

TEAM INC  
Form 10-Q  
November 04, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2016

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-08604  
TEAM, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware 74-1765729  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

13131 Dairy Ashford, Suite 600, Sugar Land, Texas 77478  
(Address of Principal Executive Offices) (Zip Code)

(281) 331-6154  
(Registrant's Telephone Number, Including Area Code)

None  
(Former Name, Former Address and Former Fiscal Year, if Changed  
Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

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

Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The Registrant had 29,495,870 shares of common stock, par value \$0.30, outstanding and 821,087 shares of treasury stock as of October 31, 2016.

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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TEAM, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

|   | September<br>30, 2016<br>(unaudited) | December<br>31, 2015 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| Current assets:   |                                      |                      |
| Cash and cash equivalents   | \$38,201                             | \$44,825             |
| Restricted cash   | —                                    | 5,000                |
| Receivables, net of allowance of \$6,432 and \$3,548  | 264,503                              | 214,324              |
| Inventory   | 52,438                               | 27,936               |
| Income tax receivable   | 10,152                               | 3,893                |
| Deferred income taxes   | 17,636                               | 6,917                |
| Prepaid expenses and other current assets   | 33,082                               | 11,664               |
| Current assets of discontinued operations   | 12,325                               | —                    |
| Total current assets  | 428,337                              | 314,559              |
| Property, plant and equipment, net  | 212,036                              | 124,983              |
| Intangible assets, net of accumulated amortization of \$32,360 and \$21,161                                     | 163,371                              | 99,119               |
| Goodwill  | 370,726                              | 256,654              |
| Other assets, net   | 4,083                                | 2,421                |
| Deferred income taxes   | 3,869                                | 1,255                |
| Total assets  | \$1,182,422                          | \$798,991            |
| <b>LIABILITIES AND EQUITY</b>   |                                      |                      |
| Current liabilities:  |                                      |                      |
| Current portion of long-term debt   | \$20,000                             | \$20,000             |
| Accounts payable  | 49,448                               | 22,364               |
| Other accrued liabilities   | 82,097                               | 49,796               |
| Current liabilities of discontinued operations  | 1,065                                | —                    |
| Total current liabilities   | 152,610                              | 92,160               |
| Deferred income taxes   | 97,070                               | 17,302               |
| Long-term debt  | 368,831                              | 351,383              |
| Defined benefit pension liability   | 11,751                               | —                    |
| Other long-term liabilities   | 4,109                                | —                    |
| Total liabilities   | 634,371                              | 460,845              |
| Commitments and contingencies   |                                      |                      |
| Equity:   |                                      |                      |
| Preferred stock, 500,000 shares authorized, none issued   | —                                    | —                    |
| Common stock, par value \$0.30 per share, 60,000,000 shares authorized; 30,226,478 and 21,836,694 shares issued | 9,066                                | 6,552                |
| Additional paid-in capital  | 337,915                              | 120,126              |
| Retained earnings   | 247,681                              | 250,980              |
| Accumulated other comprehensive loss  | (17,880)                             | (18,374)             |
| Treasury stock at cost, 821,087 and 546,977 shares  | (28,731)                             | (21,138)             |
| Total equity  | 548,051                              | 338,146              |

|                              |             |           |
|------------------------------|-------------|-----------|
| Total liabilities and equity | \$1,182,422 | \$798,991 |
|------------------------------|-------------|-----------|

See accompanying notes to unaudited condensed consolidated financial statements.

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## TEAM, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

|  | Three Months Ended |           | Nine Months Ended |           |
|--|--------------------|-----------|-------------------|-----------|
|  | September 30,      |           | September 30,     |           |
|  | 2016               | 2015      | 2016              | 2015      |
| Revenues   | \$289,577          | \$243,552 | \$876,871         | \$671,358 |
| Operating expenses   | 212,871            | 173,931   | 635,490           | 472,216   |
| Gross margin   | 76,706             | 69,621    | 241,381           | 199,142   |
| Selling, general and administrative expenses                   | 80,749             | 62,242    | 236,612           | 162,030   |
| Loss on revaluation of contingent consideration                | —                  | 522       | 2,184             | 522       |
| Operating income (loss)  | (4,043 )           | 6,857     | 2,585             | 36,590    |
| Interest expense, net  | 3,211              | 2,397     | 9,554             | 3,538     |
| Foreign currency (gain) loss                                   | (98 )              | 606       | (197 )            | 929       |
| Other expense (income), net                                    | 37                 | 8         | (2 )              | 1,184     |
| Earnings (loss) from continuing operations before income taxes | (7,193 )           | 3,846     | (6,770 )          | 30,939    |
| Less: Provision (benefit) for income taxes                     | (2,656 )           | 1,299     | (2,643 )          | 10,958    |
| Income (loss) from continuing operations                       | (4,537 )           | 2,547     | (4,127 )          | 19,981    |
| Income from discontinued operations, net of income tax         | 316                | —         | 828               | —         |
| Net income (loss)  | (4,221 )           | 2,547     | (3,299 )          | 19,981    |
| Less: Income attributable to noncontrolling interest           | —                  | —         | —                 | 213       |
| Net income (loss) available to Team shareholders               | \$(4,221 )         | \$2,547   | \$(3,299 )        | \$19,768  |
| Basic earnings (loss) per share:                               |                    |           |                   |           |
| Continuing operations  | \$(0.15 )          | \$0.13    | \$(0.15 )         | \$0.97    |
| Discontinued operations  | 0.01               | —         | 0.03              | —         |
| Net income (loss)  | \$(0.14 )          | \$0.13    | \$(0.12 )         | \$0.97    |
| Diluted earnings (loss) per share:                             |                    |           |                   |           |
| Continuing operations  | \$(0.15 )          | \$0.12    | \$(0.15 )         | \$0.92    |
| Discontinued operations  | 0.01               | —         | 0.03              | —         |
| Net income (loss)  | \$(0.14 )          | \$0.12    | \$(0.12 )         | \$0.92    |
| Amounts attributable to Team shareholders:                     |                    |           |                   |           |
| Income (loss) from continuing operations, net of income tax    | \$(4,537 )         | \$2,547   | \$(4,127 )        | \$19,768  |
| Income from discontinued operations, net of income tax         | 316                | —         | 828               | —         |
| Net income (loss)  | \$(4,221 )         | \$2,547   | \$(3,299 )        | \$19,768  |

See accompanying notes to unaudited condensed consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF  
 COMPREHENSIVE INCOME (LOSS)  
 (in thousands)

|   | Three Months<br>Ended<br>September 30, |           | Nine Months<br>Ended<br>September 30, |           |
|---|--|-----------|---------------------------------------|-----------|
|   | 2016                                   | 2015      | 2016                                  | 2015      |
| Net income (loss)   | \$(4,221)                              | \$2,547   | \$(3,299)                             | \$19,981  |
| Foreign currency translation adjustment                                   | (1,178 )                               | (5,256 )  | 1,872                                 | (12,155 ) |
| Foreign currency hedge  | (104 )                                 | (183 )    | (347 )                                | 1,122     |
| Tax benefit (provision) attributable to other comprehensive income (loss) | 287                                    | 1,811     | (1,031 )                              | 2,365     |
| Total comprehensive income (loss)   | (5,216 )                               | (1,081 )  | (2,805 )                              | 11,313    |
| Less: Total comprehensive income attributable to noncontrolling interest  | —                                      | —         | —                                     | 179       |
| Total comprehensive income (loss) available to Team shareholders          | \$(5,216)                              | \$(1,081) | \$(2,805)                             | \$11,134  |

See accompanying notes to unaudited condensed consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF  
 SHAREHOLDERS' EQUITY  
 (in thousands)

|  | Common<br>Shares | Treasury<br>Shares | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-in<br>Capital | Noncontrol<br>Interest | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Shareholders'<br>Equity |
|--|------------------|--------------------|-----------------|-------------------|----------------------------------|------------------------|----------------------|---|----------------------------------|
| Balance at January 1, 2016   | 21,837           | (547 )             | \$ 6,552        | \$(21,138)        | \$ 120,126                       | \$ —                   | —\$250,980           | \$(18,374 )                                   | \$ 338,146                       |
| Net income (loss)  | —                | —                  | —               | —                 | —                                | —                      | (3,299 )             | —   | (3,299 )                         |
| Foreign currency translation adjustment, net of tax  | —                | —                  | —               | —                 | —                                | —                      | —                    | 725   | 725                              |
| Foreign currency hedge, net of tax   | —                | —                  | —               | —                 | —                                | —                      | —                    | (231 )  | (231 )                           |
| Non-cash compensation  | —                | —                  | —               | —                 | 6,672                            | —                      | —                    | —   | 6,672                            |
| Vesting of stock awards  | 39               | —                  | 11              | —                 | (356 )                           | —                      | —                    | —   | (345 )                           |
| Tax benefit of exercise of stock options   | —                | —                  | —               | —                 | 86                               | —                      | —                    | —   | 86                               |
| Issuance of common stock in Furmanite acquisition and conversion of Furmanite share-based awards | 8,208            | —                  | 2,462           | —                 | 209,068                          | —                      | —                    | —   | 211,530                          |
| Exercise of stock options  | 143              | —                  | 41              | —                 | 2,367                            | —                      | —                    | —   | 2,408                            |
| Purchase of treasury stock   | —                | (274 )             | —               | (7,593 )          | —                                | —                      | —                    | —   | (7,593 )                         |
| Other  | —                | —                  | —               | —                 | (48 )                            | —                      | —                    | —   | (48 )                            |
| Balance at September 30, 2016  | 30,227           | (821 )             | \$ 9,066        | \$(28,731)        | \$ 337,915                       | \$ —                   | —\$247,681           | \$(17,880 )                                   | \$ 548,051                       |

|   | Common<br>Shares | Treasury<br>Shares | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-in<br>Capital | Noncontrol<br>Interest | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Shareholders'<br>Equity |
|---|------------------|--------------------|-----------------|-------------------|----------------------------------|------------------------|----------------------|---|----------------------------------|
| Balance at January 1, 2015                          | 20,700           | —                  | \$ 6,211        | \$—               | \$ 109,700                       | \$ 5,855               | \$ 225,747           | \$(8,406 )                                    | \$ 339,107                       |
| Net income  | —                | —                  | —               | —                 | —                                | —                      | 19,981               | —   | 19,981                           |
| Foreign currency translation adjustment, net of tax | —                | —                  | —               | —                 | —                                | —                      | —                    | (9,378 )                                      | (9,378 )                         |
|   | —                | —                  | —               | —                 | —                                | —                      | —                    | 710   | 710                              |



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|  |        |        |         |            |           |          |           |             |           |
|--|--------|--------|---------|------------|-----------|----------|-----------|-------------|-----------|
| Foreign currency hedge, net of tax                           |        |        |         |            |           |          |           |             |           |
| Comprehensive income attributable to noncontrolling interest | —      | —      | —       | —          | —         | 179      | (213 )    | 34          | —         |
| Purchase of noncontrolling interest                          | 728    | —      | 218     | —          | (118 )    | (6,034 ) | —         | —           | (5,934 )  |
| Non-cash compensation  | —      | —      | —       | —          | 4,044     | —        | —         | —           | 4,044     |
| Vesting of stock awards                                      | 12     | —      | 3       | —          | (44 )     | —        | —         | —           | (41 )     |
| Tax benefit of exercise of stock options                     | —      | —      | —       | —          | 1,535     | —        | —         | —           | 1,535     |
| Exercise of stock options                                    | 241    | —      | 73      | —          | 3,699     | —        | —         | —           | 3,772     |
| Purchase of treasury stock                                   | —      | (547 ) | —       | (21,138 )  | —         | —        | —         | —           | (21,138 ) |
| Balance at September 30, 2015                                | 21,681 | (547 ) | \$6,505 | \$(21,138) | \$118,816 | \$ —     | \$245,515 | \$(17,040 ) | \$332,658 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

|  | Nine Months<br>Ended<br>September 30, |           |
|--|---------------------------------------|-----------|
|  | 2016                                  | 2015      |
| Cash flows from operating activities:  |                                       |           |
| Net income (loss)  | \$(3,299 )                            | \$19,981  |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                       |           |
| Loss on investment in Venezuela  | —                                     | 1,177     |
| Depreciation and amortization  | 35,432                                | 20,534    |
| Amortization of deferred loan costs  | 381                                   | 262       |
| Provision for doubtful accounts  | 3,242                                 | 1,201     |
| Foreign currency (gain) loss   | (197 )                                | 929       |
| Deferred income taxes  | (3,552 )                              | 1,366     |
| Loss on asset disposal   | 10                                    | 556       |
| Loss on contingent consideration revaluation   | 2,184                                 | 522       |
| Non-cash compensation cost   | 6,672                                 | 4,044     |
| Other, net   | (862 )                                | —         |
| (Increase) decrease, net of the effect of acquisitions:                                  |                                       |           |
| Receivables  | 16,537                                | (22,981 ) |
| Inventory  | 1,196                                 | (443 )    |
| Prepaid expenses and other current assets  | (6,264 )                              | (3,480 )  |
| Increase (decrease), net of the effect of acquisitions:                                  |                                       |           |
| Accounts payable   | 11,091                                | 791       |
| Other accrued liabilities  | 2,333                                 | 12,496    |
| Income taxes   | (4,259 )                              | (10,720 ) |
| Net cash provided by operating activities  | 60,645                                | 26,235    |
| Cash flows from investing activities:  |                                       |           |
| Capital expenditures   | (35,865 )                             | (30,549 ) |
| Business acquisitions, net of cash acquired  | (48,382 )                             | (263,560) |
| Change in restricted cash  | 5,000                                 | (5,000 )  |
| Proceeds from sale of assets   | 3,717                                 | 5,304     |
| Decrease (increase) in other assets, net   | (69 )                                 | 158       |
| Change related to Venezuelan operations  | —                                     | (621 )    |
| Other  | 735                                   | —         |
| Net cash used in investing activities  | (74,864 )                             | (294,268) |
| Cash flows from financing activities:  |                                       |           |
| Net debt borrowings  | 16,043                                | 290,140   |
| Deferred consideration payments  | (694 )                                | (1,242 )  |
| Contingent consideration payments  | (1,816 )                              | —         |
| Purchase of treasury stock   | (7,593 )                              | (21,138 ) |
| Purchase of noncontrolling interest  | —                                     | (5,934 )  |
| Debt issuance costs  | (759 )                                | (1,950 )  |
| Corporate tax effect from share-based payment arrangements                               | 108                                   | 1,535     |
| Issuance of common stock from share-based payment arrangements                           | 2,408                                 | 3,772     |
| Payments related to withholding tax for share-based payment arrangements                 | (345 )                                | (41 )     |
| Net cash provided by financing activities  | 7,352                                 | 265,142   |

