TEAM INC
Form 10-Q
October 07, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

Texas		**74-1765729**
(State or other jurisdiction of incorporation or organization)		**(I.R.S. Employer Identification Number)**
200 Hermann Drive, Alvin, Texas		**77511**
(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 x No ¨

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

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

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

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

On September 30, 2011 there were 19,608,276 shares of the Registrant s common stock, par value $0.30, including 89,569 shares of treasury stock outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share and per share data)

	August 31, 2011 (unaudited)	May 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 21,324	$ 14,078
Receivables, net of allowance of $4,532 and $4,222	128,168	143,120
Inventory	22,209	21,335
Deferred income taxes	1,828	3,795
Prepaid expenses and other current assets	7,674	7,946
Total Current Assets	181,203	190,274
Property, plant and equipment, net	59,996	58,567
Intangible assets, net of accumulated amortization of $3,703 and $3,218	14,300	14,819
Goodwill	89,554	89,520
Other assets, net	3,271	2,189
Deferred income taxes	214	117
Total Assets	$ 348,538	$ 355,486
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 133	$ 212
Accounts payable	16,214	24,371
Other accrued liabilities	27,450	32,511
Income taxes payable	3,024	2,641
Deferred income taxes	73	6
Total Current Liabilities	46,894	59,741
Deferred income taxes	10,890	10,431
Long-term debt	72,699	75,868
Total Liabilities	130,483	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; 19,608,276 and 19,571,138 shares issued	5,881	5,871
Non-controlling interest	5,007	4,983
Additional paid-in capital	79,386	77,867
Retained earnings	125,932	119,138
Accumulated other comprehensive income	3,193	2,931

Treasury stock at cost, 89,569 and 89,569 shares		(1,344)		(1,344)
Total Stockholders Equity		218,055		209,446
Total Liabilities And Stockholders Equity	$	348,538	$	355,486

See notes to unaudited consolidated condensed financial statements.

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TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(in thousands, except per share data)

	Three Months Ended August 31,	
	2011	2010
Revenues	$ 141,093	$ 104,511
Operating expenses	96,646	72,965
Gross margin	44,447	31,546
Selling, general and administrative expenses	33,134	25,113
Earnings from unconsolidated affiliates	442	308
Operating income	11,755	6,741
Interest expense, net	583	439
Foreign currency loss (gain)	271	(41)
Earnings before income taxes	10,901	6,343
Provision for income taxes	4,088	2,537
Net income	6,813	3,806
Less: Income attributable to non-controlling interest	19	
Net income available to Team shareholders	$ 6,794	$ 3,806
Net income per share: Basic	$ 0.35	$ 0.20
Net income per share: Diluted	$ 0.33	$ 0.20

See notes to unaudited consolidated condensed financial statements.

TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended August 31,	
	2011	**2010**
Net income	$ 6,794	$ 3,806
Foreign currency translation adjustment	278	(23)
Foreign currency hedge	(34)	(526)
Tax provision attributable to other comprehensive income	23	(63)
Other comprehensive income	7,061	3,194
Less: Other comprehensive income attributable to non-controlling interest	5	
Other comprehensive income available to Team shareholders	$ 7,056	$ 3,194

See notes to unaudited consolidated condensed financial statements.

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TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended August 31,	
	2011	2010
Cash Flows From Operating Activities:		
Net income	$ 6,794	$ 3,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from unconsolidated affiliates	(442)	(308)
Income attributable to non-controlling interest	19	
Depreciation and amortization	4,139	3,122
Amortization of deferred loan costs	75	78
Foreign currency loss (gain)	271	(41)
Deferred income taxes	2,451	133
Non-cash compensation cost	1,165	1,146
(Increase) decrease:		
Receivables	14,715	16,318
Inventory	(882)	121
Prepaid expenses and other current assets	301	(2)
Increase (decrease):		
Accounts payable	(8,132)	(7,146)
Other accrued liabilities	(5,050)	765
Income taxes	345	49
Net cash provided by operating activities	15,769	18,041
Cash Flows From Investing Activities:		
Capital expenditures	(5,270)	(2,295)
Proceeds from sale of assets	163	
Increase in other assets, net	(643)	
Net cash used in investing activities	(5,750)	(2,295)
Cash Flows From Financing Activities:		
Payments under revolving credit agreement, net	(3,052)	(10,000)
Payments related to term and auto notes	(90)	(77)
Tax effect from share-based payment arrangements	233	3
Issuance of common stock from share-based payment arrangements	131	5
Purchase of treasury stock		(1,344)
Net cash used in financing activities	(2,778)	(11,413)
Effect Of Exchange Rate Changes On Cash	5	144
Net Increase In Cash And Cash Equivalents	7,246	4,477
Cash And Cash Equivalents At Beginning Of Period	14,078	12,610
Cash And Cash Equivalents At End Of Period	$ 21,324	$ 17,087

See notes to unaudited consolidated condensed financial statements.

