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 November 30, 2007

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)**

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

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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 December 31, 2007, there were 18,271,963 shares of the Registrant s common stock outstanding.

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TEAM, INC.

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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)

	November 30, 2007 (unaudited)	May 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,770	$ 4,335
Receivables, net of allowance of $3,742 and $2,348	112,159	84,496
Inventories	13,451	11,518
Prepaid expenses and other current assets	4,776	7,164
Total Current Assets	136,156	107,513
Property, plant and equipment, net	47,247	35,166
Intangible assets, net of accumulated amortization of $917 and $792	333	458
Goodwill	51,330	26,452
Other assets, net	1,412	1,465
Total Assets	$ 236,478	$ 171,054
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 5,648	$ 4,862
Accounts payable	13,950	10,560
Other accrued liabilities	20,690	15,906
Insurance note payable	1,895	4,734
Current income taxes payable	2,361	
Deferred income taxes	338	1,222
Total Current Liabilities	44,882	37,284
Deferred income taxes	1,481	486
Long-term debt	88,659	48,774
Total Liabilities	135,022	86,544
Minority interest	297	307
Commitments and contingencies		
Stockholders Equity:		
Preferred stock, 500,000 shares authorized, none issued		
Common stock, par value $.30 per share, 30,000,000 shares authorized; 18,280,663 and 19,896,438 shares issued	5,480	2,984
Treasury stock at cost, 0 and 1,018,308 shares		(5,032)
Additional paid-in capital	48,605	49,159
Retained earnings	45,072	36,447

Accumulated other comprehensive income	2,002	645
Total Stockholders Equity	101,159	84,203
Total Liabilities and Stockholders Equity	$ 236,478	$ 171,054

See notes to unaudited consolidated condensed financial statements.

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TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands except per share data)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
Revenues	$ 122,310	$ 83,185	$ 225,798	$ 148,924
Operating expenses	80,456	52,769	151,637	96,716
Gross margin	41,854	30,416	74,161	52,208
Selling, general and administrative expenses	26,354	18,691	50,392	36,386
Bad debt expense	947	1,412	1,448	1,836
Operating income	14,553	10,313	22,321	13,986
Interest expense, net	1,713	1,121	3,464	2,142
Earnings before income taxes	12,840	9,192	18,857	11,844
Provision for income taxes	5,024	3,725	7,529	4,855
Net income	$ 7,816	$ 5,467	$ 11,328	$ 6,989
Net income per share basic	$ 0.43	$ 0.31	$ 0.63	$ 0.40
Net income per share diluted	$ 0.40	$ 0.29	$ 0.58	$ 0.37
Weighted averages shares outstanding basic	18,164	17,412	18,044	17,354
Weighted averages shares outstanding diluted	19,685	18,884	19,550	18,794

See notes to unaudited consolidated condensed financial statements.

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TEAM, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS EQUITY

(in thousands)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at May 31, 2007	$ 2,984	$ (5,032)	$ 49,159	$ 36,447	$ 645	$ 84,203
Net income				11,328		11,328
Foreign currency translation adjustment					1,938	1,938
Interest rate swap					(581)	(581)
Stock split	2,397	5,032	(4,726)	(2,703)		
Shares issued	1		59			60
Non-cash compensation			1,048			1,048
Exercise of stock options	98		1,590			1,688
Tax benefit from exercise of stock options			1,475			1,475
Balance at November 30, 2007	$ 5,480		$ 48,605	$ 45,072	$ 2,002	$ 101,159

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)