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|  |          |          |
|--|----------|----------|
| Effect of exchange rate changes on cash          | 243      | (2,989 ) |
| Net decrease in cash and cash equivalents        | (6,624 ) | (5,880 ) |
| Cash and cash equivalents at beginning of period | 44,825   | 44,426   |
| Cash and cash equivalents at end of period       | \$38,201 | \$38,546 |

See accompanying notes to unaudited condensed consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Introduction. Unless otherwise indicated, the terms “Team, Inc.,” “Team,” “the Company,” “we,” “our” and “us” are used in this report to refer to Team, Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. We are incorporated in the State of Delaware and our company website can be found at [www.teaminc.com](http://www.teaminc.com). Our corporate headquarters is located at 13131 Dairy Ashford, Suite 600, Sugar Land, Texas, 77478 and our telephone number is (281) 331-6154. Our stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “TISI”. On November 10, 2015, we announced we would change our fiscal year end to December 31 of each calendar year from May 31. Accordingly, we have recast the prior-period comparative financial information presented in this report to align with our new fiscal calendar.

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 conduct operations in three segments: TeamQualspec Group (“TeamQualspec”) (formerly the Inspection and Heat Treating Services Group), TeamFurmanite Group (“TeamFurmanite”) (formerly the Mechanical Services Group) and Quest Integrity Group (“Quest Integrity”). TeamQualspec provides basic and advanced non-destructive testing (“NDT”) services for the process, pipeline and power sectors, pipeline integrity management services, field heat treating services, as well as associated engineering and assessment services. These services can be offered while facilities are running (on-stream), during facility turnarounds or during new construction or expansion activities.

TeamFurmanite, our mechanical services segment, provides turnaround and on-stream services. Turnaround services are project-related and demand is a function of the number and scope of scheduled and unscheduled facility turnarounds as well as new industrial facility construction or expansion activities. The turnaround services TeamFurmanite provides include field machining, technical bolting, field valve repair, heat exchanger repair, and isolation test plugging services. On-stream services offered by TeamFurmanite represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control and hot tapping. Quest Integrity provides integrity and reliability management solutions for the process, pipeline and power sectors. These solutions encompass two broadly-defined disciplines: (1) highly specialized in-line inspection services for unpiggable process piping and pipelines using proprietary in-line inspection tools and analytical software; and (2) advanced condition assessment services through a multi-disciplined engineering team. We believe there is a general growth in market demand for inspection and assessment services as improved inspection technologies enable better information about asset reliability to be available to facility owners and operators.

We offer these services in over 220 locations in 22 countries throughout the world with more than 8,300 employees. Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, original equipment manufacturers (“OEMs”), distributors, and some of the world’s largest engineering and construction firms. Our services are also provided across a broad geographic reach.

Basis for presentation. These interim financial statements are unaudited, but in the opinion of our management, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results for such periods. The consolidated condensed balance sheet at December 31, 2015 is derived from the December 31, 2015 audited consolidated financial statements. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in our Transition Report on Form 10-K for the transition period from June 1, 2015 to December 31, 2015.

Consolidation. The consolidated financial statements include the accounts of Team, Inc. and our majority-owned subsidiaries where we have control over operating and financial policies. Investments in affiliates in which we have the ability to exert significant influence over operating and financial policies, but where we do not control the

operating and financial policies, are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates. Our accounting policies conform to Generally Accepted Accounting Principles in the U.S. (“GAAP”). Our most significant accounting policies are described below. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect our reported financial position and results of operations. We review significant estimates and judgments affecting our consolidated financial statements on a recurring basis

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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 acquisition-related tangible and intangible assets and assessments of all long-lived assets for possible impairment, (3) estimating various factors used to accrue liabilities for workers' compensation, auto, medical and general liability, (4) establishing an allowance for uncollectible accounts receivable, (5) estimating the useful lives of our assets, (6) assessing future tax exposure and the realization of tax assets, (7) estimating the value associated with contingent consideration payment arrangements and (8) selecting assumptions used in the measurement of costs and liabilities associated with defined benefit pension plans.

**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. Included in our cash and cash equivalents at September 30, 2016 and December 31, 2015 is \$10.9 million and \$17.5 million, respectively, of cash in certain foreign subsidiaries (located primarily in Europe and Canada) where earnings are considered by the Company to be permanently reinvested. In the event that some or all of this cash were to be repatriated, we would be required to accrue and pay additional taxes. While not legally restricted from repatriating this cash, we consider all undistributed earnings of these foreign subsidiaries to be indefinitely reinvested and access to cash to be limited.

**Restricted cash.** We recorded \$5.0 million in restricted cash on our balance sheet at December 31, 2015 to reflect the amount held in escrow for contingent consideration as stipulated by the Qualspec Group LLC ("Qualspec") purchase agreement. Based on Qualspec's results through December 31, 2015, the contingent consideration did not become due and, accordingly, this cash became unrestricted in the second quarter of 2016.

**Inventory.** We use the first-in, first-out method to determine inventory cost, except that inventory cost of Furmanite Corporation ("Furmanite") and its subsidiaries, which we acquired on February 29, 2016 (see Note 2), is determined based on weighted-average cost. Inventory includes material, labor and certain fixed overhead costs. Inventory is stated at the lower of cost or market. Inventory quantities on hand are reviewed periodically and carrying cost is reduced to net realizable value for inventories for which their cost exceeds their utility. The cost of inventories consumed or products sold are included in operating expenses.

**Property, plant and equipment.** Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Leasehold improvements are amortized over the shorter of their respective useful life or the lease term. Depreciation and amortization of assets are computed by the straight-line method over the following estimated useful lives of the assets:

| Classification                  | Useful Life |
|---------------------------------|-------------|
| Buildings                       | 20-40 years |
| Leasehold improvements          | 2-15 years  |
| Machinery and equipment         | 2-12 years  |
| Furniture and fixtures          | 2-10 years  |
| Computers and computer software | 2-5 years   |
| Automobiles                     | 2-5 years   |

**Goodwill and intangible assets.** We allocate the purchase price of acquired businesses to their identifiable tangible assets and liabilities, such as accounts receivable, inventory, property, plant and equipment, accounts payable and

accrued liabilities. We also allocate a portion of the purchase price to identifiable intangible assets, such as non-compete agreements, trademarks, trade names, patents, technology and customer relationships. Allocations are based on estimated fair values of assets and liabilities. The Company uses all available information to estimate fair values including quoted market prices, the carrying value of acquired assets, and widely accepted valuation techniques such as discounted cash flows. Certain estimates and judgments are required in the application of the fair value techniques, including estimates of future cash flows, selling prices, replacement costs, economic lives and the selection of a discount rate, which involves the use of Level 3 measurements as defined in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820, Fair Value Measurements and Disclosure (“ASC 820”). Deferred taxes are recorded for any differences between the assigned values and tax bases of assets and liabilities. Estimated

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deferred taxes are based on available information concerning the tax bases of assets acquired and liabilities assumed and loss carryforwards at the acquisition date, although such estimates may change in the future as additional information becomes known. Any remaining excess of cost over allocated fair values is recorded as goodwill. We typically engage third-party valuation experts to assist in determining the fair values for both the identifiable tangible and intangible assets. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, could materially impact the Company's results of operations.

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 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 assess goodwill for impairment at the reporting unit level, which we have determined to be the same as our operating segments. Each reporting unit has goodwill relating to past acquisitions.

The test for impairment is a two-step process that involves comparing the estimated fair value of each reporting unit to the reporting unit's carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired; therefore, the second step of the impairment test is not deemed necessary. If the carrying amount of the reporting unit exceeds its fair value, we then perform a second step to the goodwill impairment test to measure the amount of goodwill impairment loss to be recorded. With the change in our fiscal year end to December 31 of each calendar year, our goodwill annual test date changed to December 1, effective December 1, 2015.

Due to the changes in the underlying assumptions surrounding our goodwill testing as a result of significant acquisitions (see Note 2), we performed a quantitative analysis of goodwill to test for impairment at December 1, 2015 and concluded there was no impairment.

The fair values of the reporting units at December 1, 2015 were determined using a method based on discounted cash flow models with estimated cash flows based on internal forecasts of revenue and expenses over a four-year period plus a terminal value period (the income approach). The income approach estimated fair value by discounting each reporting unit's estimated future cash flows using a discount rate that approximated our weighted-average cost of capital. The fair value derived from the income approach, in the aggregate, approximated our market capitalization. At December 1, 2015, our market capitalization exceeded the carrying value of our consolidated net assets by approximately \$482 million or 141%, and the fair value of each reporting unit significantly exceeded its respective carrying amount as of that date. There have been no events that have required an interim assessment of the carrying value of goodwill during 2016.

There was \$370.7 million and \$256.7 million of goodwill at September 30, 2016 and December 31, 2015, respectively. See Note 2 for additional information related to the acquisitions that increased goodwill in the period. A rollforward of goodwill for the nine months ended September 30, 2016 is as follows (in thousands):

|                                | Nine Months Ended<br>September 30, 2016<br>(unaudited) |               |                 |           |  |
|--------------------------------|--|---------------|-----------------|-----------|--|
|                                | TeamQual   | TeamFurmanite | Quest Integrity | Total     |  |
| Balance at beginning of period | \$207,497  | \$ 19,874     | \$29,283        | \$256,654 |  |
| Acquisitions                   | 5,955  | 102,587       | 4,137           | 112,679   |  |
| Foreign currency adjustments   | 746  | 255           | 392             | 1,393     |  |
| Balance at end of period       | \$214,198  | \$ 122,716    | \$33,812        | \$370,726 |  |



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.

In accordance with ASC 740, we are required to assess the likelihood that our deferred tax assets will be realized 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

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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 existing taxable temporary differences and tax planning strategies.

During the three months ended June 30, 2016, we calculated a measurement-period adjustment associated with our acquisition of Furmanite (Note 2) that increased deferred tax liabilities and goodwill by \$47.9 million. This adjustment represents the acquisition-date deferred tax liability associated with the accumulated undistributed earnings of certain of Furmanite's foreign subsidiaries, which we do not consider to be indefinitely reinvested outside the United States.

Workers' compensation, auto, medical and general liability accruals. In accordance with ASC 450, Contingencies, we record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review our loss contingencies on an ongoing basis to ensure that we have appropriate reserves recorded on our balance sheet. These reserves are based on historical experience with claims incurred but not received, estimates and judgments made by management, applicable insurance coverage for litigation matters, and are adjusted as circumstances warrant. For workers' compensation, our self-insured retention is \$1.0 million and our automobile liability self-insured retention is currently \$500,000 per occurrence. For general liability claims we have an effective self-insured retention of \$3.0 million per occurrence. For medical claims, our self-insured retention is \$175,000 per individual claimant determined on an annual basis. For environmental liability claims, our self-insured retention is \$1.0 million 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. Furmanite was generally incorporated into our existing insurance coverage during the second quarter of 2016, but for certain items it continues to maintain separate insurance policies and accordingly has separate self-insurance retention amounts, with such self-retention amounts generally below the levels noted above. Our estimates and judgments could change based on new information, changes in laws or regulations, changes in management's plans or intentions, or the outcome of legal proceedings, settlements or other factors. If different estimates and judgments were applied with respect to these matters, it is likely that reserves would be recorded for different amounts.

Revenue recognition. We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the FASB and the Securities and Exchange Commission ("SEC"). Most of our projects are short-term in nature and we predominantly derive revenues by providing a variety of industrial services on a time and material basis. For all of these services, our revenues are recognized when services are rendered or when product is shipped 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 September 30, 2016 and December 31, 2015, the amount of earned but unbilled revenue included in accounts receivable was \$80.8 million and \$47.1 million, respectively.

