

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 February 28, 1995

OR

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

For the transition period _____ to _____

Commission file number 1-8604

TEAM, INC.

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction
of incorporation or organization)

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

1001 Fannin, Suite 4656, Houston, Texas 77002
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (713) 659-3600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes /X/

No

On March 31, 1995, there were 5,159,842 shares of the Registrant's common stock outstanding.

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ITEM 1. FINANCIAL STATEMENTS

TEAM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	February 28, 1995	May 31, 1994
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,314,000	\$ 3,742,000
Accounts receivable, net of allowance for doubtful accounts of \$531,000 and \$285,000	10,760,000	12,662,000
Materials and supplies	7,294,000	8,308,000
Prepaid expenses and other current assets	1,520,000	1,442,000
	-----	-----
Total current assets	21,888,000	26,154,000
Net Assets of Discontinued Operations	--	6,250,000
Property, Plant and Equipment:		
Land and buildings	7,480,000	7,359,000
Transportation equipment	4,805,000	5,432,000
Other machinery and equipment	12,990,000	13,896,000
	-----	-----
Total	25,275,000	26,687,000
Less accumulated depreciation and amortization	(16,904,000)	(16,638,000)
	-----	-----
Total	8,371,000	10,049,000
Military Housing Projects:		
Restricted cash and other assets	1,793,000	2,852,000
Land and buildings, net of accumulated depreciation of \$4,347,000 and \$1,262,000	42,835,000	45,920,000
	-----	-----
Total	44,628,000	48,772,000
Goodwill, Net of Amortization	5,774,000	6,023,000
Other Assets	4,953,000	5,905,000
	-----	-----
Total Assets	\$ 85,614,000	\$103,153,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 5,754,000	\$ 3,903,000
Accounts payable	2,916,000	3,800,000
Other accrued liabilities	4,212,000	4,757,000
Current income tax payable	--	895,000
	-----	-----
Total Current Liabilities	12,882,000	13,355,000
Deferred Income Taxes Payable	--	346,000
Long-term Debt	12,182,000	21,001,000
Military Housing Projects' Non-recourse Obligations:		
Debt	39,722,000	40,603,000
Other	768,000	1,551,000
	-----	-----
Total	40,490,000	42,154,000
Stockholders' Equity:		
Preferred stock, cumulative, par value \$100 per share, 500,000 shares authorized, none issued	--	--
Common stock, par value \$.30 per share, 10,000,000 shares authorized, 5,169,542 shares issued	1,551,000	1,551,000
Additional paid-in capital	24,992,000	24,992,000
Accumulated deficit	(6,386,000)	(149,000)
Treasury stock at cost, 9,700 shares	(97,000)	(97,000)
	-----	-----
Total Stockholders' Equity	20,060,000	26,297,000
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 85,614,000	\$103,153,000
	=====	=====

See notes to consolidated financial statements

TEAM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	February 28, 1995	February 28, 1994	February 28, 1995	February 28, 1994
Revenues:				
Operating revenue	\$15,397,000	\$16,881,000	\$45,278,000	\$51,012,000
Military Housing Project lease revenue	1,250,000	1,183,000	3,660,000	3,036,000
	<u>16,647,000</u>	<u>18,064,000</u>	<u>48,938,000</u>	<u>54,048,000</u>
Operating costs and expenses:				
Operating expenses	8,469,000	8,993,000	25,169,000	27,432,000
Selling, general and administrative expenses	5,975,000	6,748,000	19,045,000	20,359,000
Interest	410,000	430,000	1,261,000	1,279,000
Writedown of assets	--	--	1,971,000	--
	<u>14,854,000</u>	<u>16,171,000</u>	<u>47,446,000</u>	<u>49,070,000</u>
Military Housing Project Costs and Expenses:				
Operating expenses	566,000	350,000	1,517,000	867,000
General and administrative expenses	329,000	89,000	1,081,000	110,000
Interest	849,000	866,000	2,561,000	2,210,000
Writedown of assets	--	--	4,832,000	--
	<u>1,744,000</u>	<u>1,305,000</u>	<u>9,991,000</u>	<u>3,187,000</u>
Earnings (loss) from continuing operations before income taxes	49,000	588,000	(8,499,000)	1,791,000
Provision (benefit) for income taxes	9,000	284,000	(2,719,000)	862,000
	<u>40,000</u>	<u>304,000</u>	<u>(5,780,000)</u>	<u>929,000</u>
Earnings (loss) from continuing operations net of income taxes	40,000	304,000	(5,780,000)	929,000
Change in estimated loss on sale of discontinued operations, net of income taxes	--	--	(457,000)	--
	<u>\$ 40,000</u>	<u>\$ 304,000</u>	<u>\$(6,237,000)</u>	<u>\$ 929,000</u>
Net earnings (loss) per common share:				
Earnings (loss) from continuing operations	\$ 0.01	\$ 0.06	\$ (1.12)	\$ 0.18
Change in estimated loss on sale of discontinued operations	--	--	(0.09)	--
	<u>\$ 0.01</u>	<u>\$ 0.06</u>	<u>\$(1.21)</u>	<u>\$ 0.18</u>
Weighted number of shares outstanding	5,160,000	5,161,000	5,160,000	5,161,000

