

TEAM INC
Form 10-Q
January 06, 2012
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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 November 30, 2011

OR

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

Commission File Number 001-08604

TEAM, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of)

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

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Incorporation or Organization)

Identification No.)

200 Hermann Drive, Alvin, Texas
(Address of Principal Executive Offices)

77511
(Zip Code)

(281) 331-6154

(Registrant's Telephone Number, Including Area Code)

None

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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. (Check one):

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

(Do not check if a 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

The Registrant had 19,775,093 shares of common stock, par value \$0.30, outstanding and 89,569 shares of treasury stock as of December 30, 2011.

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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)

| | November 30, 2011 (unaudited) | May 31, 2011 |
|---|----------------------------------|--------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 18,748 | \$ 14,078 |
| Receivables, net of allowance of \$4,719 and \$4,222 | 145,434 | 143,120 |
| Inventory | 22,459 | 21,335 |
| Deferred income taxes | 3,543 | 3,795 |
| Prepaid expenses and other current assets | 6,272 | 7,946 |
| Total Current Assets | 196,456 | 190,274 |
| Property, plant and equipment, net | 61,088 | 58,567 |
| Intangible assets, net of accumulated amortization of \$4,144 and \$3,218 | 15,863 | 14,819 |
| Goodwill | 86,752 | 89,520 |
| Other assets, net | 3,618 | 2,189 |
| Deferred income taxes | 149 | 117 |
| Total Assets | \$ 363,926 | \$ 355,486 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Current portion of long-term debt | \$ 54 | \$ 212 |
| Accounts payable | 17,944 | 24,371 |
| Other accrued liabilities | 33,554 | 32,511 |
| Income taxes payable | 1,963 | 2,641 |
| Deferred income taxes | 24 | 6 |
| Total Current Liabilities | 53,539 | 59,741 |
| Deferred income taxes | 11,386 | 10,431 |
| Long-term debt | 73,566 | 75,868 |
| Total Liabilities | 138,491 | 146,040 |
| Commitments And Contingencies | | |
| Stockholders Equity: | | |
| Preferred stock, 500,000 shares authorized, none issued | | |
| Common stock, par value \$0.30 per share, 30,000,000 shares authorized; 19,765,558 and 19,571,138 shares issued | 5,929 | 5,871 |
| Non-controlling interest | 5,014 | 4,983 |
| Additional paid-in capital | 80,851 | 77,867 |
| Retained earnings | 136,274 | 119,138 |
| Accumulated other comprehensive (loss) income | (1,289) | 2,931 |

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| | | |
|--|----------------|----------------|
| Treasury stock at cost, 89,569 and 89,569 shares | (1,344) | (1,344) |
| Total Stockholders Equity | 225,435 | 209,446 |
| Total Liabilities And Stockholders Equity | \$ 363,926 | \$ 355,486 |

See notes to unaudited consolidated condensed financial statements.

Table of Contents**TEAM, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

(in thousands, except per share data)

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|--|------------------------------------|------------|----------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | \$ 158,273 | \$ 133,131 | \$ 299,366 | \$ 237,642 |
| Operating expenses | 107,827 | 89,387 | 204,473 | 162,352 |
| Gross margin | 50,446 | 43,744 | 94,893 | 75,290 |
| Selling, general and administrative expenses | 33,772 | 30,240 | 66,906 | 55,353 |
| Earnings from unconsolidated affiliates | 406 | 327 | 848 | 635 |
| Operating income | 17,080 | 13,831 | 28,835 | 20,572 |
| Interest expense, net | 567 | 407 | 1,150 | 846 |
| Foreign currency (gain) loss | (107) | 30 | 164 | (11) |
| Earnings before income taxes | 16,620 | 13,394 | 27,521 | 19,737 |
| Provision for income taxes | 6,232 | 5,358 | 10,320 | 7,895 |
| Net income | 10,388 | 8,036 | 17,201 | 11,842 |
| Less: Income (loss) attributable to non-controlling interest | 46 | (25) | 65 | (25) |
| Net income available to team shareholders | \$ 10,342 | \$ 8,061 | \$ 17,136 | \$ 11,867 |
| Net income per share: Basic | \$ 0.53 | \$ 0.42 | \$ 0.88 | \$ 0.62 |
| Net income per share: Diluted | \$ 0.50 | \$ 0.41 | \$ 0.83 | \$ 0.60 |

See notes to unaudited consolidated condensed financial statements.

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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|------------------|-------------------------|------------------|
| | November 30, | | November 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 10,388 | \$ 8,036 | \$ 17,201 | \$ 11,842 |
| Foreign currency translation adjustment | (6,608) | 2,353 | (6,330) | 2,331 |
| Foreign currency hedge | 1,315 | (409) | 1,281 | (935) |
| Tax provision attributable to other comprehensive income | 772 | 855 | 795 | 791 |
| Total comprehensive income | 5,867 | 10,835 | 12,947 | 14,029 |
| Less: Total comprehensive income (loss) attributable to non-controlling interest | 7 | (28) | 31 | (28) |
| Total comprehensive income available to team shareholders | \$ 5,860 | \$ 10,863 | \$ 12,916 | \$ 14,057 |

See notes to unaudited consolidated condensed financial statements.

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

(in thousands)

| | Six Months Ended November 30, | |
|---|--|------------------|
| | 2011 | 2010 |
| Cash Flows From Operating Activities: | | |
| Net Income | \$ 17,201 | \$ 11,842 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Earnings from unconsolidated affiliates | (848) | (635) |
| Depreciation and amortization | 8,335 | 6,445 |
| Amortization of deferred loan costs | 128 | 155 |
| Foreign currency loss (gain) | 164 | (11) |
| Deferred income taxes | 2,029 | (1,297) |
| Non-cash compensation cost | 2,620 | 2,690 |
| (Increase) decrease: | | |
| Receivables | (5,380) | 2,640 |
| Inventory | (1,361) | (747) |
| Prepaid expenses and other current assets | 1,594 | 1,087 |
| Increase (decrease): | | |
| Accounts payable | (6,057) | (2,103) |
| Other accrued liabilities | 1,704 | 1,323 |
| Income taxes | (770) | (1,397) |
| Net Cash Provided By Operating Activities | 19,359 | 19,992 |
| Cash Flows From Investing Activities: | | |
| Capital expenditures | (10,739) | (5,074) |
| Business acquisitions, net of cash acquired | (2,268) | (41,376) |
| Proceeds from sale of assets | 220 | |
| Decrease (increase) in other assets, net | 64 | (82) |
| Net Cash Used In Investing Activities | (12,723) | (46,532) |
| Cash Flows From Financing Activities: | | |
| (Payments) borrowings under revolving credit agreement, net | (861) | 28,700 |
| Payments related to term and auto notes | (179) | (156) |
| Debt issuance costs | (759) | |
| Corporate tax effect from share-based payment arrangements | 609 | 781 |
| Issuance of common stock from share-based payment arrangements | 669 | 520 |
| Payments related to withholding tax for share-based payment arrangements | (853) | (433) |
| Purchase of treasury stock | | (1,344) |
| Net Cash (Used In) Provided By Financing Activities | (1,374) | 28,068 |
| Effect Of Exchange Rate Changes on Cash | (592) | 173 |
| Net Increase In Cash And Cash Equivalents | 4,670 | 1,701 |
| Cash And Cash Equivalents At Beginning Of Period | 14,078 | 12,610 |
| Cash And Cash Equivalents At End Of Period | \$ 18,748 | \$ 14,311 |

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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 Delaware 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. Prior to January 3, 2012 our stock was traded on the NASDAQ Global Select Market (NASDAQ) under the symbol TISI . Beginning January 3, 2012 our stock is now traded on the New York Stock Exchange (NYSE) under the same symbol. 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 complementary services including:

Inspection and Assessment,

Field Heat Treating,

Leak Repair,

Fugitive Emissions Control,

Hot Tapping,

Field Machining,

Technical Bolting, and

Field Valve Repair.