Allowance for doubtful accounts. In the ordinary course of business, a portion 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 (loss) per share. Basic earnings (loss) per share is computed by dividing income (loss) from continuing operations, income from discontinued operations or net income (loss) 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 income (loss) from continuing operations, income from discontinued operations or net income (loss) available to Team shareholders, less income or loss for the period attributable to the noncontrolling 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 noncontrolling interest to our common stock prior to the acquisition of that interest.

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Amounts used in basic and diluted earnings (loss) per share, for the three and nine months ended September 30, 2016 and 2015, are as follows (in thousands):

|   | Three Months  |        | Nine Months   |        |
|---|---------------|--------|---------------|--------|
|   | Ended         |        | Ended         |        |
|   | September 30, |        | September 30, |        |
|   | 2016          | 2015   | 2016          | 2015   |
|   | (unaudited)   |        | (unaudited)   |        |
| Weighted-average number of basic shares outstanding | 29,361        | 20,375 | 27,609        | 20,371 |
| Stock options, stock units and performance awards   | —             | 342    | —             | 331    |
| Conversion of noncontrolling interest               | —             | 728    | —             | 728    |
| Total shares and dilutive securities                | 29,361        | 21,445 | 27,609        | 21,430 |

For the three and nine months ended September 30, 2016, all outstanding share-based compensation awards were excluded from the calculation of diluted earnings (loss) per share because their inclusion would be antidilutive due to the loss from continuing operations for the periods. There were no stock options outstanding during the three and nine months ended September 30, 2015 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 loss in shareholders' equity. Foreign currency transaction gains and losses are included in our consolidated statements of operations.

We utilize monthly foreign currency swap contracts to reduce exposures to changes in foreign currency exchange rates related to our largest exposures including, but not limited to, the Australian Dollar, Canadian Dollar, Brazilian Real, British Pound, Euro, Malaysian Ringgit and Mexican Peso. The impact from these swap contracts was not material for the three months or nine months ended September 30, 2016 nor as of the balance sheet dates of September 30, 2016 and December 31, 2015.

Defined Benefit Pension Plans. Pension benefit costs and liabilities are dependent on assumptions used in calculating such amounts. The primary assumptions include factors such as discount rates, expected investment return on plan assets, mortality rates and retirement rates. These rates are reviewed annually and adjusted to reflect current conditions. These rates are determined based on reference to yields. The expected return on plan assets is derived from detailed periodic studies, which include a review of asset allocation strategies, anticipated future long-term performance of individual asset classes, risks (standard deviations) and correlations of returns among the asset classes that comprise the plans' asset mix. While the studies give appropriate consideration to recent plan performance and historical returns, the assumptions are primarily long-term, prospective rates of return. Mortality and retirement rates are based on actual and anticipated plan experience. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense in future periods. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the pension obligation and future expense.

#### Newly Adopted Accounting Principles

ASU No. 2015-03 and ASU No. 2015-15. In April 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-03, Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), which requires that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as other assets, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs.

In August 2015, the FASB issued ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements ("ASU 2015-15"), that adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015, Emerging Issues Task Force meeting about the presentation and subsequent

measurement of debt issuance costs associated with line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, ASU 2015-15 states the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. Team adopted ASU 2015-15 effective upon adoption of ASU 2015-03 on January 1, 2016. Because essentially all

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of Team's deferred debt issuance costs relate to line-of-credit arrangements, we have elected to continue presenting such costs as an asset. Therefore, adoption of ASU 2015-03 and ASU 2015-15 did not have any impact on our results of operations, financial position or cash flows.

ASU No. 2015-16. In September 2015, the FASB issued ASU No. 2015-16, Business Combinations- Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"), that requires the acquirer in a business combination to recognize in the reporting period in which adjustment amounts are determined, any adjustments to provisional amounts that are identified during the measurement period, calculated as if the accounting had been completed at the acquisition date. Prior to the issuance of ASU 2015-16, an acquirer was required to restate prior period financial statements as of the acquisition date for adjustments to provisional amounts. Team adopted ASU 2015-16 effective January 1, 2016 and its adoption did not have a material impact on our results of operations, financial position or cash flows. We have included the required disclosures with respect to measurement-period adjustments in Note 2.

Accounting Principles Not Yet Adopted

ASU No. 2014-09. In May 2014, the FASB issued Accounting Standards Update ("ASU") ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for us on January 1, 2018, with early application permitted as of January 1, 2017. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method or determined the effect ASU 2014-09 will have on our ongoing financial reporting.

ASU No. 2015-11. In July 2015, the FASB issued ASU 2015-11, Inventory—Simplifying the Measurement of Inventory ("ASU 2015-11"), which requires entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value to more closely align the measurement of inventory in GAAP with International Financial Reporting Standards ("IFRS"). Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016 on a prospective basis, with earlier application permitted. The adoption of this update is not expected to have a material impact on our results of operations, financial position or cash flows.

ASU No. 2015-17. In November 2015, the FASB issued ASU No. 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"), which simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016. The ASU may be adopted prospectively or retrospectively and early adoption is permitted. The adoption of this ASU is not expected to have a material impact on our results of operations, financial position or cash flows.

ASU No. 2016-02. In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"), which changes the accounting for leases, including a requirement to record all leases on the consolidated balance sheets as assets and liabilities. This ASU is effective for fiscal years beginning after December 15, 2018. We will adopt ASU 2016-02 effective January 1, 2019. We are currently evaluating the impact this ASU will have on our ongoing financial reporting.

ASU No. 2016-09. In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which makes several modifications to GAAP related to share-based payments including the accounting for forfeitures, employee taxes and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The ASU is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. The adoption of ASU 2016-09 is not expected to have a material impact on our financial position or cash flows. Upon adoption, on a prospective basis, our income tax expense will be impacted by future excess tax benefits or deficiencies that under previous GAAP were recognized within stockholders' equity rather than through the statement of operations.

ASU No. 2016-13. In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which amends GAAP by introducing a new impairment model for financial instruments that is based on expected credit losses rather than incurred credit losses. The new impairment model applies to most financial assets, including trade accounts receivable. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, although it may be adopted one year earlier, and requires a modified retrospective transition approach. We are currently evaluating the impact this ASU will have on our ongoing financial reporting.

ASU No. 2016-15. In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which clarifies the classification in the statement of cash flows

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of certain items, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and cash receipts and payments having aspects of more than one class of cash flows. ASU 2016-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. We do not expect the adoption of this ASU to have a material impact on our statements of cash flows.

ASU No. 2016-16. In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”), which will require an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. ASU 2016-16 is effective on January 1, 2018 with early adoption permitted. We are currently evaluating the impact this ASU will have on our ongoing financial reporting.

## 2. ACQUISITIONS

### Furmanite

In November 2015, Team and Furmanite entered into an Agreement and Plan of Merger (the “Merger Agreement”) pursuant to which we acquired all the outstanding shares of Furmanite in a stock transaction whereby Furmanite shareholders received 0.215 shares of Team common stock for each share of Furmanite common stock they owned. The merger was completed on February 29, 2016. Outstanding Furmanite share-based payment awards were generally converted into comparable share-based awards of Team, with certain awards vesting upon the closing of the merger, pursuant to the Merger Agreement. The combination doubled the size of Team’s mechanical services capabilities and established a deeper, broader talent and resource pool that better supports customers across standard and specialty mechanical services. In addition, our expanded capability and capacity offers an enhanced single-point of accountability and flexibility in addressing some of the most critical needs of clients; whether as individual services or as part of an integrated specialty industrial services solution.

The acquisition-date fair value of the consideration transferred totaled \$282.3 million, which consisted of the following (in thousands, except shares):

|                                      |                                     |
|--------------------------------------|-------------------------------------|
|                                      | February<br>29, 2016<br>(unaudited) |
| Common stock (8,208,006 shares)      | \$ 209,529                          |
| Converted share-based payment awards | 2,001                               |
| Cash                                 | 70,811                              |
| Total consideration                  | \$ 282,341                          |

The fair value of the 8,208,006 common shares issued was determined based on the closing market price of our common shares on the acquisition date of February 29, 2016. The issuance of common shares in the acquisition is a non-cash financing activity that has been excluded from the consolidated statement of cash flows. The fair value of the converted share-based payment awards reflects an apportionment of the fair value of the awards, based on the closing market price of our common shares and other assumptions as of the acquisition date, that is attributable to employee service completed prior to the acquisition date. The fair value of the awards attributable to service after the acquisition date is recognized as share-based compensation expense over the applicable vesting periods. The cash consideration represents amounts Team paid, immediately prior to the closing of the acquisition, to settle Furmanite’s outstanding debt and certain related liabilities, which were not assumed by Team. The cash portion of the consideration was financed through additional borrowings under our banking credit facility.



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The following table presents the preliminary purchase price allocation for Furmanite (in thousands):

|  | February<br>29, 2016<br>(unaudited) |
|--|-------------------------------------|
| Cash and cash equivalents                      | \$ 37,734                           |
| Accounts receivable                            | 64,502                              |
| Inventory                                      | 25,709                              |
| Current deferred tax assets                    | 11,563                              |
| Prepaid expenses and other current assets      | 23,207                              |
| Current assets of discontinued operations      | 14,760                              |
| Property, plant and equipment                  | 71,241                              |
| Intangible assets                              | 70,800                              |
| Goodwill                                       | 102,587                             |
| Other non-current assets                       | 3,709                               |
| Total assets acquired                          | \$ 425,812                          |
| Accounts payable                               | \$ 12,359                           |
| Other accrued liabilities                      | 28,918                              |
| Income taxes payable                           | 229                                 |
| Current liabilities of discontinued operations | 1,434                               |
| Non-current deferred tax liabilities           | 84,328                              |
| Defined benefit pension liability              | 13,509                              |
| Other long-term liabilities                    | 2,694                               |
| Total liabilities assumed                      | 143,471                             |
| Net assets acquired                            | \$ 282,341                          |

The preliminary purchase price allocation above reflects measurement period adjustments as a result of new information obtained during both the three months ended June 30, 2016 and the three months ended September 30, 2016. The significant adjustments during the three months ended June 30, 2016 were an increase in non-current deferred tax liabilities of \$47.9 million, a decrease in inventory of \$5.4 million, a decrease in accounts receivable of \$2.1 million, an increase in other accrued liabilities of \$1.4 million and a decrease in prepaid expenses and other current assets of \$0.5 million. These adjustments resulted in an offsetting increase to goodwill of \$57.3 million. Additionally, the allocation above reflects an adjustment during the three months ended June 30, 2016 to reclassify \$5.7 million from inventory to prepaid expenses and other current assets as well as adjustments to segregate the preliminary fair values of assets and liabilities of acquired discontinued operations (see Note 15). The significant adjustments during the three months ended September 30, 2016 were a decrease in accounts receivable of \$5.1 million, a decrease in property, plant and equipment of \$1.6 million, a decrease in prepaid expenses and other current assets of \$0.5 million, an increase in other accrued liabilities of \$2.0 million and a decrease in non-current deferred tax liabilities of \$0.6 million. These adjustments resulted in an offsetting increase to goodwill of \$8.7 million. Additionally, the allocation above reflects an adjustment during the three months ended September 30, 2016 to reclassify \$2.0 million and \$0.4 million from inventory and prepaid expenses and other current assets, respectively, to property, plant and equipment. These measurement period adjustments did not result in any material impacts to the consolidated statements of operations.

The preliminary purchase price allocation shown above and the disclosures below are based upon the estimated fair values at the acquisition date and are subject to additional changes within the measurement period as additional information is obtained. The final valuation of assets acquired and liabilities assumed is expected to be completed as soon as possible, but no later than one year from the acquisition date. To the extent that our estimates require adjustment, we will modify the provisional amounts. Given the size, complexity and timing of the acquisition, the valuation of certain assets and liabilities is still being finalized. The fair value of the acquired working capital, which includes accounts receivable, inventory, prepaid expenses, accounts payable and accrued liabilities is provisional

subject to the completion of our detailed review of the underlying accounts. The fair value of the acquired property, plant and equipment and identifiable intangible assets is provisional pending the completion of and our review of the valuation reports for those assets from a third-party valuation firm. The valuation of Furmanite's tax accounts is provisional pending the completion of Furmanite's tax returns to be filed for periods up to the acquisition date. The fair values recorded are "Level 3" measurements as defined in Note 10.

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Of the \$70.8 million of acquired intangible assets, \$51.6 million was assigned to customer relationships with an estimated useful life of 12 years, \$16.9 million was assigned to trade names with a weighted-average estimated useful life of 12 years and \$2.3 million was assigned to developed technology with an estimated useful life of 10 years. The \$102.6 million of goodwill was assigned to the TeamFurmanite segment. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Furmanite. None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of accounts receivable acquired was \$64.5 million with the gross contractual amount being \$73.8 million. We expect \$9.3 million to be uncollectible. Additionally, we acquired accounts receivable with a fair value of \$14.0 million associated with discontinued operations, which is included in the current assets of discontinued operations line above, with the gross contractual amount of these receivables being \$14.1 million. We expect \$0.1 million to be uncollectible.

For the three and nine months ended September 30, 2016, we recognized a total of \$0.2 million and \$6.8 million, respectively, of acquisition costs related to the Furmanite acquisition, which were included in selling, general and administrative expenses in the consolidated statements of operations.