See notes to consolidated financial statements

TEAM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	February 28, 1995	February 28, 1994
	-----	-----
Cash Flows From Operating Activities:		
Earnings (loss) from continuing operations, net of income taxes	\$(5,780,000)	\$ 929,000
Adjustments to reconcile earnings (loss) from continuing operations, net of income taxes, to net cash provided by operating activities:		
Depreciation and amortization	3,540,000	3,249,000
Provision for doubtful accounts and notes receivable	441,000	642,000
Gain on sale of assets	(14,000)	(2,000)
Writedown of assets	6,803,000	--
Noncurrent deferred income taxes	(1,798,000)	--
Change in assets and liabilities:		
(Increase) decrease:		
Accounts receivable	1,199,000	(654,000)
Materials and supplies	701,000	657,000
Prepaid expenses and other assets	(528,000)	584,000
Increase (decrease):		
Accounts payable	(884,000)	(1,920,000)
Other accrued liabilities	(1,121,000)	(734,000)
Income taxes payable	(754,000)	532,000
	-----	-----
Net cash provided by operating activities	1,805,000	3,283,000
Cash Flows from Investing Activities:		
Capital expenditures	(344,000)	(1,035,000)
Disposal of property and equipment	42,000	36,000
Cash received on sale of company	4,550,000	--
Decrease (increase) in other assets	327,000	(2,091,000)
Decrease in net assets of discontinued operations	--	2,541,000
Military housing projects' capital expenditures	--	(6,059,000)
Decrease (increase) in military housing projects' restricted cash and other assets	1,059,000	(1,738,000)
	-----	-----
Net cash provided by (used in) investing activities	5,634,000	(8,346,000)
Cash Flows From Financing Activities:		
Payments under debt agreements and capital lease obligations	(7,475,000)	(7,129,000)
Borrowings under debt agreements	272,000	5,929,000
Proceeds from issuance of non-recourse debt	--	10,248,000
Payments on military housing projects' non-recourse debt	(881,000)	(414,000)
Decrease in military housing projects' other non-recourse obligations	(783,000)	(1,124,000)
Redemption of treasury stock	--	8,000
	-----	-----
Net cash provided by (used in) financing activities	(8,867,000)	7,518,000
Net increase (decrease) in cash and cash equivalents	(1,428,000)	2,455,000
Cash and cash equivalents at beginning of year	3,742,000	1,682,000
	-----	-----
Cash and cash equivalents at end of period	\$ 2,314,000	\$ 4,137,000
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest:		
Operating interest	\$ 1,445,000	\$ 1,341,000
Military housing projects	3,433,000	2,816,000
	-----	-----
	\$ 4,878,000	\$ 4,157,000
	=====	=====
Income taxes	\$ 542,000	\$ 168,000
	=====	=====

Supplemental schedule of non-cash financing activities:
During the period, computer hardware and software acquired under capital lease obligations amounted to \$254,000.

TEAM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Method of Presentation

General

The interim financial statements are unaudited but, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's annual report for the fiscal year ended May 31, 1994.

Certain reclassifications have been made to previously reported balances to conform with fiscal 1995 classifications.

