500</b>
Property, plant and equipment	4,498
Goodwill	2,953
Other assets	662
<b>Total Assets</b>	<b>13,613</b>
Accounts payable	675
Other accrued liabilities	802
<b>Total Current Liabilities</b>	<b>1,477</b>
Noncurrent deferred income taxes	
<b>Net book value</b>	<b>\$ 12,136</b>

The results of operations for Climax, presented as discontinued operations, include interest on our debt that is required to be repaid with proceeds from the sale of Climax. The revenues, operating income, interest expense allocation and earnings before income tax, presented in discontinued operations for the fiscal years ended 2007, 2006 and 2005 are as follows (in thousands):

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Revenues	\$	\$ 7,462	\$ 16,010
Operating income		394	1,469
Interest expense allocation		472	651
<b>Earnings (loss) before income taxes</b>	<b>\$</b>	<b>\$ (78)</b>	<b>\$ 818</b>

In August 2004, we completed the acquisition of substantially all the assets of Cooperheat-MQS. Cooperheat-MQS was operating as debtor-in-possession in a Chapter 11 case pending in the United States Bankruptcy Court. The transaction involved cash consideration of \$34.8 million, subject to a working capital adjustment, the assumption of certain liabilities, including the assumption of \$1.7 million in letters of credit, and the issuance of warrants to purchase 100,000 shares of our common stock with \$.30 par value per share. The warrants were exercisable at \$65 cash per share and expired on August 11, 2007, subsequent to our fiscal year end. The assets Cooperheat-MQS are associated with our non-destructive testing and inspection and field heat treating services.



**Table of Contents**

Our unaudited fiscal year 2005 pro-forma consolidated results as if the Cooperheat-MQS acquisition had occurred at the beginning of our fiscal year, are shown below. These results are not necessarily indicative of the results which would actually have occurred if the purchase had taken place at the beginning of the period, nor are they necessarily indicative of future results (in thousands):

	<b>Pro-forma data (unaudited) Twelve months ended May 31, 2005</b>
Revenues	\$ 220,654
Net Income	\$ 971

**3. RECEIVABLES**

A summary of accounts receivable as of May 31, 2007 and 2006 is as follows (in thousands):

	<b>May 31,</b>	
	<b>2007</b>	<b>2006</b>
Trade accounts receivable	\$ 80,277	\$ 65,979
Unbilled revenues	6,567	3,763
Allowance for doubtful accounts	(2,348)	(1,255)
Total	\$ 84,496	\$ 68,487

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote. The following summarizes the activity in the allowance for doubtful accounts at May 31, 2007 and 2006 (in thousands):

	<b>Twelve Months Ended May 31,</b>	
	<b>2007</b>	<b>2006</b>
Balance at beginning of year	\$ 1,255	\$ 1,233
Provision for doubtful accounts	1,730	1,183
Write off of bad debt	(637)	(1,161)
Balance at end of year	\$ 2,348	\$ 1,255

**4. INVENTORIES**

A summary of inventory as of May 31, 2007 and 2006 is as follows (in thousands):

	<b>May 31,</b>	
	<b>2007</b>	<b>2006</b>
Raw materials	\$ 2,870	\$ 1,398
Work in progress	358	318
Finished goods	8,290	8,809
Total	\$ 11,518	\$ 10,525





**Table of Contents****5. PROPERTY, PLANT AND EQUIPMENT**

A summary of property, plant and equipment as of May 31, 2007 and 2006 is as follows (in thousands):

	May 31,	
	2007	2006
Land	\$ 955	\$ 934
Buildings and leasehold improvements	7,118	6,820
Machinery and equipment	53,670	37,706
Furniture and fixtures	1,400	1,543
Computers and computer software	3,884	2,932
Automobiles	2,106	2,411
Construction in progress	578	827
 Total	 69,711	 53,173
Accumulated depreciation and amortization	(34,545)	(26,725)
 Property, plant, and equipment, net	 \$ 35,166	 \$ 26,448