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

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

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

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 industrial services (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.

There was $89.6 million and $89.5 million of goodwill at August 31, 2011 and May 31, 2011, respectively. A summary of goodwill is as follows (in thousands):

	Three Months Ended August 31, 2011		
	TCM Division	**TMS Division**	**Total**
Balance at beginning of period	$ 76,872	$ 12,648	$ 89,520
Acquisition and purchase price adjustments			
Foreign currency adjustments	9	25	34
Balance at end of period	$ 76,881	$ 12,673	$ 89,554

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 August 31, 2011 and May 31, 2011, the amount of earned but unbilled revenue included in accounts receivable was $13.7 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 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 months ended August 31, 2011 and 2010, are as follows (in thousands):

	Three Months Ended August 31,	
	2011	2010
Weighted-average number of basic shares outstanding	19,508	18,971
Stock options, stock units and performance awards	745	455
Assumed conversion of non-controlling interest	237	
Total shares and dilutive securities	20,490	19,426

There were 1,540,000 and 1,240,000 options to purchase shares of common stock outstanding during the three month periods ended August 31, 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 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

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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 $0.4 million of amortization expense for the three months ended August 31, 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	58
Other comprehensive income attributable to non-controlling interest	32
Fair value of non-controlling interest at August 31, 2011	$ 5,007

3. RECEIVABLES

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

	August 31, 2011 (unaudited)	May 31, 2011
Trade accounts receivable	$ 119,037	$ 134,955
Unbilled revenues	13,663	12,387
Allowance for doubtful accounts	(4,532)	(4,222)
Total	$ 128,168	$ 143,120

4. INVENTORY

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

	August 31, 2011 (unaudited)	May 31, 2011
Raw materials	$ 3,190	$ 3,165
Work in progress	650	722
Finished goods	18,369	17,448
Total	$ 22,209	$ 21,335

5. PROPERTY, PLANT AND EQUIPMENT

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

	August 31, 2011 (unaudited)	May 31, 2011
Land	$ 6,022	$ 6,026
Buildings and leasehold improvements	9,386	9,386
Machinery and equipment	109,412	105,997
Furniture and fixtures	1,854	1,849
Computers and computer software	7,509	7,223
Automobiles	2,682	2,719
Construction in progress	4,493	3,582

Total		141,358		136,782
Accumulated depreciation and amortization		(81,362)		(78,215)
Property, plant and equipment, net	$	59,996	$	58,567

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At August 31, 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 August 31, 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 August 31, 2011 and May 31, 2011 is as follows (in thousands):

	August 31, 2011 (unaudited)	May 31, 2011
Payroll and other compensation expenses	$ 17,242	$ 22,600
Insurance accruals	4,857	5,394
Property, sales and other non-income related taxes	1,742	2,024
Auto lease rebate	10	15
Other	3,599	2,478
Total	$ 27,450	$ 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 August 31, 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 August 31, 2011, we were in compliance with all covenants of the Credit Facility.

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

	August 31, 2011 (unaudited)	May 31, 2011
Revolving loan portion of the Credit Facility	$ 72,691	$ 75,848
Vendor Financing and other	141	232
	72,832	76,080
Current maturities	(133)	(212)
Long-term debt, excluding current maturities	$ 72,699	$ 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 counterparty will not fulfill the terms of the contract. We considered counterparty credit risk to our derivative contracts when valuing our derivative instruments.

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The amounts recognized in other comprehensive income, and reclassified into income, for the three months ended August 31, 2011 and 2010, are as follows (in thousands):

	Loss Recognized in Other Comprehensive Income Three Months Ended August 31,		Loss Reclassified from Other Comprehensive Income to Earnings Three Months Ended August 31,	
	2011	2010	2011	2010
Economic hedge	$ (34)	$ (526)	$	$
	$ (34)	$ (526)	$	$

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 August 31, 2011, the 12.3 million borrowing had a U.S. Dollar value of $17.7 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 following table presents the fair value totals and balance sheet classification for derivatives designated as hedges under ASC 815 (in thousands):

	August 31, 2011			May 31, 2011		
	Classification	Balance Sheet Location	Fair Value	Classification	Balance Sheet Location	Fair Value
Economic hedge	Liability	Long-term debt	$ 259	Liability	Long-term debt	$ 293
Total Derivatives			$ 259			$ 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,