2. Dividends

No dividends were paid during the first nine months of fiscal 1995 or 1994. Pursuant to the Company's Credit Agreement, the Company may not pay quarterly dividends without the consent of its senior lender. Future dividend payments will depend upon the Company's financial condition and other relevant matters.

3. Discontinued Operations

As previously reported, in July 1994 Team sold substantially all the assets of Infrastructure Services, Inc. The sale price consisted of \$4,550,000 in cash and a subordinated promissory note in the principal amount of \$1,700,000. This note bears interest at 9 percent per annum payable semi-annually and matures July 2002. A principal payment of \$500,000 is due and payable in August 1997 and principal payments of \$120,000 are due and payable semi-annually thereafter. The assets sold excluded certain real estate previously occupied by Infrastructure Services, Inc., which has been leased to an unrelated third party. The cash proceeds from the sale were used to reduce the Company's term loan with its primary lender. (See Note 4).

4. Debt and Credit Arrangements

Team's credit facility with its primary lender consists of a Term Loan which matures in August 1995 and a revolving line of credit which matures in October 1995. Under the terms of the revolving line of credit, the maturity date can be extended to April 1997, at the Company's option in certain circumstances. The balance due at February 28, 1995 on the Term Loan was \$4,950,000. During the third quarter, the Company and its lender executed a First Amendment and Supplement to Credit Agreement; and Term Note Modification Agreement ("the Amendment"). This Amendment reduced the third quarter payment on the term loan to \$250,000, reduces the fourth quarter payment to

\$500,000 and requires the remainder to be paid in full at the August 1995 maturity date. In addition, certain financial covenants contained in the credit agreement were modified. The amount outstanding on the revolving line of credit was \$9,086,000 at February 28, 1995.

5. Legal Proceedings

As previously reported, several lawsuits were filed in fiscal 1994 by subsidiaries of the Company against the general contractor of the military housing projects seeking unquantified damages, including punitive damages and attorneys' and other fees, in connection with the construction of the projects. The general contractor asserted counterclaims to the Company's allegations, requesting damages, including punitive damages and attorneys' and other fees. Subsequent to the end of the quarter, these lawsuits were settled by the Company out of Certificate of Participation proceeds which were previously escrowed by the Company with the Trustee for the Certificate holders.

Also, as previously reported, another subsidiary of the Company was committed, pursuant to an agreement with the United States Army Corps of Engineers (the "Corps"), to construct a fourth, 200 unit Federal housing project near the Ft. Stewart Military Reservation located in Hinesville, Georgia. Construction of this project never commenced as a result of extensive delays in obtaining easements, licenses and permits necessary in order to develop the project. In fiscal 1993, the Company filed a Claim and Request for Change Order with the Corps for additional costs and expenses incurred as a result of these delays, which is presently being appealed. During fiscal 1994, the Corps terminated the Agreement, thereby cancelling the project. The Company has separately appealed the Corps' decision to terminate the Agreement. At this time, the Company cannot predict the final outcome of its appeal of the Corps' decision to cancel the project or of its claim for additional costs and expenses.

6. Writedown of Assets

The loss from continuing operations for the nine months included second quarter pre-tax charges of \$6.8 million primarily representing writedowns in the carrying value of certain of the Company's assets. The charge included provisions of approximately \$4.8 million to reduce the carrying value of the military housing projects and related deferred expenses. In addition, the Company booked pre-tax charges of approximately \$2.0 million to write down the value of certain assets and to record provisions for certain deferred charges and accounts receivable losses. The Company also increased estimated losses on the sale of its discontinued operations by \$457,000, net of income taxes.

7. Other

The Company's management is presently pursuing negotiations to sell its transportation and military housing business segments. Should such a sale be consummated, the operations of these business segments will be accounted for as discontinued operations.