**6. OTHER ACCRUED LIABILITIES**

A summary of other accrued liabilities as of May 31, 2007 and 2006 is as follows (in thousands):

	May 31,	
	2007	2006
Payroll and other compensation expenses	\$ 9,509	\$ 11,548
Insurance accruals	2,583	2,283
Property, sales and other taxes	527	158
Auto lease rebate	1,366	1,127
Other	1,921	1,782
 Total	 \$ 15,906	 \$ 16,898

**7. INCOME TAXES**

Income tax expense for the years ended May 31, 2007, 2006, and 2005 was as follows (in thousands):

	Twelve Months Ended May 31,		
	2007	2006	2005
Income tax expense attributable to income from continuing operations	\$ 10,618	\$ 6,755	\$ 2,958
Income tax expense attributable to income from discontinued operations		1,410	314
Taxes allocated to stockholders' equity, related to compensation expense recognized for tax purposes in excess of amounts recognized for financial reporting purposes.	(1,326)	(1,462)	(538)
Taxes allocated to stockholders' equity, related to foreign currency translation adjustments	148	114	118
 Total	 \$ 9,440	 \$ 6,817	 \$ 2,852



**Table of Contents**

Income tax expense attributable to income from continuing operations for the years ended May 31, 2007, 2006 and 2005 was as follows (in thousands):

	Current	Deferred	Total
<b>Year ended May 31, 2007:</b>			
U.S. federal	\$ 6,099	\$ 1,900	\$ 7,999
State & local	854	164	1,018
Foreign jurisdictions	1,566	35	1,601
	<b>\$ 8,519</b>	<b>\$ 2,099</b>	<b>\$ 10,618</b>
<b>Year ended May 31, 2006:</b>			
U.S. federal	\$ 4,776	\$ (284)	\$ 4,492
State & local	584	(198)	386
Foreign jurisdictions	1,877		1,877
	<b>\$ 7,237</b>	<b>\$ (482)</b>	<b>\$ 6,755</b>
<b>Year ended May 31, 2005:</b>			
U.S. federal	\$ 1,217	\$ 528	\$ 1,745
State & local	310	122	432
Foreign jurisdictions	727	54	781
	<b>\$ 2,254</b>	<b>\$ 704</b>	<b>\$ 2,958</b>

The components of pre-tax income for the years ended May 31, 2007, 2006 and 2005 were as follows (in thousands):

	2007	2006	2005
Domestic	\$ 21,661	\$ 12,209	\$ 5,664
Foreign	4,472	5,176	1,578
	<b>\$ 26,133</b>	<b>\$ 17,385</b>	<b>\$ 7,242</b>

Income tax expense attributable to income from continuing operations differed from the amounts computed by applying the U.S. Federal income tax rate of 35% (34% for year ended May 31, 2005) to pretax income from continuing operations as a result of the following (in thousands):

	Twelve Months Ended May 31,		
	2007	2006	2005
Income from continuing operations	\$ 26,133	\$ 17,385	\$ 7,242
Computed income taxes at statutory rate	\$ 9,147	\$ 6,085	\$ 2,462
State income taxes, net of federal benefit	719	250	327
Foreign tax differential	35	98	123
Stock options and other	717	322	46
Provision for income tax	<b>\$ 10,618</b>	<b>\$ 6,755</b>	<b>\$ 2,958</b>



**Table of Contents**

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

	May 31,	
	2007	2006
Deferred tax assets:		
Accrued compensation & benefits	\$ 890	\$ 994
Receivables	828	553
Inventory	178	176
Vendor rebates		471
Other	816	234
<b>Total gross deferred tax assets</b>	<b>2,712</b>	<b>2,428</b>
Deferred tax liabilities:		
Property, plant and equipment	(949)	(927)
Goodwill and intangible costs	(1,212)	(716)
Cumulative foreign currency translation gain	(219)	(232)
Unremitted earnings of foreign subsidiaries	(196)	(160)
Prepays and other	(1,844)	(16)
<b>Total gross deferred tax liabilities</b>	<b>(4,420)</b>	<b>(2,051)</b>
<b>Net deferred asset (liability)</b>	<b>\$ (1,708)</b>	<b>\$ 377</b>

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projection for future taxable income over the periods in which the deferred tax assets are deductible, we believe it is more likely than not that we will realize the benefits of these deductible temporary differences and therefore a valuations allowance is not necessary at May 31, 2007.

