TEAM INC
Form 10-Q
January 08, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2013

OR

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

For the transition period from _________ to _________

Commission file number 001-08604

TEAM, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**74-1765729**
(State or Other Jurisdiction of	**(I.R.S. Employer**

Incorporation or Organization)	**Identification No.)**
13131 Dairy Ashford, Suite 600, Sugar Land, Texas	**77478**
(Address of Principal Executive Offices)	**(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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 þ 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	þ
Non-accelerated filer (Do not check if a smaller reporting company)	¨	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 þ

The Registrant had 20,327,149 shares of common stock, par value $0.30, outstanding as of December 27, 2013.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEAM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	November 30, 2013 (unaudited)	May 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,631	$ 34,201
Receivables, net of allowance of $5,141 and $5,438	184,586	172,108
Inventory	26,633	26,507
Deferred income taxes	3,892	5,321
Prepaid expenses and other current assets	7,341	8,781
Total current assets	259,083	246,918
Property, plant and equipment, net	79,728	74,939
Assets held for sale	5,207	5,207
Intangible assets, net of accumulated amortization of $10,913 and $9,039	25,340	25,950
Goodwill	113,945	103,466
Other assets, net	3,584	2,907
Deferred income taxes	1,079	816
Total assets	$ 487,966	$ 460,203
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 21,977	$ 22,411
Other accrued liabilities	45,372	49,165
Income taxes payable	4,209	1,228
Deferred income taxes	29	
Total current liabilities	71,587	72,804
Deferred income taxes	19,108	17,166
Long-term debt	91,708	72,946
Other long-term liabilities	4,588	5,097
Total liabilities	186,991	168,013
Commitments and contingencies		
Equity:		
Preferred stock, 500,000 shares authorized, none issued		
Common stock, par value $0.30 per share, 60,000,000 and 30,000,000 shares authorized; 20,325,149 and 20,587,808 shares issued	6,096	6,176
Additional paid-in capital	100,172	99,278
Retained earnings	191,112	184,485
Accumulated other comprehensive (loss) income	(1,920)	(1,789)

Treasury stock at cost, 0 and 89,569 shares				(1,344)
Total Team shareholders equity		295,460		286,806
Non-controlling interest		5,515		5,384
Total equity		300,975		292,190
Total liabilities and equity	$	487,966	$	460,203

See accompanying notes to unaudited condensed consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2013	**2012**	**2013**	**2012**
Revenues	$ 200,493	$ 200,648	$ 374,804	$ 362,140
Operating expenses	135,678	138,184	260,992	250,140
Gross margin	64,815	62,464	113,812	112,000
Selling, general and administrative expenses	43,422	39,928	84,757	77,002
Earnings from unconsolidated affiliates	350	504	793	866
Gain on revaluation of contingent consideration	2,138		2,138	
Operating income	23,881	23,040	31,986	35,864
Interest expense, net	811	677	1,419	1,276
Foreign currency loss	140	114	530	188
Earnings before income taxes	22,930	22,249	30,037	34,400
Less: Provision for income taxes	8,333	8,232	10,963	12,728
Net income	14,597	14,017	19,074	21,672
Less: Income attributable to non-controlling interest	172	81	139	175
Net income available to Team shareholders	$ 14,425	$ 13,936	$ 18,935	$ 21,497
Net income per share: Basic	$ 0.71	$ 0.69	$ 0.93	$ 1.08
Net income per share: Diluted	$ 0.68	$ 0.66	$ 0.89	$ 1.03

See accompanying notes to unaudited condensed consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2013	2012	2013	2012
Net income	$ 14,597	$ 14,017	$ 19,074	$ 21,672
Foreign currency translation adjustment	719	1,252	(210)	4,290
Foreign currency hedge	(400)	(536)	(762)	(648)
Tax benefit (provision) attributable to other comprehensive income	319	488	833	(376)
Total comprehensive income	15,235	15,221	18,935	24,938
Less: Total comprehensive income attributable to non-controlling interest	182	92	131	203
Total comprehensive income available to Team shareholders	$ 15,053	$ 15,129	$ 18,804	$ 24,735