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

The following table sets forth for the periods indicated (i) the percentage which certain items in the financial statements of the Company bear to revenues and (ii) the percentage change in the dollar amount of such items from period to period:

	Percentage of Revenue				Increase/(Decrease)	
	Three Months Ended February 28,		Nine Months Ended February 28,		Three Months Ended	Nine Months Ended
	1995	1994	1995	1994	2/28/95	2/28/95
Revenues:						
Core businesses	92.5%	93.5%	92.5%	94.4%	(8.8)%	(11.2)%
Military housing project lease revenue	7.5	6.5	7.5	5.6	5.7	20.6
Total Revenue	100.0%	100.0%	100.0%	100.0%	7.8	9.5
Core Business Costs and Expenses:						
Operating expenses	50.9	49.8	51.5	50.7	(5.8)	(8.2)
SG&A expenses	35.9	37.3	38.9	37.7	(11.5)	(6.5)
Interest	2.4	2.4	2.6	2.4	4.7	(1.4)
Writedown of assets	0.0	0.0	4.0	0.0	N/M	N/M
	89.2	89.5	97.0	90.8	(8.1)	(3.3)
Military Housing Projects:						
Operating expenses	3.4	1.9	3.1	1.6	61.7	75.0
G&A expenses	2.0	0.5	2.2	0.2	269.7	882.7
Interest	5.1	4.8	5.2	4.1	2.0	15.9
Writedown of assets	--	0.0	9.9	0.0	N/M	N/M
	10.5	7.2	20.4	5.9	33.6	213.5
Earnings (loss) from continuing operations before income taxes	0.3	3.3	(17.4)	3.3	(91.7)	N/M
Provision (benefit) for income taxes	0.1	1.6	(5.6)	1.6	(96.8)	N/M
Earnings (loss) from continuing operations net of income taxes	0.2%	1.7%	(11.8)%	1.7%	(86.8)%	N/M

Note: Amounts designated as "N/M" are not meaningful due to the change from earnings in 1994 periods to losses in 1995 period.

The Company's core businesses include its Environmental Services, comprised of leak repair, emissions monitoring and environmental engineering and consulting services, and its Transportation Services, which include transportation, hauling and rental of tanks for the oil and gas production industry.

Results of Operations

Three Months Ended February 28, 1995 Compared
to Three Months Ended February 28, 1994

Core Business: Revenues for the three months ended February 28, 1995 totaled \$15.4 million, a decrease of 9% from revenues of \$16.9 million reported for the same period of 1994. Environmental services revenues were \$13.1 million in the three months ended February 28, 1995, compared to revenues of \$14.2 in the comparable period last year. Lower maintenance spending by industrial customers and unseasonably warm weather during the winter months of 1994/5 reduced demand for the Company's leak sealing services during the fiscal third quarter. In addition, lower revenues in emissions monitoring and engineering consulting services resulted from increased competition and certain of the Company's customers implementing internal environmental reporting. Transportation services revenues of \$2.3 million were \$427,000, or 16%, less than revenues of \$2.7 million in the same period last year, due to lower drilling activity in South Texas, which was affected by lower prices for natural gas.

During the three month period ending February 28, 1995, operating expenses in the Company's environmental and transportation services segments decreased by \$524,000, or 6%, from the same period last year. Gross profit margins of 45% in the fiscal third quarter were slightly lower than gross margins of 47% in the third quarter of last year. Selling, general and administrative expenses in the Company's core businesses were \$6.0 million, a decrease of 11%, or \$773,000, from the prior year period. Lower personnel expenses and reduced insurance costs accounted for most of the reduction in selling, general and administrative expenses. Net interest expenses of \$410,000 in the Company's primary operations decreased by 5% from the prior year period due to lower average borrowings, somewhat offset by increased interest rates.

For the three months ending February 28, 1995, operating income in the Company's core businesses was \$543,000, compared to operating income of \$710,000 in the prior year period.

Military Housing Projects: Rental revenues from the three military housing projects owned by the Company were \$1,250,000 in the three month period ending February 28, 1995, compared to revenues of \$1,183,000 in the prior year period. Rental revenues are sufficient to cover debt payments, property taxes and insurance related to the three properties. General and administrative expenses were \$329,000 in the three month period ending February 28, 1995, an increase of \$240,000 from the prior year, primarily as a result of higher legal fees incurred in litigation with the general contractor on the projects. The Company reached a settlement with the general contractor in March 1995, which will not have a material impact on the Company's financial results. (See Note 5, "Notes

to Consolidated Financial Statements"). For the third quarter of fiscal 1995, the military housing projects incurred a loss before income taxes of \$494,000, compared to a loss before income taxes of \$122,000 in the same period last year.