	Six Months Ended November 30,	
	2007 (unaudited)	2006 (unaudited)
Cash Flows From Operating Activities:		
Net income	$ 11,328	$ 6,989
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,941	3,437
Gain (loss) on asset sales	15	(82)
Amortization of deferred loan costs	137	202
Allowance for doubtful accounts	1,394	1,836
Minority interest in earnings and other	(10)	89
Deferred income taxes	12	(550)
Non-cash compensation cost	1,048	595
Changes in assets and liabilities, net of effects from business acquisitions:		
(Increase) decrease:		
Accounts receivable	(15,994)	(8,260)
Inventories	(1,551)	47
Prepaid expenses and other current assets	3,080	2,747
Increase (decrease):		
Accounts payable	139	1,651
Other accrued liabilities	1,764	(4,574)
Income taxes payable	2,361	(595)
Net cash provided by operating activities	8,664	3,532
Cash Flows From Investing Activities:		
Capital expenditures	(14,135)	(7,249)
Proceeds from sale of assets	13	206
Business acquisitions, net of cash acquired	(34,409)	
(Increase) decrease in other assets, net	(665)	263
Net cash used in investing activities	(49,196)	(6,780)
Cash Flows From Financing Activities:		
Net borrowings under revolving credit agreement	43,100	9,140
Payments related to term loans and financing arrangements	(2,429)	(2,626)
Tax benefit of stock option exercises	1,475	332
Insurance note payments	(2,840)	(2,010)
Issuance of common stock	1,748	904
Net cash provided by financing activities	41,054	5,740
Effect of exchange rate changes on cash	913	(346)
Net increase in cash and cash equivalents	$ 1,435	$ 2,146
Cash and cash equivalents at beginning of period	$ 4,335	$ 2,578
Cash and cash equivalents at end of period	$ 5,770	$ 4,724

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 Tea Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. 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 under the symbol TISI and our fiscal year ends on May 31 of each calendar year.

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

- leak repair,
- hot tapping,
- fugitive emissions control,
- field machining,
- technical bolting,
- field valve repair,
- non-destructive testing, and
- field heat treating.

We offer these services in over 80 locations throughout the United States, Aruba, Canada, Singapore, Trinidad and Venezuela.

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, 2007 is derived from the May 31, 2007 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, 2007.

Consolidation. Our consolidated condensed financial statements include the financial statements of Team, Inc. and our majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Minority interest is recognized for the portion not owned by us. Certain amounts in prior years have been reclassified to conform to the current year presentation.

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

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

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

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

Property, Plant and Equipment. Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of assets are computed by the straight-line method over the following estimated useful lives of the assets:

Classification	Life
Buildings	20-40 years
Leasehold improvements	2-10 years
Machinery and equipment	2-10 years
Furniture and fixtures	2-10 years
Computers and computer software	2-5 years
Automobiles	2-5 years

Goodwill and Other Intangible Assets. Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are instead tested for impairment at least annually in accordance with the provisions of the Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets*. Intangible assets with estimated useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with FASB Statement No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

Income Taxes. We follow the guidance in FASB Statement No. 109, *Accounting for Income Taxes*, 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, both positive and negative, 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 and tax planning strategies.

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. To account for those accounts that will eventually be deemed uncollectible we establish an allowance. The allowance for doubtful accounts is based on a combination of our historical experience and management s review of outstanding accounts receivable.

Workers Compensation, Auto, Medical and General Liability Accruals. In accordance with FASB Statement No. 5, *Accounting for Contingencies*, 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 claims, our self-insured retention is $250,000 per case. For medical claims, our self-insured retention is $150,000 per individual claimant determined on an annual basis. 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.

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 (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, 2007 and May 31, 2007, the amount of earned but unbilled revenue included in accounts receivable was $12.3 million and $6.6 million, respectively.

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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 by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed by dividing net income by the sum of (1) the weighted-average number of common shares outstanding during the period and (2) the dilutive effect of the assumed exercise of stock options using the treasury stock method. There is no difference, for any of the periods presented, in the amount of net income (numerator) used in the computation of basic and diluted earnings per share. With respect to the number of weighted average shares outstanding (denominator), diluted shares reflects only the additional pro forma exercise of options to acquire common stock to the extent that the options prices are less than the average market price of common shares during the period.