At May 31, 2007, current income taxes payable includes acquired tax uncertainties of \$2.2 million associated with Cooperheat-MQS's foreign operations. To the extent the uncertainties are ultimately resolved favorably, the resultant reduction of recorded liabilities will be applied to reduce the balance of goodwill attributable to the Cooperheat-MQS acquisition.

**8. LONG-TERM DEBT**

In January 2006, we entered into a three-year enterprise agreement with a vendor for server and desktop volume licensing with software assurance. Financing for the agreement was provided by the vendor under a three year non-interest bearing note (the Software Licensing Note). The Software Licensing Note has been discounted at 7.3%, which was our effective borrowing rate at the time we entered into the agreement, and the discount of \$0.1 million is being amortized to interest expense over the life of agreement.

On May 31, 2007 in anticipation of our acquisition of Aitec (Please see Note 16) we amended and restated our existing banking facility comprised of a term loan and a revolving credit facility. The Credit Facility provides us with a \$120 million revolving line of credit and a \$15 million term loan. The Credit Facility bears interest at a LIBOR based interest rate (currently LIBOR plus 1.5%) and matures in May 2012. At May 31, 2007, there are \$1.3 million of capitalized loan costs which are being amortized over the life of the Credit Facility. The Credit Facility is secured by virtually all of our assets and contains financial covenants and restrictions on the creation of liens on assets, the acquisition or sale of subsidiaries and the incurrence of certain liabilities. At May 31, 2007 we were in compliance with all financial covenants of the Credit Facility.

**Table of Contents**

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 gain 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. Any change in fair value resulting from ineffectiveness, as defined by FASB No. 133, is recognized immediately in earnings.

In May 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 floating rate 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 decreasing 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, therefore, the changes in fair value, to the extent the swap agreement is effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings.

A summary of Long-term debt as of May 31, 2007 and 2006 is as follows (in thousands):

	2007	2006
Credit Facility:		
Revolving loan	\$ 38,015	\$ 25,765
Term loan	15,000	19,000
Software Licensing Note	554	854
Auto loans	67	84
	53,636	45,703
Less current portion	4,862	5,899
Long-term debt, excluding current installments	\$ 48,774	\$ 39,804
Future maturities of long-term debt as of May 31, 2007 are as follows (in thousands):		
2008	\$ 4,862	
2009	6,226	
2010	4,525	
2011	8	
Thereafter	38,015	
	\$ 53,636	

In order to secure our insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. At May 31, 2007, we were contingently liable for outstanding stand-by letters of credit totaling \$4.8 million.

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

We have adopted various stock option plans pursuant to which the Board of Directors may grant stock options to officers and key employees. At May 31, 2007, there were approximately 1.4 million stock options under the plans outstanding to officers, directors and key employees at prices equal to or greater than the market value of the common stock on the date of grant. The exercise price, terms and other conditions applicable to each option granted under our plans are generally determined by the Compensation Committee of the Board of Directors at the time of grant of each option and may vary.

In December 2004, the FASB issued FASB No. 123(R), *Share-Based Payment* ( FASB No. 123(R) ). FASB No. 123(R) requires all companies to expense the fair value of employee stock options and other forms of stock-based compensation. We adopted FASB No. 123(R) effective June 1, 2006, using the modified prospective transition method permitted under this pronouncement. Our cumulative effect of implementing this statement, which consists entirely of a forfeiture adjustment, was immaterial. The application of FASB No. 123(R) had a material impact on the audited consolidated financial statements and basic and diluted earnings per share for 2007 compared to amounts that would have been reported pursuant to our previous accounting treatment. Had compensation cost for all stock options granted prior to June 1, 2006 been determined on a fair value basis consistent with FASB No. 123(R), our net income and basic and diluted earnings per share amounts for the years ended May 31, 2006 and 2005 would have been as follows (in thousands):

