

TEAM INC  
Form 10-K  
March 16, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 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)

Securities registered pursuant to Section 12(b) of the Act:  
Title of Each Class Name of Each Exchange on Which Registered  
Common Stock, \$0.30 par value New York Stock Exchange  
Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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The aggregate market value of the voting stock held by non-affiliates on June 30, 2016 was approximately \$627 million, determined using the closing price of shares of common stock on the New York Stock Exchange on that date of \$24.83.

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

The Registrant had 29,800,837 shares of common stock, par value \$0.30, outstanding as of March 10, 2017.

Documents Incorporated by Reference

Portions of our Definitive Proxy Statement for the 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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Certain items required in Part III of this Annual Report on Form 10-K can be found in our 2017 Proxy Statement and are incorporated herein by reference. A copy of the 2017 Proxy Statement will be provided, without charge, to any person who receives a copy of this Annual Report on Form 10-K and submits a written request to Team, Inc., Attn: Corporate Secretary, 13131 Dairy Ashford, Suite 600, Sugar Land, Texas 77478.

### PART I

#### ITEM 1. BUSINESS

##### General Information

Introduction. Unless otherwise indicated, the terms “Team, Inc.,” “Team,” “the Company,” “we,” “our” and “us” are used in this report to refer to Team, Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. We are incorporated in the State of Delaware and our company website can be found at [www.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 a change of our fiscal year end to December 31 of each calendar year from May 31.

We are a leading provider of standard to specialty industrial services, including inspection, engineering assessment and mechanical repair and remediation 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 (“Quest Integrity”). Through the capabilities and resources in these three segments, we believe that Team is uniquely qualified to provide integrated solutions involving in their most basic form, inspection to assess condition, engineering assessment to determine fitness for purpose in the context of industry standards and regulatory codes and mechanical services to repair, rerate or replace based upon the client’s election. In addition, our Company is capable of escalating with the client’s needs—as dictated by the severity of the damage found and the related operating conditions—from standard services to some of the most advanced services and expertise available in the industry.

TeamQualspec provides standard 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 offer these services globally through over 220 locations in 20 countries throughout the world with more than 7,400 employees. 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.

##### Narrative Description of Business

##### TeamQualspec Group:

TeamQualspec offers standard to specialty inspection services as well as heat treating services. Heat treating services are generally associated with turnaround or project activities. A description of these services is as follows:

Non-Destructive Evaluation and Testing Services. Machined parts and industrial structures can be complex systems that experience extreme loads and fatigue during their lifetime. Our Non-Destructive Evaluation (“NDE”), or Non-Destructive

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Testing (“NDT”), enables the inspection of these components without permanently altering the equipment. It is a highly valuable technique that is often used to validate the integrity of materials, detect instabilities, discover performance outside of tolerances, identify failed components, or highlight an inadequate control system. Inspection services frequently require industry recognized training and certification processes. We maintain training and certification programs, which are designed to meet or exceed industry standards. As assets continue to age and compliance regulations advance, inspection techniques are playing a critical role in fit-for-life service assessments.

**Radiographic Testing.** Radiographic Testing (“RT”) is used to detect discontinuities in ferrous and nonferrous castings, welds or forgings using X-ray or gamma ray radiation. RT reveals both external and internal defects, internal assembly details and changes in thickness. Our licensed technicians utilize conventional, computed and real-time radiography testing techniques depending upon the complexity and needs of our customers.

**Ultrasonic Testing.** Ultrasonic Testing (“UT”) uses high frequency ultrasonic waves to detect surface breaking and internal imperfections, measure material thickness and determine acceptance or rejection of a test object based on a reference code or standard. We offer ten different types of UT methods, including traditional scans as well as automated and high speed ultrasonic Electro Magnet Acoustic Transducer testing. Each method is utilized to meet a specific material or process application requirement.

**Magnetic Particle Inspection.** Magnetic Particle Inspection is an NDT process for detecting surface and slightly subsurface discontinuities in ferroelectric materials such as iron, nickel, cobalt, and some of their alloys. The process puts a magnetic field into the test object. When the part is magnetized, flaws perpendicular to the magnetic field direction cause flux leakage. If a lapse or a crack is present, the magnetic particles will be attracted to the flawed area, providing our technician with what is called an indication. Our technician will then evaluate the indication to assess the location, size, shape and extent of these imperfections.