We offer these services in over 100 locations throughout the world. 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 heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, original equipment manufacturers (OEMs), distributors, and some of the world's largest engineering and construction firms. Our services are also 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, 2011 is derived from the May 31, 2011 audited consolidated financial statements. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in our annual report on Form 10-K for the fiscal year ended May 31, 2011.

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Consolidation. The consolidated financial statements include the accounts of Team, Inc. and our majority-owned subsidiaries where we have control over operating and financial policies. Investments in affiliates in which we have the ability to exert significant influence over operating and financial policies, but where we do not control the operating and financial policies, are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation.

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

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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) valuation of tangible and intangible assets and subsequent assessments for possible impairment, (3) the fair value of the non-controlling interest in subsidiaries that are not wholly-owned, (4) estimating various factors used to accrue liabilities for workers compensation, auto, medical and general liability, (5) establishing an allowance for uncollectible accounts receivable, (6) estimating the useful lives of our assets and (7) assessing future tax exposure and the realization of tax assets.

Income Taxes. We follow the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes* (ASC 740), 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 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, share-based compensation and tax planning strategies.

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 banking 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 banking facility.

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

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

Property, Plant and Equipment. Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Leasehold improvements are amortized over the shorter of their respective useful life or the lease term. 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 | 2-12 years |
| Furniture and fixtures | 2-10 years |
| Computers and computer software | 2-5 years |
| Automobiles | 2-5 years |

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Goodwill, Intangible Assets, and Non-controlling Interest. 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 ASC 350, *Intangibles Goodwill and Other* (ASC 350). 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 ASC 350.

We operate in only one segment the industrial services segment (see Note 10). Within the industrial services segment, we are organized as two divisions. Our TCM division provides the services of inspection and assessment and field heat treating. Our TMS division provides the services of leak repair, fugitive emissions control, hot tapping, field machining, technical bolting and field valve repair. Each division has goodwill relating to past acquisitions and we assess goodwill for impairment at the lower TCM and TMS divisional level.

Our annual goodwill impairment test is conducted as of May 31 of each year, which is our fiscal year end. Conducting the impairment test as of May 31 of each fiscal year aligns with our annual budget process which is typically completed during the fourth quarter of each year. In addition, performing our annual goodwill impairment test as of this date allows for a thorough consideration of the valuations of our business units subsequent to the completion of our annual budget process but prior to our financial year end reporting date. The annual impairment test for goodwill is a two-step process that involves comparing the estimated fair value of each business unit to the unit's carrying value, including goodwill. If the fair value of a business unit exceeds its carrying amount, the goodwill of the business unit is not considered impaired; therefore, the second step of the impairment test is unnecessary. If the carrying amount of a business unit exceeds its fair value, we would then perform a second step to the goodwill impairment test to measure the amount of goodwill impairment loss to be recorded. Consistent with prior years, the fair values of reporting units in fiscal years 2011 and 2010 were determined using a method based on discounted cash flow models with estimated cash flows based on internal forecasts of revenues and expenses over a four year period plus a terminal value period (the income approach). The income approach estimates fair value by discounting each reporting unit's estimated future cash flows using a discount rate that approximates both our weighted-average cost of capital and reflects current market conditions.

The fair value derived from the income approach in our most recent test for impairment, in the aggregate, approximated our market capitalization. At May 31, 2011, our market capitalization exceeded the carrying value of our consolidated net assets by approximately \$250 million, or 117%, and the fair value of both our individual reporting units significantly exceeded their respective carrying amounts as of that date. Projected growth rates and other market inputs to our impairment test models, such as the discount rate, are sensitive to the risk of future variances due to market conditions as well as business unit execution risks. Consequently, if future results fall below our forward-looking projections for an extended period of time, the results of future impairment tests could indicate an impairment. Although we believe the cash flow projections in our income approach make reasonable assumptions about our business, a significant increase in competition or reduction in our competitive capabilities could have a significant adverse impact on our ability to retain market share and thus on the projected margins included in the income approach used to value our reporting units. We periodically review our projected growth rates and other market inputs used in our impairment test models as well as changes in our business and other factors that could represent indicators of impairment. Subsequent to our May 31, 2011 annual impairment test, no such indicators of impairment were identified.

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There was \$86.8 million and \$89.5 million of goodwill at November 30, 2011 and May 31, 2011, respectively. A summary of goodwill is as follows (in thousands):

| | Six Months Ended November 30, 2011 | | |
|--|---------------------------------------|--------------|-----------|
| | TCM Division | TMS Division | Total |
| Balance at May 31, 2011 | \$ 76,872 | \$ 12,648 | \$ 89,520 |
| Acquisition and purchase price adjustments | | | |
| Foreign currency adjustments | (1,853) | (915) | (2,768) |
| Balance at November 30, 2011 | \$ 75,019 | \$ 11,733 | \$ 86,752 |

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. We establish an allowance to account for those accounts receivable that will eventually be deemed uncollectible. 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 ASC 450, *Contingencies* (ASC 450), 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 our self-insured retention is currently \$500,000 per occurrence. For general liability claims we have an effective self-insured retention of \$5 million per occurrence. Our historical claims occurring before June 1, 2009 had a lower self-insured retention, typically \$250,000. For medical claims, our self-insured retention is \$150,000 per individual claimant determined on an annual basis. For environmental liability claims, our self-insured retention is \$500,000 per occurrence. We maintain insurance for claims that exceed such self-retention limits. The insurance is subject to terms, conditions, limitations and exclusions that may not fully compensate us for all losses. Our estimates and judgments could change based on new information, changes in laws or regulations, changes in management's plans or intentions, or the outcome of legal proceedings, settlements or other factors. If different estimates and judgments were applied with respect to these matters, it is likely that reserves would be recorded for different amounts.

Revenue Recognition. We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the FASB or the Securities and Exchange Commission (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 November 30, 2011 and May 31, 2011, the amount of earned but unbilled revenue included in accounts receivable was \$15.6 million and \$12.4 million, respectively.

Concentration of Credit Risk. No single customer accounts for more than 10% of consolidated revenues.