	2006	2005
Income from continuing operations, as reported	\$ 10,630	\$ 4,284
Add stock-based employee compensation expense included in reported net income, net of tax	143	189
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(542)	(558)
Pro forma net income from continuing operations	\$ 10,231	\$ 3,915
Earnings per share, as reported basic	\$ 1.26	\$ 0.53
Pro forma earnings per share basic	\$ 1.22	\$ 0.48
Earnings per share, as reported diluted	\$ 1.16	\$ 0.48
Pro forma earnings per share diluted	\$ 1.11	\$ 0.44

Our share-based payments consist of stock options and restricted stock awards. For stock options, we determine the fair value of each stock option at the grant date using a Black-Scholes model, with the following weighted-average assumptions used for grants made during the years ended May 31, 2007, 2006, and 2005:

	2007	2006	2005
Risk free interest rate	4.7%	4.3%	3.1%
Volatility factor of the expected market price of the Company's common stock	39.2%	31.2%	23.6%
Expected dividend yield percentage	0.0%	0.0%	0.0%
Weighted average expected life	6 Yrs	4 Yrs	3 Yrs

We recognize the fair value of our share-based payments over the vesting periods of the awards. The stock options generally have ten year terms and vest and become fully exercisable after a period ranging from three to four years from the date of grant. Shares issued in connection with our stock option grants are issued out of authorized but unissued common stock. The governance of our stock option grants does not directly limit the number of future stock options we may award so long as the total number of shares ultimately issued does not exceed the total number of shares cumulatively authorized, which was 2,350,000 shares at May 31, 2007.

**Table of Contents**

In September 2004, we executed a Restricted Stock Award Agreement with our President and Chief Operating Officer. The agreement awards up to 15,000 shares of restricted stock which may vest upon the achievement of specific financial targets related to earnings before interest and taxes for the fiscal years 2005, 2006 and 2007. As of May 31, 2007, all shares are vested or expected to vest. For restricted stock awards, we consider the fair value to be the closing price of the stock on the grant date.

We granted 276,000, 392,000 and 429,000 stock options during the years ended May 31, 2007, 2006 and 2005, respectively. Compensation expense related to options granted and restricted stock awards totaled \$1.4 million, \$0.2 million and \$0.3 million during the years ended May 31, 2007, 2006 and 2005 respectively. Tax benefits related to stock option exercises were \$0.5 million, \$1.5 million and \$1.3 million for the year ended May 31, 2005, 2006 and 2007, respectively. As of May 31, 2007, \$4.1 million of unrecognized compensation expense related to options granted and restricted stock awarded is expected to be recognized over a remaining weighted-average period of 2 years.

Transactions under all plans are summarized below:

	Twelve Months Ended May 31,					
	2007		2006		2005	
	No. of Options	Weighted Average Price	No. of Options	Weighted Average Price	No. of Options	Weighted Average Price
Shares under option, beginning of year	1,434,000	\$ 12.65	1,494,000	\$ 8.23	1,286,000	\$ 5.06
Changes during the year:						
Granted	276,000	\$ 29.33	392,000	\$ 23.79	429,000	\$ 15.95
Exercised	(287,000)	\$ 5.97	(391,000)	\$ 6.09	(208,000)	\$ 4.40
Canceled	(12,000)	\$ 22.66	(61,000)	\$ 17.62	(13,000)	\$ 10.39
Shares under option, end of year	1,411,000	\$ 17.16	1,434,000	\$ 12.65	1,494,000	\$ 8.23
Exercisable at end of year	877,000	\$ 11.99	842,000	\$ 6.87	992,000	\$ 4.84

For options outstanding at May 31, 2007, the range of exercise prices and remaining contractual lives are as follows:

Range of Prices	No. of Options	Weighted Average Price	Weighted Average Remaining Life (in years)
\$1.94 to \$4.00	248,000	\$ 3.55	2.1
\$4.00 to \$10.00	54,000	\$ 8.61	5.5
\$10.00 to \$16.00	406,000	\$ 13.80	5.6
\$16.00 to \$22.00	322,000	\$ 17.97	7.9
\$22.00 to \$32.00	381,000	\$ 30.15	9.1
	1,411,000	\$ 17.16	6.5

**10. EMPLOYEE BENEFIT PLANS**

Under the Team, Inc. Salary Deferral Plan (the Plan), contributions are made to the Plan by qualified employees at their election and our matching contributions to the Plan are made at specified rates. Our contributions to the Plan in fiscal years 2007, 2006 and 2005, were approximately \$1.2 million, \$1.1 million and \$0.7 million, respectively, and are included in selling, general, and administrative expenses.



**Table of Contents****11. COMMITMENTS AND CONTINGENCIES**

In August 2005, we were served 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 dispute arises out of the sale by Mr. Barker to Mr. Lescroart of stock in Thermal Solutions, Inc. ( TSI ). Subsequently, we acquired all of the outstanding stock of TSI in April 2004 allegedly for a much higher price than Mr. Lescroart paid Mr. Barker in July 2003. Mr. Lescroart is a member of our Board of Directors. The plaintiff claims damages in excess of \$1,000,000. We intend to vigorously defend this action and do not believe that we have any legal liability under the allegations of the suit and, further, we believe that we are entitled to be indemnified from any loss we may incur under the terms of the Stock Purchase Agreement related to the acquisition. We have filed a motion for summary judgment seeking dismissal from the case. The motion is currently pending before the judge.

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.

We also enter into operating leases to obtain equipment for our field operations and administrative functions. Our obligations under non-cancellable operating leases, primarily consisting of facility and auto leases, were approximately \$18.8 million at May 31, 2007 and are as follows (in thousands):

<b>Twelve Months Ended May 31,</b>	<b>Operating Leases</b>
2008	\$ 5,433
2009	3,151
2010	2,283
2011	2,503
2012	1,751
Thereafter	3,672
<b>Total</b>	<b>\$ 18,793</b>

Total rent expense under operating leases, including rental expense under short term leases, was approximately \$12.9 million, \$10.8 million and \$5.6 million in 2007, 2006 and 2005, respectively.

**12. COMMON STOCK**

The following summarizes the activity of common shares outstanding for the years ended May 31, 2007, 2006 and 2005:

	<b>Common Stock Issued</b>	<b>Treasury Stock</b>	<b>Shares Outstanding</b>
Number of shares, May 31, 2004	9,070,250	(1,018,308)	8,051,942
Shares issued for director fees	3,708		3,708
Exercise of stock options	185,784		185,784
Number of shares, May 31, 2005	9,259,742	(1,018,308)	8,241,434
Shares issued for director fees	3,255		3,255
Exercise of stock options	380,960		380,960
Restricted stock grant	15,000		15,000
Number of shares, May 31, 2006	9,658,957	(1,018,308)	8,640,649
Shares issued for director fees	2,394		2,394

Edgar Filing: TEAM INC - Form 10-K

Exercise of stock options	286,868		286,868
Number of shares, May 31, 2007	9,948,219	(1,018,308)	8,929,911

**Table of Contents****13. INDUSTRY SEGMENT INFORMATION**

FASB Statement No. 131, *Disclosure about Segments of an Enterprise and Related Information* ( FASB No. 131 ), requires we disclose certain information about our operating segments where operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments.

Prior to the sale of Climax on November 30, 2005, we operated as two business segments, industrial services and equipment sales and rentals. As a result of the sale of Climax, we now operate in only one segment industrial services. Significant prior acquisitions within the industrial services segment have led to the creation of two divisions. Our TMS division provides the services of leak repair, hot tapping, fugitive emissions control, field machining, technical bolting and field valve repair. Our TCM division provides the services of non-destructive testing and field heat treating.

