



Industrial Services

TEAM, INC. 2012 ANNUAL REPORT

ONE TEAM  
BUILDING  
A GREAT  
COMPANY

## DEAR FELLOW SHAREHOLDERS,

I am pleased to report that we again achieved record financial performance and continued strong business growth in our fiscal year ended May 31. During fiscal year 2012, Team's revenues grew 23% and our adjusted earnings per share increased 33%. This year's financial performance builds upon our record of strong business growth and performance over many years. Since 2000, our compound average annual growth rate in revenues, earnings per share, and total return to shareholders has been 21%, 36%, and 33% respectively. Additionally, Team remains well-positioned to continue our tradition of growth in the current year and beyond.

### Team's Strategy and Outlook

Team provides specialty industrial services related to the assessment, maintenance, and construction of high pressure, high temperature piping systems and related vessels as well as specialized inspection and assessment services for a wide variety of applications and industries. While the fundamental demand for our basic services is growing only modestly, at about the rate of overall economic growth for the United States, we have been able to expand our business at a much higher growth rate. We have accomplished this higher growth through targeted acquisitions, the internal development of new service opportunities and by capitalizing on our outstanding service capabilities and the breadth of our service network and range of our service offerings.

Team's business growth is not limited to one geographic area or one line of business. Our growth is very broad based. In both this past year, as well as over the past decade, our business has grown at more than a 10% average annual rate in each of our operating regions (US, Canada, Europe, Asia/South America) and in each of our ten major service lines.

Additionally, I believe that Team remains well-positioned to build on our good track record with continued attractive growth rates. First, in our largest and "most mature" markets in North America, we have considerable opportunity to continue gaining significant market share from our smaller competitors by capitalizing on the inherent advantages of our large service network. Second, we have significant growth opportunities by continuing the expansion of our service footprint geographically, as well as through the development of additional complementary services. Within the past several years, via a combination of acquisitions and organic growth, we have significantly expanded our service presence in Asia, Europe, Central/South America, and the Middle East. At the same time, we have introduced and/or expanded our service capabilities in heat exchanger repair services, the insert valve product offering, advanced inspection services, and both plant and pipeline mechanical integrity programs. I believe there are exciting high growth opportunities available to Team in all of these markets for many years to come.

The key to maintaining this strong business growth is to continue the outstanding service performance provided by all of our Team colleagues. We provide critical services to our customers that enable them to maintain and operate their plants and facilities in a safe and productive manner. They depend on us to provide this support safely, effectively, and efficiently. We have to earn and affirm the trust and confidence of each of our customers with every one of our service opportunities.

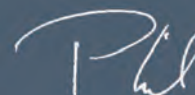
### Fiscal Year 2012 Financial Performance

Team's adjusted earnings in fiscal year 2012 were \$1.67 per fully diluted share, up more than 30% from last year's results. Our results reflect the continued strong revenue growth for Team's business. Total revenues were \$624 million, up 23% from the prior year period. Total organic revenue growth, excluding the impact of acquisitions, was \$100 million, an increase of 20% during the year. Resulting operating profit was \$57.3 million, up 33%, and operating profit margin was 9.2%, up 0.7% pts. Adjusted EBITDA was \$79.2 million and the EBITDA margin (as a percentage of revenues) was 12.7%. Team maintained stable job margins and favorable cost leverage in both indirect and SG&A cost categories.

Despite the need to fund our high growth as well as targeted acquisitions, Team maintains a very strong balance sheet. Strong operating cash flows from our operations are the primary source of funding for Team's additional investments. At year end, our net debt level was approximately \$64 million. Our net debt to EBITDA leverage ratio is considerably less than 1 to 1. Team has available capacity on our existing credit facilities of more than \$50 million.

We are all proud of the sustained high growth performance of our company. I thank all of our Team colleagues for their vital role in achieving this success. It takes the outstanding contributions and leadership from all 3,800 of our colleagues to meet the needs of our customers. We are one Team building a great company!

Thank you for your continuing interest in and support of our company. We look forward to continued success and improvement in the coming year.



Philip J. Hawk  
Chairman and CEO

### Reconciliation of GAAP net income to adjusted net income

	Twelve Months Ended May 31	
	2012	2011
Net income available to shareholders	\$32,911	\$26,585
Adjustments for non-routine items:		
Fixed asset writedown	1,658	-
Legal settlement	800	-
Quest Integrity acquisition costs	-	632
Total pre-tax adjustments	2,458	632
Tax impact of non-routine items	(913)	(253)
Non-routine tax benefit	-	(1,758)
Adjusted net income available to common shareholders	\$34,456	\$25,206
Adjusted diluted earnings per common share	\$1.67	\$1.26

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

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

For the fiscal year ended May 31, 2012

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**

(State or Other Jurisdiction of Incorporation or Organization)

**74-1765729**

(I.R.S. Employer Identification No.)

**200 Hermann Drive, Alvin, Texas**

(Address of Principal Executive Offices)

**77511**

(Zip Code)

**(281) 331-6154**

**(Registrant's Telephone Number, Including Area Code)**

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.30 par value

New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

(Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the completion of the most recent second quarter:

Voting common stock (November 30, 2011) ..... \$373,336,366

For purposes for the foregoing calculation only, all directors, executive officers, the Team, Inc. Salary Deferral Plan and Trust and known 5% or greater beneficial owners have been deemed affiliates.

The Registrant had 19,956,096 shares of common stock, par value \$0.30, outstanding and 89,569 shares of treasury stock as of July 27, 2012.

**Documents Incorporated by Reference**

Portions of our definitive proxy statement for the 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this report. These will be filed no later than September 28, 2012.



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*Certain items required in Part III of this Form 10-K can be found in our 2012 Proxy Statement and are incorporated herein by reference. A copy of the 2012 Proxy Statement will be provided, without charge, to any person who receives a copy of this Form 10-K and submits a written request to Team, Inc., Attn: Corporate Secretary, 200 Hermann Drive, Alvin, Texas, 77511.*

## **PART I**

### **ITEM 1. BUSINESS**

#### **General Information**

**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](http://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 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. 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
- 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.

#### **Narrative Description of Business**

**Inspection and Assessment Services.** We offer inspection and evaluation of piping, piping components and equipment to determine the present condition and predict remaining operability. Our inspection services use all the common methods of non-destructive testing, including radiography, ultrasound, magnetic particle and dye penetrate, higher end robotic and newly developed advanced technology systems. Many of the visual inspection programs we provide require specialized training to industry and regulatory standards. Inspection services are marketed to our traditional industrial customer base, and customers outside our traditional customer base, such as the aerospace and automotive industries. Inspection services frequently require industry recognized training and certification processes. We maintain training and certification programs which are designed to meet or exceed industry standards.

***Field Heat Treating Services.*** Our field heat treating services include electric resistance and gas-fired combustion, primarily utilized by industrial users to enhance the metallurgical properties of their process piping and equipment. Electric resistance heating is the transfer of high energy power sources through attached heaters to the plant component to preheat weld joints, to remove contaminants and moisture prior to welding and post-weld heat treatments to relieve metal thermal stresses induced by the welding process. Specialty heat treating processes are performed using gas-fired combustion on large pressure vessels for stress relieving, to bake specialty paint coatings and controlled drying of abrasion and temperature resistant refractories. Special high frequency heating, commonly called induction heating, is used to expand metal parts for assembly or disassembly, expansion of large bolting for industrial turbines and stress relieving projects which is cost prohibitive for electric resistance or gas-fired combustion.

***Leak Repair Services.*** Our leak repair services consist of on-stream repairs of leaks in pipes, valves, flanges and other parts of piping systems and related equipment. Our on-stream repairs utilize both standard and custom-designed clamps and enclosures for piping systems. We use specially developed techniques, sealants and equipment for repairs. Many of our repairs are furnished as interim measures which allow plant systems to continue operating until more permanent repairs can be made during plant shut downs. Our leak repair services involve inspection of the leak by our field crew who records pertinent information about the faulty part of the system and transmits the information to our engineering department for determination of appropriate repair techniques. Repair materials such as clamps and enclosures are custom designed and manufactured at our ISO-9001 certified manufacturing centers and delivered to the job site. We maintain an inventory of raw materials and semi-finished clamps and enclosures to reduce the time required to manufacture the finished product.

***Fugitive Emissions Control Services.*** We provide fugitive volatile organic chemical (“VOC”) emission leak detection services that include identification, monitoring, data management and reporting primarily for the chemical, refining and natural gas processing industries. These services are designed to monitor and record VOC emissions from specific process equipment and piping components as required by environmental regulations and customer requests, typically assisting the customer in enhancing an ongoing maintenance program and/or complying with present and/or future environmental regulations. We provide specialty trained technicians in the use of portable organic chemical analyzers and data loggers to measure potential leaks at designated plant components maintained in customer or our proprietary databases. The measured data is used to prepare standard reports in compliance with the U.S. Environmental Protection Agency (“EPA”) and local regulatory requirements. We also provide enhanced custom-designed reports to customer specifications.

***Hot Tapping Services.*** Our hot tapping services consist of providing a full range of hot tapping, Line-stop<sup>®</sup> and Freeze-stop<sup>®</sup> services with capabilities for up to 48” diameter pipelines. Hot tapping services involve utilizing special equipment to cut a hole in a pressurized pipeline so that a new branch pipe can be connected onto the existing pipeline without interrupting operations. Line-stop<sup>®</sup> services permit the line to be depressurized downstream so that maintenance work can be performed on the piping system. We typically perform these services by mechanically cutting into the pipeline similar to a hot tap and installing a special plugging device to stop the process flow. The Hi-stop<sup>®</sup> is a proprietary and patented procedure that allows stopping of the process flow in extreme pressures and temperatures. In some cases, we may use a line freezing procedure by injecting liquid nitrogen into installed special external chambers around the pipe to stop the process flow.

***Field Machining Services and Technical Bolting Services.*** We use portable machining equipment to repair or modify machinery, equipment, vessels and piping systems not easily removed from a permanent location. As opposed to conventional machining processes where the work piece rotates and the cutting tool is fixed, in field machining, the work piece remains fixed in position and the cutting tool rotates. Other common descriptions for this service are on-site or in-place machining. Field machining services include flange facing, pipe cutting, line boring, journal turning, drilling and milling. We provide customers technical bolting as a complimentary service to field machining during plant shut downs or maintenance activities. These services involve the use of hydraulic or pneumatic equipment with industry standard bolt tightening techniques to achieve

reliable and leak-free connections following plant maintenance or expansion projects. Additional services include bolt disassembly and hot bolting, which is a process to remove and replace a bolt as the process is operating.

**Field Valve Repair Services.** We perform on-site repairs to manual and control valves, pressure and safety relief valves as well as specialty valve actuator diagnostics and repair. We are certified and authorized to perform testing and repairs to pressure and safety relief valves by The National Board of Boiler and Pressure Vessel Inspectors. This certification requires specific procedures, testing and documentation to maintain the safe operation of these essential plant valves. We provide special transportable trailers to the plant site which contain specialty machines to manufacture valve components without removing the valve from the piping system. In addition, we provide preventive maintenance programs for VOC specific valves and valve data management programs.

### **Description of Segment and Divisions**

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

### **Acquisitions**

In fiscal year 2012, we completed two small acquisitions for a total of \$19.4 million. Both acquisitions were financed through borrowings on our banking credit facility. These small acquisitions resulted in the creation of an insignificant amount of intangible assets. We perform preliminary purchase price allocations based on our most current assessments of fair value of the assets acquired and the liabilities assumed. During the process of completing certain post acquisition procedures, including valuation of some intangible assets and other items, finalizing the assessments of fair value may affect the final allocation of the purchase price. As such, the purchase price allocations related to these small acquisitions are subject to change as the procedures are completed. Based upon our preliminary purchase price allocation associated with both of these transactions, we have recorded an increase of \$1.1 million in net working capital, fixed assets of \$3.0 million, \$6.3 million in intangible assets classified as customer relationships and \$8.9 million in goodwill. We expect a final valuation report of intangibles and goodwill associated with these transactions to be completed by an independent specialist in early fiscal year 2013.

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 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 are reflected in our TCM division.

### **Marketing and Customers**

Our industrial services are marketed principally by personnel based at our service locations. We believe that these service locations are situated to facilitate timely responses to customer needs with on-call expertise, which is an important feature of selling and providing our services. Our array of integrated services also allows us to benefit from the procurement trends of many of our customers who are seeking reductions in the number of contractors and vendors in their facilities. No single customer accounted for 10% or more of consolidated revenues during any of the last three fiscal years.

Generally, customers are billed on a time and materials basis, although some work may be performed pursuant to a fixed-price bid. Services are usually performed pursuant to purchase orders issued under written customer agreements. While most purchase orders provide for the performance of a single job, some provide for services to be performed on a run and maintain basis. Substantially all our agreements and contracts may be terminated by either party on short notice. The agreements generally specify the range of services to be performed and the hourly rates for labor. While many contracts cover specific plants or locations, we also enter into multiple-site regional or national contracts which cover multiple plants or locations.

### **Seasonality**

We experience some seasonal fluctuations. Historically, the refining industry has scheduled plant shutdowns (commonly referred to as "turnarounds") for the fall and spring seasons. Large turnarounds can significantly impact our revenues.

### **Employees**

At May 31, 2012, we had approximately 3,800 employees in our worldwide operations. Our employees in the U.S. are predominantly not unionized. Our Canadian employees and certain employees outside of North America, primarily Europe, are unionized. There have been no employee work stoppages to date and we believe our relations with our employees and their representative organizations are good.

### **Regulation**

A significant portion of our business activities are subject to foreign, federal, state and local laws and regulations. These regulations are administered by various foreign, federal, state and local health and safety and environmental agencies and authorities, including the Occupational Safety and Health Administration of the U.S. Department of Labor and the EPA. Failure to comply with these laws and regulations may involve civil and



criminal liability. From time to time, we are also subject to a wide range of reporting requirements, certifications and compliance as prescribed by various federal and state governmental agencies that include, but are not limited to, the EPA, the Nuclear Regulatory Commission, Chemical Safety Board, Department of Transportation and Federal Aviation Administration. Expenditures relating to such regulations are made in the normal course of our business and are neither material nor place us at any competitive disadvantage. We do not currently expect that compliance with such laws and regulations will require us to make material expenditures.

From time to time, in the operation of our environmental consulting and engineering services, the assets of which were sold in 1996, we handled small quantities of certain hazardous wastes or other substances generated by our customers. Under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (the "Superfund Act"), the EPA is authorized to take administrative and judicial action to either cause parties who are responsible under the Superfund Act for cleaning up any unauthorized release of hazardous substances to do so, or to clean up such hazardous substances and to seek reimbursement of the costs thereof from the responsible parties, who are jointly and severally liable for such costs under the Superfund Act. The EPA may also bring suit for treble damages from responsible parties who unreasonably refuse to voluntarily participate in such a clean-up or funding thereof. Responsible parties include anyone who owns or operates the facility where the release occurred (either currently and/or at the time such hazardous substances were disposed of), or who by contract arranges for disposal, treatment, transportation for disposal or treatment of a hazardous substance, or who accepts hazardous substances for transport to disposal or treatment facilities selected by such person from which there is a release. We believe that our risk of liability is minimized since our handling consisted solely of maintaining and storing small samples of materials for laboratory analysis that are classified as hazardous. Due to its prohibitive costs, we accordingly do not currently carry insurance to cover liabilities which we may incur under the Superfund Act or similar environmental statutes.