Earnings Per Share. Basic earnings per share is computed by dividing net income available to Team shareholders by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share is computed by dividing net income available to Team shareholders, less income or loss for the period attributable to the non-controlling interest, by the sum of, (1) the weighted-average number of shares of common stock, net of treasury stock, outstanding during the period, (2) the dilutive effect of the assumed exercise of share-based compensation using the treasury stock method and (3) the dilutive effect of the assumed conversion of our non-controlling interest to our common stock (see Note 2).

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Amounts used in basic and diluted earnings per share, for the three and six months ended November 30, 2011 and 2010, are as follows (in thousands):

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---|------------------------------------|--------|----------------------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Weighted-average number of basic shares outstanding | 19,591 | 19,035 | 19,549 | 19,003 |
| Stock options, stock units and performance awards | 719 | 676 | 733 | 558 |
| Assumed conversion of non-controlling interest | 238 | 88 | 242 | 44 |
| Total shares and dilutive securities | 20,548 | 19,799 | 20,524 | 19,605 |

There were 730,000 and 810,000 options to purchase shares of common stock outstanding during the three month periods ended November 30, 2011 and 2010 excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares during the periods. There were 689,000 and 794,000 options to purchase shares of common stock outstanding during the six month periods ended November 30, 2011 and 2010 excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares during the periods.

Foreign Currency. For subsidiaries whose functional currency is not the U.S. Dollar, assets and liabilities are translated at period ending rates of exchange and revenues and expenses are translated at period average exchange rates. Translation adjustments for the asset and liability accounts are included as a separate component of accumulated other comprehensive income in stockholders' equity. Foreign currency transaction gains and losses are included in our statement of income. Effective December 1, 2009, we began to account for Venezuela as a highly-inflationary economy and the effect of all subsequent currency fluctuations between the Bolivar and the U.S. Dollar are recorded in our statement of income (see Note 12).

Newly Adopted Accounting Principles

ASC 810. In June 2009, the FASB issued an update to ASC 810, *Consolidations* (ASC 810) which amends the guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under ASC 810. The guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009. The adoption of this pronouncement did not have any impact on our results of operations, financial position or cash flows.

ASC 105. In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles* (ASC 105). ASC 105 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with GAAP. ASC 105 supersedes all previously existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this pronouncement did not have any impact on our results of operations, financial position or cash flows.

2. ACQUISITIONS

On November 3, 2010, we purchased Quest Integrity Group, LLC (Quest), a privately held advanced inspection services and engineering assessment company. We effectively purchased 95% of Quest for a total consideration paid to Quest shareholders of \$41.7 million, consisting of a cash payment of \$39.1 million and the issuance of our restricted common stock with a fair value of \$2.6 million (approximately 186,000 shares). Additionally, we also assumed debt, net of cash on hand, with a value of \$2.3 million. We repaid the debt upon consummation of the purchase. In connection with this transaction, we borrowed \$41.4 million under our

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banking credit facility (our Credit Facility) which was used to fund the cash portion of the purchase price, including the retirement of Quest debt. We expect to purchase the remaining 5% in fiscal year 2015 for a purchase consideration based upon the future financial performance of Quest as defined in the purchase agreement. Future consideration would be payable in unregistered shares of our common stock for an aggregate value of no less than \$2.4 million, provided the aggregate value of the consideration does not exceed 20% of our outstanding common stock. Our valuation of the remaining 5% equity of Quest at the date of acquisition was \$4.9 million, which is reflected in the shareholders' equity section of the Consolidated Balance Sheet as Non-controlling interest.

Headquartered near Seattle, Washington, Quest has leading technical capabilities related to the measurement and assessment of facility and pipeline mechanical integrity. Quest has developed several proprietary tools for advanced tube and pipeline inspection and measurement. Supporting and augmenting these proprietary inspection tools, Quest has an advanced technical team that provides specialized engineering assessments of facility conditions and serviceability. Quest maintains operations in Seattle, Boulder, and New Zealand, and has service locations in Houston, Calgary, Australia, The Netherlands, and the Middle East. The results of Quest will be reflected in our TCM division.

We obtained independent valuations of the tangible and intangible asset values of Quest, and the resulting residual goodwill. As a result of the independent valuations, a significant portion of the purchase price was determined to be attributable to amortizable intangible assets. Intangible assets are amortized over their useful lives which range from 5 to 20 years. Accordingly, we have included \$0.5 million and \$0.9 million of amortization expense for the three and six months ended November 30, 2011 in our results of operations to reflect accumulated amortization of intangible assets. Information regarding the allocation of the purchase price is set forth below (in thousands):

| | |
|---|-----------|
| Fair value allocation: | |
| Bank debt assumed | \$ 2,276 |
| Cash paid to Quest shareholders | 39,100 |
| Restricted stock issued to Quest shareholders | 2,635 |
| | |
| Total purchase price | 44,011 |
| Fair value of non-controlling interest | 4,917 |
| | |
| Fair value allocation | \$ 48,928 |
| | |
| Net assets acquired: | |
| Receivables | \$ 5,687 |
| Prepaid expenses and other current assets | 505 |
| Property, plant and equipment | 2,966 |
| Other assets | 78 |
| | |
| Assets acquired | 9,236 |
| | |
| Accounts payable | 1,291 |
| Other accrued liabilities | 3,136 |
| | |
| Liabilities assumed | 4,427 |
| | |
| Net assets acquired | \$ 4,809 |
| | |
| Intangible assets: | |
| Customer relationships (6 year life) | \$ 5,623 |
| Non-compete agreements (5 year life) | 394 |
| Trade name (20 year life) | 2,962 |
| Technology (10 year life) | 5,250 |
| Goodwill | 29,890 |
| | |
| Intangible assets | \$ 44,119 |

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Information regarding the change in carrying value of the non-controlling interest is set forth below (in thousands):

| | |
|---|----------|
| Fair value of non-controlling interest at November 3, 2010 | \$ 4,917 |
| Income attributable to non-controlling interest | 104 |
| Other comprehensive loss attributable to non-controlling interest | (7) |
| Carrying value of non-controlling interest at November 30, 2011 | \$ 5,014 |

From time to time we acquire companies that are not significant to our financial statements but are intended to enhance our services or expand our geographic coverage. While not significant, these small acquisitions may result in the creation of intangible assets. We perform preliminary purchase price allocations based on our most current assessments of fair value of the assets acquired and the liabilities assumed. During the process of completing certain post acquisition procedures, including valuation of some intangible assets and other items, finalizing the assessments of fair value may affect the final allocation of the purchase price. As such, the purchase price allocations related to these small acquisitions are subject to change as the procedures are completed.

Included in the intangible assets attributable to our TCM division is \$2.3 million related to a recent acquisition completed during the second quarter of the current fiscal year and is primarily attributable to customer relationships and non-compete agreements. In December 2011, subsequent to the end of our second quarter, we used \$17 million for an acquisition of a mechanical services business. These acquisitions were financed through borrowings on our Credit Facility.