Revenues from continuing operations and long-lived assets in the United States and other countries are as follows (in thousands):

	<b>Total Revenues</b>	<b>Total Assets</b>
<b>FY 2007</b>		
United States	\$ 276,188	\$ 139,735
Canada	26,142	17,051
Other foreign countries	16,018	14,268
	<b>\$ 318,348</b>	<b>\$ 171,054</b>
<b>FY 2006</b>		
United States	\$ 223,560	\$ 124,135
Canada	21,309	11,339
Other foreign countries	14,969	4,497
	<b>\$ 259,838</b>	<b>\$ 139,971</b>
<b>FY 2005</b>		
United States	\$ 171,897	\$ 130,829
Canada	12,149	8,006
Other foreign countries	8,989	4,491
	<b>\$ 193,035</b>	<b>\$ 143,326</b>

**Table of Contents****14. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)**

The following is a summary of selected quarterly financial data for the years ended May 31, 2007 and 2006 (in thousands, except per share data):

	Fiscal 2007				Total
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	\$ 65,739	\$ 83,185	\$ 73,291	\$ 96,133	\$ 318,348
Operating income	3,702	10,262	5,050	11,323	30,337
Income from continuing operations	1,522	5,467	2,442	6,084	15,515
Income from discontinued operations					
<b>Net income</b>	<b>\$ 1,522</b>	<b>\$ 5,467</b>	<b>\$ 2,442</b>	<b>\$ 6,084</b>	<b>\$ 15,515</b>
Net income per share: Basic					
From continuing operations	\$ 0.18	\$ 0.63	\$ 0.28	\$ 0.68	\$ 1.77
From discontinued operations					
<b>Total</b>	<b>\$ 0.18</b>	<b>\$ 0.63</b>	<b>\$ 0.28</b>	<b>\$ 0.68</b>	<b>\$ 1.77</b>
Net income per share: Diluted					
From continuing operations	\$ 0.16	\$ 0.58	\$ 0.26	\$ 0.63	\$ 1.64
From discontinued operations					
<b>Total</b>	<b>\$ 0.16</b>	<b>\$ 0.58</b>	<b>\$ 0.26</b>	<b>\$ 0.63</b>	<b>\$ 1.64</b>
	Fiscal 2006				Total
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	\$ 54,152	\$ 67,046	\$ 62,630	\$ 76,010	\$ 259,838
Operating income	1,685	7,087	4,830	7,775	21,377
Income from continuing operations	517	3,831	2,279	4,003	10,630
Income (loss) from discontinued operations	32	(26)			6
<b>Net income</b>	<b>\$ 549</b>	<b>\$ 3,805</b>	<b>\$ 2,279</b>	<b>\$ 4,003</b>	<b>\$ 10,636</b>
Net income per share: Basic					
From continuing operations	\$ 0.07	\$ 0.46	\$ 0.27	\$ 0.47	\$ 1.26
From discontinued operations					
<b>Total</b>	<b>\$ 0.07</b>	<b>\$ 0.46</b>	<b>\$ 0.27</b>	<b>\$ 0.47</b>	<b>\$ 1.26</b>
Net income per share: Diluted					
From continuing operations	\$ 0.06	\$ 0.41	\$ 0.25	\$ 0.42	\$ 1.16
From discontinued operations					
<b>Total</b>	<b>\$ 0.06</b>	<b>\$ 0.41</b>	<b>\$ 0.25</b>	<b>\$ 0.42</b>	<b>\$ 1.16</b>



**Table of Contents****15. INVESTIGATION**

In December 2006, our management was alerted that certain false sales entries were made to revenue and accounts receivable at one of our branch locations and, subsequently, our management determined that such entries, totaling \$0.4 million, were indeed made at that branch location in November 2005. In addition, our management became aware of certain instances of the unauthorized use of Company funds for personal expenses at the same branch location. These matters were promptly reported to our audit committee, who initiated an independent investigation into these matters with the assistance of outside counsel and forensic accountants. The independent investigation was concluded in March 2007. In their respective reports to the audit committee, our outside counsel and forensic accountants found no further false sales entries from this branch location. Based upon the findings of the outside counsel and forensic accountants, and our management's internal review of these matters, we have concluded that these matters did not have a material effect on any of our previously issued financial statements and that the wrong doing was limited to a single branch location. We incurred costs with respect to the investigation of approximately \$1 million.