Our condensed consolidated statements of operations (unaudited) include the activity of Furmanite beginning on the acquisition date of February 29, 2016. Subsequent to the acquisition date, we commenced integration activities relative to Furmanite. As a result, certain business operations have been consolidated and/or transferred from legacy Furmanite operations to legacy Team operations to facilitate the new operating structure. Revenues of \$152.3 million and a net loss of \$1.7 million are included in the nine month period ended September 30, 2016 and only include operating results that are directly attributable to legacy Furmanite operations. These amounts do not reflect any attempt to account for the effects of integration activities, which are not practicable to determine.

Certain transactions related to the Furmanite acquisition were recognized separately from the acquisition of assets and assumption of liabilities in accordance with GAAP. These transactions, which were attributable to certain compensation (both cash and share-based) that was paid or became payable in conjunction with the closing of the acquisition, totaled \$4.7 million and were recognized as selling, general and administrative expenses during the nine months ended September 30, 2016. There were no such amounts recognized during the three months ended September 30, 2016.

**Qualspec**

In July 2015, we acquired 100% of Qualspec for total cash consideration of \$255.5 million. Qualspec is a leading provider of NDT services in the United States, with significant operations in the West Coast, Gulf Coast and Mid-Western areas of the country. Qualspec adds strength to our resident refinery inspection programs with major customer relationships across the U.S., and to add to our already strong capabilities in advanced inspection services, rope access services and the delivery of innovative technologies to our customers. The purchase of Qualspec was financed through borrowings under our banking credit facility.

The initial purchase price could have been increased by \$10.0 million depending upon the operating results of Qualspec through the end of calendar year 2015. The fair value of the contingent consideration arrangement at the acquisition date was initially estimated at \$5.8 million. However, based on Qualspec results through December 31, 2015, there was no additional amount payable and, accordingly, we have reversed our initial contingent consideration obligation of \$5.8 million to zero with a corresponding decrease to goodwill.

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The following table presents the purchase price allocation for Qualspec (in thousands):

|                                    | July 7, 2015<br>(unaudited) |
|------------------------------------|-----------------------------|
| Cash and cash equivalents          | \$ 3,981                    |
| Accounts receivable                | 21,495                      |
| Current deferred tax assets        | 279                         |
| Prepaid expenses                   | 1,049                       |
| Plant, property and equipment      | 15,472                      |
| Intangible assets                  | 78,100                      |
| Goodwill                           | 148,482                     |
| Other assets                       | 138                         |
| Total assets acquired              | \$ 268,996                  |
| Accounts payable                   | \$ 2,892                    |
| Other accrued liabilities          | 7,581                       |
| Non-current deferred tax liability | 2,982                       |
| Total liabilities assumed          | 13,455                      |
| Net assets acquired                | \$ 255,541                  |

The purchase price allocation shown above is based upon the fair values at the acquisition date. The fair values recorded are "Level 3" measurements as defined in Note 10.

Of the \$78.1 million of acquired intangible assets, \$75.2 million was assigned to customer relationships with an estimated useful life of 15 years, \$1.6 million was assigned to non-compete agreements with an estimated useful life of 5 years and \$1.3 million was assigned to trade names with an estimated useful life of 1 year.

The \$148.5 million of goodwill was assigned to the TeamQualspec segment. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Qualspec. About \$109.6 million of the goodwill is expected to be deductible for income tax purposes.

The fair value of accounts receivables acquired was \$21.5 million, with the gross contractual amount being \$22.5 million. We expect \$1.0 million to be uncollectible.

Our consolidated results include the activity of Qualspec beginning on the acquisition date of July 7, 2015. Revenues of \$40.3 million and net income of \$1.6 million of Qualspec are included in the consolidated statement of operations (in the TeamQualspec segment) for the nine months ended September 30, 2015.

#### Pro Forma Information - Furmanite and Qualspec

Our unaudited pro forma consolidated results of operations are shown below as if the acquisitions of Furmanite and Qualspec had occurred at the beginning of fiscal year 2015. These results are not necessarily indicative of the results which would actually have occurred if the acquisitions had taken place at the beginning of fiscal year 2015, nor are they necessarily indicative of future results (in thousands, except per share data).

|  | Pro forma data<br>Three Months<br>Ended<br>September 30,<br>2015<br>(unaudited) | Pro forma data<br>Nine Months Ended<br>September 30,<br>2016<br>(unaudited) | Pro forma data<br>September 30,<br>2015<br>(unaudited) |
|--|---|---|--|
| Revenues   | \$ 327,612  | \$920,641   | \$1,020,779  |
| Income (loss) from continuing operations attributable to Team shareholders | \$ 3,545  | \$(809 )  | \$22,294   |
| Earnings (loss) per share from continuing operations:                      |   |   |  |
| Basic  | \$ 0.12   | \$(0.03 )   | \$0.78   |
| Diluted  | \$ 0.12   | \$(0.03 )   | \$0.75   |



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These amounts have been calculated after applying Team’s accounting policies and adjusting the results of Furmanite and Qualspec to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on January 1, 2015, together with the related tax effects. Additionally, these pro forma results exclude discontinued operations as well as the impact of costs related to the Furmanite and Qualspec acquisitions included in the historical results.

**Quest Integrity**

In November 2010, we purchased 95% of Quest Integrity Group, LLC, a leading provider of proprietary in-line inspection and advanced engineering and assessment services. Pursuant to a “Put/Call Agreement” that was executed at the time of the Quest Integrity acquisition, on August 31, 2015, we issued 728,266 shares of restricted common stock and paid \$5.9 million in cash to acquire the noncontrolling interest. Prior to August 31, 2015, these shares were included as dilutive securities in the earnings per share calculation as set forth herein.

**Other**

In June 2016, we acquired a mechanical furnace and pipe cleaning business in Europe, Turbinate International B.V. (“Turbinate”) for approximately \$8 million. Recognized as a service leader in the European market, Turbinate specializes in de-coking and cleaning of fired heaters and unpiggable refinery assets as well as mechanical cleaning of furnaces and pipes from two to 18 inches by means of pigging, endoscopy and ultra sound inspection services.

Turbinate is located in Vianen, the Netherlands. Turbinate is reported in the Quest Integrity segment.

In April 2016, we acquired two related businesses in Europe: Quality Inspection Services (“QIS”) and TiaT Europe (“TiaT”) for a total of approximately \$9 million. QIS is an NDT inspection company and TiaT is an NDT training school and consultancy and engineering company recognized as a specialist in aerospace inspections. Both companies are located in Roosendaal, the Netherlands. The businesses add about 65 employees to our organization in Europe and serve steel construction, ship repair, off-shore and storage tank customers, as well as the aerospace industry. QIS is the fourth largest NDT inspection company in the Netherlands and represents Team’s first inspection operation outside of North America. QIS and TiaT are reported in the TeamQualspec segment.

In June 2015, we purchased DK Amans Valve, an advanced valve leader located in Long Beach, California, with a portfolio of projects from various sectors including oil and gas refining, pipelines and power generation for a total consideration of \$12.3 million, net of cash acquired of \$0.1 million. The purchase price also included \$1.8 million of contingent consideration. The contingent consideration is based upon the achievement of certain performance targets over a three-year period for an additional amount of up to \$4.0 million. During the nine months ended September 30, 2016, we recorded a loss of \$2.2 million associated with the revaluation of the contingent consideration based on actual performance to date. DK Amans Valve is reported in the TeamFurmanite segment.

**3. RECEIVABLES**

A summary of accounts receivable as of September 30, 2016 and December 31, 2015 is as follows (in thousands):

|                                 | September<br>30, 2016 | December<br>31, 2015 |
|---------------------------------|-----------------------|----------------------|
|                                 | (unaudited)           |                      |
| Trade accounts receivable       | \$ 190,185            | \$ 170,774           |
| Unbilled revenues               | 80,750                | 47,098               |
| Allowance for doubtful accounts | (6,432 )              | (3,548 )             |
| Total                           | \$ 264,503            | \$ 214,324           |

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## 4. INVENTORY

A summary of inventory as of September 30, 2016 and December 31, 2015 is as follows (in thousands):

|                  | September<br>30, 2016<br>(unaudited) | December<br>31, 2015 |
|------------------|--------------------------------------|----------------------|
| Raw materials    | \$ 7,840                             | \$ 3,167             |
| Work in progress | 3,655                                | 1,018                |
| Finished goods   | 40,943                               | 23,751               |
| Total            | \$ 52,438                            | \$ 27,936            |

## 5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of September 30, 2016 and December 31, 2015 is as follows (in thousands):

|   | September<br>30, 2016<br>(unaudited) | December<br>31, 2015 |
|---|--------------------------------------|----------------------|
| Land                                      | \$ 7,465                             | \$ 3,124             |
| Buildings and leasehold improvements      | 42,868                               | 29,690               |
| Machinery and equipment                   | 239,313                              | 174,222              |
| Furniture and fixtures                    | 8,557                                | 6,561                |
| Capitalized ERP system development costs  | 40,324                               | 25,606               |
| Computers and computer software           | 11,880                               | 8,062                |
| Automobiles                               | 5,728                                | 5,280                |
| Construction in progress                  | 13,826                               | 5,177                |
| Total                                     | 369,961                              | 257,722              |
| Accumulated depreciation and amortization | (157,925 )                           | (132,739 )           |
| Property, plant and equipment, net        | \$ 212,036                           | \$ 124,983           |

At the end of 2013, we initiated the design and implementation of a new enterprise resource planning (“ERP”) system, which is expected to be installed by the end of calendar year 2017. Amortization of the ERP system development costs will be computed by the straight-line method, commencing in the period when substantial testing is completed and the asset is ready for its intended use. Through September 30, 2016, we have capitalized \$40.5 million associated with the project that includes \$1.1 million of capitalized interest.

## 6. INTANGIBLE ASSETS

A summary of intangible assets as of September 30, 2016 and December 31, 2015 is as follows (in thousands):

|                        | September 30, 2016<br>(unaudited) |                             |                           | December 31, 2015           |                             |                           |
|------------------------|-----------------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|                        | Gross<br>Carrying<br>Amount       | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Customer relationships | \$ 156,848                        | \$ (21,357 )                | \$ 135,491                | \$ 103,288                  | \$ (12,995 )                | \$ 90,293                 |
| Non-compete agreements | 5,475                             | (3,826 )                    | 1,649                     | 4,898                       | (3,468 )                    | 1,430                     |
| Trade names            | 24,722                            | (3,736 )                    | 20,986                    | 6,299                       | (1,940 )                    | 4,359                     |
| Technology             | 7,838                             | (3,145 )                    | 4,693                     | 5,112                       | (2,541 )                    | 2,571                     |
| Licenses               | 848                               | (296 )                      | 552                       | 683                         | (217 )                      | 466                       |
| Total                  | \$ 195,731                        | \$ (32,360 )                | \$ 163,371                | \$ 120,280                  | \$ (21,161 )                | \$ 99,119                 |





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Amortization expense for the three months ended September 30, 2016 and 2015 was \$3.8 million and \$2.8 million, respectively. Amortization expense for the nine months ended September 30, 2016 and 2015 was \$11.0 million and \$4.7 million, respectively.

**7. OTHER ACCRUED LIABILITIES**

A summary of other accrued liabilities as of September 30, 2016 and December 31, 2015 is as follows (in thousands):

|  | September<br>30, 2016<br>(unaudited) | December<br>31, 2015 |
|--|--------------------------------------|----------------------|
| Payroll and other compensation expenses            | \$ 43,874                            | \$ 21,878            |
| Insurance accruals                                 | 10,213                               | 7,008                |
| Property, sales and other non-income related taxes | 5,379                                | 3,058                |
| Deferred revenue                                   | 3,705                                | 1,355                |
| Lease commitments                                  | 2,631                                | 1,721                |
| Contingent consideration                           | 2,033                                | 3,638                |
| Accrued commission                                 | 2,000                                | 1,159                |
| Volume discount                                    | 896                                  | 1,280                |
| Accrued interest                                   | 686                                  | 984                  |
| Other  | 10,680                               | 7,715                |
| Total  | \$ 82,097                            | \$ 49,796            |

**8. LONG-TERM DEBT, LETTERS OF CREDIT AND DERIVATIVES**

In July 2015, we renewed our banking credit facility (the "Credit Facility"). In accordance with the second amendment to the Credit Facility, which was signed in February 2016, the Credit Facility has borrowing capacity of up to \$600 million and consists of a \$400 million, five-year revolving loan facility and a \$200 million five-year term loan facility. The swing line facility is \$35 million. The Credit Facility matures in July 2020, bears interest based on a variable Eurodollar rate option (LIBOR plus 2.25% margin at September 30, 2016) and has commitment fees on unused borrowing capacity (0.40% at September 30, 2016). The Credit Facility also contains financial covenants, which were amended in August 2016 pursuant to the third amendment to the Credit Agreement. The covenants, as amended, require the Company to maintain as of the end of each fiscal quarter (i) a maximum ratio of consolidated funded debt to consolidated EBITDA (as defined in the Credit Facility agreement) of not more than 4.25 to 1.00 as of September 30, 2016, not more than 4.50 to 1.00 as of December 31, 2016, not more than 4.25 to 1.00 as of March 31, 2017 and June 30, 2017, not more than 3.75 to 1.00 as of September 30, 2017 and thereafter the maximum ratio decreases by 0.25 to 1.00 every quarter until it reaches 3.00 to 1.00, (ii) a maximum ratio of senior secured debt to consolidated EBITDA of not more than 3.00 to 1.00 and (iii) an interest coverage ratio of less than 3.00 to 1.00. As of September 30, 2016, we are in compliance with these covenants. At September 30, 2016, we had \$38.2 million of cash on hand and approximately \$35 million of available borrowing capacity through our Credit Facility. In connection with the renewal of our Credit Facility, we are amortizing \$3.0 million of associated debt issuance costs over the life of the Credit Facility.