Options to purchase 632,000 shares of common stock were outstanding during the six month period ended November 30, 2006 but were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of common shares during the period. All outstanding options to purchase common shares were included in the computation of diluted earnings per share for the three and six month period ended November 30, 2007.

Foreign Currency. For subsidiaries whose functional currency is not the United States 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. There were no material transaction gains or losses in any periods presented.

Accounting Principles Adopted

FASB No. 151. In November 2004, the FASB issued FASB No. 151, *Inventory Costs an amendment of ARB 43, Chapter 4* (FASB No. 151). FASB No. 151 clarifies the accounting for excessive amounts of idle facility expense, freight, handling costs and wasted material and requires that the allocation of fixed production overheads to the costs of conversion of inventory be based on the normal capacity of the production facilities. The adoption of this statement on June 1, 2006 did not have a material effect on our results of operations, financial position or cash flows.

FASB No. 154. In May 2005, the FASB issued FASB No. 154, *Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB Statement No. 3* (FASB No. 154). FASB No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle and applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. FASB No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The provisions of FASB No. 154 are effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement on June 1, 2006 did not have a material effect on our results of operations, financial position or cash flows.

SAB No. 108. In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108 (SAB No. 108). SAB No. 108 addresses how the effects of prior year uncorrected financial statement misstatements should be considered in current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both balance sheet and income statement approaches and to evaluate whether either approach results in quantifying an error that is material after all of the relevant quantitative and qualitative factors are considered. SAB No. 108 was effective for annual financial statements covering the first fiscal year ending after November 15, 2006 and is effective for our fiscal year ended May 31, 2007. The adoption of SAB No. 108 did not have a material effect on our results of operations, financial position or cash flows.

FIN No. 48. In June 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We adopted the provisions of FIN 48 on June 1, 2007. The adoption of FIN 48 did not have a material impact on our consolidated financial condition, results of operations or cash flows. At November 30, 2007 we have established liabilities for tax uncertainties of $2.2 million, which includes $0.4 million of interest. These liabilities are primarily associated with a prior acquisition. To the extent these uncertainties are ultimately resolved favorably, the resultant reduction of recorded liabilities would be applied to reduce the balance of goodwill or deferred taxes and would have no effect on our effective tax rate. Because of the status of the ongoing examinations it is not possible to estimate the impact, if any, to previously recorded uncertain tax positions within the next 12 months. In accordance with FIN 48, paragraph 19, our policy is to recognize interest and penalties related to unrecognized tax benefits through the tax provision.

We file income tax returns in the U.S. with federal and state jurisdictions as well as various foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for fiscal years prior to fiscal year 2003. We are currently undergoing an examination by the Internal Revenue Service and Revenue Canada with an anticipated closing date by the end of fiscal year 2008. We believe there is appropriate support for the income tax positions taken and to be taken on our tax returns and that our accruals for tax liabilities are adequate for all open tax years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

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EITF 06-3. In June 2006, the FASB s Emerging Issues Task Force (the Task Force) issued consensus 06-3*, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (EITF 06-3). In EITF 06-3, the Task Force reached a consensus that the presentation of tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer and disclosed on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. In addition, for any such taxes that are reported on a gross basis, an entity should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. EITF 06-3 is effective for reporting periods beginning after December 15, 2006. The adoption of EITF 06-3 on June 1, 2007 did not have a material effect on our results of operations, financial position or cash flows.

Accounting Principles Not Yet Adopted

FASB No. 157. In September 2006, the FASB issued FASB No. 157, *Fair Value Measurements* (FASB No. 157). FASB No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurement. Where applicable, this statement simplifies and codifies fair value related guidance previously issued within GAAP. FASB No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not anticipate FASB No. 157 will have a material effect on our results of operations, financial position or cash flows.