3. RECEIVABLES

A summary of accounts receivable as of November 30, 2011 and May 31, 2011 is as follows (in thousands):

| | November 30, 2011 (unaudited) | May 31, 2011 |
|---------------------------------|----------------------------------|--------------|
| Trade accounts receivable | \$ 134,538 | \$ 134,955 |
| Unbilled revenues | 15,615 | 12,387 |
| Allowance for doubtful accounts | (4,719) | (4,222) |
| Total | \$ 145,434 | \$ 143,120 |

4. INVENTORY

A summary of inventory as of November 30, 2011 and May 31, 2011 is as follows (in thousands):

| | November 30, 2011 (unaudited) | May 31, 2011 |
|------------------|----------------------------------|--------------|
| Raw materials | \$ 3,463 | \$ 3,165 |
| Work in progress | 676 | 722 |
| Finished goods | 18,320 | 17,448 |
| Total | \$ 22,459 | \$ 21,335 |

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

A summary of property, plant and equipment as of November 30, 2011 and May 31, 2011 is as follows (in thousands):

| | November 30, 2011 (unaudited) | May 31, 2011 |
|---|----------------------------------|--------------|
| Land | \$ 5,998 | \$ 6,026 |
| Buildings and leasehold improvements | 9,472 | 9,386 |
| Machinery and equipment | 111,023 | 105,997 |
| Furniture and fixtures | 1,915 | 1,849 |
| Computers and computer software | 7,648 | 7,223 |
| Automobiles | 2,660 | 2,719 |
| Construction in progress | 6,067 | 3,582 |
| Total | 144,783 | 136,782 |
| Accumulated depreciation and amortization | (83,695) | (78,215) |
| Property, plant and equipment, net | \$ 61,088 | \$ 58,567 |

At November 30, 2011, there was \$0.4 million of capitalized interest included in property, plant and equipment attributable to 50 acres purchased in October 2007 to construct future facilities in Houston, Texas. At November 30, 2011, total capitalized cost of the project, inclusive of the capitalized interest, property purchase and related development cost was \$6.8 million. Due to the 2008 economic recession, we postponed construction of the future facilities until such time as economic conditions and our growth necessitate the addition of the new facilities. Starting in the third quarter of fiscal year 2009, we ceased to further capitalize interest until the project resumes.

6. OTHER ACCRUED LIABILITIES

A summary of other accrued liabilities as of November 30, 2011 and May 31, 2011 is as follows (in thousands):

| | November 30, 2011 (unaudited) | May 31, 2011 |
|--|----------------------------------|--------------|
| Payroll and other compensation expenses | \$ 21,496 | \$ 22,600 |
| Insurance accruals | 5,507 | 5,394 |
| Property, sales and other non-income related taxes | 2,555 | 2,024 |
| Auto lease rebate | 6 | 15 |
| Other | 3,990 | 2,478 |
| Total | \$ 33,554 | \$ 32,511 |

7. LONG-TERM DEBT, DERIVATIVES AND LETTERS OF CREDIT

In July 2011, we renewed our Credit Facility with our banking syndicate. The Credit Facility has borrowing capacity of up to \$150 million in multiple currencies, bears interest based on a variable Eurodollar rate option (LIBOR plus 1.75% margin at November 30, 2011) with the margin based on financial covenants set forth in the Credit Facility, and matures in July 2016. In connection with the renewal of the Credit Facility, we capitalized \$0.8 million of associated debt issuance costs which are amortized over the life of the Credit Facility. At November 30, 2011, we were in compliance with all covenants of the Credit Facility.

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A summary of long-term debt as of November 30, 2011 and May 31, 2011 is as follows (in thousands):

| | November 30, 2011 | May 31, 2011 |
|---|-------------------|------------------|
| Revolving loan portion of the Credit Facility | \$ 73,566 | \$ 75,848 |
| Vendor financing and other | 54 | 232 |
| Total | 73,620 | 76,080 |
| Less: current maturities | (54) | (212) |
| Long-term debt, excluding current maturities | \$ 73,566 | \$ 75,868 |

ASC 815, *Derivatives and Hedging* (ASC 815) established accounting and reporting standards requiring that derivative instruments be recorded at fair value and included in the balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception date of a derivative. Special accounting for derivatives qualifying as fair value hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of income. 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. Credit risks related to derivatives include the possibility that the counter-party will not fulfill the terms of the contract. We considered counter-party credit risk to our derivative contracts when valuing our derivative instruments.

The amounts recognized in other comprehensive income, and reclassified into income, for the three and six months ended November 30, 2011 and 2010, are as follows (in thousands):

| | Gain (Loss) Recognized in Other Comprehensive Income Three Months Ended November 30, 2011 2010 | | Gain (Loss) Reclassified from Other Comprehensive Income to Earnings Three Months Ended November 30, 2011 2010 | | Gain (Loss) Recognized in Other Comprehensive Income Six Months Ended November 30, 2011 2010 | | Gain (Loss) Reclassified from Other Comprehensive Income to Earnings Six Months Ended November 30, 2011 2010 | |
|-------|---|----------|---|----|---|----------|---|----|
| | Economic hedge | \$ 1,315 | \$ (409) | \$ | \$ | \$ 1,281 | \$ (935) | \$ |
| Total | \$ 1,315 | \$ (409) | \$ | \$ | \$ 1,281 | \$ (935) | \$ | \$ |

Our borrowing of 12.3 million under the Credit Facility serves as an economic hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate will offset translation gains or losses attributable to our investment in our European operations. At November 30, 2011, the 12.3 million borrowing had a U.S. Dollar value of \$16.4 million.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Any ineffectiveness related to our hedges was not material for any of the periods presented.

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The following table presents the fair value totals and balance sheet classification for derivatives designated as hedges under ASC 815 (in thousands):

| | November 30, 2011 (unaudited) | | | May 31, 2011 | | |
|-------------------|----------------------------------|---------------------------|---------------|----------------|---------------------------|---------------|
| | Classification | Balance Sheet Location | Fair Value | Classification | Balance Sheet Location | Fair Value |
| Economic hedge | Liability | Long-term debt | \$ 1,574 | Liability | Long-term debt | \$ 293 |
| Total derivatives | | | \$ 1,574 | | | \$ 293 |

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. We were contingently liable for outstanding stand-by letters of credit totaling \$13.5 million at November 30, 2011 and \$8.8 million at May 31, 2011. Outstanding letters of credit reduce amounts available under our Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the Credit Facility.

8. FAIR VALUE MEASUREMENTS

Effective June 1, 2008, we adopted the provisions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), which among other things, requires enhanced disclosures about assets and liabilities carried at fair value.

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best information available. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The use of unobservable inputs is intended to allow for fair value determinations in situations in which there is little, if any, market activity for the asset or liability at the measurement date. We are able to classify fair value balances based on the observability of those inputs. ASC 820 establishes a fair value hierarchy such that Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market, Level 2 measurements include quoted market prices for identical assets or liabilities in an active market which have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets, and Level 3 measurements include those that are unobservable and of a highly subjective measure.