### **Intellectual Property**

We are the holder of various patents, trademarks, trade secrets and licenses, which have not historically been material to our consolidated business operations. However, our recently acquired subsidiary, Quest, has significant trade secrets and intellectual property pertaining to its in-line inspection tool technologies. This subsidiary was acquired in fiscal year 2011 and a significant amount of the purchase price was allocated to these intangible assets. (See Note 2 to our audited consolidated financial statements).

### **Competition**

In general, competition stems from a large number of other outside service contractors. More than 100 different competitors are currently active in our markets. We believe we have a competitive advantage over most service contractors due to the quality, training and experience of our technicians, our nationwide and increasingly international service capability, our broad range of services, and our technical support and manufacturing capabilities supporting the service network. However, there are other competitors that may offer a similar range of coverage or services and include, but are not limited to, Acuren Group, Inc., Furmanite Corporation, Guardian Compliance, Mistras Group, Inc. and T.D. Williamson, Inc.

### **Available Information**

As a public company, we are required to file periodic reports with the Securities and Exchange Commission (the "SEC") within established deadlines. Any document we file with the SEC may be viewed or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Additional information regarding the Public Reference Room can be obtained by calling the SEC at (800) SEC-0330. Our SEC filings are also available to the public through the SEC's website located at [www.sec.gov](http://www.sec.gov).

Our internet website address is [www.teamindustrialservices.com](http://www.teamindustrialservices.com). Information contained on our website is not part of this report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, Proxy

Statements and current reports on Form 8-K filed with (or furnished to) the SEC are available on our website, free of charge, as soon as reasonably practicable after we file or furnish such material. We also post our code of ethical conduct, our governance principles, our social responsibility policy and the charters of our Board of Directors' (the "Board") committees on our website. Our governance documents are available in print to any stockholder that submits a written request to Team, Inc., Attn: Corporate Secretary, 200 Hermann Drive, Alvin, Texas, 77511.

## **ITEM 1A. RISK FACTORS**

Past financial performance is not necessarily a reliable indicator of future performance, and investors in our common stock should not use historical performance to anticipate results or future period trends. Investing in our common stock involves a high degree of risk. The risk factors described below should be carefully considered in addition to other information contained or incorporated by reference herein. We operate in a continually changing business environment and new risk factors emerge from time to time. We cannot predict such risk factors, nor can we assess the impact, if any, of such risk factors on our business or the extent to which any factors may cause actual results to differ materially from those projected. The following risks and uncertainties should be considered in evaluating our outlook of future Company performance.

***The current economic environment may affect our customers' demand for our services.*** The ongoing economic uncertainty has reduced the availability of liquidity and credit and, in many cases, reduced demand for our customers' products. Continued disruption of the credit markets could also adversely affect our customers' ability to finance on-going maintenance and new projects, resulting in contract cancellations or suspensions, and project delays. An extended or deepening recession may result in further plant closures or other contractions in our customer base. These factors may also adversely affect our ability to collect payment for work we have previously performed. Furthermore, our ability to expand our business could be limited if, in the future, we are unable to increase our credit capacity under favorable terms or at all. Such disruptions, should they occur, could materially impact our results of operations, financial position or cash flows.

***Our revenues are heavily dependent on certain industries.*** Sales of our services are dependent on customers in certain industries, particularly the refining and petrochemical industries. As experienced in the past, and as expected to occur in the future, downturns characterized by diminished demand for services in these industries could have a material impact on our results of operations, financial position or cash flows.

***We sell our services in highly competitive markets, which places pressure on our profit margins and limits our ability to maintain or increase the market share of our services.*** Our competition generally stems from other outside service contractors, many of whom offer a similar range of services. The ongoing economic uncertainty has generally reduced demand for industrial services and thus created a more competitive bidding environment for new and existing work. No assurances can be made that we will continue to maintain our pricing model and our profit margins or increase our market share.

***No assurances can be made that we will be successful in maintaining or renewing our contracts with our customers.*** A significant portion of our contracts and agreements with customers may be terminated by either party on short notice. Although we actively pursue the renewal of our contracts, we cannot assure that we will be able to renew these contracts or that the terms of the renewed contracts will be as favorable as the existing contracts. If we are unable to renew or replace these contracts, or if we renew on less favorable terms, we may suffer a material reduction in revenue and earnings.

***No assurances can be made that we will be successful in hiring or retaining members of a skilled technical workforce.*** We have a skilled technical workforce and an industry recognized technician training program for each of our service lines that prepares new employees as well as further trains our existing employees. The competition for these individuals is intense. The loss of the services of a number of these individuals, or failure to attract new employees, could adversely affect our ability to perform our obligations on our customers' projects or maintenance and consequently could negatively impact the demand for our products and services.

***Unsatisfactory safety performance can affect customer relationships, result in higher operating costs and negatively impact our ability to hire and retain a skilled technical workforce.*** Our workers are subject to the normal hazards associated with providing services at industrial facilities. Even with proper safety precautions, these hazards can lead to personal injury, loss of life, destruction of property, plant and equipment, lower employee morale and environmental damage. We are intensely focused on maintaining a strong safety environment and reducing the risk of accidents to the lowest possible level. Poor safety performance may limit or eliminate potential revenue streams from many of our largest customers and may materially increase our future insurance and other operating costs. Although we maintain insurance coverage, such coverage may be inadequate to protect us from all expenses related to these risks.

***Our operations and properties are subject to extensive governmental regulation under environmental laws.*** Environmental laws and regulations can impose substantial sanctions for violations or operational changes that may limit our services. We must conform our operations to applicable regulatory requirements and adapt to changes in such requirements in all locations in which we operate. These actions may increase the overall costs of providing our services. Some of our services involve handling or monitoring highly regulated materials, including volatile organic compounds or hazardous wastes. Environmental laws and regulations generally impose limitations and standards for regulated materials and require us to obtain permits and comply with various other requirements. The improper characterization, handling, disposal or monitoring of regulated materials or any other failure by us to comply with increasingly complex and strictly enforced federal, state and local environmental laws and regulations or associated environmental permits could subject us to the assessment of administrative, civil and criminal penalties, the imposition of investigatory or remedial obligations, or the issuance of injunctions that could restrict or prevent our ability to operate our business and complete contracted services. A defect in our services or faulty workmanship could result in an environmental liability if, as a result of the defect or faulty workmanship, a contaminate is released into the environment.

***We currently maintain liability insurance to limit any potential loss, but there can be no assurance that our insurance will fully protect us against a claim or loss.*** We perform services in hazardous environments on or around high-pressure, high temperature systems and our employees are exposed to a number of hazards, including exposure to hazardous materials, explosion hazards and fire hazards. Incidents that occur at these large industrial facilities or systems, regardless of fault, may be catastrophic and adversely impact our employees and third parties by causing serious personal injury, loss of life, damage to property or the environment, and interruption of operations. Our contracts typically require us to indemnify our customers for injury, damage or loss arising out of our presence at our customers' location, regardless of fault, or the performance of our services and provide for warranties for materials and workmanship. We may also be required to name the customer as an additional insured under our insurance policies. We maintain insurance coverage against these and other risks associated with our business. Due to the high cost of general liability coverage, we maintain insurance with a self-insured retention of \$3 million per occurrence. This insurance may not protect us against liability for certain events, including events involving pollution, product or professional liability, losses resulting from business interruption or acts of terrorism or damages from breach of contract by the Company. We cannot assure you that our insurance will be adequate in risk coverage or policy limits to cover all losses or liabilities that we may incur. Moreover, in the future, we cannot assure that we will be able to maintain insurance at levels of risk coverage or policy limits that we deem adequate. Any future damages caused by our products or services that are not covered by insurance or are in excess of policy limits could have a material adverse effect on our results of operations, financial position or cash flows.

***We are involved and are likely to continue to be involved in legal proceedings, which will increase our costs and, if adversely determined, could have a material effect on our results of operations, financial position or cash flows.*** We are currently a defendant in legal proceedings arising from the operation of our business and it is reasonable to expect that we will be named in future actions. Most of the legal proceedings against us arise out of the normal course of performing services at customer facilities, and include claims for workers' compensation, personal injury and property damage. Legal proceedings can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate

outcome. An unsuccessful defense of a liability claim could have an adverse effect on our business, results of operations, financial position or cash flows.

***Economic, political and other risks associated with international operations could adversely affect our business.*** A significant portion of our operations are conducted and located outside the United States and, accordingly, our business is subject to risks associated with doing business internationally, including changes in foreign currency exchange rates, instability in political or economic conditions, difficulty in repatriating cash proceeds, differing employee relations, differing regulatory environments, trade protection measures, and difficulty in administering and enforcing corporate policies which may be different than the normal business practices of local cultures. In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. and foreign anti-corruption regulations applicable to us such as the U.S. Foreign Corrupt Practices Act (“FCPA”) and the United Kingdom Bribery Act. Our international business operations may include projects in countries where corruption is prevalent. Although we have, and continue to, implement policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors or agents, including those representing us in countries where practices which violate such anti-corruption laws may be customary, will not take actions in violation of our policies and procedures. Any violation of foreign or U.S. laws by our employees, contractors or agents, even if such violation is prohibited by our policies and procedures, could have a material adverse effect on our results of operations, financial position or cash flows.

***Our growth strategy entails risk for investors.*** We intend to continue to pursue acquisitions in, or complementary to, the specialty maintenance and construction services industry to complement and diversify our existing business. We may not be able to continue to expand our market presence through attractive acquisitions, and any future acquisitions may present unforeseen integration difficulties or costs. From time to time, we make acquisitions of other businesses that enhance our services or the geographic scope. No assurances can be made that we will realize the cost savings, synergies or revenue enhancements that we may anticipate from any acquisition, or that we will realize such benefits within the time frame that we expect. If we are not able to address the challenges associated with acquisitions and successfully integrate acquired businesses, or if our integrated product and service offerings fail to achieve market acceptance, our business could be adversely affected. The consideration paid in connection with an acquisition may also affect our share price or future financial results depending on the structure of such consideration. To the extent we issue stock or other rights to purchase stock, including options or other rights, existing shareholders may be diluted and earnings per share may decrease. In addition, acquisitions may result in the incurrence of additional debt.

***The price of our outstanding securities may be volatile.*** It is possible that in some future quarter or quarters our revenues, operating results or other measures of financial performance will not meet the expectations of public stock market analysts or investors, which could cause the price of our outstanding securities to decline or be volatile. Historically, our quarterly and annual sales and operating results have fluctuated. We expect fluctuations to continue in the future. In addition to general economic and political conditions, the following factors may affect our sales and operating results: the timing of significant customer orders, the timing of planned maintenance projects at customer facilities, changes in competitive pricing, wide variations in profitability by product line, variations in operating expenses, rapid increases in raw material and labor costs, the timing of announcements or introductions of new products or services by us, our competitors or our respective customers, the acceptance of those services, our ability to adequately meet staffing requirements with qualified personnel, relative variations in manufacturing efficiencies and costs, and the relative strength or weakness of international markets. Since our quarterly and annual revenues and operating results vary, we believe that period-to-period comparisons are not necessarily meaningful and should not be relied upon as indicators of our future performance.

***Our business may be adversely impacted by work stoppages, staffing shortages and other labor matters.*** At May 31, 2012, we had approximately 3,800 employees and contractors, approximately 700 of whom were located in Canada and Europe where employees predominantly are represented by unions. Although we believe that our relations with our employees are good and we have had no strikes or work stoppages, no



assurances can be made that we will not experience these and other types of conflicts with labor unions, works councils, other groups representing employees, or our employees in general, or that any future negotiations with our labor unions will not result in significant increases in the cost of labor.

***Climate change legislation or regulations restricting emissions of “greenhouse gases” could result in reduced demand for our services and products.*** Recent scientific studies have suggested that emissions of certain gases, commonly referred to as “greenhouse gases” may be contributing to warming of the earth’s atmosphere. As a result, there have been a variety of regulatory developments, proposals or requirements and legislative initiatives that have been introduced in the United States (and other parts of the world) that are focused on restricting the emission of carbon dioxide, methane and other greenhouse gases. The adoption and implementation of any regulations which impose limiting emissions of carbon dioxide and other greenhouse gases from customers for whom we provide repair and maintenance services could affect demand for our products and services.

***Interruptions in the proper functioning of our information systems could disrupt operations and cause increases in costs and/or decreases in revenues.*** The proper functioning of our information systems is critical to the successful operation of our business. Although our information systems are protected through physical and software safeguards, our information systems are still vulnerable to natural disasters, power losses, telecommunication failures and other problems. If critical information systems fail or are otherwise unavailable, our business operations could be adversely affected.

***Other risk factors.*** Other risk factors may include interruption of our operations, or the operations of our customers due to fire, hurricanes, earthquakes, power loss, telecommunications failure, terrorist attacks, labor disruptions, health epidemics and other events beyond our control.

Any one of these factors, or a combination of these factors, could materially affect our future results of operations, financial position or cash flows and whether any forward-looking statements in this Form 10-K ultimately prove to be accurate.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

We own several facilities used in our operations. Our 88,000 square foot facility in Alvin, Texas consists of our corporate office, primary training facility and ISO-9001 certified manufacturing facility for clamps, enclosures, and sealants. Additionally, we own a 30,000 square foot manufacturing facility in Houston, Texas and an 11,000 square foot equipment distribution facility in Pearland, Texas. We also own offices for our branch service locations in the following areas:

- Beaumont, Texas (27,000 square feet)
- Pasadena, Texas (27,000 square feet)
- Edmonton, Alberta (17,000 square feet)
- Milwaukee, Wisconsin (10,000 square feet)

All other facilities used in our operations are provided through operating leases.

Included in assets held for sale is \$5.8 million pertaining to land in or around Houston. This primarily consists of \$5.2 million attributable to 50 acres purchased in October 2007 on which we had previously planned

to construct future facilities in Pearland, Texas. During the fourth quarter of fiscal year 2012, we decided not to proceed with construction of the future facilities at this location and recognized a \$1.7 million asset writedown of pre-construction building costs and capitalized interest.

We believe that our property and equipment are adequate for our current needs, although additional investments are expected to be made in property and equipment for expansion, replacement of assets at the end of their useful lives and in connection with corporate development activities.

### **ITEM 3. LEGAL PROCEEDINGS**

We have, from time to time, provided temporary leak repair services for the steam operations of Consolidated Edison of New York (“Con Ed”) located in New York City. In July 2007, a Con Ed steam main located in midtown Manhattan ruptured causing one death and other injuries and property damage. As of May 31, 2012, one hundred and six lawsuits have been filed against Con Ed, the City of New York and Team in the Supreme Courts of New York located in Kings, New York and Bronx County, alleging that our temporary leak repair services may have contributed to the cause of the rupture. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, on March 31, 2008, we received a letter from Con Ed alleging that our contract with Con Ed requires us to indemnify and defend Con Ed for additional claims filed against Con Ed as a result of the rupture. Con Ed filed an action to join Team and the City of New York as defendants in all lawsuits filed against Con Ed that did not include Team and the City of New York as direct defendants. We are vigorously defending the lawsuits and Con Ed’s claim for indemnification. We are unable to estimate the amount of liability to us, if any, associated with these lawsuits and the claim for indemnification. We maintain insurance coverage, subject to a deductible limit of \$250,000, which we believe should cover these claims. We have not accrued any liability in excess of the deductible limit for the lawsuits. We do not believe the ultimate outcome of these matters will have a material adverse effect on our financial position, results of operations, or cash flows.