FASB No. 159. In February 2007, the FASB issued FASB No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment to FASB Statement No. 115* (FASB No. 159). FASB No. 159 permits entities to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. It also creates presentation and disclosure requirements that will enhance comparability between entities that choose different measurement attributes for similar types of assets and liabilities. FASB No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not anticipate FASB No. 159 will have a material effect on our results of operations, financial position or cash flows.

2. ACQUISITION

On June 1, 2007, we acquired all the stock of Aitec, Inc. (Aitec) for $33.8 million, plus working capital adjustments and professional fees. Aitec is a non-destructive testing and inspection services company headquartered near Toronto, Ontario with 13 service locations across Canada. Financing for the acquisition was obtained through our bank syndicate. We are in the early stages of determining the fair values of the assets and liabilities assumed. Preliminary information regarding the allocation of the purchase price is set forth below (in thousands):

Classification	**(unaudited)**
Accounts receivable	$ 13,063
Inventory	382
Prepaids and other current assets	692
Property, plant and equipment	2,354
Unallocated purchase price	24,289
Total assets acquired	$ 40,780
Accounts payable	$ 3,251
Accrued liabilities and other	3,021
Deferred taxes	99
Total liabilities assumed	6,371
Net assets acquired	$ 34,409

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Our unaudited pro forma consolidated results of operations are shown below as if the acquisition of Aitec had occurred at the beginning of the fiscal year 2007. These results are not necessarily indicative of the results which would actually have occurred if the purchase had taken place at the beginning of the period, nor are they necessarily indicative of future results (in thousands, except per share data).

	Pro forma data (unaudited) Three months ended November 30, 2006	Pro forma data (unaudited) Six months ended November 30, 2006
Revenues	$ 96,676	$ 173,419
Net income	$ 6,145	$ 8,059
Earnings per share:		
Basic	$ 0.35	$ 0.46
Diluted	$ 0.33	$ 0.43

3. RECEIVABLES

A summary of accounts receivables as of November 30, 2007 and May 31, 2007 is as follows (in thousands):

	November 30, 2007	May 31, 2007
Trade accounts receivable	$ 103,578	$ 80,277
Unbilled revenues	12,323	6,567
Allowance for doubtful accounts	(3,742)	(2,348)
Total	$ 112,159	$ 84,496

4. INVENTORIES

A summary of inventory as of November 30, 2007 and May 31, 2007 is as follows (in thousands):

	November 30, 2007	May 31, 2007
Raw materials	$ 3,323	$ 2,870
Work in progress	445	358
Finished goods	9,683	8,290
Total	$ 13,451	$ 11,518

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of November 30, 2007 and May 31, 2007 is as follows (in thousands):

	November 30, 2007		May 31, 2007	
Land	$	988	$	955
Buildings and leasehold improvements		7,422		7,118
Machinery and equipment		63,728		53,670
Furniture and fixtures		1,508		1,400
Computers and computer software		4,419		3,884
Automobiles		2,108		2,106
Construction in progress		6,610		578
Total		86,783		69,711
Accumulated depreciation and amortization		(39,536)		(34,545)
Property, plant and equipment, net	$	47,247	$	35,166

Included in construction in progress is approximately $5 million of land in the Houston area that will become the home of our new multi-use facility encompassing our corporate headquarters, TMS manufacturing and equipment center, and global training activities.

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6. OTHER ACCRUED LIABILITIES

A summary of other accrued liabilities as of November 30, 2007 and May 31, 2007 is as follows (in thousands):

	November 30, 2007	May 31, 2007
Payroll and other compensation expenses	$ 12,279	$ 9,509
Insurance accruals	3,354	2,583
Property, sales and other taxes	562	527
Interest	1,226	
Auto lease rebate	1,086	1,366
Other	2,183	1,921
Total	$ 20,690	$ 15,906

7. LONG-TERM DEBT

In January 2006, we entered into a three-year enterprise agreement with a vendor for server and desktop volume licensing with software assurance. The Software Licensing Note for the agreement was provided by the vendor under a three year non-interest bearing note. The note has been discounted at 7.3%, which was our effective borrowing rate. The discount of $0.1 million is amortizing to interest expense over the term of the note.