**16. SUBSEQUENT EVENTS**

On June 1, 2007, subsequent to our year end, we acquired all of the stock of Aitec for \$33.8 million, subject to a working capital adjustment. Aitec is a non-destructive testing and inspection services company headquartered near Toronto, Ontario with 13 service locations across Canada. The acquisition will be accounted for using the purchase method of accounting. We are in the early stages of determining the fair values of the assets and liabilities assumed. Information regarding the allocation of the purchase price is set forth below (in thousands):

	<b>(unaudited)</b>
Cash	\$ 443
Accounts receivable	13,062
Inventory	383
Prepays and other current assets	692
Property, plant and equipment	2,631
Unallocated purchase price	22,947
<b>Total assets acquired</b>	<b>40,158</b>
Accounts payable	3,251
Accrued liabilities and other	3,020
Deferred taxes	99
<b>Total liabilities assumed</b>	<b>6,370</b>
<b>Net assets acquired</b>	<b>\$ 33,788</b>

Our unaudited fiscal year 2007 pro-forma consolidated results as if the Aitec acquisition had occurred at the beginning of our fiscal year, are shown below. These results are not necessarily indicative of the results which would actually have occurred if the purchase had taken place at the beginning of the period, nor are they necessarily indicative of future results (in thousands):

	<b>Pro-forma data (unaudited) Twelve months ended May 31, 2007</b>
Revenues	\$ 365,424
Net income	\$ 16,872

On July 25, 2007, subsequent to year end, our Board of Directors approved a two-for-one stock split in the form of a 100% stock dividend payable on August 29, 2007 to all shareholders of record on August 15, 2007. This action will double the total number of common shares outstanding to nearly 18 million shares.



**Table of Contents**

**3. Exhibits**

**Exhibit  
Number**

- 3.1 Second Restated Articles of Incorporation of the Company, as amended through August 31, 1999, (filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the year ended May 31, 1999).
- 3.2 Bylaws of the Company (filed as Exhibit 4.2 to the Company's Registration Statement on Form S-2, File No. 33-31663).
- 4.1 Certificate representing shares of common stock of Company (filed as Exhibit 4(1) to the Company's Registration Statement on Form S-1, File No. 2-68928).
- 10.1 Team, Inc. Salary Deferral Plan (filed as Exhibit 99(a) to the Company's Registration Statement on form S-8, File No. 333-74062).
- 10.2 Team, Inc. Restated Non-Employee Directors' Stock Option Plan as amended through June 24, 2004 (filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended May 31, 2004).
- 10.3 Standard Restricted Stock Option Award Agreement by and between Philip J. Hawk and Team, Inc. dated November 2, 1998 (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1998).
- 10.4 First Amendment to Price Vested Restricted Stock Option Award Agreement by and between Philip J. Hawk and Team, Inc. dated October 1, 2001 (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2002).
- 10.5 Second Amendment dated July 11, 2002 to Price Vested Restricted Stock Option Award Agreement by and between Philip J. Hawk and Team, Inc (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended May 31, 2002).
- 10.6 1998 Incentive Stock Option Plan dated January 29, 1998 as amended through June 24, 2004 (filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended May 31, 2004).
- 10.7 Stock Purchase Agreement dated as of April 1, 2004, by and among Team, Inc., Team Industrial Services, Inc. (Team Industrial), Thermal Solutions, Inc. (TSI), the TSI shareholders named therein and Michael J. Urban as the shareholder representative (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed April 16, 2004).
- 10.8 Escrow Agreement dated April 15, 2004 by and among Team, Inc., Team Industrial, TSI, the TSI shareholders named therein, Michael J. Urban as the shareholder representative and Compass Bank (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 16, 2004).
- 10.9 Asset Purchase Agreement dated July 16, 2004 by and among International Industrial Services, Inc., Cooperheat-MQS, Inc., Team Acquisition Corp. and Team, Inc. (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed, dated July 16, 2004, filed July 20, 2004).
- 10.10 Credit Agreement dated August 11, 2004 among Team, Inc., each lender from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 12, 2004).
- 10.11 Team, Inc. 2004 Restricted Stock Option and Award Plan dated June 24, 2004 (filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended May 31, 2004).
- 10.12 Consulting agreement between Team, Inc. and Emmett J. Lescroart dated July 30, 2004 (filed as Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended May 31, 2004).