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of November 30, 2011. As required by ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

| | November 30, 2011 | | | Total |
|---------------------------------|---|---|---|----------|
| | Quoted Prices in Active Markets for Identical Items (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Euro denominated long-term debt | \$ | \$ 1,574 | \$ | \$ 1,574 |
| Net liabilities | \$ | \$ 1,574 | \$ | \$ 1,574 |

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

We have adopted stock incentive plans and other arrangements pursuant to which our Board of Directors (the Board) may grant stock options, restricted stock, stock units, stock appreciation rights, common stock or performance awards to officers, directors and key employees. At November 30, 2011, there were approximately 2.2 million stock options, restricted stock units and performance awards outstanding to officers, directors and key employees. The exercise price, terms and other conditions applicable to each form of share-based compensation under our plans is generally determined by the Compensation Committee of our Board at the time of grant and may vary.

Our share-based payments consist primarily of stock options, stock units, common stock and performance awards. The governance of our share-based compensation does not directly limit the number of future awards. At our annual shareholders meeting held in September 2011, our shareholders approved an increase to 7,020,000 for the total number of shares cumulatively authorized to be issued under our stock incentive plans. Shares issued in connection with our share-based compensation are issued out of authorized but unissued common stock. Compensation expense related to share-based compensation totaled \$1.5 million, for the three months ended November 30, 2011 and 2010. Compensation expense related to share-based compensation totaled \$2.6 million and \$2.7 million for the six months ended November 30, 2011 and 2010, respectively. The tax benefit related to share-based compensation was \$0.6 million and \$0.8 million for the six months ended November 30, 2011 and 2010, respectively. At November 30, 2011, \$8.5 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 3.0 years.

We determine the fair value of each stock option at the grant date using a Black-Scholes model and recognize the resulting expense of our stock option awards over the period during which an employee is required to provide services in exchange for the awards, usually the vesting period. Compensation expense related to stock options totaled \$0.3 million for the three months ended November 30, 2011 and \$0.6 million for three months ended November 30, 2010. Compensation expense related to stock options totaled \$0.8 million for the six months ended November 30, 2011, and \$1.3 million for the six months ended November 30, 2010. Our options typically vest in equal annual installments over a four year service period. Expense related to an option grant is recognized on a straight line basis over the specified vesting period for those options. Stock options generally have a ten year term. Transactions involving our stock options during the six months ended November 30, 2011 and 2010 are summarized below:

| | Six Months Ended November 30, 2011 | | Six Months Ended November 30, 2010 | |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | No. of Options (in thousands) | Weighted Average Exercise Price | No. of Options (in thousands) | Weighted Average Exercise Price |
| Shares under option, beginning of period | 1,856 | \$ 17.81 | 2,213 | \$ 16.50 |
| Changes during the period: | | | | |
| Granted | | \$ | | \$ |
| Exercised | (89) | \$ 7.53 | (76) | \$ 7.35 |
| Cancelled | (5) | \$ 27.21 | (10) | \$ 30.33 |
| Expired | (9) | \$ 30.33 | (15) | \$ 26.56 |
| Shares under option, end of period | 1,753 | \$ 18.26 | 2,112 | \$ 16.69 |
| Exercisable at end of period | 1,742 | \$ 18.18 | 1,953 | \$ 15.57 |

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Options exercisable at November 30, 2011 had a weighted-average remaining contractual life of 4.5 years. For total options outstanding at November 30, 2011, the range of exercise prices and remaining contractual lives are as follows:

| Range of Prices | No. of Options (in thousands) | Weighted Average Exercise Price | Weighted Average Remaining Life (in years) |
|--------------------|----------------------------------|---------------------------------|---|
| \$0.00 to \$3.21 | | \$ | |
| \$3.22 to \$6.41 | 80 | \$ 4.17 | 1.3 |
| \$6.42 to \$9.62 | 369 | \$ 8.53 | 3.1 |
| \$9.63 to \$12.82 | 169 | \$ 11.19 | 4.2 |
| \$12.83 to \$16.03 | 497 | \$ 14.86 | 4.6 |
| \$16.04 to \$32.05 | 627 | \$ 30.14 | 5.8 |
| | 1,742 | \$ 18.18 | 4.5 |

Performance awards are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each performance award based on the market price on the date of grant. Performance awards granted to our Chairman of our Board vest over the longer of four years or the achievement of performance goals based upon our future results of operations. Transactions involving our performance awards during the six months ended November 30, 2011 and 2010 are summarized below:

| | Six Months Ended November 30, 2011 | | Six Months Ended November 30, 2010 | |
|---|---|-----------------------------|---|-----------------------------|
| | No. of Performance Awards (in thousands) | Weighted Average Fair Value | No. of Performance Awards (in thousands) | Weighted Average Fair Value |
| Performance awards, beginning of period | 61 | \$ 20.33 | 51 | \$ 20.84 |
| Changes during the period: | | | | |
| Granted | 24 | \$ 25.16 | 25 | \$ 20.04 |
| Vested and settled | (20) | \$ 21.14 | (15) | \$ 21.61 |
| Cancelled | | \$ | | \$ |
| Performance awards, end of period | 65 | \$ 21.86 | 61 | \$ 20.33 |

Stock units are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each stock unit based on the market price on the date of grant. Stock units generally vest in annual installments over four years and the expense associated with the units is recognized over the same vesting period. We also grant common stock to our directors which typically vest immediately. Transactions involving our stock units and director stock grants during the six months ended November 30, 2011 and 2010 are summarized below:

| | Six Months Ended November 30, 2011 | | Six Months Ended November 30, 2010 | |
|--|---------------------------------------|-----------------------------|---------------------------------------|-----------------------------|
| | No. of Stock Units (in thousands) | Weighted Average Fair Value | No. of Stock Units (in thousands) | Weighted Average Fair Value |
| Stock and stock units, beginning of period | 310 | \$ 19.80 | 247 | \$ 20.53 |

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Changes during the period:

| | | | | |
|--------------------------------------|-------|----------|------|----------|
| Granted | 140 | \$ 25.16 | 163 | \$ 18.90 |
| Vested and settled | (100) | \$ 20.57 | (93) | \$ 20.20 |
| Cancelled | (3) | \$ 20.96 | (5) | \$ 21.04 |
| Stock and stock units, end of period | 347 | \$ 21.73 | 312 | \$ 19.77 |

Table of Contents**10. ENTITY WIDE DISCLOSURES**

ASC 280, *Segment Reporting* (ASC 280) 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. We operate in only one segment the industrial services segment. Within the industrial services segment, we are organized as two divisions. Our TCM division (inclusive of Quest) provides the services of inspection and assessment and field heat treating. Our TMS division provides the services of leak repair, fugitive emissions control, hot tapping, field machining, technical bolting and field valve repair. Each division has goodwill relating to past acquisitions and we assess goodwill for impairment at the lower TCM and TMS divisional level. Both divisions derive substantially all their revenues from providing specialized labor intensive industrial services and the market for their services is principally dictated by the population of process piping systems in industrial plants and facilities. Services provided by both the TCM and TMS divisions are predominantly provided through a network of field branch locations located in proximity to industrial plants. The structure of those branch locations is similar, with locations overseen by a branch/regional manager, one or more sales representatives and a cadre of technicians to service the business requirements of our customers. Both the TCM and TMS division field locations share the same chief operating decision maker and both divisions are supported by common and often centralized technical and commercial support staffs, quality assurance, training, finance, legal, human resources and health and safety departments.