In June 2010, we received a grand jury subpoena from the United States Attorney for the Northern District of Texas requesting documents related to fugitive emissions monitoring services provided to customers from our Borger, Texas branch office. Our internal investigation determined that on specific occasions, certain employees failed to follow EPA protocols while conducting emissions monitoring and one supervisor, along with another employee, altered the customer’s emissions monitoring database to falsely represent monitoring events. The falsification of emissions monitoring protocols and data resulted in the generation of false representations and certifications in records and reports which our customer submitted to the EPA and Texas Commission on Environmental Quality.

In July 2012, we negotiated a plea agreement and pled guilty to a single misdemeanor violation of a section of the Clean Air Act. In the plea agreement, we agreed to develop and implement an Environmental Compliance Plan for our emissions monitoring services to enhance our compliance with the Clean Air Act.

The maximum penalty for this misdemeanor violation is a term of probation of not more than five years and a fine not to exceed \$200,000, or twice any gross gain to us or loss to the victim(s). While the actual penalty has not yet been determined, we do not believe the ultimate outcome of this matter will have a material adverse effect on our financial position, results of operations, or cash flows.

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

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

Prior to January 3, 2012, our stock was traded on the NASDAQ under the symbol "TISI". Beginning January 3, 2012, our stock is now traded on the NYSE under the same symbol. The table below reflects the high and low sales prices of our common stock by quarter for the fiscal years ended May 31, 2012 and 2011, respectively.

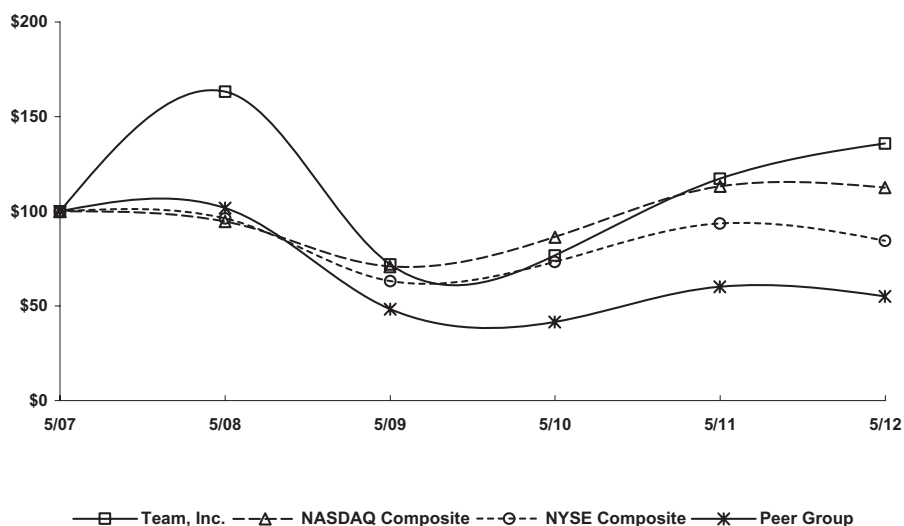
	Sales Price	
	High	Low
<b>2012</b>		
Quarter ended:		
August 31, 2011 .....	\$27.48	\$20.27
November 30, 2011 .....	\$27.43	\$19.98
February 29, 2012 .....	\$32.50	\$26.39
May 31, 2012 .....	\$33.50	\$24.95
<b>2011</b>		
Quarter ended:		
August 31, 2010 .....	\$16.26	\$12.64
November 30, 2010 .....	\$21.88	\$14.70
February 28, 2011 .....	\$28.71	\$20.36
May 31, 2011 .....	\$28.42	\$21.31

## Performance Graph

The following performance graph compares the performance of our common stock to the NASDAQ Composite Index, the NYSE Composite Index and a Peer Group Index. The comparison assumes \$100 was invested on May 31, 2007 in our common stock, the NASDAQ Composite Index, the NYSE Composite Index and a Peer Group Index. The values of each investment are based on share price appreciation, with reinvestment of all dividends, assuming any were paid. For each graph, the investments are assumed to have occurred at the beginning of each period presented. The following companies are included in our peer group index used in the graph: Furmanite Corporation, Matrix Service Company, Englobal Corporation and Mistras Group, Inc.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Team, Inc., the NASDAQ Composite Index,  
the NYSE Composite Index, and a Peer Group



\*\$100 invested on 5/31/07 in stock or index, including reinvestment of dividends.  
Fiscal year ending May 31.

	5/07	5/08	5/09	5/10	5/11	5/12
Team, Inc. . . . .	100.00	163.51	72.21	76.75	117.38	136.16
NASDAQ Composite . . . . .	100.00	94.87	70.94	86.49	113.35	112.60
NYSE Composite . . . . .	100.00	96.41	63.46	73.49	93.80	84.77
Peer Group . . . . .	100.00	101.96	48.58	41.76	60.43	55.16

Notes: The above information was provided by Research Data Group, Inc.

## Holder

There were 210 holders of record of our common stock as of July 27, 2012 excluding beneficial owners of stock held in street name.

## Dividends

No cash dividends were declared or paid during the fiscal years ended May 31, 2012, 2011 and 2010. We are not permitted to pay cash dividends without the consent of our bank syndicate. Accordingly, we have no present intention to pay cash dividends in the foreseeable future. Additionally, any future dividend payments will continue to depend on our financial condition, market conditions and other matters deemed relevant by the Board.



**Securities Authorized for Issuance Under Equity Compensation Plans**

This information has been omitted from this report on Form 10-K as we intend to file such information in our definitive proxy statement no later than 120 days following the close of our fiscal year ended May 31, 2012. The information required regarding equity compensation plans is hereby incorporated by reference.

## ITEM 6. SELECTED FINANCIAL DATA

The following is a summary of selected financial information for the five years ended May 31, 2012 (in thousands, except per share data):

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues .....	\$623,740	\$508,020	\$453,869	\$497,559	\$478,475
Operating income .....	\$ 56,497	\$ 42,475	\$ 24,777	\$ 41,271	\$ 45,873
Net income available to Team shareholders .....	\$ 32,911	\$ 26,585	\$ 12,275	\$ 22,911	\$ 23,623
Net income per share					
Basic .....	\$ 1.67	\$ 1.38	\$ 0.65	\$ 1.22	\$ 1.30
Diluted .....	\$ 1.59	\$ 1.32	\$ 0.63	\$ 1.16	\$ 1.20
Weighted-average shares outstanding					
Basic .....	19,667	19,206	18,923	18,793	18,226
Diluted .....	20,660	20,083	19,510	19,725	19,676
Cash dividend declared, per common share .....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Depreciation and amortization .....	\$ 17,469	\$ 14,584	\$ 12,509	\$ 12,116	\$ 11,285
Share-based compensation .....	\$ 4,386	\$ 4,993	\$ 5,009	\$ 4,761	\$ 3,329
Capital expenditures .....	\$ 23,924	\$ 13,158	\$ 7,711	\$ 16,383	\$ 25,612
Balance sheet data:					
Total assets .....	\$403,788	\$355,486	\$264,989	\$275,921	\$280,461
Long-term debt and other long-term liabilities ..	\$ 97,131	\$ 86,299	\$ 56,795	\$ 82,628	\$102,955
Stockholders' equity .....	\$245,001	\$209,446	\$165,192	\$146,501	\$120,762
Working capital .....	\$157,019	\$130,533	\$107,343	\$109,845	\$100,470
Non-controlling interest .....	\$ 5,097	\$ 4,983	\$ 0	\$ 0	\$ 0

## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following review of our results of operations and financial condition should be read in conjunction with Item 1 “Business,” Item 1A “Risk Factors,” Item 2 “Properties,” and Item 8 “Consolidated Financial Statements and Supplementary Data,” included in this Form 10-K.

### **CAUTIONARY STATEMENT FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, other written or oral statements that constitute forward-looking statements may be made by us or on behalf of the Company in other materials we release to the public including all statements, other than statements of historical facts, included or incorporated by reference in this Form 10-K, that address activities, events or developments which we expect or anticipate will or may occur in the future. You can generally identify our forward-looking statements by the words “anticipate,” “believe,” “expect,” “plan,” “intend,” “estimate,” “project,” “projection,” “predict,” “budget,” “forecast,” “goal,” “guidance,” “target,” “will,” “could,” “should,” “may” and similar expressions.

We based our forward-looking statements on our reasonable beliefs and assumptions, and our current expectations, estimates and projections about ourselves and our industry. We caution that these statements are not guarantees of future performance and involve risks, uncertainties and assumptions that we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. We wish to ensure that such statements are accompanied by meaningful cautionary statements, so as to obtain the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including, but not limited to the statements under “Risk Factors.” We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations is provided as a supplement to the accompanying consolidated financial statements and notes to help provide an understanding of our financial condition, changes in financial condition, and results of operations.

### **General Information**

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
- Field Valve Repair

We offer these services in over 100 locations throughout the world. Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, OEMs, distributors, and some of the world's largest engineering and construction firms. Our services are also provided across a broad geographic reach.

### Year Ended May 31, 2012 Compared to Year Ended May 31, 2011

The following table sets forth the components of revenue and operating income from our operations for fiscal year 2012 and 2011 (in thousands):

	Year Ended May 31, 2012	Year Ended May 31, 2011	Increase (Decrease)	
			\$	%
Revenues:				
TCM division	\$354,830	\$284,616	\$ 70,214	25%
TMS division	268,910	223,404	45,506	20%
Total revenues	623,740	508,020	115,720	23%
Gross margin	195,051	157,143	37,908	24%
SG&A expenses:				
Field operations	117,044	95,806	21,238	22%
Corporate costs	21,893	19,260	2,633	14%
Non-routine acquisition costs	—	632	(632)	(100)%
Non-routine legal settlement	800	—	800	100%
Total SG&A expenses	139,737	115,698	24,039	21%
Earnings from unconsolidated affiliates	1,183	1,030	153	15%
Operating income	\$ 56,497	\$ 42,475	\$ 14,022	33%

**Revenues.** Our revenues for the year ended May 31, 2012 were \$623.7 million compared to \$508.0 million for the year ended May 31, 2011, an increase of \$115.7 million or 23%. Revenues for our TCM division for the year ended May 31, 2012 were \$354.8 million compared to \$284.6 million for the year ended May 31, 2011, an increase of \$70.2 million or 25%. Revenues for our TMS division for the year ended May 31, 2012 were \$268.9 million compared to \$223.4 million for the year ended May 31, 2011, an increase of \$45.5 million or 20%. Organic revenue growth was approximately \$100 million or 20% for the year ended May 31, 2012. Overall revenue growth was broad based across services lines, geography and customers and was a result of strong service performance, beginning the year with a strong tailwind as it relates to turnaround projects, expansion of new services lines and capabilities, and long term procurement consolidation trends by our customers.

**Gross margin.** Our gross margin for the year ended May 31, 2012 was \$195.1 million compared to \$157.1 million for the year ended May 31, 2011, an increase of \$37.9 million or 24%. Gross margin as a percentage of revenue was 31% for the year ended May 31, 2012 and 2011. Gross margin for our TCM division for the year ended May 31, 2012 was \$110.2 million compared to \$87.6 million for the year ended May 31, 2011, an increase of \$22.6 million or 26%. TCM division gross margin as a percentage of revenue was 31% for the year ended May 31, 2012 and 2011. Gross margin for our TMS division was \$84.9 million for the year ended May 31, 2012



compared to \$69.6 million for the year ended May 31, 2011, an increase of \$15.3 million or 22%. TMS division gross margin as a percentage of revenue was 32% for the year ended May 31, 2012 and 31% for the year ended May 31, 2011. Gross margins for both divisions reflect relatively flat year over year job margins. Fluctuations in gross margins are primarily impacted by service line mix.

***Selling, general and administrative expenses.*** Our SG&A expenses for the year ended May 31, 2012 were \$139.7 million compared to \$115.7 million for the year ended May 31, 2011, an increase of \$24.0 million or 21%. SG&A expenses for the current year ended May 31, 2012 includes a non-routine \$0.8 million pre-tax legal settlement related to the resolution of a long outstanding personal injury matter and in the prior year included \$0.6 million of non-routine expense related to the Quest acquisition. Excluding these non-routine charges, SG&A expenses for the year ended May 31, 2012 were \$138.9 million, an increase of \$23.9 million or 21%. SG&A expenses as a percentage of revenue, adjusted to exclude the non-routine charges, was 22% for the year ended May 31, 2012 compared to 23% for the year ended May 31, 2011. The increase in SG&A expenses primarily was related to compensation related costs within field operations supporting organic growth. Also included in SG&A expenses were approximately \$2.7 million in unusually elevated expenses in the year. First, we incurred \$2.0 million in increased medical costs accruals. We accrue medical costs based on our actuarial expectation of claims. Due to an unusual number of major claims that hit during the fiscal year, our actual costs exceeded our accruals, thus requiring the additional expense. Second, we incurred about \$0.7 million in outside legal and professional services expenses related to two recently completed acquisitions as well as significant efforts on unsuccessful transaction activities.

***Earnings from unconsolidated affiliates.*** Our earnings from unconsolidated affiliates consists entirely of our joint venture (50% ownership) formed in May 2008, to perform non-destructive testing and inspection services in Alaska. Revenues of the joint venture not reflected in our consolidated revenues for the year ended May 31, 2012 and 2011 were \$12.3 million and \$9.9 million, respectively. As a result of the higher revenue levels in the joint venture, and leverage of fixed costs of the joint venture, our share of the earnings from the joint venture were \$1.2 million, an increase of \$0.2 million or 15%.

***Interest.*** Interest expense was \$2.4 million for the year ended May 31, 2012 compared to \$2.2 million for the year ended May 31, 2011. The increase is a result of higher interest rates applied to increased outstanding borrowings.

***Foreign currency (gain) loss.*** There were no significant currency transaction gains or losses for the year ended May 31, 2012 and 2011, respectively.

***Taxes.*** The provision for income tax for fiscal year 2012 was \$19.4 million on pre-tax income of \$52.5 million, compared to the provision for income tax for fiscal year 2011 of \$13.5 million on pre-tax income of \$40.2 million. During the third quarter of fiscal year 2011, we identified and corrected accounting errors relating to the effect of share-based compensation on tax provisions for fiscal years 2007-2010. During those periods, reported earnings were understated because effective tax rates were overstated as a result of the previously undetected errors in the tax provision calculation. No restatement of previously issued financial statements was required because the effect on those statements was immaterial. The cumulative effect of the errors in the tax provision calculation was a tax benefit consisting of \$1.8 million associated with the prior years. Our effective tax rate for the fiscal year 2012 was 37% compared to 38% for the fiscal year 2011 which excludes the effect of the \$1.8 million portion of the cumulative adjustments related to prior years (see Note 8 to our audited consolidated financial statements).