In order to secure our casualty insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. We were contingently liable for outstanding stand-by letters of credit totaling \$22.2 million at September 30, 2016 and \$13.2 million at December 31, 2015. Outstanding letters of credit reduce amounts available under our Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the Credit Facility. ASC 815, Derivatives and Hedging ("ASC 815"), requires 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 derivatives' gains and losses to offset related results on the hedged item in the statement of operations. 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 (loss) 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

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and the hedged item over time. Credit risks related to derivatives include the possibility that the counter-party will not fulfill the terms of the contract. We consider counterparty credit risk to our derivative contracts when valuing our derivative instruments.

Our borrowing of €12.3 million under the Credit Facility serves as an economic hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate will offset translation gains or losses attributable to our investment in our European operations. At September 30, 2016, the €12.3 million borrowing had a U.S. Dollar value of \$13.8 million.

The amounts recognized in other comprehensive income (loss), and reclassified into income, for the three and nine months ended September 30, 2016 and 2015, are as follows (in thousands):

|                      | Gain (Loss)<br>Recognized in<br>Other<br>Comprehensive<br>Income (Loss) | Gain<br>Reclassified from<br>Other<br>Comprehensive<br>Income (Loss) to<br>Earnings | Gain (Loss)<br>Recognized in<br>Other<br>Comprehensive<br>Income (Loss) | Gain (Loss)<br>Reclassified from<br>Other<br>Comprehensive<br>Income (Loss) to<br>Earnings |
|----------------------|---|---|---|--|
|                      | Three Months<br>Ended<br>September 30,<br>(unaudited)<br>2016           | Three Months<br>Ended<br>September 30,<br>(unaudited)<br>2015                       | Nine Months<br>Ended<br>September 30,<br>(unaudited)<br>2016            | Nine Months<br>Ended<br>September 30,<br>(unaudited)<br>2015                               |
| Net investment hedge | \$(104)   | \$(183)   | \$ —  | \$ —   |
|                      |   |   | —\$(347)  | \$ 1,122   |

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

|                      | September 30, 2016<br>(unaudited) |                           |               | December 31, 2015 |                           |               |
|----------------------|-----------------------------------|---------------------------|---------------|-------------------|---------------------------|---------------|
|                      | Classification                    | Balance Sheet<br>Location | Fair<br>Value | Classification    | Balance Sheet<br>Location | Fair<br>Value |
| Net investment hedge | Liability                         | Long-term debt            | \$(4,220)     | Liability         | Long-term debt            | \$(4,567)     |

In connection with our acquisition of Furmanite in February 2016, we assumed additional obligations under various non-cancellable operating leases, primarily consisting of facility and auto leases. Future payments under these additional operating leases, which expire at various dates, were estimated at approximately \$33 million as of the acquisition date.

## 9. RETIREMENT PLANS

In connection with our acquisition of Furmanite, we assumed liabilities associated with the defined benefit pension plans of two foreign subsidiaries, one plan covering certain United Kingdom employees (the “U.K. Plan”) and the other covering certain Norwegian employees (the “Norwegian Plan”). As the Norwegian Plan represents approximately three percent of both the Company’s total pension plan liabilities and total pension plan assets, only the schedule of net periodic pension cost includes combined amounts from the two plans, while assumption and narrative information relates solely to the U.K. Plan.

Net periodic pension cost, from the date of the Furmanite acquisition, for the U.K. and Norwegian Plans includes the following components (in thousands):

| Three Months<br>Ended September<br>30, | Nine Months Ended<br>September 30, |
|--|------------------------------------|
|  |                                    |

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|                                | 2016        | 2015        | 2016        | 2015        |
|--------------------------------|-------------|-------------|-------------|-------------|
|                                | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Service cost                   | \$ 21       | \$ —        | \$ 50       | \$ —        |
| Interest cost                  | 742         | —           | 1,810       | —           |
| Expected return on plan assets | (759 )      | —           | (1,852)     | —           |
| Net periodic pension cost      | \$ 4        | \$ —        | \$ 8        | \$ —        |

The expected long-term rate of return on invested assets is determined based on the weighted average of expected returns on asset investment categories as follows: 4.9% overall, 6.2% for equities and 2.2% for bonds. We expect to contribute \$1.3 million to the pension plan for 2016, of which \$0.9 million has been contributed through September 30, 2016.

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## 10. FAIR VALUE MEASUREMENTS

We apply 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 September 30, 2016 and December 31, 2015. 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):

|                                       | September 30, 2016<br>(unaudited)  |   |  |           |
|---------------------------------------|--|---|--|-----------|
|                                       | Quoted Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Items (Level 1)          |   |  |           |
|                                       | Significant<br>Other<br>Observable<br>Inputs (Level 2)                                   | Significant<br>Unobservable<br>Inputs (Level 3) |  | Total     |
| Liabilities:                          |  |   |  |           |
| Contingent consideration <sup>1</sup> | \$—  | \$ 3,743  |  | \$3,743   |
| Net investment hedge                  | \$— (4,220 )   | \$ —  |  | \$(4,220) |
|                                       | December 31, 2015  |   |  |           |
|                                       | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Items<br>(Level<br>1) |   |  |           |
|                                       | Significant<br>Other<br>Observable<br>Inputs (Level 2)                                   | Significant<br>Unobservable<br>Inputs (Level 3) |  | Total     |
| Liabilities:                          |  |   |  |           |
| Contingent consideration <sup>1</sup> | \$—  | \$ 3,638  |  | \$3,638   |
| Net investment hedge                  | \$— (4,567 )   | \$ —  |  | \$(4,567) |

<sup>1</sup> Inclusive of both current and noncurrent portions.

There were no transfers in and out of Level 1 & Level 2 during the nine months ended September 30, 2016 and 2015. There was a transfer out of Level 3 of \$5.8 million relating to a revaluation of contingent consideration during the year ended December 31, 2015 and no transfers in and out of Level 3 during the nine months ended September 30, 2016. The fair value of contingent consideration liabilities classified in the table above were estimated using a discounted cash flow technique with significant inputs that are not observable in the market and thus represents a Level 3 fair value measurement as defined in ASC 820. The significant inputs in the Level 3 measurement not supported by market activity include a combination of actual cash flows and probability-weighted assessments of expected future cash flows related to the acquired businesses, appropriately discounted considering the uncertainties associated with the obligation, and as calculated in accordance with the terms of the acquisition agreement.

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The following table represents the changes in the fair value of Level 3 contingent consideration (in thousands):

|                              | Nine<br>Months<br>Ended<br>September<br>30, 2016<br>(unaudited) |
|------------------------------|---|
| Balance, beginning of period | \$ 3,638  |
| Accretion of liability       | 261   |
| Payment                      | (4,000 )  |
| Revaluation                  | 2,184   |
| Acquisitions                 | 1,660   |
| Balance, end of period       | \$ 3,743  |

**11. SHARE-BASED COMPENSATION**

We have adopted stock incentive plans and other arrangements pursuant to which our Board of Directors (the “Board”) may grant stock options, restricted stock, stock units, stock appreciation rights, common stock or performance awards to officers, directors and key employees. At September 30, 2016, there were approximately 0.8 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 are 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 units, performance awards, common stock and stock options. In May 2016, our shareholders approved the 2016 Team, Inc. Equity Incentive Plan (the “Plan”), which replaced all of our previous equity compensation plans. The Plan authorizes the issuance of share-based awards representing up to 2,000,000 shares of common stock. Shares issued in connection with our share-based compensation are issued out of authorized but unissued common stock.

In connection with the acquisition of Furmanite in February 2016, we assumed the share plan related to Furmanite employee grants. As provided for in the Merger Agreement, each option to purchase Furmanite common stock outstanding immediately prior to the closing of the acquisition was converted into an option to purchase Team common stock, adjusted by the 0.215 exchange ratio. Similarly, each previously existing Furmanite restricted share, restricted stock unit or performance stock unit outstanding immediately prior to the acquisition were converted into Team restricted stock units, also at the 0.215 exchange ratio. The converted awards generally have the same terms and conditions as the replaced awards, except the vesting of certain awards was accelerated to the acquisition date and any performance conditions associated with the Furmanite awards no longer apply. The fair value of the options was determined using a Black-Scholes model, while the fair value of the restricted stock units was determined based on the market price on the acquisition date. The fair value of the converted Furmanite awards was allocated between consideration transferred in the acquisition and future share-based compensation expense, based on past service completed and future service required. The converted Furmanite awards have been identified, as applicable, in the tables that follow.

Compensation expense related to share-based compensation totaled \$6.7 million and \$4.0 million for the nine months ended September 30, 2016 and 2015, respectively. At September 30, 2016, \$10.8 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 2.3 years. The tax benefit derived when share-based awards result in a tax deduction for the Company was \$0.1 million and \$1.5 million for the nine months ended September 30, 2016 and 2015, respectively.

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Stock units are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each stock unit based on the market price on the date of grant. Stock units generally vest in annual installments over four years and the expense associated with the units is recognized over the same vesting period. We also grant common stock to our directors which typically vest immediately. Compensation expense related to stock units and director stock grants totaled \$5.6 million and \$3.4 million for the nine months ended September 30, 2016 and 2015, respectively. Transactions involving our stock units and director stock grants during the nine months ended September 30, 2016 and 2015 are summarized below:

|  | Nine Months<br>Ended<br>September 30,<br>2016<br>(unaudited) |   | Nine Months<br>Ended<br>September 30,<br>2015<br>(unaudited) |   |
|--|--|---|--|---|
|  | No.<br>of<br>Stock<br>Units<br>(in thousands)                | Weighted<br>Average<br>Fair Value<br>(in thousands) | No.<br>of<br>Stock<br>Units<br>(in thousands)                | Weighted<br>Average<br>Fair Value<br>(in thousands) |
| Stock and stock units, beginning of period | 371  | \$ 36.26  | 328  | \$ 36.14  |
| Changes during the period:                 |  |   |  |   |
| Granted                                    | 86   | \$ 26.19  | 25   | \$ 43.29  |
| Assumed - Furmanite acquisition            | 40   | \$ 25.63  | —  | \$ —  |
| Vested and settled                         | (38 )  | \$ 27.61  | (13 )  | \$ 37.69  |
| Cancelled                                  | (13 )  | \$ 30.92  | (22 )  | \$ 35.58  |
| Stock and stock units, end of period       | 446  | \$ 34.27  | 318  | \$ 36.69  |

Under a performance stock unit award program adopted on November 4, 2014, Long-Term Performance Stock Unit (“LTPSU”) awards granted to our executive officers are subject to a three-year performance period and a concurrent three-year service period. Under this program, the Company communicates “target awards” to the executive officers at the beginning of a performance period. The performance target is based on results of operations over the three-year performance period with possible payouts ranging from 0% to 300% of the “target awards”. LTPSU awards cliff vest with achievement of the performance goals and completion of the three year service period. Settlement occurs with common stock within 20 business days of vesting. We determine the fair value of each LTPSU award based on the market price on the date of grant. Compensation expense is recognized on a straight-line basis over the vesting term of three years based upon the probable performance target that will be met. Compensation expense related to performance awards totaled \$0.6 million and \$0.2 million for the nine months ended September 30, 2016 and 2015, respectively. Transactions involving our performance awards during the nine months ended September 30, 2016 and 2015 are summarized below:

|  | Nine Months<br>Ended<br>September 30,<br>2016<br>(unaudited) |   | Nine Months<br>Ended<br>September 30,<br>2015<br>(unaudited) |   |
|--|--|---|--|---|
|  | No.<br>of<br>Stock<br>Units<br>(in thousands)                | Weighted<br>Average<br>Fair Value<br>(in thousands) | No.<br>of<br>Stock<br>Units<br>(in thousands)                | Weighted<br>Average<br>Fair Value<br>(in thousands) |
| Long-term performance stock units, beginning of period | 59   | \$ 37.16  | 23   | \$ 42.25  |
| Changes during the period:                             |  |   |  |   |
| Granted  | —  | \$ —  | —  | \$ —  |



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|  |    |          |    |          |
|--|----|----------|----|----------|
| Vested and settled                               | —  | \$ —     | —  | \$ —     |
| Cancelled  | —  | \$ —     | —  | \$ —     |
| Long-term performance stock units, end of period | 59 | \$ 37.16 | 23 | \$ 42.25 |