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

| | Three Months Ended November 30, 2011 (unaudited) | Three Months Ended November 30, 2010 (unaudited) | Six Months Ended November 30, 2011 (unaudited) | Six Months Ended November 30, 2010 (unaudited) |
|-------------------------|--|--|--|--|
| Revenues: | | | | |
| United States | \$ 110,204 | \$ 96,330 | \$ 202,520 | \$ 174,694 |
| Canada | 30,922 | 25,051 | 64,797 | 44,199 |
| Europe | 9,337 | 6,568 | 16,887 | 11,381 |
| Other foreign countries | 7,810 | 5,182 | 15,162 | 7,368 |
| Total | \$ 158,273 | \$ 133,131 | \$ 299,366 | \$ 237,642 |

| | November 30, 2011 (unaudited) | May 31, 2011 |
|-------------------------|----------------------------------|--------------|
| Total assets: | | |
| United States | \$ 253,438 | \$ 243,046 |
| Canada | 59,366 | 64,023 |
| Europe | 31,103 | 31,469 |
| Other foreign countries | 20,019 | 16,948 |
| Total | \$ 363,926 | \$ 355,486 |

11. UNCONSOLIDATED SUBSIDIARIES

Our earnings from unconsolidated affiliates consists entirely of our joint venture (50% ownership) formed in May 2008, to perform non-destructive testing and inspection services in Alaska. The joint venture is an integral part of our operations in Alaska. Our investment in the net assets of the joint venture, accounted for using the equity method of accounting, was \$2.2 million at November 30, 2011 and \$1.4 million at May 31, 2011. Revenues from the joint venture not reflected in our consolidated revenues were \$7.6 million and \$5.5 million for the six months ended November 30, 2011 and 2010, respectively.

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12. VENEZUELA S HIGHLY INFLATIONARY ECONOMY

We operate a small service location in Punta Fijo, Venezuela, whose annual revenues have historically been less than one percent of our consolidated revenues for all periods presented. Because of the uncertain political environment in Venezuela, starting in the third quarter of fiscal year 2010, we began to account for Venezuelan operations pursuant to accounting guidance for designated hyperinflationary economies. Following the designation of the Venezuelan economy as hyperinflationary, we ceased taking the effects of currency fluctuations to accumulated other comprehensive income and began reflecting all effects as a component of other income in our statement of operations. We initially used the parallel exchange rate for Bolivar denominated bonds to translate our Venezuelan operations into U.S. Dollars. This resulted in currency related losses in the third quarter of fiscal year 2010 of \$2.1 million. In May 2010, the Venezuelan government took action to close the parallel exchange rate system, precluding its continued use and we subsequently returned to using the Venezuelan central bank's official published rate (5.30 Bolivars per U.S. Dollar) to translate Venezuelan assets into dollars as no other legal rate was readily available. The exchange rate has remained constant since May 2010. Consequently, we recognized no gains or losses for the six months ended November 30, 2011 related to the Venezuelan currency. Due to the uncertain economic and political environment in Venezuela, it is very difficult to repatriate cash flows of these operations. At November 30, 2011, our Venezuelan subsidiary had \$2.0 million of net assets, consisting primarily of Bolivar denominated receivables and cash equal to \$2.2 million.

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

Overview

The following discussion should be read in conjunction with the unaudited consolidated condensed financial statements and the notes thereto included in Item 1 of this report, and the consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, including Critical Accounting Policies, included in our Annual Report on Form 10-K for the year ended May 31, 2011.

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. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including, but not limited to the statements under Risk Factors. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Differences between actual results and any future performance suggested in these forward-looking statements could result from a variety of factors, including those listed beginning on page 6 of our Annual Report on Form 10-K for the year ended May 31, 2011.

General Description of Business

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

Inspection and Assessment,

Field Heat Treating,

Leak Repair,

Fugitive Emissions Control,

Hot Tapping,

Field Machining,

Technical Bolting, and

Field Valve Repair.

We offer these services in over 100 locations throughout the world. 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 heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, OEMs, distributors, and some of the world's largest engineering and construction firms. Our services are also provided across a broad geographic reach.

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We operate in only one segment the industrial services segment. Within the industrial services segment, we are organized as two divisions. Our TCM division (inclusive of Quest) provides the services of inspection and

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assessment and field heat treating. Our TMS division provides the services of leak repair, fugitive emissions control, hot tapping, field machining, technical bolting and field valve repair. Both divisions derive substantially all their revenues from providing specialized labor intensive industrial services and the market for their services is principally dictated by the population of process piping systems in industrial plants and facilities. Services provided by both the TCM and TMS divisions are predominantly provided through a network of field branch locations located in proximity to industrial plants. The structure of those branch locations is similar, with locations overseen by a branch/regional manager, one or more sales representatives and a cadre of technicians to service the business requirements of our customers.

Three Months Ended November 30, 2011 Compared to Three Months Ended November 30, 2010

Revenues. Our revenues for the three months ended November 30, 2011 were \$158.3 million compared to \$133.1 million for the three months ended November 30, 2010, an increase of \$25.2 million or 19%. Revenues for our TCM division (inclusive of Quest) for the three months ended November 30, 2011 were \$91.0 million compared to \$73.2 million for the three months ended November 30, 2010, an increase of \$17.8 million or 24%. Team's recent acquisition, Quest, contributed \$10.1 million during the three months ended November 30, 2011 compared to \$1.6 million for the three months ended November 30, 2010. (Quest was acquired on November 3, 2010). Organic revenue growth for the TCM division, excluding Quest, was \$9.3 million or 13%. Revenues for our TMS division for the three months ended November 30, 2011 were \$67.3 million compared to \$60.0 million for the three months ended November 30, 2010, an increase of \$7.3 million or 12%. Overall, organic revenue growth was geographically broad based as most regions benefited from new repair and upgrade projects and a return of previously deferred maintenance activities.

Gross Margin. Our gross margin for the three months ended November 30, 2011 was \$50.4 million compared to \$43.7 million for the three months ended November 30, 2010, an increase of \$6.7 million or 15%. Gross margin as a percentage of revenue was 32% for the three months ended November 30, 2011 compared to 33% for the three months ended November 30, 2010. Pricing pressures that negatively impact gross margin as a percentage of revenues were mitigated by demand for value-add technology solutions in our inspection business (part of the TCM division), and volume related leverage in our TMS division where most regions saw a return of previously deferred maintenance activities.

Selling, General And Administrative Expenses. Our SG&A expenses for the three months ended November 30, 2011 were \$33.8 million compared to \$30.2 million for the three months ended November 30, 2010, an increase of \$3.6 million or 12%. The increase in SG&A primarily is related to compensation and insurance related costs supporting organic revenue growth and the addition of Quest. SG&A in the current period includes a non-routine \$0.8 million pre-tax legal settlement related to resolution of a long outstanding personal injury matter, and in the prior year period includes \$0.6 million of non-routine expense related to the Quest acquisition. SG&A expenses as a percentage of revenue, was 21% for the three months ended November 30, 2011 compared to 23% for the three months ended November 30, 2010.