For the three-month period ended February 28, 1995, total net earnings from continuing operations were \$40,000, compared to net earnings of \$304,000 in the prior year.

Nine Months Ended February 28, 1995 Compared
To Nine Months Ended February 28, 1994

Core Business: For the first nine months of fiscal 1995, revenues from the Company's core businesses were \$45.3 million, \$5.7 million, or 11%, lower than revenues of \$51 million in the comparable period last year. Reduced demand for leak sealing maintenance and engineering consulting services accounted for \$4.4 million of the decline in revenues. In Transportation services, revenues for the first nine months of fiscal 1995 were \$6.6 million, 17% lower than revenues of \$8 million in the prior year period, due primarily to reduced drilling activity in the South Texas market area.

Operating expenses in the nine months ended February 28, 1995 were \$25.2 million, 8% lower than operating expenses in the same period last year. The Company has reduced costs as revenues have declined; however such decreases have not fully offset the decline in revenues due to competitive pressures. Selling, general and administrative expenses were \$19.0 million in the first nine months of fiscal 1995, \$1.3 million lower than in the prior year. Management expects continued reductions in fixed costs as it restructures operations to reflect the reduced level of business activity.

Including the effect of the \$2.0 million write down of assets and other one-time charges recorded in the fiscal second quarter ending November 30, 1994, the loss before taxes in the Company's core business was \$2.2 million, compared to pre-tax earnings of \$1.9 million in the first nine months of fiscal 1994.

Military Housing Projects: For the nine months ended February 28, 1995, rental revenues were \$3.7 million, \$624,000 higher than rentals in the prior year when rentals were recorded for less than the full period, due to final completion of all of the projects in November 1993. The pre-tax loss, before the provisions for write down of assets, was \$1.5 million in the nine-month period ended February 28, 1995, compared to a loss of \$151,000 in the comparable period in 1994. Higher depreciation expense and increased legal fees accounted for the change. In the second quarter of fiscal year 1995, the Company recorded a \$4.8 million provision in the carrying value of the Military Housing Projects, resulting in a total pre-tax loss of \$6.3 million in the nine-month period ending February 28, 1995.

The net loss from continuing operations for the nine months ended February 28, 1995 was \$5.8 million, compared to net income of \$929,000 last year. Including the net change in the estimate on sale of discontinued operations of \$457,000, recorded in the second quarter of

fiscal 1995, the Company's net loss was \$6.3 million for the nine months ended February 28, 1995.

Liquidity and Capital Resources

At February 28, 1995, the Company's net working capital was \$9.0 million, a decrease of \$3.8 million from May 31, 1994. Cash and cash equivalents were \$2.3 million at February 28, 1995, of which \$1.6 million was held in trust and was not available for use in the Company's operations. The reduction in working capital resulted primarily from lower accounts receivable and inventory, and an increase in the current portion of long-term debt. The reduction in accounts receivable resulted from lower overall business activity and improvement in collection of past-due accounts. Lower inventory levels resulted from efforts to improve inventory utilization and improve cash flow.

Capital expenditures for the nine-month period ended February 28, 1995 were \$344,000, \$691,000 less than capital expenditures in the comparable period of the prior year. Management estimates that capital expenditures for the fiscal year ending May 31, 1995 will be approximately \$500,000, primarily for normal replacement of operating assets. All planned capital expenditures are discretionary and will be made based on the availability of funds.

The Company's current and long-term debt, excluding non-recourse obligations of \$39.7 million of the military housing projects, was \$17.9 million at February 28, 1995, \$7 million less than debt of \$24.9 million at May 31, 1994. Of this amount, \$14 million was owed to the Company's primary bank lender. In February 1995, the Company amended the terms of its credit agreement with its primary bank in order to reduce scheduled principal payments through May 1995 and to amend certain financial covenants incorporated in the credit agreement. The Company was in compliance with the amended credit agreement at February 28, 1995.