## Year Ended May 31, 2011 Compared to Year Ended May 31, 2010

The following table sets forth the components of revenue and operating income from our operations for fiscal year 2011 and 2010 (in thousands):

	Year Ended May 31, 2011	Year Ended May 31, 2010	Increase (Decrease)	
			\$	%
Revenues:				
TCM division	\$284,616	\$259,227	\$25,389	10%
TMS division	223,404	194,642	28,762	15%
Total revenues	508,020	453,869	54,151	12%
Gross margin	157,143	136,005	21,138	16%
SG&A expenses:				
Field operations	95,806	89,104	6,702	8%
Corporate costs	19,260	18,944	316	2%
Non-routine acquisition costs	632	—	632	100%
Severance charges	—	662	(662)	(100)%
Non-routine investigation costs	—	3,153	(3,153)	(100)%
Total SG&A expenses	115,698	111,863	3,835	3%
Earnings from unconsolidated affiliates	1,030	635	395	62%
Operating income	\$ 42,475	\$ 24,777	\$17,698	71%

**Revenues.** Our revenues for the year ended May 31, 2011 were \$508.0 million compared to \$453.9 million for the year ended May 31, 2010, an increase of \$54.2 million or 12%. Revenues for our TCM division (inclusive of Quest) for the year ended May 31, 2011 were \$284.6 million compared to \$259.2 million for the year ended May 31, 2010, an increase of \$25.4 million or 10%. Team's recent acquisition, Quest, contributed \$15.8 million during the year ended May 31, 2011 (Quest was acquired on November 3, 2010). Organic revenue growth for the TCM division, excluding Quest, was \$9.6 million or 4%. Revenues for our TMS division for the year ended May 31, 2011 were \$223.4 million compared to \$194.6 million for the year ended May 31, 2010, an increase of \$28.8 million or 15%. Overall, organic revenue growth was geographically broad based as most regions benefitted from a return of previously deferred maintenance activities.

**Gross margin.** Our gross margin for the year ended May 31, 2011 was \$157.1 million compared to \$136.0 million for the year ended May 31, 2010, an increase of \$21.1 million or 16%. Gross margin as a percentage of revenue was 31% for the year ended May 31, 2011 compared to 30% for the year ended May 31, 2010. Gross margin for our TCM division for the year ended May 31, 2011 was \$87.6 million compared to \$76.3 million for the year ended May 31, 2010, an increase of \$11.2 million or 15%. TCM division gross margin as a percentage of revenue was 31% for the year ended May 31, 2011 and 29% for the year ended May 31, 2010. Gross margin for our TMS division was \$69.6 million for the year ended May 31, 2011 compared to \$59.7 million for the year ended May 31, 2010, an increase of \$9.9 million or 17%. TMS division gross margin as a percentage of revenue was 31% for the year ended May 31, 2011 and 31% for the year ended May 31, 2010. Pricing pressures that negatively impact gross margin as a percentage of revenues were mitigated by demand for value-add technology solutions in our inspection business (part of the TCM division), and volume related leverage in our TMS division where most regions saw a return of previously deferred maintenance activities.

**Selling, general and administrative expenses.** Our SG&A expenses for the year ended May 31, 2011 were \$115.7 million compared to \$111.9 million for the year ended May 31, 2010, an increase of \$3.8 million or

3%. SG&A expenses for the current year ended May 31, 2011 include \$0.6 million of non-routine acquisition costs related to our recent acquisition of Quest. SG&A expenses for the prior year ended May 31, 2010 included \$0.7 million of severance charges related to staff reductions and \$3.2 million of professional fees related to investigation costs. Excluding these non-routine charges, SG&A expenses for the year ended May 31, 2011 were \$115.1 million, an increase of \$7.0 million or 6%. Substantially all of the increase is related to field operations and associated with support of increased revenues. SG&A expenses as a percentage of revenue, adjusted to exclude the non-routine charges, was 23% for the year ended May 31, 2011 compared to 24% for the year ended May 31, 2010.

**Earnings from unconsolidated affiliates.** Our earnings from unconsolidated affiliates consists entirely of our joint venture (50% ownership) formed in May 2008, to perform non-destructive testing and inspection services in Alaska. Revenues of the joint venture not reflected in our consolidated revenues for the year ended May 31, 2011 and 2010 were \$9.9 million and \$7.5 million, respectively. As a result of the higher revenue levels in the joint venture, and leverage of fixed costs of the joint venture, our share of the earnings from the joint venture were \$1.0 million, an increase of \$0.4 million or 62%.

**Interest.** Interest expense was \$2.2 million for the year ended May 31, 2011 compared to \$2.8 million for the year ended May 31, 2010. This decrease is the result of lower interest rates applied to outstanding borrowings.

**Foreign currency (gain) loss.** There were no significant currency transaction gains or losses for the year ended May 31, 2011. Foreign currency transaction losses were \$1.6 million for the year ended May 31, 2010. Currency transaction losses were primarily due to fluctuations between the Venezuelan Bolivar and the U.S. Dollar. Team operates a small service location in Punta Fijo, Venezuela, whose annual revenues have historically been less than one percent of Team's consolidated revenues for all periods presented. Venezuela is accounted for as a hyperinflationary economy (see Note 16 to our audited consolidated financial statements).

**Taxes.** The provision for income tax for fiscal year 2011 was \$13.5 million on pre-tax income of \$40.2 million, compared to the provision for income tax for fiscal year 2010 which was \$8.2 million on pre-tax income of \$20.4 million. During the third quarter of fiscal year 2011, we identified and corrected accounting errors relating to the effect of share-based compensation on tax provisions for fiscal years 2007-2010. During those periods, reported earnings were understated because effective tax rates were overstated as a result of the previously undetected errors in the tax provision calculation. No restatement of previously issued financial statements was required because the effect on those statements was immaterial. The cumulative effect of the errors in the tax provision calculation was a tax benefit consisting of \$1.8 million associated with the prior years. Excluding the effect of the \$1.8 million portion of the cumulative adjustments related to prior years, our effective tax rate for the fiscal year 2011 was 38% compared to 40% for the fiscal year 2010 (see Note 8 to our audited consolidated financial statements).

## **Liquidity and Capital Resources**

Financing for our operations consists primarily of vendor financing and leasing arrangements, our bank facility and cash flows attributable to our operations, which we believe are sufficient to fund our business needs. At May 31, 2012, we had \$22.5 million of cash on hand and approximately \$50.6 million of available borrowing capacity through our banking syndicate.

**Bank facility.** In fiscal year 2012, we renewed our Credit Facility (the “New Credit Facility”). The New 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 of 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 New Credit Facility. The New Credit Facility bears interest at LIBOR plus 1.75% and has commitment fees of 0.30% on unused borrowing capacity. At May 31, 2012, we were in compliance with all financial covenants of the New Credit Facility.

Future maturities of long-term debt, reflecting the maturities under the New Credit Facility, are as follows (in thousands):

2013 .....	\$ —
2014 .....	—
2015 .....	—
2016 .....	—
2017 .....	85,872
Thereafter .....	—
	\$85,872

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 May 31, 2012 and May 31, 2011, we were contingently liable for outstanding stand-by letters of credit totaling \$13.5 million and \$8.8 million, respectively. Outstanding letters of credit reduce amounts available under our New Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the New Credit Facility.

On February 12, 2008, we borrowed €12.3 million under the Credit Facility to serve 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 offset translation gains or losses attributable to our investment in our European operations. At May 31, 2012, the €12.3 million borrowing had a U.S. Dollar value of \$15.3 million.

**Leasing arrangements.** We enter into operating leases to rent facilities and obtain vehicles and equipment for our field operations. Our contractual obligations under non-cancellable operating leases, primarily consisting of facility and auto leases, were approximately \$36.1 million at May 31, 2012 and are as follows (in thousands):

<u>Twelve Months Ended May 31,</u>	<u>Operating Leases</u>
2013 .....	\$11,288
2014 .....	8,700
2015 .....	6,598
2016 .....	4,168
2017 .....	1,991
Thereafter .....	3,376
Total .....	\$36,121

Total rent expense resulting from operating leases for the twelve months ended May 31, 2012, 2011 and 2010 was \$20.5 million, \$18.8 million and \$19.4 million, respectively. Subsequent to year end, we entered into an agreement to lease 22,000 square feet of office space in Sugar Land, Texas where we will relocate our corporate administrative functions. The additional lease commitment will total approximately \$3.0 million over the next 5 years.

A summary of long-term debt and other contractual obligations as of May 31, 2012 and May 31, 2011 is as follows (in thousands):

	May 31,	
	2012	2011
Credit Facility . . . . .	\$85,872	\$75,848
Vendor financing and other . . . . .	—	232
	85,872	76,080
Current maturities . . . . .	—	(212)
Long-term debt, excluding current maturities . . . . .	<u>\$85,872</u>	<u>\$75,868</u>
Outstanding letters of credit . . . . .	<u>\$13,548</u>	<u>\$ 8,793</u>
Leasing arrangements . . . . .	<u>\$36,121</u>	<u>\$27,684</u>

**Restrictions on cash.** Included in our cash and cash equivalents at May 31, 2012, is \$8.2 million of cash in Europe and \$0.9 million of cash in Venezuela. Any repatriation of cash from Europe, if deemed to be a dividend from our European subsidiary for tax purposes, would result in adverse tax consequences of \$0.7 million. While not legally restricted from repatriating this cash, we consider all earnings of our European subsidiary to be indefinitely reinvested and access to cash in Europe to be limited. Similarly, the uncertain economic and political environment in Venezuela makes it very difficult to repatriate cash flows of our Venezuelan subsidiary.

**Cash flows attributable to our operating activities.** For the year ended May 31, 2012, cash provided by operating activities was \$36.7 million. Positive operating cash flow was primarily attributable to net income of \$33.1 million, depreciation and amortization of \$17.5 million, and non-cash compensation cost of \$4.4 million offset by a \$18.3 million increase in working capital.

**Cash flows attributable to our investing activities.** For the year ended May 31, 2012, cash used in investing activities was \$42.3 million, consisting primarily of \$23.9 million of capital expenditures and \$19.4 million related to business acquisitions. Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly.

**Cash flows attributable to our financing activities.** For the year ended May 31, 2012, cash provided by financing activities was \$15.3 million consisting primarily of \$12.7 million of cash provided by our New Credit Facility.

**Effect of exchange rate changes on cash.** For the year ended May 31, 2012, the effect of exchange rate changes on cash was a negative impact of \$1.3 million. We have significant operations in Europe and Canada, as well as operations in Venezuela which is considered a hyperinflationary economy. The negative impact in the current year is primarily attributable to changes in U.S. Dollar exchange rates with Canada and Europe.

### Critical Accounting Policies

The process of preparing financial statements in accordance with Generally Accepted Accounting Principles in the U.S. (“GAAP”) requires our management to make estimates and judgments. It is possible that materially different amounts could be recorded if these estimates and judgments change or if actual results differ from these estimates and judgments. We have identified the following six critical accounting policies that require a significant amount of estimation and judgment and are considered to be important to the portrayal of our financial position and results of operations:

- Revenue Recognition
- Goodwill, Intangible Assets, and Non-controlling Interest

- Income Taxes
- Workers' Compensation, Auto, Medical and General Liability Accruals
- Allowance for Doubtful Accounts Receivable
- Estimated Useful Lives

**Revenue recognition.** We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the Financial Accounting Standards Board ("FASB") or 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 May 31, 2012 and May 31, 2011, the amount of earned but unbilled revenue included in accounts receivable was \$20.6 million and \$12.4 million, respectively.

**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 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.

We operate in only one segment—the industrial services segment (see Note 14 to our consolidated financial statements). 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 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. Prior to the adoption of Accounting Standards Update ("ASU") 2011-08, *Testing Goodwill for Impairment*, "ASU 2011-08" at May 31, 2012, the annual impairment test for goodwill was a two-step process that involved 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 exceeded its carrying amount, the goodwill of the business unit was not considered impaired; therefore, the second step of the impairment test was deemed unnecessary. If the carrying amount of a business 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. Consistent with prior years tested, 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 estimated fair value by discounting each reporting unit's estimated future cash flows using a discount rate that approximated both our weighted-average cost of capital and reflects current market conditions.

The fair value derived from the income approach in our fiscal year 2011 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 reviewed 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.

On May 31, 2012, we adopted ASU 2011-08 which requires reporting entities to assess relevant events and circumstances in evaluating whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount of goodwill. If, after assessing the totality of events and circumstances, an entity determines that it is more likely than not that the fair value of a reporting unit is greater than the carrying amount, then the first and second steps of the goodwill impairment test are not necessary. We evaluated considerations under ASU 2011-08 such as macroeconomic effects on our business, industry and market considerations, cost factors that could have a negative effect on cash flows or earnings, overall financial performance, entity-specific events, events affecting reporting units, and any realization of a sustained decrease in the price of our stock. After consideration of the aforementioned events and circumstances, we concluded that it was more likely than not that the fair value of a reporting unit was greater than the carrying amount of goodwill. Accordingly, we did not perform the two-step process described above for our fiscal year 2012 annual test.

There was \$95.0 million and \$89.5 million of goodwill at May 31, 2012 and May 31, 2011, respectively. A summary of goodwill is as follows (in thousands):

	Twelve Months Ended May 31, 2012			Twelve Months Ended May 31, 2011		
	TCM Division	TMS Division	Total	TCM Division	TMS Division	Total
Balance at beginning of year . . . .	\$76,872	\$12,648	\$89,520	\$44,939	\$10,800	\$55,739
Acquisitions . . . . .	—	8,926	8,926	29,890	—	29,890
Foreign currency adjustments . . . .	(1,741)	(1,703)	(3,444)	2,043	1,848	3,891
Balance at end of year . . . . .	<u>\$75,131</u>	<u>\$19,871</u>	<u>\$95,002</u>	<u>\$76,872</u>	<u>\$12,648</u>	<u>\$89,520</u>

**Income taxes.** We follow the guidance of 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.

Management believes future sources of taxable income, reversing temporary differences and other tax planning strategies will be sufficient to realize assets. While we have considered these factors in assessing the need for a valuation allowance, there is no assurance that a valuation allowance would not need to be established in the future if information about future years change. Any change in the valuation allowance would impact our income tax provision and net income in the period in which such a determination is made. As of May 31, 2012, we believe that it is more likely than not that we will have sufficient reversals of temporary differences and future taxable income to allow us to realize 100% of the benefits of the net deferred tax assets and accordingly, no valuation allowance is recorded. Our belief is based upon our track record of consistent earnings over the past five years and projections of future taxable income over the periods in which the deferred tax assets are deductible. As of May 31, 2012, our deferred tax assets were \$12.1 million, our deferred tax liabilities were \$17.6 million, and our unrecognized tax benefits related to uncertain tax positions were \$0.6 million.

**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 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 million per occurrence. 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.

**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.

**Estimated Useful Lives.** The estimated useful lives of our long-lived assets are used to compute depreciation expense, future asset retirement obligations and are also used in impairment testing. Estimated useful lives are based, among other things, on the assumption that we provide an appropriate level of associated capital expenditures and maintenance while the assets are still in operation. Without these continued associated capital expenditures and maintenance, the useful lives of these assets could decrease significantly. Estimated useful lives could be impacted by such factors as future energy prices, environmental regulations, various legal factors and competition. If the useful lives of these assets were found to be shorter than originally estimated, depreciation expense may increase, liabilities for future asset retirement obligations may be insufficient and impairments in carrying values of tangible and intangible assets may result.

### ***Newly Adopted Accounting Principles***

**ASU 2011-08.** In September 2011, the FASB issued ASU 2011-08. ASU 2011-08 amends ASC 350 to permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessment of qualitative factors, an entity determines that it is more likely than not that the fair value of a reporting unit is greater than the carrying amount, then the first and second steps of the goodwill impairment test are not necessary. ASU 2011-08 is effective for annual and interim

impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. This update was early adopted by Team on May 31, 2012. The adoption of this pronouncement did not have any impact on our results of operations, financial position or cash flows.