See accompanying notes to unaudited condensed consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended November 30,	
	2013	**2012**
Cash flows from operating activities:		
Net income	$ 19,074	$ 21,672
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from unconsolidated affiliates	(793)	(866)
Depreciation and amortization	10,691	9,654
Amortization of deferred loan costs	110	111
Foreign currency loss	530	188
Deferred income taxes	3,438	2,038
Gain on contingent consideration revaluation	(2,138)	
Gain on asset sales	(85)	
Non-cash compensation cost	2,210	2,120
(Increase) decrease:		
Receivables	(12,150)	(18,361)
Inventory	(83)	(1,393)
Prepaid expenses and other current assets	1,457	1,174
Increase (decrease):		
Accounts payable	(507)	182
Other accrued liabilities	(4,459)	5,005
Income taxes	2,923	(1,805)
Net cash provided by operating activities	20,218	19,719
Cash flows from investing activities:		
Capital expenditures	(13,619)	(12,654)
Business acquisitions, net of cash acquired	(10,175)	(18,144)
Proceeds from sale of assets	204	
Decrease (increase) in other assets, net	3	(8)
Net cash used in investing activities	(23,587)	(30,806)
Cash flows from financing activities:		
Net borrowings under revolving credit agreement	18,000	19,000
Corporate tax effect from share-based payment arrangements	679	1,997
Issuance of common stock from share-based payment arrangements	1,987	3,394
Payments related to withholding tax for share-based payment arrangements	(1,692)	(1,517)
Payments related to purchase of treasury stock	(13,334)	
Net cash provided by financing activities	5,640	22,874
Effect of exchange rate changes on cash	159	221
Net increase in cash and cash equivalents	2,430	12,008
Cash and cash equivalents at beginning of period	34,201	22,477
Cash and cash equivalents at end of period	$ 36,631	$ 34,485

See accompanying notes to unaudited condensed consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

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 13131 Dairy Ashford, Suite 600, Sugar Land, Texas, 77478 and our telephone number is (281) 331-6154. Our stock is traded on the New York Stock Exchange (NYSE) under the symbol TISI and our fiscal year ends on May 31 of each calendar year.

We are a leading provider of specialty industrial services, including inspection and assessment, required in maintaining high temperature and high pressure piping systems and vessels that are utilized extensively in the refining, petrochemical, power, pipeline and other heavy industries. Through fiscal year 2013, we operated in only one segment the industrial services segment (see Note 14). Within the industrial services segment, we were organized as two divisions. Our TCM division provided the services of inspection and assessment and field heat treating. Our TMS division provided the mechanical services listed below.

Effective July 1, 2013, we implemented a reorganization of our business divisions to conduct operations in three segments: Inspection and Heat Treating Services (IHT) Group, Mechanical Services (MS) Group and Quest Integrity (Quest) Group. While our services have been realigned in three business groups, we believe our services broadly fall into three different classifications that have unique customer demand drivers: inspection and assessment services, turnaround services, and on-stream services.

Inspection and assessment services are offered in both the IHT Group and Quest Group. The IHT Group provides basic and advanced non-destructive testing services for the process, pipeline and power sectors, pipeline integrity management services, as well as associated engineering and assessment services. These services can be offered while facilities are running (on-stream), during facility turnarounds or during new construction and expansion activities. The Quest Group provides integrity and reliability management solutions for the process, pipeline and power sectors. These solutions encompass two broadly-defined disciplines: (1) highly specialized in-line inspection services for unpiggable process piping and pipelines using proprietary in-line inspection tools and analytical software; and (2) advanced condition assessment services through a multi-disciplined engineering team. We believe there is a general growth in market demand for inspection and assessment services as improved inspection technologies enable better information about asset reliability to be available to facility owners and operators.

Turnaround services are offered in both the IHT Group and in the MS Group. These services are project-related and demand is a function of the number and scope of scheduled and unscheduled facility turnarounds as well as new industrial facility construction or expansion. Turnaround services include the field machining, technical bolting, field valve repair, heat exchanger repair, and isolation test plugging services that are part of the MS Group and the field heat treating services that are part of the IHT Group.

On-stream services are offered by the MS Group and represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control and hot tapping. We believe demand for on-stream services is a function of the population of the existing infrastructure of operating industrial facilities.