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Performance awards are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each performance award based on the market price on the date of grant. Performance awards granted to the Chairman of our Board vest over the longer of four years or the achievement of performance goals based upon our future results of operations. Compensation expense related to performance awards totaled \$0.3 million for both the nine months ended September 30, 2016 and 2015. Transactions involving our performance awards during the nine months ended September 30, 2016 and 2015 are summarized below:

|   | Nine Months Ended<br>September 30,<br>2016<br>(unaudited) |   | Nine Months Ended<br>September 30,<br>2015<br>(unaudited) |   |
|---|---|---|---|---|
|   | No. of<br>Performance<br>Awards<br>(in thousands)         | Weighted<br>Average<br>Fair Value<br>(in thousands) | No. of<br>Performance<br>Awards<br>(in thousands)         | Weighted<br>Average<br>Fair Value<br>(in thousands) |
| Performance awards, beginning of period | 13  | \$ 35.15  | 28  | \$ 32.86  |
| Changes during the period:              |   |   |   |   |
| Granted                                 | —   | \$ —  | —   | \$ —  |
| Vested and settled                      | (13 )   | \$ 35.15  | —   | \$ —  |
| Cancelled                               | —   | \$ —  | —   | \$ —  |
| Performance awards, end of period       | —   | \$ —  | 28  | \$ 32.86  |

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 for the nine months ended September 30, 2016, was \$0.2 million. There was no compensation expense related to stock options for the nine months ended September 30, 2015. 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 nine months ended September 30, 2016 and 2015 are summarized below:

|  | Nine Months Ended<br>September 30, 2016<br>(unaudited) |   | Nine Months Ended<br>September 30, 2015<br>(unaudited) |   |
|--|--|---|--|---|
|  | No. of<br>Option<br>(in thousands)                     | Weighted<br>Average<br>Exercise Price<br>(in thousands) | No. of<br>Option<br>(in thousands)                     | Weighted<br>Average<br>Exercise Price<br>(in thousands) |
| Shares under option, beginning of period | 376  | \$ 25.71  | 691  | \$ 21.26  |
| Changes during the period:               |  |   |  |   |
| Granted                                  | —  | \$ —  | —  | \$ —  |
| Assumed - Furmanite acquisition          | 132  | \$ 33.20  | —  | \$ —  |
| Exercised                                | (136)  | \$ 17.71  | (241)  | \$ 15.64  |
| Cancelled                                | (4 )   | \$ 44.62  | —  | \$ —  |
| Expired                                  | (45 )  | \$ 35.51  | —  | \$ —  |
| Shares under option, end of period       | 323  | \$ 30.52  | 450  | \$ 24.27  |
| Exercisable at end of period             | 319  | \$ 30.40  | 450  | \$ 24.27  |



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Options exercisable at September 30, 2016 had a weighted-average remaining contractual life of 2.3 years. For total options outstanding at September 30, 2016, the range of exercise prices and remaining contractual lives are as follows:

| Range of Prices    | No. of Options | Weighted Average Exercise Price | Weighted Average Remaining Life |
|--------------------|----------------|---------------------------------|---------------------------------|
|                    | (in thousands) |                                 | (in years)                      |
| \$20.18 to \$30.28 | 44             | \$ 25.80                        | 2.1                             |
| \$30.29 to \$40.38 | 272            | \$ 30.75                        | 2.1                             |
| \$40.39 to \$50.47 | 7              | \$ 50.47                        | 7.6                             |
| Total              | 323            | \$ 30.52                        | 2.3                             |

**12. ACCUMULATED OTHER COMPREHENSIVE LOSS**

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

|  | Nine Months Ended<br>September 30, 2016<br>(unaudited) |                              |                  |            | Nine Months Ended<br>September 30, 2015<br>(unaudited) |                              |                  |            |
|--|--|------------------------------|------------------|------------|--|------------------------------|------------------|------------|
|  | Foreign<br>Currency<br>Translation<br>Adjustments      | Foreign<br>Currency<br>Hedge | Tax<br>Provision | Total      | Foreign<br>Currency<br>Translation<br>Adjustments      | Foreign<br>Currency<br>Hedge | Tax<br>Provision | Total      |
| Balance, beginning of period                 | \$(28,124)   | \$ 4,567                     | \$ 5,183         | \$(18,374) | \$(13,718)   | \$ 3,028                     | \$ 2,284         | \$(8,406 ) |
| Other comprehensive income (loss) before tax | 1,872  | (347 )                       | (1,031 )         | 494        | (12,155 )  | 1,122                        | 2,365            | (8,668 )   |
| Noncontrolling interest                      | —  | —                            | —                | —          | 34   | —                            | —                | 34         |
| Balance, end of period                       | \$(26,252)   | \$ 4,220                     | \$ 4,152         | \$(17,880) | \$(25,839)   | \$ 4,150                     | \$ 4,649         | \$(17,040) |

The following table represents the related tax effects allocated to each component of other comprehensive income (loss) (in thousands):

|  | Nine Months Ended<br>September 30, 2016<br>(unaudited) |               |               | Nine Months Ended<br>September 30, 2015<br>(unaudited) |               |               |
|--|--|---------------|---------------|--|---------------|---------------|
|  | Gross<br>Amount  | Tax<br>Effect | Net<br>Amount | Gross<br>Amount  | Tax<br>Effect | Net<br>Amount |
| Foreign currency translation adjustments | \$ 1,872   | \$(1,147)     | \$ 725        | \$(12,155)   | \$ 2,777      | \$(9,378)     |
| Foreign currency hedge                   | (347 )   | 116           | (231 )        | 1,122  | (412 )        | 710           |
| Total                                    | \$ 1,525   | \$(1,031)     | \$ 494        | \$(11,033)   | \$ 2,365      | \$(8,668)     |

**13. COMMITMENTS AND CONTINGENCIES**

Con Ed Matter—We have, from time to time, provided temporary leak repair services for the steam operations of Consolidated Edison Company 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 September 30, 2016, ninety-two lawsuits are currently pending 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. We anticipate a trial on the merits during the first half of 2017.





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|                                       | Three Months Ended |           | Nine Months Ended |           |
|---------------------------------------|--------------------|-----------|-------------------|-----------|
|                                       | September 30,      |           | September 30,     |           |
|                                       | 2016               | 2015      | 2016              | 2015      |
|                                       | (unaudited)        |           | (unaudited)       |           |
| Capital expenditures:                 |                    |           |                   |           |
| TeamQualspec                          | \$1,932            | \$ 3,564  | \$7,143           | \$ 10,250 |
| TeamFurmanite                         | 6,308              | 2,760     | 12,439            | 5,952     |
| Quest Integrity                       | 211                | 1,101     | 1,105             | 2,392     |
| Corporate and shared support services | 5,475              | 4,708     | 15,207            | 11,955    |
| Total                                 | \$13,926           | \$ 12,133 | \$35,894          | \$ 30,549 |

|                                       | Three Months Ended |          | Nine Months Ended |           |
|---------------------------------------|--------------------|----------|-------------------|-----------|
|                                       | September 30,      |          | September 30,     |           |
|                                       | 2016               | 2015     | 2016              | 2015      |
|                                       | (unaudited)        |          | (unaudited)       |           |
| Depreciation and amortization:        |                    |          |                   |           |
| TeamQualspec                          | \$4,930            | \$ 4,887 | \$15,035          | \$ 9,284  |
| TeamFurmanite                         | 5,705              | 2,137    | 15,049            | 6,049     |
| Quest Integrity                       | 1,374              | 1,462    | 3,940             | 4,343     |
| Corporate and shared support services | 530                | 288      | 1,408             | 858       |
| Total                                 | \$12,539           | \$ 8,774 | \$35,432          | \$ 20,534 |

Separate measures of Team's assets by operating segment are not produced or utilized by management to evaluate segment performance.

A geographic breakdown of our revenues for the three and nine months ended September 30, 2016 and 2015 and total assets as of September 30, 2016 and December 31, 2015 are as follows (in thousands):

|                         | Three Months Ended |            | Nine Months Ended |            |
|-------------------------|--------------------|------------|-------------------|------------|
|                         | September 30,      |            | September 30,     |            |
|                         | 2016               | 2015       | 2016              | 2015       |
|                         | (unaudited)        |            | (unaudited)       |            |
| Revenues:               |                    |            |                   |            |
| United States           | \$208,009          | \$ 192,109 | \$651,126         | \$ 509,592 |
| Canada                  | 33,747             | 30,194     | 97,568            | 93,137     |
| Europe                  | 27,930             | 10,935     | 77,971            | 36,293     |
| Other foreign countries | 19,891             | 10,314     | 50,206            | 32,336     |
| Total                   | \$289,577          | \$ 243,552 | \$876,871         | \$ 671,358 |

|                         | September   | December  |
|-------------------------|-------------|-----------|
|                         | 30, 2016    | 31, 2015  |
|                         | (unaudited) |           |
| Total assets:           |             |           |
| United States           | \$958,541   | \$682,124 |
| Canada                  | 65,710      | 59,626    |
| Europe                  | 108,531     | 33,271    |
| Other foreign countries | 49,640      | 23,970    |
| Total                   | \$1,182,422 | \$798,991 |



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## 15. DISCONTINUED OPERATIONS

As part of our acquisition of Furmanite, we acquired a pipeline inspection business from Furmanite that primarily performs process management inspection services to contractors and operators participating primarily in the midstream oil and gas market in the United States. The business generates approximately \$60 million in annual revenues. We have concluded that this business is not a strategic fit for Team and therefore we have decided not to retain it and are marketing the business to prospective buyers. We expect to complete the sale of the business within one year of the Furmanite acquisition date. We have concluded that this business qualifies as a discontinued operation upon its acquisition under GAAP. Therefore, we have classified the operating results and related assets and liabilities as discontinued operations in our condensed consolidated financial statements. Discontinued operations does not include any allocation of corporate overhead expense or interest expense.

Income from discontinued operations, net of income tax, from the date of the Furmanite acquisition, consists of the following (in thousands):

|  | Three<br>Months<br>Ended<br>September<br>30, 2016<br>(unaudited) | Nine<br>Months<br>Ended<br>September<br>30, 2016<br>(unaudited) |
|--|--|---|
| Revenues   | \$ 14,868  | \$ 36,542   |
| Operating expenses                                     | 13,777   | 33,738  |
| Gross margin   | 1,091  | 2,804   |
| Selling, general and administrative expenses           | 554  | 1,412   |
| Income from discontinued operations, before income tax | 537  | 1,392   |
| Less: Provision for income taxes                       | 221  | 564   |
| Income from discontinued operations, net of income tax | \$ 316   | \$ 828  |

Assets and liabilities of discontinued operations classified as held for sale in the condensed consolidated balance sheet as of September 30, 2016 consist of the following (in thousands):

|   | September 30, 2016<br>(unaudited) |
|---|-----------------------------------|
| Current assets of discontinued operations:      |                                   |
| Receivables                                     | \$ 12,110                         |
| Prepayments and other assets                    | 215                               |
| Total assets of discontinued operations         | 12,325                            |
| Current liabilities of discontinued operations: |                                   |
| Other accrued liabilities                       | \$ 1,065                          |

As discussed in Note 2, the Furmanite purchase price allocation is based on provisional measurements and is subject to change. Accordingly, the amounts of assets and liabilities attributable to discontinued operations may be adjusted upon completion of the final valuation of the acquisition.

For the three and nine months ended September 30, 2016, there were no material amounts of depreciation, amortization, capital expenditures or significant operating or investing non-cash items related to discontinued

operations.

#### 16. REPURCHASE OF COMMON STOCK

On June 23, 2014, our Board authorized an increase in the stock repurchase plan limit to \$50.0 million. We repurchased 274,110 shares for a total cost of \$7.6 million during the nine months ended September 30, 2016. At September 30, 2016, \$7.9 million remained available to repurchase shares under the stock repurchase plan. Under the Credit Facility, the Company is limited in its ability to make stock repurchases unless the leverage ratio is below 2.50 to 1.00. Notwithstanding such provision, in the event the leverage ratio is equal to or greater than 2.50 to 1.00 but is at least 0.25 less than the maximum permitted leverage ratio, the Credit Facility generally permits the the Company to make stock repurchases provided that such repurchases, plus any payments of cash dividends, do not exceed \$50.0 million in the aggregate.

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

Overview

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of this report, and the consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, including Critical Accounting Policies, included in our Transition Report on Form 10-K for the transition period from June 1, 2015 to December 31, 2015.

We based our forward-looking statements on our reasonable beliefs and assumptions, and our current expectations, estimates and projections about ourselves and our industry. We caution that these statements are not guarantees of future performance and involve risks, uncertainties and assumptions that we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. We wish to ensure that such statements are accompanied by meaningful cautionary statements, so as to obtain the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including, but not limited to the statements under "Risk Factors". We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Differences between actual results and any future performance suggested in these forward-looking statements could result from a variety of factors, including those listed beginning on page 9 of our Transition Report on Form 10-K for the transition period from June 1, 2015 to December 31, 2015.

General Description of Business

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 conduct operations in three segments: TeamQualspec, TeamFurmanite and Quest Integrity.

TeamQualspec provides basic and advanced NDT services for the process, pipeline and power sectors, pipeline integrity management services, field heat treating services, as well as associated engineering and assessment services. These services can be offered while facilities are running (on-stream), during facility turnarounds or during new construction or expansion activities.