### ***Accounting Principles Not Yet Adopted***

**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. We do not anticipate the FASB update will have a material effect on our results of operations, financial position or cash flows.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have operations in foreign countries with a functional currency that is not the U.S. Dollar. We are exposed to market risk, primarily related to foreign currency fluctuations related to these operations. A significant part of these assets relate to our operations in Europe and Canada. During the year ended May 31, 2012, the exchange rate with the Euro decreased from \$1.44 per Euro to \$1.24 per Euro, a decrease of 14%. During the same period, the exchange rate with the Canadian Dollar decreased from \$1.03 per Canadian Dollar to \$.97 per Canadian Dollar, a decrease of 6%. For foreign subsidiaries with a functional currency that is not the U.S. Dollar, such as our operations in Europe and Canada, assets and liabilities are translated at period ending rates of exchange. Translation adjustments for the assets and liability accounts are included as a separate component of accumulated other comprehensive income in stockholders' equity. Foreign currency translation losses in other comprehensive income were \$8.3 million for the year ended May 31, 2012.

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

At May 31, 2012, our Venezuelan subsidiary had \$2.4 million of net assets denominated in Venezuelan Bolivars and translated into U.S. Dollars. We account for Venezuelan operations pursuant to accounting guidance for hyperinflationary economies. Following the designation of the Venezuelan economy as hyperinflationary, we ceased recording the effects of currency fluctuations to accumulated other comprehensive income and began reflecting all effects as a component of other income in our statement of operations. We initially used the parallel exchange rate for Bolivar denominated bonds (6.70 Bolivars per U.S. Dollar) to translate our Venezuelan operations into U.S. Dollars. In May 2010, the Venezuelan government closed the parallel exchange rate system, precluding its continued use and we subsequently returned to using the Venezuelan central bank's official published rate (5.30 Bolivars per U.S. Dollar) to translate Venezuelan assets into U.S. Dollars as no other legal rate was readily available. A 10% change in the exchange rate used to value the net assets of our Venezuelan subsidiary would have an effect on pretax earnings of \$0.2 million.

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

From time to time we have utilized derivative financial instruments with respect to a portion of our interest rate risks to achieve a more predictable cash flow by reducing our exposure to interest rate fluctuations. These transactions generally are interest rate swap agreements and are entered into with major financial institutions.

Derivative financial instruments related to our interest rate risks are intended to reduce our exposure to increases in the LIBOR based interest rates underlying our floating-rate Credit Facility. We do not enter into derivative financial instrument transactions for speculative purposes.

At May 31, 2007, we entered into an interest rate swap agreement with a fixed pay rate of 4.97% that had a notional value of \$30.0 million beginning on June 1, 2007 and decreased to \$16.3 million by March 1, 2010. On June 1, 2010 the interest rate swap expired. The interest rate swap agreement was designated as a cash flow hedge, with the changes in fair value, to the extent the swap agreement was effective, recognized in other comprehensive income until the hedged interest expense was recognized in earnings.

## **ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our financial statements and financial statement schedules, found at the end of this annual report on Form 10-K, are incorporated herein by reference.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There have been no disagreements concerning accounting and financial disclosures with our independent accountants during any of the periods presented.

## **ITEM 9A. CONTROLS AND PROCEDURES**

***Limitations on effectiveness of control.*** Our management, including the principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of our control system reflects the fact that there are resource constraints and the benefits of such controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control failures and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is also based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of management's assessments of the current effectiveness of our disclosure controls and procedures and its internal control over financial reporting are subject to risks. However, our disclosure controls and procedures are designed to provide reasonable assurance that the objectives of our control system are met.

***Evaluation of disclosure controls and procedures.*** As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act). This evaluation included consideration of the various processes carried out under the direction of our disclosure committee in an effort to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC. This evaluation also considered the work completed relating to our compliance with Section 404 of the Sarbanes-Oxley Act of 2002, which is further described below.

Based on this evaluation, our CEO and CFO concluded that, as of May 31, 2012, our disclosure controls and procedures were operating effectively to ensure that the information required to be disclosed in our SEC reports

is recorded, processed, summarized and reported within the requisite time periods and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

***Changes in internal control over financial reporting.*** There were no changes in our internal control over financial reporting (as defined in Rules 13a-13(f) and 15d-15(f) of the Securities Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the fourth quarter of our fiscal year ended May 31, 2012.

## **ITEM 9B. OTHER INFORMATION**

### **Management’s Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Internal control over financial reporting cannot provide absolute assurance of achieving financial objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

We have used the framework set forth in the report entitled *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of our internal control over financial reporting. We have concluded that our internal control over financial reporting was effective as of May 31, 2012.

/s/ PHILIP J. HAWK

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**Philip J. Hawk**  
**Chairman and Chief Executive Officer**

/s/ TED W. OWEN

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**Ted W. Owen**  
**Principal Financial Officer and Principal Accounting Officer**

### **PART III**

The information for the following items of Part III has been omitted from this Report on Form 10-K since we will file, not later than 120 days following the close of our fiscal year ended May 31, 2012, our definitive proxy statement. The information required by Part III will be included in that proxy statement and such information is hereby incorporated by reference, with the exception of the information under the headings “Compensation Committee Report.”

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

#### **ITEM 11. EXECUTIVE COMPENSATION**

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

#### **ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**



**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

**(a) 1. Financial Statements**

The financial statements and notes thereto can be found on the following pages:

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## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Team, Inc. and Subsidiaries:

We have audited Team, Inc. and Subsidiaries' (the Company) internal control over financial reporting as of May 31, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Team, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of May 31, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Team, Inc. and Subsidiaries as of May 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended May 31, 2012, and our report dated August 7, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Houston, Texas  
August 7, 2012

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Team, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Team, Inc. and Subsidiaries (the Company) as of May 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended May 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Team, Inc. and Subsidiaries as of May 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Team, Inc. and Subsidiaries' internal control over financial reporting as of May 31, 2012, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 7, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Houston, Texas  
August 7, 2012

**TEAM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share data)

	May 31,	
	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 22,477	\$ 14,078
Receivables, net of allowance of \$4,405 and \$4,222 . . . . .	157,625	143,120
Inventory . . . . .	24,986	21,335
Deferred income taxes . . . . .	5,157	3,795
Prepaid expenses and other current assets . . . . .	8,430	7,946
Total current assets . . . . .	218,675	190,274
Property, plant and equipment, net . . . . .	62,041	58,567
Assets held for sale . . . . .	5,830	—
Intangible assets, net of accumulated amortization of \$5,658 and \$3,218 . . . . .	18,508	14,819
Goodwill . . . . .	95,002	89,520
Other assets, net . . . . .	3,081	2,189
Deferred income taxes . . . . .	651	117
Total assets . . . . .	\$403,788	\$355,486
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt . . . . .	\$ —	\$ 212
Accounts payable . . . . .	18,427	24,371
Other accrued liabilities . . . . .	38,492	32,511
Income taxes payable . . . . .	4,737	2,641
Deferred income taxes . . . . .	—	6
Total current liabilities . . . . .	61,656	59,741
Deferred income taxes . . . . .	11,259	10,431
Long-term debt . . . . .	85,872	75,868
Total liabilities . . . . .	158,787	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; 19,954,996 and 19,571,138 shares issued . . . . .	5,985	5,871
Non-controlling interest . . . . .	5,097	4,983
Additional paid-in capital . . . . .	85,801	77,867
Retained earnings . . . . .	152,049	119,138
Accumulated other comprehensive (loss) income . . . . .	(2,587)	2,931
Treasury stock at cost, 89,569 and 89,569 shares . . . . .	(1,344)	(1,344)
Total stockholders' equity . . . . .	245,001	209,446
Total liabilities and stockholders' equity . . . . .	\$403,788	\$355,486

See accompanying notes to consolidated financial statements.

**TEAM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share data)

	Twelve Months Ended May 31,		
	2012	2011	2010
Revenues .....	\$623,740	\$508,020	\$453,869
Operating expenses .....	428,689	350,877	317,864
Gross margin .....	195,051	157,143	136,005
Selling, general and administrative expenses .....	139,737	115,698	111,863
Earnings from unconsolidated affiliates .....	1,183	1,030	635
Operating income .....	56,497	42,475	24,777
Interest expense, net .....	2,380	2,156	2,764
Write-off of land development costs (see Note 5) .....	1,658	—	—
Foreign currency (gain) loss .....	(31)	147	1,580
Earnings before income taxes .....	52,490	40,172	20,433
Provision for income taxes (see Note 8) .....	19,422	13,548	8,158
Net income .....	33,068	26,624	12,275
Less: income attributable to non-controlling interest .....	157	39	—
Net income available to Team shareholders .....	<u>\$ 32,911</u>	<u>\$ 26,585</u>	<u>\$ 12,275</u>
Net income per share: Basic .....	\$ 1.67	\$ 1.38	\$ 0.65
Net income per share: Diluted .....	\$ 1.59	\$ 1.32	\$ 0.63

See accompanying notes to consolidated financial statements.

**TEAM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)

	<u>Twelve Months Ended May 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net income .....	\$33,068	\$26,624	\$12,275
Foreign currency translation adjustment .....	(8,264)	8,349	(967)
Interest rate swap .....	—	—	816
Foreign currency hedge .....	2,385	(2,587)	2,276
Tax provision attributable to other comprehensive income (loss) .....	318	(367)	(2,009)
Total comprehensive income .....	<u>27,507</u>	<u>32,019</u>	<u>12,391</u>
Less: total comprehensive income attributable to non-controlling interest .....	<u>114</u>	<u>66</u>	<u>—</u>
Total comprehensive income available to Team shareholders .....	<u><u>\$27,393</u></u>	<u><u>\$31,953</u></u>	<u><u>\$12,391</u></u>

See accompanying notes to consolidated financial statements.



**TEAM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	Common Shares	Treasury Shares	Common Stock	Treasury Stock	Additional Paid in Capital	Non Controlling Interest	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at May 31, 2009	18,837	—	\$5,651	\$ —	\$63,125	\$ —	\$ 80,278	\$(2,553)	\$146,501
Net income	—	—	—	—	—	—	12,275	—	12,275
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	(1,783)	(1,783)
Foreign currency hedge, net of tax	—	—	—	—	—	—	—	1,395	1,395
Interest rate swap, net of tax	—	—	—	—	—	—	—	504	504
Non-cash compensation	—	—	—	—	5,009	—	—	—	5,009
Vesting of stock awards	45	—	13	—	(183)	—	—	—	(170)
Exercise of stock options	106	—	32	—	854	—	—	—	886
Tax benefit of exercise of stock options	—	—	—	—	575	—	—	—	575
Balance at May 31, 2010	18,988	—	5,696	—	69,380	—	92,553	(2,437)	165,192
Net income	—	—	—	—	—	—	26,624	—	26,624
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	6,981	6,981
Foreign currency hedge, net of tax	—	—	—	—	—	—	—	(1,586)	(1,586)
Purchase of treasury stock	—	(90)	—	(1,344)	—	—	—	—	(1,344)
Acquisition of Quest	186	—	56	—	2,579	4,917	—	—	7,552
Comprehensive income attributable to non-controlling interest	—	—	—	—	—	66	(39)	(27)	—
Non-cash compensation	—	—	—	—	4,993	—	—	—	4,993
Vesting of stock awards	85	—	25	—	(458)	—	—	—	(433)
Exercise of stock options	312	—	94	—	2,138	—	—	—	2,232
Tax benefit of exercise of stock options	—	—	—	—	551	—	—	—	551
Correction of tax error (see Note 8)	—	—	—	—	(1,316)	—	—	—	(1,316)
Balance at May 31, 2011	19,571	(90)	5,871	(1,344)	77,867	4,983	119,138	2,931	209,446
Net income	—	—	—	—	—	—	33,068	—	33,068
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	(7,018)	(7,018)
Foreign currency hedge, net of tax	—	—	—	—	—	—	—	1,457	1,457
Comprehensive income attributable to non-controlling interest	—	—	—	—	—	114	(157)	43	—
Non-cash compensation	—	—	—	—	4,386	—	—	—	4,386
Vesting of stock awards	106	—	31	—	(899)	—	—	—	(868)
Exercise of stock options	278	—	83	—	2,914	—	—	—	2,997
Tax benefit of exercise of stock options	—	—	—	—	1,533	—	—	—	1,533
Balance at May 31, 2012	19,955	(90)	\$5,985	\$(1,344)	\$85,801	\$5,097	\$152,049	\$(2,587)	\$245,001

See accompanying notes to consolidated financial statements.

**TEAM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(in thousands)**

	<b>Twelve Months Ended May 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:			
Net income	\$ 33,068	\$ 26,624	\$ 12,275
Adjustments to reconcile net income to net cash provided by operating activities:			
Earnings from unconsolidated affiliates	(1,183)	(1,030)	(635)
Depreciation and amortization	17,469	14,584	12,509
(Gain) loss on asset disposals	(21)	437	85
Amortization of deferred loan costs	283	303	311
Foreign currency (gain) loss	(31)	147	1,580
Deferred income taxes	(717)	(1,405)	(782)
Write-off of land development costs	1,658	—	—
Non-cash compensation cost	4,386	4,993	5,009
(Increase) decrease:			
Receivables	(16,990)	(25,048)	4,382
Inventory	(3,629)	(1,231)	(311)
Prepaid expenses and other current assets	(559)	(1,320)	1,616
Increase (decrease):			
Accounts payable	(5,965)	3,578	4,324
Other accrued liabilities	6,871	8,070	35
Income taxes payable	2,012	(222)	3,399
Net cash provided by operating activities	<u>36,652</u>	<u>28,480</u>	<u>43,797</u>
Cash flows from investing activities:			
Capital expenditures	(23,924)	(13,158)	(7,711)
Proceeds from sale of assets	220	—	—
Business acquisitions, net of cash acquired	(19,351)	(41,376)	—
Distributions from unconsolidated affiliates	800	750	600
Increase in other assets	(9)	(158)	(843)
Net cash used in investing activities	<u>(42,264)</u>	<u>(53,942)</u>	<u>(7,954)</u>
Cash flows from financing activities:			
Borrowings (payments) under revolving credit agreement, net	12,707	25,437	(26,250)
Debt issuance costs	(799)	—	—
Repayments related to term and auto notes	(235)	(343)	(4,813)
Employee tax withholding payments for share-based payment arrangements	(868)	(433)	(170)
Corporate tax effect from share-based payment arrangements	1,533	551	575
Insurance note payments	—	—	(3,949)
Issuance of common stock from share-based payment arrangements	2,997	2,230	886
Purchase of treasury stock	—	(1,344)	—
Net cash provided by (used in) financing activities	<u>15,335</u>	<u>26,098</u>	<u>(33,721)</u>
Effect of exchange rate changes on cash	(1,324)	832	(2,144)
Net increase (decrease) in cash and cash equivalents	8,399	1,468	(22)
Cash and cash equivalents at beginning of year	14,078	12,610	12,632
Cash and cash equivalents at end of year	<u>\$ 22,477</u>	<u>\$ 14,078</u>	<u>\$ 12,610</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ 2,315	\$ 2,100	\$ 2,678
Income taxes	<u>\$ 16,474</u>	<u>\$ 14,034</u>	<u>\$ 4,666</u>

See accompanying notes to consolidated financial statements.