**Liquid Penetrant Inspection.** Liquid Penetrant Inspection is one of the most widely used NDE/ NDT methods. Its popularity can be attributed to two main factors: its relative ease of use and its flexibility. Liquid Penetrant Inspection can be used to inspect almost any material. At Team, we utilize Liquid Penetrant Inspection to detect surface discontinuities in both ferromagnetic and non-ferromagnetic materials. In castings and forgings, there may be cracks or leaks in new products or fatigue cracks in in-service components.

**Positive Material Identification.** Positive Material Identification (“PMI”) quickly and accurately identifies the composition of more than 100 different engineering alloys onsite. Team can perform PMI on virtually any size or shape of pipe, plate, weld, welding materials, machined parts or castings.

**Electromagnetic Testing.** Electromagnetic Testing applies to a family of test methods that use magnetism and electricity to detect or measure cracks, flaws, corrosion or heat damage in conductive materials. Magnetic properties and geometric analysis are used to determine the best technique to identify defects. Our electromagnetic services enable our technicians to evaluate small cracks, pits, dents and general thinning in tubing with small diameters, large steel surfaces such as storage tank floors, and everything in between.

**Alternating Current Field Measurement.** Originally developed for inspection of fatigue cracking, our Alternating Current Field Measurement (“ACFM”) is an advanced technique for detecting surface cracks and pinpointing the location, length and depth of the defect. Our ACFM works through paint and coatings and in a wide range of temperatures. Results are automatically recorded and accepted by certification authorities.

**Eddy Current Testing.** Eddy Current Testing (“ET”) is ideal for nonferrous materials such as heat exchanger tubes, condensers, boilers, tubing and aircraft surfaces. Team’s ET uses electromagnetic induction to detect flaws in conductive materials, displaying the presence of very small cracks, pits, dents and general thinning.

**Long-Range Guided Ultrasonics.** Guided wave inspection is a method of ultrasonic testing that enables the detection and location of pipe defects above and below ground without disruption of service. This technique only requires a small area of excavation to perform the testing where applicable. Guided ultrasonics sends a bilateral signal over hundreds of feet allowing long ranges of piping to be inspected at one time.

**Phased Array Ultrasonic Testing.** Phased Array Ultrasonics (“PAUT”) provides sharper detection capability for off-angle cracks and is capable of displaying multiple presentations simultaneously. PAUT applies computer-controlled excitation to individual elements in a multi-element probe. By varying the timing of the excitation, the sound beam can be swept through a range of angles. The shape of the beam may also be modified to a



specific focal distance or spot.

Tank Inspection and Management Programs. Our wholly-owned subsidiary, TCI Services, Inc. (“TCI”), is a storage tank management company that performs inspections, engineering and repair services across the U.S. for above ground storage tanks. Backed by Team’s in-house engineering, documentation and certification services – including API 653

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evaluations – TCI’s on-site tank inspections, repair and maintenance services help keep customers’ tanks fully operational and compliant with stringent industry standards.

**Rope Access.** We provide a range of innovative and cost-effective solutions to suit the customer’s individual requirements for inspection and maintenance services to the energy and industrial markets. Our rope access solutions allow for work to be carried out more quickly than traditional methods using scaffolding, keeping costs and job duration to a minimum. We provide these services under full accreditation by the Industrial Rope Access Trade Association, whose guidelines are recognized by the industry as the safest method of working at height.

**Mechanical Integrity Services.** Maintaining the integrity of equipment is more than simply performing inspections. A well-implemented Mechanical Integrity (“MI”) program involves multiple components that improve the safety and reliability of a facility’s equipment. Our MI programs ensure the continued integrity and fitness for service of piping systems, pressure vessels, tanks and related components. Our mechanical integrity engineers are well versed in pertinent codes and standards of the Occupational Safety and Health Administration’s process safety management and U.S. Environmental Protection Agency’s (“EPA”) risk management program regulations.

