

TEAM INC
Form 10-Q
October 09, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended August 31, 2009

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)

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Texas
(State or other jurisdiction of

74-1765729
(I.R.S. Employer

incorporation or organization)

Identification Number)

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

77511
(Zip Code)

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

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

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

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

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

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

On October 5, 2009 there were 18,894,037 shares of the Registrant's common stock outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
TEAM, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS****(in thousands except share and per share data)**

	August 31, 2009 (unaudited)	May 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 13,641	\$ 12,632
Receivables, net of allowance of \$3,952 and \$3,662	96,807	114,279
Inventory	19,919	19,647
Income tax receivable	1,760	1,461
Deferred income taxes	946	944
Prepaid expenses and other current assets	7,200	7,674
Total Current Assets	140,273	156,637
Property, plant and equipment, net	58,658	59,582
Intangible assets, net of accumulated amortization of \$1,794 and \$1,734	819	953
Goodwill	56,642	56,453
Other assets, net	2,651	2,296
Total Assets	\$ 259,043	\$ 275,921
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 3,317	\$ 4,813
Accounts payable	12,137	14,928
Other accrued liabilities	21,394	23,102
Insurance note payable	2,902	3,949
Total Current Liabilities	39,750	46,792
Deferred income taxes	6,379	5,939
Long-term debt	63,396	76,689
Total Liabilities	109,525	129,420
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, 500,000 shares authorized, none issued		
Common stock, par value \$.30 per share, 30,000,000 shares authorized; 18,889,037 and 18,836,709 shares issued	5,666	5,651
Additional paid-in capital	64,722	63,125
Retained earnings	81,403	80,278
Accumulated other comprehensive income (loss)	(2,273)	(2,553)
Total Stockholders' Equity	149,518	146,501

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Total Liabilities and Stockholders	Equity	\$	259,043	\$	275,921
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See notes to unaudited consolidated condensed financial statements.

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	Three Months Ended August 31,	
	2009	2008
	(unaudited)	(unaudited)
Revenues	\$ 100,937	\$ 123,338
Operating expenses	71,503	84,229
Gross margin	29,434	39,109
Selling, general and administrative expenses	27,029	29,658
Earnings from unconsolidated affiliates	259	264
Operating income	2,664	9,715
Interest expense, net	805	1,447
Earnings before income taxes	1,859	8,268
Provision for income taxes	734	3,311
Net income	\$ 1,125	\$ 4,957
Net income per share: Basic	\$ 0.06	\$ 0.27
Net income per share: Diluted	\$ 0.06	\$ 0.25
Weighted average shares outstanding		
Basic	18,857	18,684
Diluted	19,403	19,907

See notes to unaudited consolidated condensed financial statements.

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TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended August 31,	
	2009 (unaudited)	2008 (unaudited)
Net income	\$ 1,125	\$ 4,957
Foreign currency translation adjustment	288	(6,111)
Interest rate swap	228	
Foreign currency hedge	(278)	1,318
Tax provision	45	1,842
Comprehensive income	\$ 1,408	\$ 2,006

See notes to unaudited consolidated condensed financial statements.

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

	Three Months Ended August 31,	
	2009 (unaudited)	2008 (unaudited)
Cash Flows From Operating Activities:		
Net income	\$ 1,125	\$ 4,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from unconsolidated affiliates	(259)	(264)
Depreciation and amortization	2,951	2,913
Amortization of deferred loan costs	78	72
Deferred income taxes	344	(778)
Non-cash compensation cost	1,211	1,008
Changes in assets and liabilities, net of effects from business acquisitions:		
(Increase) decrease:		
Accounts receivable	17,453	5,438
Inventory	(248)	(2,196)
Prepaid expenses and other current assets	488	740
Increase (decrease):		
Accounts payable	(2,808)	(4,867)
Other accrued liabilities	(1,816)	(3,456)
Income taxes payable	(227)	(408)
Net cash provided by operating activities	18,292	3,159
Cash Flows From Investing Activities:		
Capital expenditures	(1,877)	(4,301)
Proceeds from sale of assets		18
Increase in other assets, net	(78)	(1,500)
Net cash used in investing activities	(1,955)	(5,783)
Cash Flows From Financing Activities:		
Borrowings (payments) under revolving credit agreement	(13,010)	4,742
Payments related to term loans	(1,500)	(1,584)
Tax benefit of stock option exercises	253	1,953
Insurance note payments	(1,060)	(925)
Proceeds from note receivable		111
Loan financing fees		(36)
Issuance of common stock	260	1,498
Net cash provided by (used in) financing activities	(15,057)	5,759
Effect of exchange rate changes on cash	(271)	(1,281)
Net increase in cash and cash equivalents	1,009	1,854
Cash and cash equivalents at beginning of period	12,632	6,600
Cash and cash equivalents at end of period	\$ 13,641	\$ 8,454

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See notes to unaudited consolidated condensed financial statements.

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TEAM, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED

FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

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

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

leak repair,

hot tapping,

fugitive emissions control,

field machining,

technical bolting,

field valve repair,

non-destructive testing, and

field heat treating.

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

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, steel industries municipalities, shipbuilding, OEMs, distributors and end users and some of the world's largest engineering and construction firms. Our products and services are provided across a broad geographic reach.

Basis for Presentation. These interim financial statements are unaudited, but in the opinion of our management, reflect all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of results for such periods. The consolidated condensed balance sheet at May 31, 2009 is derived from the May 31, 2009 audited consolidated financial statements. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial

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statements and notes thereto contained in our annual report on Form 10-K for the fiscal year ended May 31, 2009.

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

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

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