**TEAM, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**

**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 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.

**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:

<u>Classification</u>	<u>Useful Life</u>
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

**Revenue recognition.** We determine our revenue recognition guidelines for our operations guidance provided in applicable accounting standards and positions adopted by the FASB or 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 May 31, 2012 and May 31, 2011, the amount of earned but unbilled revenue included in accounts receivable was \$20.6 million and \$12.4 million, respectively.

**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 FASB ASC 350. Intangible assets with estimated useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with ASC 350.

We operate in only one segment—the industrial services segment (see Note 14 to our consolidated financial statements). 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 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. Prior to the adoption of ASU 2011-08 at May 31, 2012, the annual impairment test for goodwill was a two-step process that involved 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 exceeded its carrying amount, the goodwill of the business unit was not considered impaired; therefore, the second step of the impairment test was deemed unnecessary. If the carrying amount of a business 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. Consistent with prior years tested, 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 estimated fair value by discounting each reporting unit's estimated future cash flows using a discount rate that approximated both our weighted-average cost of capital and reflects current market conditions.

The fair value derived from the income approach in our fiscal year 2011 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

reviewed 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.

On May 31, 2012, we adopted ASU 2011-08 which requires reporting entities to assess relevant events and circumstances in evaluating whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount of goodwill. If, after assessing the totality of events and circumstances, an entity determines that it is more likely than not that the fair value of a reporting unit is greater than the carrying amount, then the first and second steps of the goodwill impairment test are not necessary. We evaluated considerations under ASU 2011-08 such as macroeconomic effects on our business, industry and market considerations, cost factors that could have a negative effect on cash flows or earnings, overall financial performance, entity-specific events, events affecting reporting units, and any realization of a sustained decrease in the price of our stock. After consideration of the aforementioned events and circumstances, we concluded that it was more likely than not that the fair value of a reporting unit was greater than the carrying amount of goodwill. Accordingly, we did not perform the two-step process described above.

There was \$95.0 million and \$89.5 million of goodwill at May 31, 2012 and May 31, 2011, respectively. A summary of goodwill is as follows (in thousands):

	Twelve Months Ended May 31, 2012			Twelve Months Ended May 31, 2011		
	TCM Division	TMS Division	Total	TCM Division	TMS Division	Total
Balance at beginning of year . . . .	\$76,872	\$12,648	\$89,520	\$44,939	\$10,800	\$55,739
Acquisitions . . . . .	—	8,926	8,926	29,890	—	29,890
Foreign currency adjustments . . . .	(1,741)	(1,703)	(3,444)	2,043	1,848	3,891
Balance at end of year . . . . .	<u>\$75,131</u>	<u>\$19,871</u>	<u>\$95,002</u>	<u>\$76,872</u>	<u>\$12,648</u>	<u>\$89,520</u>

**Income taxes.** We follow the guidance of 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.

**Workers' compensation, auto, medical and general liability accruals.** In accordance with 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 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 million per occurrence. 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.

**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 all periods presented, are as follows (in thousands):

	Twelve Months Ended May 31,		
	2012	2011	2010
Weighted-average number of basic shares outstanding . . . . .	19,667	19,206	18,923
Stock options, stock units and performance awards . . . . .	758	728	587
Assumed conversion of non-controlling interest . . . . .	235	149	—
Total shares and dilutive securities . . . . .	<u>20,660</u>	<u>20,083</u>	<u>19,510</u>

There were 617,500, 743,000 and 796,000 options to purchase shares of common stock outstanding during the twelve month periods ended May 31, 2012, 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 16).

**Newly Adopted Accounting Principles**

**ASU 2011-08.** In September 2011, the FASB issued ASU 2011-08. ASU 2011-08 amends ASC 350 to permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessment of qualitative factors, an entity determines that it is



more likely than not that the fair value of a reporting unit is greater than the carrying amount, then the first and second steps of the goodwill impairment test are not necessary. ASU 2011-08 is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. This update was early adopted by Team on May 31, 2012. The adoption of this pronouncement did not have any impact on our results of operations, financial position or cash flows.

### ***Accounting Principles Not Yet Adopted***

**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. We do not anticipate the FASB update to have a material effect on our results of operations, financial position or cash flows.

## **2. ACQUISITIONS**

In fiscal year 2012, we completed two small acquisitions for a total of \$19.4 million. Both acquisitions were financed through borrowings on our New Credit Facility. These small acquisitions resulted in the creation of an insignificant amount of intangible assets. We perform preliminary purchase price allocations based on our most current assessments of fair value of the assets acquired and the liabilities assumed. During the process of completing certain post acquisition procedures, including valuation of some intangible assets and other items, finalizing the assessments of fair value may affect the final allocation of the purchase price. As such, the purchase price allocations related to these small acquisitions are subject to change as the procedures are completed. Based upon our preliminary purchase price allocation associated with both of these transactions, we have recorded an increase of \$1.1 million in net working capital, fixed assets of \$3.0 million, \$6.3 million in intangible assets classified as customer relationships and \$8.9 million in goodwill. We expect a final valuation report of intangibles and goodwill associated with these transactions to be completed by an independent specialist in early fiscal year 2013.

On November 3, 2010, we purchased 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 Credit Facility which was used to fund the cash portion of the purchase price, including the retirement of Quest debt. We expect to purchase the remaining 5% in fiscal year 2015 for a purchase consideration based upon the future financial performance of Quest as defined in the purchase agreement. Future consideration would be payable in unregistered shares of our common stock for an aggregate value of no less than \$2.4 million, provided the aggregate value of the consideration does not exceed 20% of our outstanding common stock. Our valuation of the remaining 5% equity of Quest at the date of acquisition was \$4.9 million, which is reflected in the shareholders' equity section of the Consolidated Balance Sheet as "Non-controlling interest."

Headquartered near Seattle, Washington, Quest has leading technical capabilities related to the measurement and assessment of facility and pipeline mechanical integrity. Quest has developed several proprietary tools for advanced tube and pipeline inspection and measurement. Supporting and augmenting these proprietary inspection tools, Quest has an advanced technical team that provides specialized engineering assessments of facility

conditions and serviceability. Quest maintains operations in Seattle, Boulder, and New Zealand, and has service locations in Houston, Calgary, Australia, The Netherlands, and the Middle East. The results of Quest are 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 \$1.7 and \$0.7 million of amortization expense for the years ended May 31, 2012 and 2011, respectively, 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 . . . . .	<u>2,635</u>
Total purchase price . . . . .	44,011
Fair value of non-controlling interest . . . . .	<u>4,917</u>
Fair value allocation . . . . .	<u>\$48,928</u>
Net assets acquired:	
Receivables . . . . .	\$ 5,687
Prepaid expenses and other current assets . . . . .	505
Property, plant and equipment . . . . .	2,966
Other assets . . . . .	<u>78</u>
Assets acquired . . . . .	<u>9,236</u>
Accounts payable . . . . .	1,291
Other accrued liabilities . . . . .	<u>3,136</u>
Liabilities assumed . . . . .	<u>4,427</u>
Net assets acquired . . . . .	<u>\$ 4,809</u>
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 . . . . .	<u>29,890</u>
Intangible assets . . . . .	<u>\$44,119</u>

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 . . . . .	196
Other comprehensive loss attributable to non-controlling interest . . . . .	<u>(16)</u>
Carrying value of non-controlling interest at May 31, 2012 . . . . .	<u>\$5,097</u>

### 3. RECEIVABLES

A summary of accounts receivable as of May 31, 2012 and 2011 is as follows (in thousands):

	May 31,	
	2012	2011
Trade accounts receivable .....	\$141,469	\$134,955
Unbilled revenues .....	20,561	12,387
Allowance for doubtful accounts .....	(4,405)	(4,222)
Total .....	<u>\$157,625</u>	<u>\$143,120</u>

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote. The following summarizes the activity in the allowance for doubtful accounts as of May 31, 2012 and 2011 (in thousands):

	Twelve Months Ended May 31,	
	2012	2011
Balance at beginning of year .....	\$ 4,222	\$ 4,934
Provision for doubtful accounts .....	1,650	1,048
Write-off of bad debts .....	(1,467)	(1,760)
Balance at end of year .....	<u>\$ 4,405</u>	<u>\$ 4,222</u>

### 4. INVENTORY

A summary of inventory as of May 31, 2012 and 2011 is as follows (in thousands):

	May 31,	
	2012	2011
Raw materials .....	\$ 3,529	\$ 3,165
Work in progress .....	937	722
Finished goods .....	20,520	17,448
Total .....	<u>\$24,986</u>	<u>\$21,335</u>

## 5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of May 31, 2012 and 2011 is as follows (in thousands):

	May 31,	
	2012	2011
Land .....	\$ 1,285	\$ 998
Buildings and leasehold improvements .....	15,095	9,386
Machinery and equipment .....	121,533	105,997
Furniture and fixtures .....	2,246	1,849
Computers and computer software .....	7,980	7,223
Automobiles .....	2,624	2,719
Construction in progress .....	1,912	8,610
Total .....	152,675	136,782
Accumulated depreciation and amortization .....	(90,634)	(78,215)
Property, plant, and equipment, net .....	<u>\$ 62,041</u>	<u>\$ 58,567</u>

In the fourth quarter of the year ending May 31, 2012, we incurred a \$1.7 million charge to write-off development costs capitalized through 2009 related to a planned new headquarters, manufacturing, equipment and training facility that was to have been constructed on a 50 acre tract of land in Houston, Texas that was acquired in 2007. The charge was due to management's decision not to pursue the development of the site. Instead, our existing corporate headquarters facility in Alvin, Texas will be repurposed as a technical center for operations support and the corporate headquarters will be relocated to a leased commercial office space in Sugar Land, Texas, a suburb of Houston.

## 6. INTANGIBLE ASSETS

A summary of intangible assets as of May 31, 2012 and 2011 is as follows (in thousands):

	May 31, 2012			May 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships .....	\$12,198	\$(1,973)	\$10,225	\$ 5,864	\$ (508)	\$ 5,356
Non-compete agreements ...	3,136	(2,844)	292	3,244	(2,550)	694
Trade names .....	2,962	(207)	2,755	2,962	(58)	2,904
Technology .....	5,112	(634)	4,478	5,112	(102)	5,010
Licenses .....	758	—	758	855	—	855
	<u>\$24,166</u>	<u>\$(5,658)</u>	<u>\$18,508</u>	<u>\$18,037</u>	<u>\$(3,218)</u>	<u>\$14,819</u>

Amortization expense for fiscal years ended May 31, 2012, 2011 and 2010 was \$2.6 million, \$1.0 million, and \$0.4 million, respectively. Amortization expense for current intangible assets is forecasted to be approximately \$2.5 million per year through fiscal year 2017.

## 7. OTHER ACCRUED LIABILITIES

A summary of other accrued liabilities as of May 31, 2012 and 2011 is as follows (in thousands):

	<u>May 31,</u>	
	<u>2012</u>	<u>2011</u>
Payroll and other compensation expenses .....	\$27,871	\$22,600
Insurance accruals .....	4,388	5,394
Property, sales and other non-income related taxes .....	1,966	2,024
Auto lease rebate .....	—	15
Other .....	4,267	2,478
Total .....	<u>\$38,492</u>	<u>\$32,511</u>

## 8. INCOME TAXES

For the years ended May 31, 2012, 2011 and 2010, we were taxed on income from continuing operations at an effective tax rate of 37%, 38% and 40%, respectively. Our income tax provision for May 31, 2012, 2011 and 2010 was \$19,422, \$13,548 and \$8,158 respectively, and include federal, state and foreign taxes. The components of our tax provision were as follows (in thousands):

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Year ended May 31, 2012:			
U.S. Federal .....	\$10,918	\$ 379	\$11,297
State & local .....	1,880	62	1,942
Foreign jurisdictions .....	7,378	(1,195)	6,183
	<u>\$20,176</u>	<u>\$ (754)</u>	<u>\$19,422</u>
Year ended May 31, 2011:			
U.S. Federal .....	\$ 8,546	\$ (984)	\$ 7,562
State & local .....	1,676	24	1,700
Foreign jurisdictions .....	4,872	(586)	4,286
	<u>\$15,094</u>	<u>\$(1,546)</u>	<u>\$13,548</u>
Year ended May 31, 2010:			
U.S. Federal .....	\$ 5,120	\$ (514)	\$ 4,606
State & local .....	875	(34)	841
Foreign jurisdictions .....	2,945	(234)	2,711
	<u>\$ 8,940</u>	<u>\$ (782)</u>	<u>\$ 8,158</u>

The components of pre-tax income for the years ended May 31, 2012, 2011 and 2010 were as follows (in thousands):

	<u>Twelve Months Ended May 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Domestic .....	\$31,984	\$27,641	\$12,234
Foreign .....	20,506	12,531	8,199
	<u>\$52,490</u>	<u>\$40,172</u>	<u>\$20,433</u>

Income tax expense attributable to income differed from the amounts computed by applying the U.S. Federal income tax rate of 35% to pre-tax income from continuing operations as a result of the following (in thousands):

	<b>Twelve Months Ended May 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Pre-tax income	\$52,490	\$40,172	\$20,433
Computed income taxes at statutory rate	\$18,371	\$14,060	\$ 7,152
State income taxes, net of federal benefit	1,342	1,135	556
Foreign tax differential	(471)	(326)	(205)
Production activity deduction	(161)	(178)	(358)
Non-deductible expenses	470	350	305
Tax credits	(233)	(197)	(381)
Stock options	—	(1,682)	690
Other	104	386	399
Total provision for income tax	<u>\$19,422</u>	<u>\$13,548</u>	<u>\$ 8,158</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands):

	<b>May 31,</b>	
	<b>2012</b>	<b>2011</b>
Deferred tax assets:		
Accrued compensation & benefits	\$ 4,386	\$ 3,705
Receivables	1,330	721
Inventory	598	509
Vendor rebates	—	6
Stock options	4,755	4,457
Net operating loss carry forwards	242	519
Other	818	487
Deferred tax assets	<u>12,129</u>	<u>10,404</u>
Less: valuation allowance	—	(519)
Deferred tax assets, net	<u>12,129</u>	<u>9,885</u>
Deferred tax liabilities:		
Property, plant and equipment	(9,798)	(8,470)
Goodwill and intangible costs	(4,406)	(3,649)
Foreign currency translation and other equity adjustments	(672)	(987)
Unremitted earnings of foreign subsidiaries	(420)	(420)
Prepays	(1,518)	(1,545)
Other	(766)	(1,339)
Deferred tax liabilities	<u>(17,580)</u>	<u>(16,410)</u>
Net deferred tax liability	<u>\$ (5,451)</u>	<u>\$ (6,525)</u>

As of May 31, 2011, we had a valuation allowance of \$0.5 million to reduce our deferred tax assets to an amount more likely than not to be recovered. This valuation allowance related to losses acquired as part of the Quest acquisition and was based on cumulative losses incurred in the years just prior to the acquisition. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income, and



tax planning strategies in making this assessment. During fiscal year 2012 we determined that it was more likely than not that the net operating loss related to Quest operations would be utilized based primarily on actual profits realized by Quest's foreign subsidiaries subsequent to the acquisition.