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

**TeamFurmanite Group:**

TeamFurmanite offers standard to specialty services as follows within both on-stream and turnaround/project-related environments as follows:

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

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

**Hot Tapping Services.** Our hot tapping services consist of a full range of hot tapping, Line-stop™ and Freeze-stop™ services with capabilities for up to 48” diameter pipelines. Hot tapping services involve utilizing special equipment to cut a hole in a pressurized pipeline so that a new branch pipe can be connected onto the existing pipeline without interrupting operations. Line-stop™ services permit the line to be depressurized downstream so that maintenance

work can be performed on the piping system. We typically perform these services by mechanically cutting into the pipeline similar to a hot tap and installing a special plugging device to stop the process flow. The Hi-stop<sup>TM</sup> is a proprietary procedure that allows stopping of the process flow in extreme pressures and temperatures. In some cases, we may use a line freezing procedure by injecting liquid nitrogen into installed special external chambers around the pipe to stop the process flow. Inflatable bag stops are used

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when a pipe is out of round or inside surface conditions of the pipe prevent a standard line stop. It can also be used to back up a line stop. A small hot tap is made into a pipe and an inflatable pipe plug is inserted into the pipe to allow the plug to stop the flow in the pipe. Additionally, we provide innovative line stop applications for unique service applications to meet customers' needs.

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

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

**Field Welding.** We perform certified manual, semi-automatic and fully automated machine welding services in a variety of specialty industrial applications. All Team welders are certified to applicable American Society of Mechanical Engineers ("ASME") code and we are authorized by the National Board of Boiler and Pressure Vessel Inspectors for the repair of nuclear components, boilers and other pressure-containing components.

**Heat Exchanger and Maintenance Services.** We provide turnkey heat exchanger services that allow for blind to blind disassembly and re-assembly. Utilizing our expanding fleet of bundle extractors that allow us to pull and push the tube bundles, as well as field machining and bolting equipment, we can make complete repairs to minimize downtime by using one contractor. A complete service allows us to unbolt the exchanger heads and remove the tube bundle for inspection and repair. Team is certified by The National Board of Boiler and Pressure Vessel Inspectors to make welded code repairs when necessary to the many components that make up the assembly. Based on the inspection, the bundle tubes can be replaced or plugged. Assembly of the exchanger is documented by our rigid quality control process providing documented procedures and final "as assembled" bolted values.

**Isolation and Test Plug Services.** We install isolation plugs to provide a mechanical block of flammable atmosphere to allow for pipe cutting and welding without having to purge the entire piping system. The plugs are mechanically expanded to seal on the inside pipe surface and provide a venting system to prevent pressure from building up in the piping system while the system is opened. Test plugs are used to verify the integrity of welded joints by providing sealing surfaces on both sides of the weld and pressuring the void cavity in between. The test plugs allow the customer to comply with the ASME hydrostatic test requirements for welded joints without having to pressurize the whole system which may result in shutdown of other systems or environmental issues with the test medium.

**Valve Insertion Services.** We offer professional installation services for our patented InsertValve™. The valve installs under pressure, eliminating the need for line shut downs in the event of planned or emergency valve cut-ins. Designed for a wide range of line sizes and types, the InsertValve™ wedge gate sits on the valve body, not the pipe bottom. This unique feature prevents the seat from coming into contact with the cut pipe edges to significantly extend valve life. If a repair is ever needed, we believe it is the only valve on the market that can be repaired under pressure.

### Quest Integrity:

Quest Integrity offers integrity management solutions to the energy industry in the form of advanced quantitative inspection and engineering assessment services and products. Quest Integrity's advanced quantitative inspection services utilize proprietary non-destructive testing and examination (NDT/NDE) instrumentation to provide

technology-enabled in-line inspections of fired heaters, piping systems and steam reformers, primarily to the process, pipeline and power industries. Additionally, Quest Integrity offers engineering assessment services enabled by proprietary software and a variety of analytical models. Effective July 1, 2013, Quest Integrity became a stand-alone reportable segment of Team.

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Quest Integrity's major service offerings are described as follows:

**Furnace Tube Inspection System.** Furnace Tube Inspection System ("FTIS<sup>TM</sup>") in-line inspection service provides an untethered 360-degree 100% coverage ultrasonic inspection of the internal and external surfaces of serpentine coils of fired heaters, which are found in refineries. FTIS<sup>TM</sup> allows us to detect and quantify internal/external pipe/tube wall loss, deformation and fouling and thereby identify weak points in such heaters in order to provide customers with timely, actionable information to better manage their infrastructure.

**InVista<sup>TM</sup>.** Our proprietary InVista<sup>TM</sup> in-line inspection service provides an untethered 360-degree 100% coverage ultrasonic inspection of the internal and external surfaces of pipelines that are considered "unpiggable" or too challenging to inspect by traditional inspection methods, due to a number of factors. InVista<sup>TM</sup> allows us to detect and quantify pipe/tube internal/external wall loss, deformation, pitting and fouling in such pipelines. Our InVista<sup>TM</sup> service also provides an integrated fitness-for-service report which forecasts remaining life of the pipeline and displays the information in a highly intuitive format, providing an integrated solution set for pipeline customers.