On May 31, 2007, in anticipation of our acquisition of Aitec, we amended and restated our existing banking facility comprised of a term loan and a revolving credit facility (collectively, the Credit Facility). The Credit Facility provides us with a $120 million revolving line of credit and a $15 million term loan through a banking syndicate. The Credit Facility permits us to increase the revolving line of credit up to $145 million subject to certain conditions and provided that our lenders are willing to increase the size of their commitment. The Credit Facility bears interest based on a variable Eurodollar rate option (currently LIBOR plus 1.5%). The margin is set based on our financial covenants as set forth in the Credit Facility. The Credit Facility matures in May 2012. At November 30, 2007, there are $1.2 million of capitalized loan costs which are being amortized over the life of the Credit Facility. The Credit Facility is secured by virtually all of our assets and contains financial covenants and restrictions on the creation of liens on assets, the acquisition or sale of subsidiaries and the incurrence of certain liabilities. At November 30, 2007 we were in compliance with all financial covenants of the Credit Facility.

A summary of long-term debt as of November 30, 2007 and May 31, 2007 is as follows (in thousands):

	November 30, 2007	May 31, 2007
Revolving loan portion of the Credit Facility	$ 81,115	$ 38,015
Term loan portion of the Credit Facility	12,750	15,000
Software Licensing Note	396	554
Auto loans	46	67
	94,307	53,636
Less current portion	5,648	4,862
Long-term debt, excluding current installments	$ 88,659	$ 48,774

FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FASB No. 133), 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 earnings. 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.

In May 2007, we entered into an interest rate swap with our bank to hedge at a fixed pay rate of 4.97%, a portion of the variable cash flows associated with the variable Eurodollar interest expense on our Credit Facility. The portion of the Credit Facility hedged begins with a notional value of $30 million effective June 1, 2007 and decreases to $16.3 million by March 1, 2010. Changes in the cash flows of the interest rate swap are expected to be highly effective in offsetting the changes in cash flows attributable to fluctuations in the variable LIBOR rate on the notional amounts of the Credit Facility. The interest rate swap agreement is designated as a cash flow hedge, with the changes in fair value, to the extent the swap agreement is effective, recognized in other comprehensive income until the hedged interest expense is recognized in earnings.

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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. At November 30, 2007, we were contingently liable for outstanding stand-by letters of credit totaling $5.6 million. 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. INDUSTRY SEGMENT INFORMATION

Revenues from continuing operations and long-lived assets in the United States and other countries are as follows (in thousands):

	Three Months Ended November 30,		Six Months Ended November 30,	
	2007	**2006**	**2007**	**2006**
Revenue				
United States	93,039	70,936	$ 169,084	$ 127,421
Canada	25,149	7,950	48,706	13,720
Other foreign countries	4,122	4,299	8,008	7,783
Total	$ 122,310	$ 83,185	$ 225,798	$ 148,924

	November 30,	May 31,
	2007	**2007**
Total Assets		
United States	$ 160,553	$ 139,735
Canada	64,735	17,051
Other foreign countries	11,190	14,268
Total	$ 236,478	$ 171,054

9. SHARE-BASED PAYMENTS

We have adopted various stock option plans pursuant to which the Board of Directors may grant stock options to officers and key employees. At November 30, 2007, there were approximately 2,886,000 stock options under the plans outstanding to officers, directors, and key employees at prices equal to or greater than the market value of the common stock on the date of grant. The exercise price, terms and other conditions applicable to each option granted under our plans are generally determined by the Compensation Committee of the Board of Directors at the time of grant of each option and may vary.