TeamFurmanite, our mechanical services segment, provides turnaround and on-stream services. Turnaround services are project-related and demand is a function of the number and scope of scheduled and unscheduled facility turnarounds as well as new industrial facility construction or expansion activities. The turnaround services TeamFurmanite provides include field machining, technical bolting, field valve repair, heat exchanger repair, and isolation test plugging services. On-stream services offered by TeamFurmanite represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control and hot tapping. Quest Integrity provides integrity and reliability management solutions for the process, pipeline and power sectors. These solutions encompass two broadly-defined disciplines: (1) highly specialized in-line inspection services for unpiggable process piping and pipelines using proprietary in-line inspection tools and analytical software; and (2) advanced condition assessment services through a multi-disciplined engineering team. We believe there is a general growth in market demand for inspection and assessment services as improved inspection technologies enable better information about asset reliability to be available to facility owners and operators.

We offer these services in over 220 locations in 22 countries throughout the world with more than 8,300 employees. Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, OEMs, distributors, and some of the world's largest

engineering and construction firms. Our services are also provided across a broad geographic reach.

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Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

The following table sets forth the components of revenue and operating income from our operations for the three months ended September 30, 2016 and 2015 (in thousands):

|                                       | Three Months Ended    |                       | Increase         |                 |
|---------------------------------------|-----------------------|-----------------------|------------------|-----------------|
|                                       | September 30,<br>2016 | September 30,<br>2015 | (Decrease)<br>\$ | (Decrease)<br>% |
|                                       | (unaudited)           | (unaudited)           |                  |                 |
| Revenues by business segment:         |                       |                       |                  |                 |
| TeamQualspec                          | \$142,529             | \$157,308             | \$(14,779)       | (9.4)%          |
| TeamFurmanite                         | 131,787               | 69,596                | 62,191           | 89.4%           |
| Quest Integrity                       | 15,261                | 16,648                | (1,387)          | (8.3)%          |
| Total                                 | \$289,577             | \$243,552             | \$46,025         | 18.9%           |
| Operating income (loss):              |                       |                       |                  |                 |
| TeamQualspec                          | \$8,423               | \$14,386              | \$(5,963)        | (41.5)%         |
| TeamFurmanite                         | 5,983                 | 3,249                 | 2,734            | 84.1%           |
| Quest Integrity                       | 399                   | 724                   | (325)            | (44.9)%         |
| Corporate and shared support services | (18,848)              | (11,502)              | (7,346)          | 63.9%           |
| Total                                 | \$(4,043)             | \$6,857               | \$(10,900)       | (159.0)%        |

Revenues. Total revenues grew \$46.0 million or 18.9% from the prior year quarter, primarily due to the Furmanite acquisition, which was completed in February 2016, partially offset by lower TeamQualspec and Quest Integrity revenues and an adverse impact of \$0.5 million due to changes in foreign exchange rates. On a pro forma basis, which assumes that the Furmanite and Qualspec acquisitions had occurred at the beginning of 2015, total revenues declined by \$38.0 million or 11.6%. Market softness, which began in the second half of 2015, has continued in 2016 across all three business segments. The weak market conditions led to a combination of project deferrals, scope reductions and maintenance deferrals, which, among other impacts, resulted in approximately 45% lower sales volumes in heat treating services within our TeamQualspec segment on a pro forma basis. Additionally, our TeamFurmanite and TeamQualspec segments were adversely affected by severe flooding in Louisiana during the current year quarter. Consequently, July and August, traditionally two of our weakest months of the year, were unusually soft in 2016. While we generally expect these market headwinds to continue throughout the remainder of 2016, we are beginning to see some positive indications that market conditions could be starting to improve.

Operating income (loss). Overall operating loss was \$4.0 million in the current year quarter compared to operating income of \$6.9 million in the prior year quarter. The current year quarter includes non-routine expenses totaling \$6.0 million consisting of \$2.3 million in costs related to the implementation of our new ERP system (included in corporate and shared support services), \$2.2 million in professional fees and other costs associated with mergers and acquisitions activity (\$1.7 million included in corporate and shared support services and \$0.5 million included in TeamFurmanite), \$0.6 million in intellectual property defense legal costs (included in Quest Integrity), \$0.6 million in non-cash compensation associated with an acceleration of vesting of awards (included in corporate and shared support services) and \$0.3 million of other non-routine items (\$0.2 million included in TeamQualspec and \$0.1 million included in TeamFurmanite). The prior year included non-routine expenses of \$3.9 million consisting of \$1.3 million in professional fees and other costs associated with mergers and acquisitions activity, \$1.2 million in cost related to the implementation of our new ERP system (all included in corporate and shared support services), \$0.9 million in legal fees associated with a legal defense of Quest (included in Quest Integrity) as well as \$0.5 million related to the revaluation of contingent consideration. Excluding the impact of these non-routine items, operating income (loss) changed unfavorably by \$8.7 million or 81.6% as the effect of acquisition-related growth, primarily in the TeamFurmanite segment, was more than offset by the adverse effects of the current market softness and reduced customer spending described above. The significant decreases in activity in July and August this year coupled with lower average gross margins, attributable to an unfavorable service mix shift away from higher margin advanced and

specialty services normally tied to large turnaround projects, adversely affected operating income (loss) in the current year quarter compared to the prior year. Further, the operating loss for the current year quarter was affected by an increase in corporate and shared support services of \$5.2 million, which includes the effect of the absorption of certain of Furmanite's ongoing corporate-related costs.

Interest expense. Interest expense increased from \$2.4 million in the prior year quarter to \$3.2 million in the current year quarter. The increase is due primarily to additional debt financing used to fund acquisitions, including the July 2015 acquisition of Qualspec and a portion of the February 2016 acquisition of Furmanite.

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Foreign currency (gain) loss. Foreign currency gains were \$0.1 million in the current year quarter compared to foreign currency losses in prior year quarter of \$0.6 million. Foreign currency gains and losses in both periods reflect the effects of fluctuations in the U.S. Dollar relative to the currencies we have exposure to, including but not limited to, the Australian Dollar, Brazilian Real, British Pound, Canadian Dollar, Euro, Malaysian Ringgit and Mexican Peso.

Taxes. The benefit for income tax was \$2.7 million on the pre-tax loss from continuing operations of \$7.2 million in the current year quarter compared to the provision for income tax of \$1.3 million on pre-tax income from continuing operations of \$3.8 million in the prior year quarter. The effective tax rate was 36.9% for the three months ended September 30, 2016, compared to the effective tax rate of 33.8% for the three months ended September 30, 2015. The increase in the effective tax rate was primarily due to the effect of discrete items and permanent differences as well as the year-over-year impact of such items on the effective rate due to the size and direction of pre-tax income (loss) from continuing operations in both periods.

Discontinued operations. Income from discontinued operations, net of income tax, was \$0.3 million for the three months ended September 30, 2016 and relates to the operating results of an acquired Furmanite business that we do not intend to retain.

#### Nine months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

The following table sets forth the components of revenue and operating income from our operations for the nine months ended September 30, 2016 and 2015 (in thousands):

|                                       | Nine months Ended      |           | Increase    |         |
|---------------------------------------|------------------------|-----------|-------------|---------|
|                                       | September 30,          |           | (Decrease)  |         |
|                                       | 2016                   | 2015      | \$          | %       |
|                                       | (unaudited)(unaudited) |           |             |         |
| Revenues by business segment:         |                        |           |             |         |
| TeamQualspec                          | \$436,029              | \$394,720 | \$41,309    | 10.5 %  |
| TeamFurmanite                         | 392,062                | 220,051   | 172,011     | 78.2 %  |
| Quest Integrity                       | 48,780                 | 56,587    | (7,807 )    | (13.8)% |
| Total                                 | \$876,871              | \$671,358 | \$205,513   | 30.6 %  |
| Operating income (loss):              |                        |           |             |         |
| TeamQualspec                          | \$33,044               | \$43,092  | \$(10,048 ) | (23.3)% |
| TeamFurmanite                         | 25,004                 | 17,141    | 7,863       | 45.9 %  |
| Quest Integrity                       | 2,863                  | 8,729     | (5,866 )    | (67.2)% |
| Corporate and shared support services | (58,326 )              | (32,372 ) | (25,954 )   | 80.2 %  |
| Total                                 | \$2,585                | \$36,590  | \$(34,005 ) | (92.9)% |

Revenues. Total revenues grew \$205.5 million or 30.6% from the same period in the prior year, primarily due to the Furmanite and Qualspec acquisitions, which were completed in February 2016 and July 2015, respectively, partially offset by lower Quest Integrity revenues and an adverse impact of \$5.8 million due to changes in foreign exchange rates. On a pro forma basis, which assumes that the Furmanite and Qualspec acquisitions had occurred at the beginning of 2015, total revenues declined by \$100.1 million or 9.8%. Market softness, which began in the second half of 2015, has continued in 2016 across all three business segments. The weak market conditions led to a combination of project deferrals, scope reductions and maintenance deferrals, which, among other impacts, resulted in approximately 41% lower sales volumes in heat treating services within our TeamQualspec segment on a pro forma basis. Additionally, our TeamFurmanite and TeamQualspec segments were adversely affected by wildfires in the Canadian oil sands area near Fort McMurray in the second quarter of 2016 as well as severe flooding in Louisiana in the third quarter of 2016. While we generally expect these market headwinds to continue throughout the remainder of

2016, we are beginning to see some positive indications that market conditions could be starting to improve. Operating income. Overall operating income was \$2.6 million in the current year compared to \$36.6 million in the same period in the prior year. The current year includes non-routine expenses totaling \$21.7 million consisting of \$12.4 million in professional fees and other costs associated with mergers and acquisitions activity and a change in fiscal year end (\$11.5 million included in corporate and shared support services, \$0.5 million included in TeamFurmanite, \$0.3 million included in TeamQualspec and \$0.1 million included in Quest Integrity), \$4.8 million in costs related to the implementation of our new ERP system (included in corporate and shared support services), \$2.2 million for the revaluation of contingent consideration from our acquisition of DK



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Amans Valve (included in TeamFurmanite), \$1.3 million in intellectual property defense legal costs (included in Quest Integrity), \$0.6 million in non-cash compensation associated with an acceleration of vesting of awards (included in corporate and shared support services) and \$0.4 million in other non-routine items (\$0.2 million included in each of TeamFurmanite and TeamQualspec). Approximately \$5.2 million of the merger-related costs were attributable to Furmanite obligations, primarily for change of control and severance payments. The prior year included \$9.8 million of non-routine expenses resulting from \$4.9 million in professional fees and other costs associated with mergers and acquisitions activity (included in corporate and shared support services), \$2.2 million in legal fees associated with a legal defense of Quest Integrity intellectual property (included in Quest Integrity), \$1.8 million in costs related to the implementation of our new ERP system (included in corporate and shared support services), \$0.5 million for the revaluation of a contingent consideration liability and \$0.4 million of a fixed asset write-down (included in TeamFurmanite). Excluding the impact of these non-routine items, operating income decreased by \$22.1 million or 47.6% as the effect of acquisition-related growth was more than offset by the adverse effects of the current market softness and reduced customer spending described above. Additionally, we experienced lower average gross margins in the current year as the market softness resulted in an unfavorable service mix shift away from higher margin advanced and specialty services normally tied to large turnaround projects. Further, operating income was affected by an increase in corporate and shared support services of \$15.7 million, which includes the effect of the absorption of certain of Furmanite's ongoing corporate-related costs and higher share-based compensation expense.

Interest expense. Interest expense increased from \$3.5 million in the prior year to \$9.6 million in the current year. The increase is due primarily to additional debt financing used to fund acquisitions, including the July 2015 acquisition of Qualspec and a portion of the February 2016 acquisition of Furmanite.

Foreign currency (gain) loss. Foreign currency gains were \$0.2 million in the nine months ended September 30, 2016 compared to foreign currency losses of \$0.9 million in the same period last year. Foreign currency gains and losses in both periods reflect the effects of fluctuations in the U.S. Dollar relative to the currencies we have exposure to, including but not limited to, the Australian Dollar, Brazilian Real, British Pound, Canadian Dollar, Euro, Malaysian Ringgit and Mexican Peso.

Venezuelan Impairment Loss. During the nine months ended September 30, 2015, we began reporting the results of our Venezuelan operations using the cost method of accounting. This change resulted in a one-time pre-tax charge of \$1.2 million, which is included in other expense (income), net. This decision was made given the other-than-temporary lack of exchangeability in the Venezuelan currency combined with other recent Venezuelan regulations that negatively impacted our ability to control operations and maintain normal service levels.

Taxes. The benefit for income tax was \$2.6 million on the pre-tax loss from continuing operations of \$6.8 million in the current year compared to the provision for income tax of \$11.0 million on pre-tax income from continuing operations of \$30.9 million in the prior year. The effective tax rate was 39.0% for the nine months ended September 30, 2016 and 35.4% for the nine months ended September 30, 2015. The increase in the effective tax rate was primarily due to the effect of discrete items and permanent differences as well as the year-over-year impact of such items on the effective rate due to the size and direction of pre-tax income (loss) from continuing operations in both periods.

Discontinued operations. Income from discontinued operations, net of income tax, was \$0.8 million for the nine months ended September 30, 2016 and relates to the operating results of an acquired Furmanite business that we do not intend to retain.