Earnings From Unconsolidated Affiliates. Our earnings from unconsolidated affiliates consists entirely of our joint venture (50% ownership) formed in May 2008, to perform non-destructive testing and inspection services in Alaska. Revenues of the joint venture not reflected in our consolidated revenues for the three months ended November 30, 2011 and 2010 were \$3.6 million and \$2.9 million, respectively. As a result of the higher revenue levels in the joint venture, and leverage of fixed cost of the joint venture, our share of the earnings from the joint venture were \$0.4 million, an increase of \$0.1 million or 33%.

Interest. Interest expense was \$0.6 million for the three months ended November 30, 2011 compared to \$0.4 million for the three months ended November 30, 2010. This increase is the result of higher interest rates applied to increased outstanding borrowings.

Foreign Currency (Gain) Loss. There were \$0.1 million currency transaction gains for the three months ended November 30, 2011 primarily related to fluctuations between the Euro and U.S. Dollar. Foreign currency transaction losses were \$30 thousand for the three months ended November 30, 2010.

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Taxes. The provision for income tax was \$6.2 million on pre-tax income of \$16.6 million for the three months ended November 30, 2011 compared to the provision for income tax which was \$5.4 million on pre-tax income of \$13.4 million for the three months ended November 30, 2010. The effective tax rate for the three months ended November 30, 2011 was 38% compared to 40% for the three months ended November 30, 2010. The decrease in the effective tax rate is primarily due to the realized tax benefits of equity compensation transactions in the current period and a change in the mix of foreign and domestic income. In general, the tax rates applicable to our foreign income are less than domestic tax rates and foreign earnings in the current period were substantially higher than the prior period.

Six Months Ended November 30, 2011 Compared to Six Months Ended November 30, 2010

Revenues. Our revenues for the six months ended November 30, 2011 were \$299.4 million compared to \$237.6 million for the six months ended November 30, 2010, an increase of \$61.8 million or 26%. Revenues for our TCM division (inclusive of Quest) for the six months ended November 30, 2011 were \$168.0 million compared to \$132.5 million for the six months ended November 30, 2010, an increase of \$35.5 million or 26%. Team's recent acquisition, Quest, contributed \$17.5 million during the six months ended November 30, 2011 compared to \$1.6 million for the six months ended November 30, 2010. (Quest was acquired on November 3, 2010). Organic revenue growth for the TCM division, excluding Quest, was \$19.6 million or 15%. Revenues for our TMS division for the six months ended November 30, 2011 were \$131.4 million compared to \$105.1 million for the six months ended November 30, 2010, an increase of \$26.3 million or 25%. Overall, organic revenue growth was geographically broad based as most regions benefited from new repair and upgrade projects and a return of previously deferred maintenance activities.

Gross Margin. Our gross margin for the six months ended November 30, 2011 was \$94.9 million compared to \$75.3 million for the six months ended November 30, 2010, an increase of \$19.6 million or 26%. Gross margin as a percentage of revenue was 32% for the six months ended November 30, 2011 and November 30, 2010. Pricing pressures that negatively impact gross margin as a percentage of revenues were mitigated by demand for value-add technology solutions in our inspection business (part of the TCM division), and volume related leverage in our TMS division where most regions saw a return of previously deferred maintenance activities.

Selling, General And Administrative Expenses. Our SG&A expenses for the six months ended November 30, 2011 were \$66.9 million compared to \$55.4 million for the six months ended November 30, 2010, an increase of \$11.5 million or 21%. The increase in SG&A primarily is related to compensation and insurance related costs supporting organic revenue growth and the addition of Quest. SG&A in the current period includes a non-routine \$0.8 million pre-tax legal settlement related to resolution of a long outstanding personal injury matter, and in the prior year period includes \$0.6 million of non-routine expense related to the Quest acquisition. SG&A expenses as a percentage of revenue, was 22% for the six months ended November 30, 2011 compared to 23% for the six months ended November 30, 2010.

Earnings From Unconsolidated Affiliates. Our earnings from unconsolidated affiliates consists entirely of our joint venture (50% ownership) formed in May 2008, to perform non-destructive testing and inspection services in Alaska. Revenues of the joint venture not reflected in our consolidated revenues for the six months ended November 30, 2011 and 2010 were \$7.6 million and \$5.5 million, respectively. As a result of the higher revenue levels in the joint venture, and leverage of fixed cost of the joint venture, our share of the earnings from the joint venture were \$0.8 million, an increase of \$0.2 million or 33%.

Interest. Interest expense was \$1.2 million for the six months ended November 30, 2011 compared to \$0.8 million for the six months ended November 30, 2010. This increase is the result of higher interest rates applied to increased outstanding borrowings.

Foreign Currency Loss (Gain). There were \$0.2 million currency transaction losses for the six months ended November 30, 2011 primarily related to fluctuations between the Canadian and U.S. Dollar. Foreign currency transaction gains were \$11 thousand for the six months ended November 30, 2010.

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Taxes. The provision for income tax was \$10.3 million on pre-tax income of \$27.5 million for the six months ended November 30, 2011 compared to the provision for income tax which was \$7.9 million on pre-tax income of \$19.7 million for the six months ended November 30, 2010. The effective tax rate for the six months ended November 30, 2011 was 38% compared to 40% for the six months ended November 30, 2010. The decrease in the effective tax rate is primarily due to the realized tax benefits of equity compensation transactions in the current period and a change in the mix of foreign and domestic income. In general, the tax rates applicable to our foreign income are less than domestic tax rates and foreign earnings in the current period were substantially higher than the prior period.

Liquidity and Capital Resources

Financing for our operations consists primarily of vendor financing and leasing arrangements, our Credit Facility and cash flows attributable to our operations, which we believe are sufficient to fund our business needs. In July 2011, we renewed our Credit Facility with our banking syndicate. The Credit Facility has borrowing capacity of up to \$150 million in multiple currencies, bears interest based on a variable Eurodollar rate option (LIBOR plus 1.75% margin at November 30, 2011) with the margin based on financial covenants set forth in the Credit Facility, and matures in July 2016. In connection with the renewal of the Credit Facility, we capitalized \$0.8 million of associated debt issuance costs which are amortized over the life of the Credit Facility. At November 30, 2011, we were in compliance with all covenants of the Credit Facility. At November 30, 2011, we had \$18.7 million of cash on hand and approximately \$63 million of available borrowing capacity through our Credit Facility.

From time to time we acquire companies that are not significant to our financial statements but are intended to enhance our services or expand our geographic coverage. During the quarter ended November 30, 2011, \$2.3 million was used in an acquisition of a pipeline integrity management firm. In December of 2011, subsequent to the end of our second quarter, we used \$17.5 million for an acquisition of the west coast operations of a mechanical services business. These acquisitions were financed through borrowings on our Credit Facility.

Cash Flows Attributable To Our Operating Activities. For the six months ended November 30, 2011, cash provided by operating activities was \$19.4 million. Positive operating cash flow was primarily attributable to net income of \$17.2 million, depreciation and amortization of \$8.3 million, and non-cash compensation cost of \$2.6 million offset by a \$10.3 million increase in working capital.