As of May 31, 2012, we had net operating loss carry forwards totaling \$0.6 million that were expected to be realized in fiscal year 2013. Of this amount \$0.2 million will expire in fiscal year 2018, \$0.1 million will expire in fiscal year 2019 and \$0.3 million has an unlimited life.

At May 31, 2012, undistributed earnings of foreign operations totaling \$9.7 million were considered to be permanently reinvested. We have recognized no deferred tax liability for the remittance of such earnings to the U.S. since it is our intention to utilize those earnings in the foreign operations. Generally, such earnings become subject to U.S. tax upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability on such undistributed earnings.

At May 31, 2012, we have established liabilities for uncertain tax positions of \$0.6 million, inclusive of interest. To the extent these uncertainties are ultimately resolved favorably, the resultant reduction of recorded liabilities would have an effect on our effective tax rate. In accordance with ASC 740-10 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 2008. While we believe there is appropriate support for the income tax positions taken, and to be taken, on our 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, the income tax laws and regulations are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our tax positions that may have a material effect on our results of operations, financial position or cash flows.

Set forth below is a reconciliation of the changes in our unrecognized tax benefits associated with uncertain tax positions (in thousands):

Balance at May 31, 2011 .....	\$ 421
Additions based on tax positions related to the current year .....	326
Additions based on tax positions related to prior years .....	—
Reductions resulting from a lapse of the applicable statute of limitations .....	<u>(123)</u>
Balance at May 31, 2012 .....	<u>\$ 624</u>

We believe that in the next 12 months it is reasonably possible \$0.1 million of liabilities recorded for tax uncertainties will be effectively settled.

During the third quarter of fiscal year 2011, the Company identified and corrected accounting errors relating to the effect of share-based compensation on tax provisions for fiscal years 2007 through 2010 and the first two quarters of fiscal year 2011. During those periods, reported earnings were understated because effective tax rates were overstated as a result of the previously undetected errors in the tax provision calculation. No restatement of previously issued financial statements was required because the effect on those statements was immaterial. The cumulative effect of the errors in the tax provision calculation was a tax benefit, which was recorded in the current fiscal year consisting of \$1.8 million associated with the prior years and \$0.5 million associated with the first two quarters of the current fiscal year.

The impact of the adjustment was determined not to be material to our results of operations, financial position or cash flows for the twelve months ended May 31, 2011, nor to any of our previously issued financial

statements for prior periods. This determination involved both quantitative assessments and qualitative assessments that considered, among many things:

- the adjustment had no impact on key operational GAAP measures such as revenues, gross margin or operating income,
- the non-cash nature of the adjustment,
- the adjustment had no impact on any banking covenants or key non-GAAP measures such as EBITDA,
- the adjustment had no impact on executive compensation in any period, and
- the adjustment had no quantitative material impact to any prior period.

Excluding the effect of the \$1.8 million portion of the cumulative adjustments related to prior years, the Company's effective tax rate for fiscal year 2011 was 38%.

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

A summary of long-term debt as of May 31, 2012 and May 31, 2011 is as follows (in thousands):

	<u>May 31,</u>	
	<u>2012</u>	<u>2011</u>
Credit facility . . . . .	\$85,872	\$70,687
Canadian line of credit . . . . .	—	5,161
Vendor financing and other . . . . .	—	232
Total . . . . .	<u>85,872</u>	<u>76,080</u>
Less: current maturities . . . . .	<u>—</u>	<u>(212)</u>
Long-term debt, excluding current maturities . . . . .	<u>\$85,872</u>	<u>\$75,868</u>

Future maturities of long-term debt, reflecting the New Credit Facility are as follows (in thousands):

2013 . . . . .	\$ —
2014 . . . . .	—
2015 . . . . .	—
2016 . . . . .	—
2017 . . . . .	85,872
Thereafter . . . . .	<u>—</u>
	<u>\$85,872</u>

In fiscal year 2012, we renewed our Credit Facility. The New 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 of 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 New Credit Facility. The New Credit Facility bears interest at LIBOR plus 1.75% and has commitment fees of 0.30% on unused borrowing capacity. At May 31, 2012, we were in compliance with all financial covenants of the New Credit Facility.

In order to secure our insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. We were contingently liable for outstanding stand-by letters of credit totaling \$13.5 million and

\$8.8 million at May 31, 2012 and 2011, respectively. Outstanding letters of credit reduce amounts available under our New Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the New Credit Facility.

Our Canadian subsidiary also had a line of credit with a bank in our banking syndicate. The Canadian Line of Credit allowed our subsidiary to borrow up to \$7.5 million Canadian (approximately \$7.7 million U.S. at May 31, 2011). We provided an unconditional guarantee of borrowings by our Canadian subsidiary, effectively making Team, Inc. liable to the bank as principal debtor. The Canadian Line of Credit also contained cross-default provisions with our Credit Facility. Borrowings under the Canadian Line of Credit were used for working capital and other general needs of our Canadian operations, bore interest at the prime interest rate (3.00% at May 31, 2011) and were scheduled to mature in May 2012. In conjunction with the renewal of our Credit Facility subsequent to our 2011 year end, the Canadian Line of Credit was repaid and eliminated under the terms of the New 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 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.

On May 31, 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 began with a notional value of \$30.0 million effective June 1, 2007 and decreased to \$16.3 million by March 1, 2010. On June 1, 2010, the interest rate swap expired. Changes in the cash flows of the interest rate swap were 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 was designated as a cash flow hedge, with the changes in fair value, to the extent the swap agreement was effective, recognized in other comprehensive income until the hedged interest expense was recognized in earnings.

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.

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 May 31, 2012, the €12.3 million borrowing had a U.S. Dollar value of \$15.3 million.

The amounts recognized in other comprehensive income, and reclassified into income, for the twelve months ended May 31, 2012 and 2011, are as follows (in thousands):

	Gain (Loss) Recognized in Other Comprehensive Income		Gain (Loss) Reclassified from Other Comprehensive Income to Earnings	
	Twelve Months Ended May 31,		Twelve Months Ended May 31,	
	2012	2011	2012	2011
Euro denominated long-term debt .....	\$2,385	\$(2,587)	\$—	\$—
Total .....	<u>\$2,385</u>	<u>\$(2,587)</u>	<u>\$—</u>	<u>\$—</u>

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

	May 31, 2012			May 31, 2011		
	Classification	Balance Sheet Location	Fair Value	Classification	Balance Sheet Location	Fair Value
Euro denominated long-term debt .....	Liability	Long-term debt	<u>\$2,678</u>	Liability	Long-term debt	<u>\$293</u>
Total .....			<u>\$2,678</u>			<u>\$293</u>

We enter into operating leases to rent facilities and obtain vehicles and equipment for our field operations. Our obligations under non-cancellable operating leases, primarily consisting of facility and auto leases, were approximately \$36.1 million at May 31, 2012 and are as follows (in thousands):

Twelve Months Ended May 31,	Operating Leases
2013 .....	\$11,288
2014 .....	8,700
2015 .....	6,598
2016 .....	4,168
2017 .....	1,991
Thereafter .....	<u>3,376</u>
Total .....	<u>\$36,121</u>

Total rent expense resulting from operating leases for the twelve months ended May 31, 2012, 2011 and 2010 was \$20.5 million, \$18.8 million and \$19.4 million, respectively. Subsequent to year end, we entered into an agreement to lease 22,000 square feet of office space in Sugar Land, Texas where we will relocate our corporate administrative functions. The additional lease commitment will total approximately \$3.0 million over the next 5 years.

## 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 May 31, 2012 and May 31, 2011, respectively. 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, 2012			Total
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Liabilities:				
Euro denominated long-term debt . . . . .	\$—	\$2,678	\$—	\$2,678
Net liabilities . . . . .	<u>\$—</u>	<u>\$2,678</u>	<u>\$—</u>	<u>\$2,678</u>
	May 31, 2011			Total
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Liabilities:				
Euro denominated long-term debt . . . . .	\$—	\$293	\$—	\$293
Net liabilities . . . . .	<u>\$—</u>	<u>\$293</u>	<u>\$—</u>	<u>\$293</u>

## 11. SHARE-BASED COMPENSATION

We have adopted stock incentive plans and other arrangements pursuant to which our Board may grant stock options, restricted stock, stock units, stock appreciation rights, common stock or performance awards to officers, directors and key employees. At May 31, 2012, there were approximately 2.0 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 May 31, 2012. 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 \$4.4 million, \$5.0 million and \$5.0 million for the years ended May 31, 2012, 2011 and 2010, respectively. The tax benefit related to share-based compensation was \$1.5 million, \$0.6 million and \$0.6 million for the years ended May 31, 2012, 2011 and 2010, respectively. At May 31, 2012, \$6.7 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 2.6 years.

We determine the fair value of each stock option at the grant date using a Black-Scholes model and recognize the resulting expense of our stock option awards over the period during which an employee is required to provide services in exchange for the awards, usually the vesting period. Compensation expense related to stock options totaled \$0.8 million, \$2.4 million and \$3.2 million in 2012, 2011 and 2010. Our options typically vest in equal annual installments over a four year service period. Expense related to an option grant is recognized on a straight line basis over the specified vesting period for those options. Stock options generally have a ten year term. Transactions involving our stock options during the years ended May 31, 2012, 2011 and 2010 are summarized below:

	<u>Year Ended May 31, 2012</u>		<u>Year Ended May 31, 2011</u>		<u>Year Ended May 31, 2010</u>	
	<u>No. of Options</u> <u>(in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>No. of Options</u> <u>(in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>No. of Options</u> <u>(in thousands)</u>	<u>Weighted Average Exercise Price</u>
Shares under option, beginning of year . . .	1,856	\$17.81	2,213	\$16.50	2,354	\$16.24
Changes during the year:						
Granted . . . . .	—	\$ —	—	\$ —	—	\$ —
Exercised . . . . .	(278)	\$10.77	(329)	\$ 8.08	(107)	\$ 8.35
Cancelled . . . . .	(2)	\$30.33	(13)	\$30.33	(30)	\$23.56
Expired . . . . .	(14)	\$30.33	(15)	\$26.56	(4)	\$16.56
Shares under option, end of year . . . . .	1,562	\$18.95	1,856	\$17.81	2,213	\$16.50
Exercisable at end of year . . . . .	1,562	\$18.95	1,711	\$16.75	1,807	\$14.22

Options exercisable at May 31, 2012 had a weighted-average remaining contractual life of 4.2 years. For total options outstanding at May 31, 2012, the range of exercise prices and remaining contractual lives are as follows:

<u>Range of Prices</u>	<u>No. of Options</u> <u>(in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u> <u>(in years)</u>
\$3.22 to \$6.41 . . . . .	70	\$ 4.17	0.9
\$6.42 to \$9.62 . . . . .	273	\$ 8.64	2.7
\$9.63 to \$12.82 . . . . .	157	\$11.10	3.7
\$12.83 to \$16.03 . . . . .	444	\$14.81	4.1
\$16.04 to \$32.05 . . . . .	618	\$30.16	5.4
	<u>1,562</u>	<u>\$18.95</u>	<u>4.2</u>



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 \$0.5 million, \$0.4 million and \$0.3 million for the years ended May 31, 2012, 2011 and 2010, respectively. Transactions involving our performance awards during the years ended May 31, 2012, 2011 and 2010 are summarized below:

	Year Ended May 31, 2012		Year Ended May 31, 2011		Year Ended May 31, 2010	
	No. of Performance Awards (in thousands)	Weighted Average Fair Value	No. of Performance Awards (in thousands)	Weighted Average Fair Value	No. of Performance Awards (in thousands)	Weighted Average Fair Value
Performance awards, beginning of year . . . . .	61	\$20.33	51	\$20.84	27	\$27.39
Changes during the year:						
Granted . . . . .	24	\$25.16	25	\$20.04	31	\$16.42
Vested and settled . . . . .	(21)	\$21.14	(15)	\$21.61	(7)	\$27.39
Cancelled . . . . .	—	\$ —	—	\$ —	—	\$ 0.00
Performance awards, end of year . . . . .	64	\$21.86	61	\$20.33	51	\$20.84

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 resting period. We also grant common stock to our directors which typically vest immediately. Compensation expense related to stock units and director stock grants totaled \$3.0 million, \$2.2 million and \$1.5 million for the years ended May 31, 2012, 2011 and 2010, respectively. Transactions involving our stock units and director stock grants during the years ended May 31, 2012, 2011 and 2010 are summarized below:

	Year Ended May 31, 2012		Year Ended May 31, 2011		Year Ended May 31, 2010	
	No. of Stock Units (in thousands)	Weighted Average Fair Value	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 year . . . . .	310	\$19.80	247	\$20.53	127	\$27.39
Changes during the year:						
Granted . . . . .	159	\$24.78	167	\$18.99	170	\$16.55
Vested and settled . . . . .	(120)	\$20.81	(93)	\$20.20	(45)	\$24.56
Cancelled . . . . .	(7)	\$21.27	(11)	\$20.50	(5)	\$23.76
Stock and stock units, end of year . . . . .	342	\$21.73	310	\$19.80	247	\$20.53

## 12. EMPLOYEE BENEFIT PLANS

Under the Team, Inc. Salary Deferral Plan (the “Plan”), contributions are made to the Plan by qualified employees at their election and our matching contributions to the Plan are made at specified rates. Our contributions to the Plan in fiscal years 2012, 2011 and 2010, were approximately \$2.9 million, \$1.7 million and \$1.8 million, respectively, and are included in selling, general and administrative expenses.

### 13. COMMITMENTS AND CONTINGENCIES

*Con Ed Matter* — We have, from time to time, provided temporary leak repair services for the steam operations of Con Ed located in New York City. In July 2007, a Con Ed steam main located in midtown Manhattan ruptured causing one death and other injuries and property damage. As of May 31, 2012, one hundred and six lawsuits have been filed against Con Ed, the City of New York and Team in the Supreme Courts of New York located in Kings, New York and Bronx County, alleging that our temporary leak repair services may have contributed to the cause of the rupture. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, on March 31, 2008, we received a letter from Con Ed alleging that our contract with Con Ed requires us to indemnify and defend Con Ed for additional claims filed against Con Ed as a result of the rupture. Con Ed filed an action to join Team and the City of New York as defendants in all lawsuits filed against Con Ed that did not include Team and the City of New York as direct defendants. We are vigorously defending the lawsuits and Con Ed's claim for indemnification. We are unable to estimate the amount of liability to us, if any, associated with these lawsuits and the claim for indemnification. We maintain insurance coverage, subject to a deductible limit of \$250,000, which we believe should cover these claims. We have not accrued any liability in excess of the deductible limit for the lawsuits. We do not believe the ultimate outcome of these matters will have a material adverse effect on our financial position, results of operations or cash flows.

*EPA Matter* — In June 2010, we received a grand jury subpoena from the United States Attorney for the Northern District of Texas requesting documents related to fugitive emissions monitoring services provided to customers from our Borger, Texas branch office. Our internal investigation determined that on specific occasions, certain employees failed to follow EPA protocols while conducting emissions monitoring and one supervisor, along with another employee, altered the customer's emissions monitoring database to falsely represent monitoring events. The falsification of emissions monitoring protocols and data resulted in the generation of false representations and certifications in records and reports which our customer submitted to the EPA and Texas Commission on Environmental Quality.

In July 2012, we negotiated a plea agreement and pled guilty to a single misdemeanor violation of a section of the Clean Air Act. In the plea agreement, we agreed to develop and implement an Environmental Compliance Plan for our emissions monitoring services to enhance our compliance with the Clean Air Act.