We offer these services in over 125 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

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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, 2013 is derived from the May 31, 2013 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, 2013.

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 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.

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.

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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	2-15 years
Machinery and equipment	2-12 years
Furniture and fixtures	2-10 years
Computers and computer software	2-5 years
Automobiles	2-5 years

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 the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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.

Effective July 1, 2013, we implemented a reorganization of our business divisions and now conduct operations in three segments: IHT Group, MS Group and Quest Group. Each operating segment has goodwill relating to past acquisitions and we now assess goodwill for impairment at the operating segment level. Due to the changes in the underlying assumptions surrounding our goodwill testing, during the first quarter of fiscal year 2014, we performed a quantitative analysis of goodwill to test for impairment. The test for impairment is performed at the reporting unit level which is deemed to be at the operating segment level. The test was a two-step process that involved comparing the estimated fair value of each reporting unit to the reporting unit s carrying value, including goodwill. If the fair value of a reporting unit exceeded its carrying amount, the goodwill of the reporting unit was not considered impaired; therefore, the second step of the impairment test would not be deemed necessary. If the carrying amount of the reporting unit exceeded 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.

The fair value of the reporting units at July 1, 2013 were determined using a method based on discounted cash flow models with estimated cash flows based on internal forecasts of revenue and expenses over a four year period plus a terminal value period (the income approach). The income approach estimated fair value by discounting each reporting unit s estimated future cash flows using a discount rate that approximated our weighted-average cost of capital. The fair value derived from the income approach, in the aggregate, approximated our market capitalization. At July 1, 2013, our market capitalization exceeded the carrying value of our consolidated net assets by approximately $500 million or 170%, and the fair value of each operating segment significantly exceeded their respective carrying amounts as of that date.

There was $113.9 million and $103.5 million of goodwill at November 30, 2013 and May 31, 2013, respectively. A summary of goodwill is as follows (in thousands):

	Six Months Ended November 30, 2013			
	MS	IHT	Quest	Total
Balance at May 31, 2013	$ 19,130	$ 53,800	$ 30,536	$ 103,466
Acquisitions		10,412		10,412
Foreign currency adjustments	545	(487)	9	67
Balance at November 30, 2013	$ 19,675	$ 63,725	$ 30,545	$ 113,945

In November 2010, we purchased 95% of Quest Integrity Group, a leading provider of proprietary in-line inspection and advanced engineering and assessment services. We expect to purchase the remaining 5% interest (the Non-Controlling Interests) at the end of fiscal 2015 based upon a valuation methodology as specified in the purchase agreement.

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	613
Other comprehensive income attributable to non-controlling interest	(15)
Carrying value of non-controlling interest at November 30, 2013	$ 5,515

Income taxes. We follow the guidance of the 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, future reversals of existing taxable temporary differences, and tax planning strategies.

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, our self-insured retention is $1.0 million and our automobile liability self-insured retention is currently $500,000 per occurrence. For general liability claims we have an effective self-insured retention of $3.0 million per occurrence. For medical claims, our self-insured retention is $175,000 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 to the job site 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, 2013 and May 31, 2013, the amount of earned but unbilled revenue included in accounts receivable was $25.0 million and $25.5 million, respectively.

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.

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, 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).

Amounts used in basic and diluted earnings per share, for the three and six months ended November 30, 2013 and 2012, are as follows (in thousands):

	Three Months Ended November 30,		Six Months Ended November 30,	
	2013	2012	2013	2012
Weighted-average number of basic shares outstanding	20,409	20,052	20,459	19,963
Stock options, stock units and performance awards	614	736	657	753
Assumed conversion of non-controlling interest	210	206	207	216
Total shares and dilutive securities	21,233	20,994	21,323	20,932

There were no stock options outstanding during the three months ended November 30, 2013 and 2012 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 zero and 67,000 options to purchase shares of common stock outstanding during the six months ended November 30, 2013 and 2012, respectively, 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 shareholders 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 16).

Newly Adopted Accounting Principles

ASU 2011-04. In May 2011, an update regarding fair value measurement was issued to conform the definition of fair value and common requirements for measurement of and disclosure about fair value under U.S.