Cash Flows Attributable To Our Investing Activities. For the six months ended November 30, 2011, cash used in investing activities was \$12.7 million, consisting primarily of \$10.7 million of capital expenditures and \$2.3 million for a business acquisition. Capital expenditures included \$1.6 million related to construction of a new TCM division facility in Pasadena, Texas. The new facility is scheduled to be completed in February 2012. Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly.

Cash Flows Attributable To Our Financing Activities. For the six months ended November 30, 2011, cash used by financing activities was \$1.4 million consisting primarily of \$0.9 million of payments related to our Credit Facility.

Effect of Exchange Rate Changes On Cash. For the six months ended November 30, 2011, the effect of exchange rate changes on cash was a negative \$0.6 million. We have significant operations in Europe and Canada, as well as operations in Venezuela which is considered a hyperinflationary economy. The impact of Foreign currency exchange rates on cash in the current year is primarily attributable to changes in U.S. Dollar exchange rates with Canada and Europe.

Restrictions On Cash. Included in our cash and cash equivalents at November 30, 2011, is \$9.4 million of cash in Europe and \$0.8 million of cash in Venezuela. Any repatriation of cash from Europe, if deemed to be a dividend from our European subsidiary for tax purposes would result in adverse tax consequences of approximately \$0.8 million. While not legally restricted from repatriating this cash, we consider all earnings of

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our European subsidiary to be indefinitely reinvested and access to cash in Europe to be limited. Similarly, the uncertain economic and political environment in Venezuela makes it very difficult to repatriate cash flows of our Venezuelan subsidiary.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations in foreign countries with a functional currency that is not the U.S. Dollar. We are exposed to market risk, primarily related to foreign currency fluctuations related to these operations. A significant part of these assets relate to our operations in Europe and Canada. During the six months ended November 30, 2011, the exchange rate with the Euro decreased from \$1.44 per Euro to \$1.33 per Euro, a decrease of 8%. During the same period, the exchange rate with the Canadian Dollar decreased from \$1.03 per Canadian Dollar to \$.97 per Canadian Dollar, a decrease of 6%. For foreign subsidiaries whose functional currency is not the U.S. Dollar, such as our operations in Europe and Canada, assets and liabilities are translated at period ending rates of exchange. Translation adjustments for the assets and liability accounts are included as a separate component of accumulated other comprehensive income in stockholders' equity. Foreign currency translation losses in other comprehensive income were \$6.3 million for the six months ended November 30, 2011.

We carry Euro-based debt to serve as a hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate will offset translation gains or losses attributable to our investment in our European operations. We are exposed to market risk, primarily related to foreign currency fluctuations related to the unhedged portion of our investment in our European operations.

At November 30, 2011, our Venezuelan subsidiary had \$2.0 million of net assets denominated in Venezuelan Bolivars and translated into U.S. Dollars. Because of the uncertain political environment in Venezuela, starting in the third quarter of fiscal year 2010, we began to account for Venezuelan operations pursuant to accounting guidance for hyperinflationary economies. Following the designation of the Venezuelan economy as hyperinflationary, we ceased taking the effects of currency fluctuations to accumulated other comprehensive income and began reflecting all effects as a component of other income in our statement of operations. We initially used the parallel exchange rate for Bolivar denominated bonds (6.70 Bolivars per U.S. Dollar) to translate our Venezuelan operations into U.S. Dollars. In May 2010, the Venezuelan government closed the parallel exchange rate system, precluding its continued use and we subsequently returned to using the Venezuelan central bank's official published rate (5.30 Bolivars per U.S. Dollar) to translate Venezuelan assets into U.S. Dollars as no other legal rate was readily available. A 10% change in the exchange rate used to value the net assets of our Venezuelan subsidiary would have an effect on pre-tax earnings of \$0.2 million.

We hold certain floating-rate obligations. We are exposed to market risk primarily related to potential increases in interest rates related to our debt.

ITEM 4. CONTROLS AND PROCEDURES

Limitations On Effectiveness Of Control. Our management, including the principal executive and financial officer, 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

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goals under all potential future conditions. Projections of management's assessments of the current effectiveness of our disclosure controls and procedures and its internal control over financial reporting are subject to risks. However, our disclosure controls and procedures are designed to provide reasonable assurance that the objectives of our control system are met.

Evaluation Of Disclosure Controls And Procedures. As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities 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.

Based on this evaluation, our CEO and CFO concluded that, as of November 30, 2011, 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 Securities Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the second quarter of our fiscal year ending May 31, 2012.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We have, from time to time, provided temporary leak repair services for the steam operations of Consolidated Edison of New York (Con Ed) located in New York City. In July 2007, a Con Ed steam main located in midtown Manhattan ruptured causing one death and other injuries and property damage. As of November 30, 2011, one hundred and six lawsuits have been filed against Con Ed, the City of New York and Team in the Supreme Courts of New York located in Kings, New York and Bronx County, alleging that our temporary leak repair services may have contributed to the cause of the rupture. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, on March 31, 2008, we received a letter from Con Ed alleging that our contract with Con Ed requires us to indemnify and defend Con Ed for additional claims filed against Con Ed as a result of the rupture. Con Ed filed an action to join Team and the City of New York as defendants in all lawsuits filed against Con Ed that did not include Team and the City of New York as direct defendants. We are vigorously defending the lawsuits and Con Ed s claim for indemnification. We are unable to estimate the amount of liability to us, if any, associated with these lawsuits and the claim for indemnification. We maintain insurance coverage, subject to a deductible limit of \$250,000, which we believe should cover these claims. We have not accrued any liability in excess of the deductible limit for the lawsuits. We do not believe the final resolution of these matters will have a material adverse effect on our results of operations, financial position or cash flows.

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

ITEM 1A. RISK FACTORS

See page 6 of our Annual Report on Form 10-K for the year ended May 31, 2011 for a detailed discussion of our risk factors.

ITEM 2. UNREGISTERED SALES OF EQUITY AND SECURITIES AND USE OF PROCEEDS

On July 29, 2010, our Board authorized a stock repurchase program, targeting repurchases of up to \$15 million of our outstanding common stock from time to time in open market transactions at prevailing market prices. During the quarter ended November 30, 2011, we made no purchases under this program.

ITEM 4. (RESERVED)

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS

**Exhibit
Number**

Description

- 31.1 Certification for Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification for Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification for Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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32.2 Certification for Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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| Exhibit Number | Description |
|---------------------------|--------------------------------------|
| *101.INS | XBRL Instance Document. |
| *101.SCH | XBRL Taxonomy Schema Document. |
| *101.CAL | XBRL Calculation Linkbase Document. |
| *101.LAB | XBRL Label Linkbase Document. |
| *101.PRE | XBRL Presentation Linkbase Document. |

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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SIGNATURES

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

TEAM, INC.
(Registrant)

Date: January 6, 2012

/s/ PHILIP J. HAWK
Philip J. Hawk

Chairman and Chief Executive Officer

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

Chief Financial Officer

(Principal Financial Officer and

Principal Accounting Officer)