In order to meet its financial obligations and to focus its efforts on the Company's environmental maintenance and consulting services, management intends to sell its transportation and military housing businesses. The proceeds of such sales, if completed, will be used to reduce bank debt and increase available working capital. Management is presently negotiating with prospective buyers, although there can be no assurance that any transaction will be completed.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As previously reported, several lawsuits were filed in fiscal 1994 by subsidiaries of the Company against the general contractor of the military housing projects seeking unquantified damages, including punitive damages and attorneys' and other fees, in connection with the construction of the projects. The general contractor asserted counterclaims to the Company's allegations, requesting damages, including punitive damages and attorneys' and other fees. Subsequent to the end of the quarter, these lawsuits were settled by the Company out of Certificate of Participation proceeds which were previously escrowed by the Company with the Trustee for the Certificate holders.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 10.1 First Amendment and Supplement to Credit Agreement; and Term Note Modification Agreement.

(b) Reports on Form 8-K

There were no Form 8-K Reports filed during the quarter ended February 28, 1995.

SIGNATURE

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

TEAM, INC.
(Registrant)

Date: April 7, 1995

/s/ H. WESLEY HALL

H. Wesley Hall, Chairman of the Board,
President and Chief Executive Officer

/s/ JOHN M. SLACK

John M. Slack, Vice President
and Chief Financial Officer

INDEX TO EXHIBITS

- 10.1 First Amendment and Supplement to Credit Agreement; and Term Note Modification Agreement.

FIRST AMENDMENT AND SUPPLEMENT TO CREDIT AGREEMENT; AND
TERM NOTE MODIFICATION AGREEMENT

THIS FIRST AMENDMENT AND SUPPLEMENT TO CREDIT AGREEMENT; AND TERM NOTE MODIFICATION AGREEMENT ("First Amendment") effective as of February 28, 1995 (the "First Amendment Effective Date") is made and entered into by and among TEAM, INC. (the "Borrower"), a Texas corporation, and TEXAS COMMERCE BANK NATIONAL ASSOCIATION, a national banking association (the "Lender").

RECITALS

WHEREAS, the Borrower and the Lender are parties to a Credit Agreement dated as of April 17, 1994 ("the Credit Agreement"); and

WHEREAS, the Borrower and the Lender have agreed, on the terms and conditions herein set forth, to amend certain aspects of the Credit Agreement and to modify the payment terms of the Term Note;

NOW, THEREFORE, IT IS AGREED THAT:

Section 1. Definitions. Terms used herein which are defined in the Credit Agreement shall have the same meanings when used herein unless otherwise provided herein.

Section 2. Amendments to the Credit Agreement. On and after the First Amendment Effective Date, the Credit Agreement shall be amended as follows:

- (a) Section 2.06 Notes. Section 2.06(b) of the Credit Agreement is hereby amended by deleting the first full paragraph thereof and substituting therefore the following paragraph:

"The Loans to be made by the Lender to the Borrower pursuant to Subsection 2.01(c) shall be evidenced by the Term Note, being that certain promissory note of the Borrower dated the Closing Date, in the original principal amount of \$11,500,000, payable to the order of the Lender in six (6) consecutive quarterly installments commencing on March 31, 1994, the first two (2) of which being in the amount of \$750,000 each, the third (3rd) of which being in the amount of \$250,000, the fourth (4th) of which being in the amount of \$250,000, the fifth (5th) of which being in the amount of \$500,000, with the sixth (6th) and final installment being in the amount of \$750,000 together with any unpaid principal balance then owing under the Term Note, being due and payable on the Final Maturity Date. The Term Note shall otherwise be in substantially the form of Exhibit A-2 hereto."

- (b) Section 9.03 Investments, Loans and Advances. Section 9.03 of the Credit Agreement is hereby amended and supplemented as follows:
- (i) Section 9.03(j) is hereby amended by deleting the word "and" from the end thereof;
 - (ii) Section 9.03(k) is hereby amended by deleting the "." from the end thereof and substituting therefor "; and"; and
 - (iii) Section 9.03 is hereby further amended and supplemented to add thereto a new subsection, to be subsection (l), to read in its entirety as follows:

"(l) advances to Portales 801, Inc., Pensacola 801, Inc., Ft. Bragg 801, Inc., and Ft. Stewart 801, Inc. not to exceed \$1,400,000 in the aggregate at any time."
- (c) Section 9.12 Capital Expenditures. Section 9.12 of the Credit Agreement is hereby amended by deleting the amount "\$2,500,000" from the fifth line thereof and substituting therefor "\$1,500,000."
- (d) Section 9.14 Tangible Net Worth. Section 9.14 of the Credit Agreement is hereby amended by deleting the amount "\$20,500,000" from the third line thereof and substituting therefor "\$13,500,000."
- (e) Section 9.15 Funded Debt to Cash Flow. Section 9.15 of the Credit Agreement is hereby amended and supplemented as follows:
- (i) Section 9.15(d) is hereby amended in its entirety as follows:

"(d) For the four fiscal-quarter period ended February 28, 1995, the Borrower will not permit the ratio of (i) Funded Debt to (ii) Cash Flow (for the previous twelve-month period) to be greater than 4.25 to 1.0."
 - (ii) Section 9.15 is hereby further amended and supplemented to add thereto two new subsections, to be subsections (e) and (f), to read in their entirety as follows:

"(e) For the four fiscal-quarter period ended May 31, 1995, the Borrower will not permit the ratio of (i) Funded Debt to (ii) Cash Flow (for the previous twelve-month period) to be greater than 3.75 to 1.0.

(f) For the four fiscal-quarter period ended August 31, 1995, the Borrower will not permit the ratio of (i) Funded Debt to (ii) Cash Flow (for the previous twelve-month period) to be greater than 3.5 to 1.0."

- (f) Section 9.16 Fixed Charge Coverage Ratio. Section 9.16 of the Credit Agreement is hereby amended and supplemented as follows:
- (i) Section 9.16(d) is hereby amended in its entirety as follows:
- "(d) For the four fiscal-quarter period ended on February 28, 1995, the Borrower will not permit the ratio of (i) Cash Flow (for the previous twelve-month period) to (ii) cash payments made for mandatory payments of principal and interest plus capital expenditures plus dividends of the Borrower and its Consolidated Subsidiaries (for the previous twelve-month period) to be less than 0.7 to 1.0."
- (ii) Section 9.16 is hereby further amended and supplemented to add thereto two new subsections, to be subsections (e) and (f), to read in their entirety as follows:
- "(e) For the four fiscal-quarter period ended on May 31, 1995, the Borrower will not permit the ratio of (i) Cash Flow (for the previous twelve-month period) to (ii) cash payments made for mandatory payments of principal and interest plus capital expenditures plus dividends of the Borrower and its Consolidated Subsidiaries (for the previous twelve-month period) to be less than 0.75 to 1.0."
- "(f) For the four fiscal-quarter period ended on August 31, 1995, the Borrower will not permit the ratio of (i) Cash Flow (for the previous twelve-month period) to (ii) cash payments made for mandatory payments of principal and interest plus capital expenditures plus dividends of the Borrower and its Consolidated Subsidiaries (for the previous twelve-month period) to be less than 0.95 to 1.0."
- (g) Section 9.17 Interest Coverage Ratio. Section 9.17 of the Credit Agreement is hereby amended and supplemented as follows:
- (i) Section 9.17(d) is hereby amended in its entirety as follows:
- "(d) For the four fiscal-quarter period ended February 28, 1995, the Borrower will not permit the ratio of (i) Cash Flow (for the previous twelve-month period) to (ii) cash interest payments made by the Borrower and its Consolidated Subsidiaries (for the previous twelve-month period) to be less than 2.5 to 1.0."

- (ii) Section 9.17 is hereby further amended and supplemented to add thereto two new subsections, to be subsections (e) and (f), to read in their entirety as follows:

"(e) For the four fiscal-quarter period ended May 31, 1995, the Borrower will not permit the ratio of (i) Cash Flow (for the previous twelve-month period) to (ii) cash interest payments made by the Borrower and its Consolidated Subsidiaries (for the previous twelve-month period) to be less than 2.75 to 1.0.

"(f) For the four fiscal-quarter period ended August 31, 1995, the Borrower will not permit the ratio of (i) Cash Flow (for the previous twelve-month period) to (ii) cash interest payments made by the Borrower and its Consolidated Subsidiaries (for the previous twelve-month period) to be less than 3.0 to 1.0."