Our share-based payments consist primarily of stock options. We recognize the fair value of our share-based payments over the vesting periods of the awards. The stock options generally have ten year terms and vest and become fully exercisable after a period ranging from three to four years from the date of grant. Shares issued in connection with our stock option grants are issued out of authorized but unissued common stock. The governance of our stock option grants does not directly limit the number of future stock options we may award so long as the total number of shares ultimately issued does not exceed the total number of shares cumulatively authorized which was 6,620,000 at November 30, 2007.

We granted 630,000 stock options during the three month and six month periods ended November 30, 2007. We granted 418,000 and 462,000 stock options during the three month and six month periods ended November 30, 2006, respectively. Compensation expense related to options granted totaled $0.6 million and $1.0 million for the three month and six month periods ended November 30, 2007, respectively. Tax benefits for compensation expense related to options granted and restricted stock awards totaled $0.9 million and $1.5 million for the three month and six month periods ended November 30, 2007, respectively. As of November 30, 2007, $12.3 million of total unrecognized compensation expense related to options granted is expected to be recognized over a remaining weighted-average period of approximately 3 1/2 years.

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For stock options, we determine the fair value of each stock option at the grant date using a Black-Scholes model, with the following weighted-average assumptions used for grants made during the three and six month periods ended November 30, 2007 and November 30, 2006:

	Three Months Ended		Six Months Ended	
	November 30,		November 30,	
	2007	2006	2007	2006
Risk free interest rate	4.5%	4.7%	4.5%	4.7%
Volatility factor of the expected market price of the Company s common stock	40.2%	39.2%	40.2%	39.2%
Expected dividend yield percentage	0.0%	0.0%	0.0%	0.0%
Weighted average expected life	7 Yrs	6 Yrs	7 Yrs	6 Yrs

Transactions under our stock option plans are summarized below:

	November 30, 2007		November 30, 2006	
	No. of Options (in thousands)	Weighted Average Price	No. of Options (in thousands)	Weighted Average Price
Shares under option, beginning of period	2,822	$8.60	2,868	$6.33
Changes during the year:				
Granted	630	$30.38	462	$15.06
Exercised	(408)	$4.16	(194)	$2.82
Canceled	(158)	$12.47	(6)	$15.97
Shares under option, end of period	2,886	$13.83	3,130	$8.03
Exercisable at end of period	1,396	$7.05	1,764	$4.74

For options outstanding at November 30, 2007, the range of exercise prices and remaining contractual lives are as follows:

Range of Prices	No. of Options (in thousands)	Weighted Average Price	Weighted Average Life (in years)
$0.00 to $3.21	405	$2.02	2.4
$3.22 to $6.41	173	$4.24	4.4
$6.42 to $9.62	755	$8.30	7.0
$9.62 to $12.82	218	$11.26	8.0
$12.83 to $16.03	712	$15.08	8.6
$16.04 to $32.05	623	$30.38	9.8
	2,886	$13.83	7.3

10. STOCK SPLIT

On July 25, 2007, we announced a two-for-one stock split in the form of a 100 percent stock dividend payable on August 29, 2007 to all shareholders of record on August 15, 2007. To fund the requirement of new shares, we utilized approximately 1 million shares of treasury stock and issued an additional 8 million shares of common stock. All share and per share information has been retroactively adjusted to reflect the stock split.

11. SUBSEQUENT EVENT

On January 9, 2008, subsequent to our period end, we completed the purchase of Leak Repairs Specam (LRS), a specialty industrial services company. LRS, which is headquartered in Vlissingen, The Netherlands, currently provides a range of services similar to those offered by our TMS division including on-stream leak sealing, hot tapping, fugitive emissions monitoring, field machining and bolting services. LRS is a market leader in the Benelux region with current annual revenues of approximately $22 million from four service locations in The Netherlands and Belgium. For the past 20 years, LRS has been a licensee of our leak repair, hot tapping, and fugitive emissions technologies. The purchase price of the acquisition is approximately $18 million subject to possible working capital adjustments and we expect to finance the entire transaction with our Credit Facility.

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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 condensed consolidated 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 Rep