GAAP and International Financial Reporting Standards. The standard also clarifies the application of existing fair value measurement requirements and expands the disclosure requirements for fair value measurements that are estimated using significant unobservable Level 3 inputs. The standard update is effective for interim and annual periods beginning after December 15, 2011. The adoption of this standard did not have a material impact on our results of operations, financial position or cash flows.

ASU 2011-05. In June 2011, the FASB issued an update to existing guidance on the presentation of comprehensive income. This update requires the presentation of the components of net income and other comprehensive income either in a single continuous statement or in two separate but consecutive statements. In addition, companies are also required to present reclassification adjustments for items that are reclassified from other comprehensive income to net income on the face of the financial statements. In December 2011, the FASB issued an accounting update to defer the effective date for presentation of reclassification of items out of accumulated other comprehensive income to net income. These updates are effective for fiscal years and interim periods beginning after December 15, 2011 with early adoption permitted. This update was adopted by Team on June 1, 2012. The adoption of this standard did not have a material effect on our results of operations, financial position or cash flows.

ASU 2011-11. In December 2011, an update was issued related to new disclosures on offsetting assets and liabilities of financial and derivative instruments. The amendments require the disclosure of gross asset and liability amounts, amounts offset on the balance sheet and amounts subject to the offsetting requirements, but not offset on the balance sheet. This standard does not amend the existing guidance on when it is appropriate to offset. The standard update is effective for annual periods beginning after January 1, 2013. The adoption of this standard did not have a material impact on our results of operations, financial position or cash flows.

ASU 2013-02. In February 2013, an update regarding other comprehensive income was issued to require entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, it requires entities to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. The update is effective for fiscal years beginning after December 15, 2012. This update was adopted by Team on June 1, 2013. The adoption of this update did not have a material impact on our results of operations, financial position or cash flows.

2. ACQUISITIONS

In July 2013, we purchased a leading provider of industrial rope access services, for a total consideration of approximately $13 million including $11.7 million allocated to goodwill and intangible assets. In September 2012, we purchased TCI Services, Inc., (TCI), a leading provider of inspection and repair services of above ground storage tanks. The TCI acquisition included total consideration of approximately $23 million, including $16.4 million allocated to goodwill and intangible assets. The purchase price included contingent consideration which we revalued at November 30, 2013, resulting in the recognition of a non-cash gain of $2.1 million.

In the fiscal year ended May 31, 2013, we also purchased a specialty remote digital video inspection company in New Zealand for approximately $3 million in cash.

3. RECEIVABLES

A summary of accounts receivable as of November 30, 2013 and May 31, 2013 is as follows (in thousands):

	November 30, 2013 (unaudited)	May 31, 2013
Trade accounts receivable	$ 164,751	$ 152,030
Unbilled revenues	24,976	25,516
Allowance for doubtful accounts	(5,141)	(5,438)
Total	$ 184,586	$ 172,108

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4. INVENTORY

A summary of inventory as of November 30, 2013 and May 31, 2013 is as follows (in thousands):

	November 30, 2013 (unaudited)	May 31, 2013
Raw materials	$ 3,237	$ 3,460
Work in progress	1,037	845
Finished goods	22,359	22,202
Total	$ 26,633	$ 26,507

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of November 30, 2013 and May 31, 2013 is as follows (in thousands):

	November 30, 2013 (unaudited)	May 31, 2013
Land	$ 3,087	$ 3,108
Buildings and leasehold improvements	19,215	18,445
Machinery and equipment	145,431	137,439
Furniture and fixtures	4,790	4,469
Capitalized ERP system development costs	850	
Computers and computer software	9,387	8,871
Automobiles	3,517	3,842
Construction in progress	6,900	3,816
Total	193,177	179,990
Accumulated depreciation and amortization	(113,449)	(105,051)
Property, plant, and equipment, net	$ 79,728	$ 74,939

In the second quarter of 2013, we initiated the design and implementation of a new ERP system, which is expected to be fully installed during fiscal 2016. Total future capital costs associated with the implementation are expected to be in the range of $10 to 12 million over the next two years.

Included in construction in progress are costs of approximately $3.5 million associated with the re-development of Team s former headquarters in Alvin, Texas as an equipment, training and technical center for operations support. The Alvin project is expected to be completed in the spring of 2014 at a total cost of approximately $9 million.