The maximum penalty for this misdemeanor violation is a term of probation of not more than five years and a fine not to exceed \$200,000, or twice any gross gain to us or loss to the victim(s). While the actual penalty has not yet been determined, we do not believe the ultimate outcome of this matter will have a material adverse effect on our financial position, results of operations, or cash flows.

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

### 14. ENTITY WIDE DISCLOSURES

ASC 280, *Segment Reporting* requires we disclose certain information about our operating segments where operating segments are defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance." We operate in only one segment—the industrial services segment. Within the industrial services segment, we are organized as two divisions. Our TCM division provides the services of inspection and assessment and field heat treating. Our TMS division provides the services of leak repair, fugitive emissions control, hot tapping, field machining, technical bolting and field valve repair. Each division has goodwill relating to past acquisitions and we assess goodwill for impairment at the lower TCM and TMS divisional level. Both divisions derive substantially all their revenues from providing specialized labor intensive

industrial services and the market for their services is principally dictated by the population of process piping systems in industrial plants and facilities. Services provided by both the TCM and TMS divisions are predominantly provided through a network of field branch locations located in proximity to industrial plants. The structure of those branch locations is similar, with locations overseen by a branch/regional manager, one or more sales representatives and a cadre of technicians to service the business requirements of our customers. Both the TCM and TMS division field locations share the same chief operating decision maker and both divisions are supported by common and often centralized technical and commercial support staffs, quality assurance, training, finance, legal, human resources and health and safety departments.

Revenues and total assets in the United States and other countries are as follows for the fiscal years ended May 31, 2012, 2011 and 2010 (in thousands):

	<u>Total Revenues</u>	<u>Total Assets</u>
<b>FY 2012</b>		
United States .....	\$438,413	\$296,240
Canada .....	121,865	60,334
Europe .....	36,448	30,352
Other foreign countries .....	27,014	16,862
Total .....	<u>\$623,740</u>	<u>\$403,788</u>
<b>FY 2011</b>		
United States .....	\$361,996	\$243,046
Canada .....	99,888	64,023
Europe .....	28,059	31,469
Other foreign countries .....	18,077	16,948
Total .....	<u>\$508,020</u>	<u>\$355,486</u>
<b>FY 2010</b>		
United States .....	\$323,036	\$188,280
Canada .....	91,482	44,015
Europe .....	23,218	24,142
Other foreign countries .....	16,133	8,552
Total .....	<u>\$453,869</u>	<u>\$264,989</u>

## 15. UNCONSOLIDATED SUBSIDIARIES

Our earnings from unconsolidated affiliates consists entirely of our joint venture (50% ownership) formed in May 2008, to perform non-destructive testing and inspection services in Alaska. The joint venture is an integral part of our operations in Alaska. Our investment in the net assets of the joint venture, accounted for using the equity method of accounting, was \$1.8 million at May 31, 2012 and \$1.4 million at May 31, 2011. Revenues from the joint venture not reflected in our consolidated revenues were \$12.3 million and \$9.9 million as of May 31, 2012 and 2011, respectively.

## 16. VENEZUELA'S HIGHLY INFLATIONARY ECONOMY

We operate a small service location in Punta Fijo, Venezuela, whose annual revenues have historically been less than one percent of our consolidated revenues for all periods presented. Because of the uncertain political environment in Venezuela, starting in the third quarter of fiscal year 2010, we began to account for Venezuelan operations pursuant to accounting guidance for hyperinflationary economies. We initially used the parallel exchange rate for Bolivar denominated bonds to translate our Venezuelan operations into U.S. Dollars. This resulted in currency related losses in the third quarter of fiscal year 2010 of \$2.1 million. In May 2010, the Venezuelan government took action to close the parallel exchange rate system, precluding its continued use and we subsequently returned to using the Venezuelan central bank's official published rate (5.30 Bolivars per

U.S. Dollar) to translate Venezuelan assets into U.S. Dollars as no other legal rate was readily available. The exchange rate has remained constant since May 2010. Consequently, we recognized no gains or losses in 2012 and 2011 related to the Venezuelan currency. Due to the uncertain economic and political environment in Venezuela, it is very difficult to repatriate cash flows of these operations. At May 31, 2012, our Venezuelan subsidiary had \$2.4 million of net assets, consisting primarily of Bolivar denominated cash equal to \$0.9 million.

## 17. SELECTED QUARTERLY FINANCIAL DATA

The following is a summary of selected unaudited quarterly financial data for the years ended May 31, 2012 and 2011 (in thousands, except per share data):

	Year Ended May 31, 2012				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues .....	\$141,093	\$158,273	\$136,523	\$187,851	\$623,740
Operating income .....	\$ 11,755	\$ 17,080	\$ 3,456	\$ 24,206	\$ 56,497
Net income available to Team shareholders .....	\$ 6,794	\$ 10,342	\$ 2,011	\$ 13,764	\$ 32,911
Net income per share: Basic .....	\$ 0.35	\$ 0.53	\$ 0.10	\$ 0.69	\$ 1.67
Net income per share: Diluted .....	\$ 0.33	\$ 0.50	\$ 0.10	\$ 0.66	\$ 1.59

	Year Ended May 31, 2011				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues .....	\$104,511	\$133,131	\$108,820	\$161,558	\$508,020
Operating income .....	\$ 6,741	\$ 13,831	\$ 3,241	\$ 18,662	\$ 42,475
Net income available to Team shareholders .....	\$ 3,806	\$ 8,061	\$ 3,897	\$ 10,821	\$ 26,585
Net income per share: Basic .....	\$ 0.20	\$ 0.42	\$ 0.20	\$ 0.55	\$ 1.38
Net income per share: Diluted .....	\$ 0.20	\$ 0.41	\$ 0.19	\$ 0.53	\$ 1.32

### 3. Exhibits

**Exhibit  
Number**

- 3.1 Amended and Restated Articles of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 2, 2011).
- 3.2 Bylaws of the Company (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed on December 2, 2011).
- 4.1 Certificate representing shares of common stock of Company (filed as Exhibit 4(1) to the Company's Registration Statement on Form S-1, File No. 2-68928).
- 10.1† Team, Inc. 2004 Restricted Stock Option and Award Plan dated June 24, 2004 (filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended May 31, 2004).
- 10.2† Team, Inc. 2006 Stock Incentive Plan (as Amended and Restated August 1, 2009) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 30, 2009).
- 10.3† Form of Stock Unit Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 17, 2008).
- 10.4† Form of Performance-Based Stock Unit Agreement (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 17, 2008).
- 10.5 Membership Interest Purchase Agreement dated November 2, 2010, by and among Team, Inc., TQ Acquisition, Inc., Quest Integrity Group, LLC, and John Zink Holdings, Inc., Ring Mountain Capital, LLC, Quest Integrated, Inc., Alexius Group II, LLC, Milton J. Altenberg and Todd Katz (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on November 3, 2010).
- 10.6 Form of Membership Interest Purchase Agreement dated November 2, 2010, by and among Team, Inc., TQ Acquisition, Inc. and each of the other members of Quest Integrity Group, LLC listed on Exhibit A to the Membership Interest Purchase Agreement dated November 2, 2010, by and among Team, Inc., TQ Acquisition, Inc., Quest Integrity Group, LLC, and John Zink Holdings, Inc., Ring Mountain Capital, LLC, Quest Integrated, Inc., Alexius Group II, LLC, Milton J. Altenberg and Todd Katz (filed as Exhibit 2.2 to the Company's Current Report on Form 8-K filed on November 3, 2010).
- 10.7 Form of Put-Call Option Agreement dated November 2, 2010 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 3, 2010).
- 10.8 Guaranty, dated as of November 2, 2010, made by KG Holding, LLC for the benefit of Team, Inc. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 3, 2010).
- 10.9 Guaranty, dated as of November 2, 2010, made by Milton J. Altenberg for the benefit of Team, Inc. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 3, 2010).
- 10.10 Guaranty, dated as of November 2, 2010, made by Jeffrey L. Ott for the benefit of Team, Inc. (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on November 3, 2010).
- 10.11 Second Amended and Restated Credit Agreement dated July 22, 2011 among Team, Inc. as the borrower, Bank of America, NA as Administrative Agent, Swing Line Lender and L/C Issuer, and other Lenders party thereto (filed as Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended May 31, 2011).
- 21 Subsidiaries of the Company.
- 23.1 Consent of Independent Registered Public Accounting Firm—KPMG LLP.

**Exhibit  
Number**

31.1	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Schema Document.
*101.CAL	XBRL Calculation Linkbase Document.
*101.DEF	XBRL Definition Linkbase Document.
*101.LAB	XBRL Label Linkbase Document.
*101.PRE	XBRL Presentation Linkbase Document.

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† Management contract or compensation plan or arrangement.

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



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized August 7, 2012.

TEAM, INC.

By:   /s/ PHILIP J. HAWK    
**Philip J. Hawk**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the dates indicated.

<u>  /s/ PHILIP J. HAWK  </u> <b>(Philip J. Hawk)</b>	Chairman, Chief Executive Officer and Director	August 7, 2012
<u>  /s/ VINCENT D. FOSTER  </u> <b>(Vincent D. Foster)</b>	Director	August 7, 2012
<u>  /s/ JACK M. JOHNSON, JR.  </u> <b>(Jack M. Johnson, Jr.)</b>	Director	August 7, 2012
<u>  /s/ EMMETT J. LESCROART  </u> <b>(Emmett J. Lescroart)</b>	Director	August 7, 2012
<u>  /s/ ROBERT A. PEISER  </u> <b>(Robert A. Peiser)</b>	Director	August 7, 2012
<u>  /s/ LOUIS A. WATERS  </u> <b>(Louis A. Waters)</b>	Director	August 7, 2012
<u>  /s/ SIDNEY B. WILLIAMS  </u> <b>(Sidney B. Williams)</b>	Director	August 7, 2012
<u>  /s/ TED W. OWEN  </u> <b>(Ted W. Owen)</b>	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	August 7, 2012

## CORPORATE INFORMATION

### Operating Locations\*

#### NORTH AMERICAN LOCATIONS

##### United States

Daphne, Alabama  
Decatur, Alabama  
Mobile, Alabama  
Anchorage, Alaska  
Kenai, Alaska  
Phoenix, Arizona  
Benicia, California  
Los Angeles, California  
San Francisco, California  
Denver, Colorado  
Hartford, Connecticut  
Jacksonville, Florida  
Chicago, Illinois  
Wood River, Illinois  
Hammond, Indiana  
Baton Rouge, Louisiana  
Lafayette, Louisiana  
Lake Charles, Louisiana  
New Orleans, Louisiana  
Rumford, Maine  
Detroit, Michigan  
Minneapolis, Minnesota  
Kansas City, Missouri  
St. Louis, Missouri  
New York, New York  
Syracuse, New York  
Charlotte, North Carolina  
Wilmington, North Carolina  
Cincinnati, Ohio  
Cleveland, Ohio  
Columbus, Ohio  
Toledo, Ohio  
Tulsa, Oklahoma  
Philadelphia, Pennsylvania  
Pittsburgh, Pennsylvania  
Butler, Pennsylvania  
San Juan, Puerto Rico  
Augusta, South Carolina  
Chattanooga, Tennessee  
Nashville, Tennessee  
Alvin, Texas  
Angleton, Texas  
Beaumont, Texas  
Borger, Texas  
Corpus Christi, Texas  
Houston, Texas

Longview, Texas  
Odessa, Texas  
Salt Lake, Utah  
Richmond, Virginia  
Seattle, Washington  
Charleston, West Virginia  
Milwaukee, Wisconsin  
Christiansted, St. Croix,  
U.S. Virgin Islands

##### Canada

Calgary, Alberta  
Edmonton, Alberta  
Fort McMurray, Alberta  
Grand Prairie, Alberta  
Red Deer, Alberta  
Slave Lake, Alberta  
Lloydminster, Alberta/  
Saskatchewan  
Mount Pearl, Newfoundland  
Dartmouth, Nova Scotia  
Kitchener, Ontario  
Oakville, Ontario  
Sarnia, Ontario  
Thunder Bay, Ontario  
Regina, Saskatchewan  
Weyburn, Saskatchewan

#### INTERNATIONAL LOCATIONS

Angola  
Australia  
Belgium  
Colombia  
Netherlands  
New Zealand  
Singapore  
Suriname  
Trinidad  
United Kingdom  
Venezuela

\*As of August 1, 2012

### Directors

Philip J. Hawk  
*Chairman of the Board and  
Chief Executive Officer Team, Inc.*

Vincent D. Foster  
*Chairman and CEO Main Street  
Capital Corp.  
(NASDAQ GS: "MAIN")*

Jack M. Johnson, Jr.  
*Managing General Partner  
Wintermann & Company  
(real estate management)*

Emmett J. Lescroart  
*Managing Director EJL  
Capital, LLC.*

Robert A. Peiser  
*Retired CEO Imperial Sugar  
Company*

Louis A. Waters  
*Investor, Retired Chairman of  
Browning-Ferris Industries, Inc.*

Sidney B. Williams  
*Shareholder, Chamberlain,  
Hrdlicka, White, Williams & Martin  
(legal services)*

#### Corporate Officers

Philip J. Hawk  
*Chairman of the Board and  
Chief Executive Officer*

Ted W. Owen  
*Executive Vice President, Chief  
Financial Officer and Treasurer*

Peter W. Wallace, Jr.  
*Executive Vice President and  
Chief Operating Officer*

André C. Bouchard  
*Senior Vice President  
Administration, General Counsel  
and Secretary*

John P. Kearns  
*Senior Vice President  
Operations Support and  
Technology Development*

David C. Palmore  
*Senior Vice President TMS Division*

Arthur F. Victorson  
*Senior Vice President TCM Division*

### Registrar and Transfer Agent

Communications regarding  
change of address, transfer  
of stock ownership, lost stock  
certificates or consolidation  
of multiple listings should be  
directed to:

Registrar and Transfer Co.  
Attn: Investor Relations  
10 Commerce Drive  
Cranford, New Jersey 07016  
Phone: 800/368-5948  
Fax: 908/497-2318  
E-mail: [invrelations@rtco.com](mailto:invrelations@rtco.com)

### Corporate Headquarters

Stockholders or other  
interested persons wishing to  
be placed on the corporate  
mailing list should write to the  
corporate headquarters.

Attn: Corporate Secretary  
André C. Bouchard  
200 Hermann Drive  
Alvin, Texas 77511  
Phone: 281/331-6154  
Fax: 281/331-4107

### Investor Relations

Ted W. Owen  
Executive Vice President,  
Chief Financial Officer and  
Treasurer Team, Inc.  
Phone: 281/388-5525  
E-mail: [ir@teamindustrial](mailto:ir@teamindustrial)  
services.com

### Independent Auditors

KPMG LLP  
811 Main St.  
Houston, TX 77002



## Corporate Headquarters

200 Hermann Drive

Alvin, Texas 77511

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## OUR VALUES

The Company's Code of Ethical Conduct can be accessed on our Internet web site at [www.teamindustrialservices.com](http://www.teamindustrialservices.com).

This Code encompasses our Core Values, which are:

- **Safety First** *in everything we do.*
- **Integrity** *means doing the right thing.*
- **Service Leadership** *throughout the Company.*
- **Innovation** *supports continuous growth and improvement.*
- **Pride and Respect** *for ourselves and our Company.*