#### Liquidity and Capital Resources

Financing for our operations consists primarily of vendor financing and leasing arrangements, our banking credit facility and cash flows attributable to our operations, which we believe are sufficient to fund our business needs.

In July 2015, we renewed our Credit Facility. In accordance with the second amendment to the Credit Facility, which was signed in February 2016, the Credit Facility has borrowing capacity of up to \$600 million and consists of a \$400 million, five-year revolving loan facility and a \$200 million five-year term loan facility. The swing line facility is \$35 million. The Credit Facility matures in July 2020, bears interest based on a variable Eurodollar rate option (LIBOR plus 2.25% margin at September 30, 2016) and has commitment fees on unused borrowing capacity (0.40% at September 30, 2016). The Credit Facility also contains financial covenants, which were amended in August 2016 pursuant to the third amendment to the Credit Agreement. The covenants, as amended, require the Company to maintain as of the end of each fiscal quarter (i) a maximum ratio of consolidated funded debt to consolidated EBITDA (as defined in the Credit Facility agreement) of not more than 4.25 to 1.00 as of September 30, 2016, not more than 4.50 to 1.00 as of December 31, 2016, not more than 4.25 to 1.00 as of March 31, 2017 and June 30, 2017, not more than 3.75 to 1.00 as of September 30, 2017 and thereafter the maximum ratio decreases by 0.25 to 1.00 every quarter until it reaches 3.00 to 1.00, (ii) a maximum ratio of senior secured debt to consolidated EBITDA of not more than 3.00 to 1.00 and (iii) an interest coverage ratio of less than 3.00 to 1.00. As of September 30, 2016, we are in compliance with these covenants. At September 30, 2016, we had \$38.2 million of cash on hand and approximately \$35 million of available borrowing capacity through

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our Credit Facility. In connection with the renewal of our Credit Facility, we are amortizing \$3.0 million of associated debt issuance costs over the life of the Credit Facility.

In order to secure our casualty insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. We were contingently liable for outstanding stand-by letters of credit totaling \$22.2 million at September 30, 2016 and \$13.2 million at December 31, 2015. Outstanding letters of credit reduce amounts available under our Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the Credit Facility.

At the end of 2013, we initiated the design and implementation of a new ERP system, which is expected to be fully installed by the end of 2017. Through September 30, 2016, we have capitalized \$40.5 million associated with the project that includes \$1.1 million of capitalized interest.

On June 23, 2014, our Board authorized an increase in the stock repurchase plan limit to \$50.0 million. We repurchased 274,110 shares for a total cost of \$7.6 million during the nine months ended September 30, 2016. At September 30, 2016, \$7.9 million remained available to repurchase shares under the stock repurchase plan. Under the Credit Facility, the Company is limited in its ability to make stock repurchases unless the leverage ratio is below 2.50 to 1.00. Notwithstanding such provision, in the event the leverage ratio is equal to or greater than 2.50 to 1.00 but is at least 0.25 less than the maximum permitted leverage ratio, the Credit Facility generally permits the the Company to make stock repurchases provided that such repurchases, plus any payments of cash dividends, do not exceed \$50.0 million in the aggregate.

In October 2016, we filed an automatically effective universal shelf registration statement on Form S-3 with the SEC (the "Shelf Registration Statement"). The Shelf Registration Statement allows us to issue common stock, preferred stock, debt securities, warrants and units from time to time in one or more offerings. Issuances of securities pursuant to the Shelf Registration Statement will require the filing of a prospectus supplement identifying the amount and terms of the securities to be issued.

Restrictions on cash. Included in our cash and cash equivalents at September 30, 2016 is \$10.9 million of cash in certain foreign subsidiaries (located primarily in Europe and Canada) where earnings are considered by the Company to be permanently reinvested. In the event that some or all of this cash were to be repatriated, we would be required to accrue and pay additional taxes. While not legally restricted from repatriating this cash, we consider all undistributed earnings of these foreign subsidiaries to be indefinitely reinvested and access to cash to be limited.

Cash flows attributable to our operating activities. For the nine months ended September 30, 2016, net cash provided by operating activities was \$60.6 million compared to \$26.2 million in the prior year. The increase in net cash provided by operating activities is primarily associated with favorable changes in working capital, primarily attributable to reductions in accounts receivable, partially offset by the impacts of the market softness on operating performance as described above.

Cash flows attributable to our investing activities. For the nine months ended September 30, 2016, net cash used in investing activities was \$74.9 million, consisting primarily of \$48.4 million for business acquisitions (net of cash acquired) and \$35.9 million of capital expenditures. Capital expenditures included \$14.7 million in costs related to our ERP project. Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly. For the nine months ended September 30, 2015, net cash used in investing activities was \$294.3 million, consisting primarily of \$263.6 million for business acquisitions (net of cash acquired) and \$30.5 million of capital expenditures. Capital expenditures included \$11.4 million in costs related to our ERP project.

Cash flows attributable to our financing activities. For the nine months ended September 30, 2016, net cash provided by financing activities was \$7.4 million consisting primarily of \$16.0 million of net debt borrowings, principally to fund the cash portion of the Furmanite acquisition as well as the acquisitions of QIS, TiaT and Turbinate and \$2.4 million from the issuance of common stock from share-based payment arrangements. These amounts were offset by \$7.6 million in cash related to the purchase of stock pursuant to our stock repurchase plan, \$2.5 million of cash related to contingent and deferred consideration payments and \$0.8 million of debt issuance costs.

For the nine months ended September 30, 2015, net cash provided by financing activities was \$265.1 million consisting primarily of \$290.1 million of net borrowings related to our bank credit facility, \$3.8 million from the issuance of common stock from share-based payment arrangements and \$1.5 million attributable to the corporate tax effect from share-based payment arrangements offset by \$21.1 million in payments related to the purchase of stock pursuant to our stock repurchase plan and \$5.9 million in payments to purchase the noncontrolling interest in Quest Integrity Group, LLC.

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Effect of exchange rate changes on cash. For the nine months ended September 30, 2016 and 2015, the effect of exchange rate changes on cash was a positive (negative) impact of \$0.2 million and \$(3.0) million, respectively. The positive impact in the current year is primarily attributable to favorable fluctuations in U.S. Dollar exchange rates with the Canadian Dollar, the Australian Dollar and the Euro offset by unfavorable fluctuations in the British Pound. The negative impact in the prior year is primarily due to fluctuations in U.S. Dollar exchange rates with the Canadian Dollar and the Euro.

Contractual Obligations

Information on our contractual obligations is set forth on page 32 of our Transition Report on Form 10-K for the transition period from June 1, 2015 to December 31, 2015. Subsequent to year end, we assumed additional contractual obligations in connection with our acquisition of Furmanite. Specifically, we borrowed an additional \$71.5 million on our Credit Facility, of which the proceeds were primarily used to settle Furmanite's outstanding debt and certain related liabilities, which were not assumed by Team. We also assumed additional obligations under various non-cancellable operating leases of Furmanite, primarily consisting of facility and auto leases. Future payments under these additional operating leases, which expire at various dates, were estimated at approximately \$33 million as of the acquisition date. Further, we assumed obligations related to Furmanite's defined benefit pension plans. For additional information on the Furmanite acquisition, see Note 2 to the unaudited condensed consolidated financial statements included in Item 1 of this report. Except as described above, there have been no material changes in our contractual obligations during the nine months ended September 30, 2016.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations in foreign countries with a functional currency that is not the U.S. Dollar. We are exposed to market risk, primarily related to foreign currency fluctuations related to these operations. Subsidiaries with asset and liability balances denominated in currencies other than their functional currency are remeasured in the preparation of their financial statements using a combination of current and historical exchange rates, with any resulting remeasurement adjustments included in net income (loss) for the period. Net foreign currency transaction gains (losses) for the nine months ended September 30, 2016 and September 30, 2015 were \$0.2 million and \$(0.9) million, respectively. The foreign currency transaction losses realized relate primarily to fluctuations in the U.S. Dollar in relation to the Australian Dollar, British Pound, Canadian Dollar, Euro and Mexican Peso.

In 2015, we initiated a foreign currency hedging program to mitigate the foreign currency risk in countries where we have significant assets and liabilities denominated in currencies other than the functional currency. We utilize monthly foreign currency swap contracts to reduce exposures to changes in foreign currency exchange rates related to our largest exposures including, but not limited to the Australian Dollar, Canadian Dollar, Brazilian Real, British Pound, Euro, Malaysian Ringgit and Mexican Peso. The impact from these swap contracts was not material for the three months or nine months ended September 30, 2016 nor as of September 30, 2016.

Translation adjustments for the assets and liability accounts are included as a separate component of accumulated other comprehensive loss in shareholders' equity. Foreign currency translation gains recognized in other comprehensive income were \$1.9 million for the nine months ended September 30, 2016.

Based on the nine months ended September 30, 2016, foreign currency-based revenues and operating income of approximately \$225.7 million and \$12.1 million, respectively, a hypothetical 10% adverse change in all applicable foreign currencies would result in a change in revenues and operating income of \$22.0 million and \$1.2 million, respectively.

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.

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



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**ITEM 4. CONTROLS AND PROCEDURES**

Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Under guidance established by the Staff of the SEC, a company is allowed to exclude the internal control over financial reporting of an acquired business from its assessment of its internal control over financial reporting for the fiscal year in which the business was acquired. As permitted by such guidance, we intend to exclude the internal control over financial reporting of Furmanite, which we acquired on February 29, 2016, from our assessment of internal control over financial reporting as of December 31, 2016.

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PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Con Ed Matter—We have, from time to time, provided temporary leak repair services for the steam operations of Consolidated Edison Company of New York 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 September 30, 2016, ninety-two lawsuits are currently pending 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. We anticipate a trial on the merits during the first half of 2017.

Patent Infringement Matters—In December 2014, our subsidiary, Quest Integrity, filed three patent infringement lawsuits against three different defendants, two in the U.S. District of Delaware and one in the U.S. District of Western Washington. Quest Integrity alleges that the three defendants infringed Quest Integrity’s patent, entitled “2D and 3D Display System and Method for Furnace Tube Inspection”. This Quest Integrity patent generally teaches a system and method for displaying inspection data collected during the inspection of furnace tubes in petroleum and petro-chemical refineries. The subject patent litigation is specific to the visual display of the collected data and does not relate to Quest Integrity’s underlying advanced inspection technology. In these lawsuits Quest Integrity is seeking temporary and permanent injunctive relief, as well as monetary damages. Defendants have denied they infringe any valid claim of Quest Integrity’s patent, and have asserted declaratory judgment counterclaims that the patent at issue is invalid and/or unenforceable, and not infringed. In June 2015, the U.S. District of Delaware denied our motions for preliminary injunctive relief in the Delaware Cases (that is, our request that the defendants stop using our patented systems and methods during the pendency of the actions). The Delaware Cases are expected to proceed to trial on our claims during the second quarter of 2017. The Washington Case does not have a trial date scheduled.

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

ITEM 1A. RISK FACTORS

See page 9 of our Transition Report on Form 10-K for the transition period from June 1, 2015 to December 31, 2015 for a detailed discussion of our risk factors.

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

On June 23, 2014, our Board authorized an increase in the stock repurchase plan limit to \$50.0 million. We repurchased 274,110 shares for a total cost of \$7.6 million during the nine months ended September 30, 2016. At September 30, 2016, \$7.9 million remained available to repurchase shares under the stock repurchase plan. Under the Credit Facility, the Company is limited in its ability to make stock repurchases unless the leverage ratio is below 2.50 to 1.00. Notwithstanding such provision, in the event the leverage ratio is equal to or greater than 2.50 to 1.00 but is at least 0.25 less than the maximum permitted leverage ratio, the Credit Facility generally permits the the Company to make stock repurchases provided that such repurchases, plus any payments of cash dividends, do not exceed \$50.0 million in the aggregate.



ITEM 3. DEFAULTS UPON SENIOR SECURITIES  
NONE

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ITEM 4.MINE SAFETY DISCLOSURES  
NOT APPLICABLE

ITEM 5.OTHER INFORMATION  
NONE

ITEM 6.EXHIBITS

| Exhibit<br>Number                            | Description   |
|--|---|
| 10.1†  | Non-Disclosure, Non-Competition and Non-Solicitation Agreement between Philip J. Hawk, Team Industrial Services, Inc., Team, Inc. and their affiliated entities, effective as of August 8, 2016 (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q filed by Team, Inc. on August 9, 2016, incorporated by reference herein).   |
| 10.2   | Third Amendment to Credit Agreement, dated August 17, 2016, among Team, Inc., certain Team, Inc. Subsidiary Guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and other Lenders party thereto (filed as Exhibit 10.1 to the Current Report on Form 8-K filed by Team, Inc. on August 23, 2016, incorporated by reference herein). |
| 31.1   | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2   | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1   | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2   | Certification of Chief Financial Officer 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.

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SIGNATURES

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

TEAM, INC.  
(Registrant)

Date: November 4, 2016 /S/ TED W. OWEN  
Ted W. Owen  
President and Chief Executive Officer  
(Principal Executive Officer)

/S/ GREG L. BOANE  
Greg L. Boane  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)