6. ASSETS HELD FOR SALE

Assets held for sale consists of $5.2 million related to 50 acres of undeveloped land in Pearland, Texas.

7. INTANGIBLE ASSETS

A summary of intangible assets as of November 30, 2013 and May 31, 2013 is as follows (in thousands):

	November 30, 2013 (unaudited)			May 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 22,701	$ (5,498)	$ 17,203	$ 21,418	$ (4,168)	$ 17,250
Non-compete agreements	3,682	(3,352)	330	3,701	(3,232)	469
Trade names	4,075	(550)	3,525	4,075	(424)	3,651
Technology	5,112	(1,432)	3,680	5,112	(1,166)	3,946
Licenses	683	(81)	602	683	(49)	634
Total	$ 36,253	$ (10,913)	$ 25,340	$ 34,989	$ (9,039)	$ 25,950

Amortization expense for the three months ended November 30, 2013 and 2012 was $0.9 million and $1.0 million, respectively. Amortization expense for the six months ended November 30, 2013 and 2012 was $1.9 million and $1.7 million, respectively.

8. OTHER ACCRUED LIABILITIES

A summary of other accrued liabilities as of November 30, 2013 and May 31, 2013 is as follows (in thousands):

	November 30, 2013 (unaudited)	May 31, 2013
Payroll and other compensation expenses	$ 26,492	$ 32,093
Insurance accruals	5,475	5,385
Property, sales and other non-income related taxes	2,356	2,385
Other	11,049	9,302
Total	$ 45,372	$ 49,165

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

In fiscal year 2012, we renewed our banking credit facility (Credit Facility) with our banking syndicate. The Credit Facility has borrowing capacity of up to $150 million in multiple currencies, is secured by virtually all of our domestic assets and a majority of the stock of our foreign subsidiaries and matures in July 2016. In connection with the renewal, we capitalized $0.8 million of associated debt issuance costs which will be amortized over the life of the Credit Facility. The Credit Facility bears interest based on a variable Eurodollar rate option (LIBOR plus 1.75% margin at November 30, 2013) and has commitment fees of 0.30% on unused borrowing capacity.

In order to secure our casualty 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 $13.7 million at November 30, 2013 and $13.1 million at May 31, 2013. 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.

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

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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 derivatives 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.

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, 2013, the 12.3 million borrowing had a U.S. Dollar value of $16.8 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.

The amounts recognized in other comprehensive income, and reclassified into income, for the three and six months ended November 30, 2013 and 2012, are as follows (in thousands):

	Gain (Loss) Recognized in Other Comprehensive Income Three Months Ended November 30, (unaudited)		Gain (Loss) Reclassified from Other Comprehensive Income to Earnings Three Months Ended November 30, (unaudited)		Gain (Loss) Recognized in Other Comprehensive Income Six Months Ended November 30, (unaudited)		Gain (Loss) Reclassified from Other Comprehensive Income to Earnings Six Months Ended November 30, (unaudited)	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Euro denominated long-term debt	$ (400)	$ (536)	$	$	$ (762)	$ (648)	$	$

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

	November 30, 2013 (unaudited)			May 31, 2013		
	Classification	**Balance Sheet Location**	**Fair Value**	**Classification**	**Balance Sheet Location**	**Fair Value**
Euro denominated long-term debt	Liability	Long-term debt	$ 1,242	Liability	Long-term debt	$ 2,004

10. 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, 2013. 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):

	May 31, 2013			
	Quoted Prices in Active Markets for Identical Items (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Liabilities:				
Contingent consideration	$	$	$ 2,047	$ 2,047
Euro denominated long-term debt		2,004		2,004
Total liabilities	$	$ 2,004	$ 2,047	$ 4,051

	November 30, 2013 (unaudited)			
	Quoted Prices in Active Markets for Identical Items (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Liabilities:				
Contingent consideration	$	$	$ 2,059	$ 2,059
Euro denominated long-term debt		1,242		1,242
Total liabilities	$	$ 1,242	$ 2,059	$ 3,301

The fair value of contingent consideration liabilities that was classified as Level 3 in the table above was estimated using a discounted cash flow technique with significant inputs that are not observable in the market and thus represents a Level 3 fair value measurement as defined in ASC 820. The significant inputs in the Level 3 measurement are not supported by market activity include a combination of actual cash flows and probability-weighted assessments of expected future cash flows related to the acquired businesses, appropriately discounted considering the uncertainties associated with the obligation, and as calculated in accordance with the terms of the acquisition agreement.