Section 3. Term Note Modification. Notwithstanding anything to the contrary contained in the Term Note or the Credit Agreement, the principal amount of the Term Note shall be due and payable as provided in Section 2.06(b) of the Credit Agreement, as amended and supplemented hereby. Accrued interest at the rate or rates specified or referred to in the Term Note, shall remain due and payable and payable on the dates specified or referred to in the Term Note.

Section 4. Limitations. The amendments set forth herein are limited precisely as written and shall not be deemed to (a) be a consent to, or waiver or modification of, any other term or condition of the Credit Agreement, the Notes or any of the other Security Instruments, or (b) except as expressly set forth herein, prejudice any right or rights which the Lender may now have or may have in the future under or in connection with the Credit Agreement, the Notes, the Security Instruments or any of the other documents referred to therein. Except as expressly supplemented, amended or modified hereby or by express written amendments thereof, the terms and provisions of the Credit Agreement, the Notes, and any other Security Instruments or any other documents or instruments executed in connection with any of the foregoing are and shall remain in full force and effect. In the event of a conflict between this First Amendment and any of the foregoing documents, the terms of this First Amendment shall be controlling.

Section 5. Payment of Expenses. The Borrower agrees, whether or not the transactions hereby contemplated shall be consummated, to reimburse and save the Lender harmless from and against liability for the payment of all reasonable substantiated out-of-pocket costs and expenses arising in connection with the preparation, execution, delivery, amendment, modification, waiver and enforcement of, or the preservation of any rights under this First Amendment, including, without limitation, the reasonable fees and expenses of any local or other counsel for the Lender, and all stamp taxes (including interest and penalties, if any), recording taxes and fees, filing taxes and fees, and other charges which may be payable in respect of, or in respect of any modification of, the Credit Agreement and the other Security Instruments. The provisions of this Section shall survive the termination of the Credit Agreement and the repayment of the Loans.

Section 6. Governing Law. This First Amendment and the rights and obligations of the parties hereunder and under the Credit Agreement shall be construed in accordance with and be governed by the laws of the State of Texas and the United States of America.

Section 7. Descriptive Headings, etc. The descriptive headings of the several Sections of this First Amendment are inserted for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

Section 8. Entire Agreement. This First Amendment and the documents referred to herein represent the entire understanding of the parties hereto regarding the subject matter hereof and supersede all prior and contemporaneous oral and written agreements of the parties hereto with respect to the subject matter hereof, including, without limitation, any commitment letters regarding the transactions contemplated by this First Amendment.

Section 9. Counterparts. This First Amendment may be executed in any number of counterparts and by different parties on separate counterparts and all of such counterparts shall together constitute one and the same instrument.

Section 10. Amended Definitions. As used in the Credit Agreement (including all Exhibits thereto) and all other instruments and documents executed in connection therewith, on and subsequent to the First Amendment Effective Date the term "Agreement" shall mean the Credit Agreement as amended by this First Amendment.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be duly executed and delivered by their respective duly authorized offices as of March 13, 1995, and effective as of the date first above written.

NOTICE PURSUANT TO TEX. BUS. & COMM. CODE Section 26.02

THIS FIRST AMENDMENT AND OTHER LOAN DOCUMENTS EXECUTED BY ANY OF THE PARTIES BEFORE OR SUBSTANTIALLY CONTEMPORANEOUSLY WITH THE EXECUTION HEREOF TOGETHER CONSTITUTE A WRITTEN LOAN AGREEMENT AND REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NOT UNWRITTEN ORAL AGREEMENT BETWEEN THE PARTIES.

TEAM, INC.

By: /s/ JOHN M. SLACK

John M. Slack
Vice President, Chief Financial Officer

TEXAS COMMERCE BANK
NATIONAL ASSOCIATION

By: /s/ C. D. KARGES

C.D. Karges
Senior Vice President

Address for Notices:

712 Main Street
Houston, Texas 77002
Attention: Mr. C.D. Karges

Lending Office for Base Rate and
Eurodollar Loans:

712 Main Street
Houston, Texas 77002
Telecopier No.: (713) 216-6004
Telephone No.: (713) 216-5929
Attention: C.D. Karges

with a copy to:

Loan Agreements
1111 Fannin, 10th Floor
Houston, Texas 77002
Telecopier No.: (713) 750-2951
Telephone No.: (713) 750-2990
Attention: Manager