**Table of Contents**

**Exhibit  
Number**

- 10.13 Restricted Stock Award Agreement by and between Kenneth M. Tholan and Team, Inc. dated September 23, 2004. (filed as Exhibit 10.1 to the Company Quarterly Report on Form 10-Q for the quarter ended February 28, 2005).
- 10.14 Employment Agreement by and between Philip J. Hawk and Team, Inc. dated January 31, 2005. (filed as Exhibit 10.2 to the Company Quarterly Report on Form 10-Q for the quarter ended February 28, 2005).
- 10.15 Amendment to Credit Agreement dated April 12, 2005 among Team, Inc., Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the Lenders party thereto. (filed as Exhibit 10.3 to the Company Quarterly Report on Form 10-Q for the quarter ended February 28, 2005).
- 10.16 Stock Purchase Agreement by and among Climax Technologies, Inc., Team Investment, Inc., Team, Inc. and Climax Portable Machine Tools, Inc. dated November 30, 2005 (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed December 6, 2005).
- 10.17 First Amendment to Credit Agreement dated October 5, 2005, among Team, Inc., Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the Lenders party thereto (filed as Exhibit 10.1. to the Company's Current Report on Form 8-K filed December 6, 2005).
- 10.18 Second Amendment to Credit Agreement dated November 15, 2005, among Team, Inc., Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the Lenders party thereto (filed as Exhibit 10.2. to the Company's Current Report on Form 8-K filed December 6, 2005).
- 10.19 Cancellation Agreement Philip J. Hawk Employment Agreement with Team, Inc. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter ended February 28, 2007).
- 10.20 Team, Inc. 2006 Stock Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 3, 2006).
- 10.21 Share Purchase Agreement dated May 13, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 17, 2007).
- 10.22 Amended and Restated Credit Agreement dated as of May 31, 2007 among Team, Inc. as the Borrower, Bank of America, NA, as Administrative Agent, Saving Line Lender and L/C Issuer, and other Lenders Party thereto (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 6, 2007).
- 14.1 Code of Ethics (filed as Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended May 31, 2003).
- 21 Subsidiaries of the Company.
- 23.1 Consent of Independent Registered Public Accounting Firm KPMG LLP
- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

---

Management contract or compensation plan or arrangement.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized August 13, 2007.

TEAM, INC.

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

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

/s/ PHILIP J. HAWK  (Philip J. Hawk)	Chief Executive Officer and Director	August 13, 2007
/s/ VINCENT D. FOSTER  (Vincent D. Foster)	Director	August 13, 2007
/s/ JACK M. JOHNSON, JR.  (Jack M. Johnson, Jr.)	Director	August 13, 2007
/s/ EMMETT J. LESCROART  (Emmett J. Lescroart)	Director	August 13, 2007
/s/ ROBERT A. PEISER  (Robert A. Peiser)	Director	August 13, 2007
/s/ LOUIS A. WATERS  (Louis A. Waters)	Director	August 13, 2007
/s/ SIDNEY B. WILLIAMS  (Sidney B. Williams)	Director	August 13, 2007
/s/ TED W. OWEN  (Ted W. Owen)	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	August 13, 2007