11. 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, 2013, there were approximately

1.3 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. However, the total number of shares ultimately issued may not exceed the total number of shares cumulatively authorized, which is 7,120,000 at November 30, 2013. Shares issued in connection with our share-based compensation are issued out of authorized but unissued common stock. Compensation expense related to share-based compensation totaled $2.2 million and $2.1 million for the six months ended November 30, 2013 and 2012 respectively. At November 30, 2013, $10.9 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 3.1 years. The tax benefit derived when share-based awards result in a tax deduction for the company was $0.7 million and $2.0 million for the six months ended November 30, 2013 and 2012, respectively.

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. There was no compensation expense related to stock options for the six months ended November 30, 2013 and 2012. 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, 2013 and 2012 are summarized below:

	Six Months Ended November 30, 2013 (unaudited)		Six Months Ended November 30, 2012 (unaudited)	
	No. of Options (in thousands)	Weighted Average Exercise Price	No. of Options (in thousands)	Weighted Average Exercise Price
Shares under option, beginning of period	1,052	$ 20.24	1,562	$ 18.95
Changes during the period:				
Granted		$		$
Exercised	(80)	$ 24.73	(258)	$ 13.17
Cancelled		$		$
Expired		$		$
Shares under option, end of period	972	$ 19.87	1,304	$ 20.09
Exercisable at end of period	972	$ 19.87	1,304	$ 20.09

Options exercisable at November 30, 2013 had a weighted-average remaining contractual life of 2.9 years. For total options outstanding at November 30, 2013, 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)
$6.42 to $9.62	116	$ 8.92	1.4
$9.63 to $12.82	152	$ 11.11	2.2
$12.83 to $16.03	295	$ 14.61	2.6
$16.04 to $32.05	409	$ 30.01	3.9
	972	$ 19.87	2.9

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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. Compensation expense related to performance awards totaled $0.3 million for the six months ended November 30, 2013 and 2012. Transactions involving our performance awards during the six months ended November 30, 2013 and 2012 are summarized below:

	Six Months Ended November 30, 2013 (unaudited)		Six Months Ended November 30, 2012 (unaudited)	
	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	57	$ 25.45	65	$ 21.86
Changes during the period:				
Granted	17	$ 36.40	19	$ 32.89
Vested and settled	(24)	$ 22.65	(27)	$ 22.04
Cancelled		$		$
Performance awards, end of period	50	$ 30.63	57	$ 25.45

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. Compensation expense related to stock units and director stock grants totaled $1.9 million for the six months ended November 30, 2013 and 2012. Transactions involving our stock units and director stock grants during the six months ended November 30, 2013 and 2012 are summarized below:

	Six Months Ended November 30, 2013 (unaudited)		Six Months Ended November 30, 2012 (unaudited)	
	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	329	$ 26.07	342	$ 21.73
Changes during the period:				
Granted	136	$ 36.71	141	$ 32.81
Vested and settled	(137)	$ 24.34	(142)	$ 22.54
Cancelled	(11)	$ 26.86	(8)	$ 21.84
Stock and stock units, end of period	317	$ 31.38	333	$ 26.07

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12. OTHER COMPREHENSIVE INCOME

A summary of changes in other comprehensive income included within shareholders equity is as follows (in thousands):

	Six Months Ended November 30, 2013 (unaudited)				Six Months Ended November 30, 2012 (unaudited)			
	Foreign Currency Translation Adjustments	Foreign Currency Hedge	Tax Provision	Total	Foreign Currency Translation Adjustments	Foreign Currency Hedge	Tax Provision	Total
Balance, beginning of period	$ (3,532)	$ 2,004	$ (261)	$ (1,789)	$ (4,593)	$ 2,678	$ (672)	$ (2,587)
Other comprehensive income before tax	(210)	(762)	833	(139)	4,290	(648)	(376)	3,266
Non-controlling interest	8 &nb							