**Pipeline Integrity Management.** We offer turn-key Pipeline Integrity Management services, including project management, integrity engineering and integrity management development services, in-line inspection support, land surveying, and materials equipment selection and procurement. We offer these resources on an integrated basis with our InVista<sup>TM</sup> and HYDRA<sup>TM</sup> in-line inspection services and engineering assessment capabilities, or individually as applicable.

**Engineering Assessment Services.** Using proprietary software and a variety of analytical models, we offer a variety of advanced engineering assessment services to customers in the process, power, pipeline, and petrochemical industries including fitness-for-service, computational mechanics, failure analysis, pipeline analysis, risk-based asset management, and materials consulting.

### Acquisitions

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 November 2015, Team and Furmanite Corporation ("Furmanite") entered into an Agreement and Plan of Merger (the "Merger Agreement") under which we acquired all the outstanding shares of Furmanite in a stock transaction. Under the terms of the Merger Agreement, 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 at a value of approximately \$282.3 million which included the payoff, immediately prior to closing, of approximately \$70.8 million in Furmanite debt. 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 purchase price allocation included net working capital of \$143.9 million, \$63.3 million in fixed assets, \$89.0 million in intangibles, \$91.4 million of non-current deferred tax liabilities, \$13.5 million of defined benefit pension liabilities with \$89.6 million allocated to goodwill. Our consolidated results include the activity of Furmanite beginning on the acquisition date of February 29, 2016. Included in the Furmanite acquisition was a process management inspection services business serving contractors and operators participating primarily in the midstream oil and gas market in the United States. Upon acquisition, we determined that this business

was not a strategic fit for Team and shortly thereafter began marketing the business to prospective buyers. We completed the sale of this operation in December 2016. The operating results of this business are reported as discontinued operations in our consolidated financial statements.

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In July 2015, we acquired 100% of the membership interests in Qualspec Group LLC (“Qualspec”) for total cash consideration of \$255.5 million. Qualspec is a leading provider of non-destructive testing 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 purchase price allocation included net working capital of \$16.3 million, \$15.5 million in fixed assets, \$78.1 million in intangibles, \$3.0 million of non-current deferred tax liability, with \$148.5 million allocated to goodwill. Our consolidated results include the activity of Qualspec beginning on the acquisition date of July 7, 2015 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 included net working capital of \$3.0 million, \$0.6 million in fixed assets and \$8.8 million in intangibles that includes \$2.5 million allocated to goodwill. The purchase price allocation included contingent consideration valued at \$1.8 million. 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. DK Amans Valve is reported in the TeamFurmanite segment.

In August 2014, we purchased a valve repair company in the U.K. for total consideration of \$3.1 million, net of cash acquired of \$0.2 million, including estimated contingent consideration of \$0.3 million. Our purchase price allocation resulted in \$2.1 million being allocated to fixed assets and net working capital and \$1.0 million being applied to goodwill and intangible assets.

In July 2013, we purchased a leading provider of industrial rope access services, for total consideration of approximately \$12.9 million including net working capital of \$1.3 million and \$11.6 million allocated to goodwill and intangible assets. We estimate \$9.2 million of the goodwill recognized to be deductible for tax purposes. The purchase price allocation included contingent consideration valued at \$1.9 million. The contingent consideration is based upon the achievement of operating earnings thresholds over a six-year period for an amount of up to \$4.0 million.

### Marketing and Customers

Our industrial services are marketed principally by personnel based at our service locations. We believe that these service locations are situated to facilitate timely responses to customer needs with on-call expertise, which is an important feature of selling and providing our services. Our array of integrated services also allows us to benefit from the procurement trends of many of our customers who are seeking reductions in the number of contractors and vendors in their facilities. No single customer accounted for 10% or more of consolidated revenues during the year ended December 31, 2016, the seven months ended December 31, 2015 or in either of the years ended May 31, 2015 and 2014.

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

### Geographic Areas

For a discussion and breakdown of revenues by geographic area, see Note 14 to the consolidated financial statements.

### Seasonality

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

### Employees



At December 31, 2016, we had approximately 7,400 employees in our worldwide operations. Our employees in the U.S. are predominantly non-unionized. Most of our Canadian employees and certain employees outside of North America, primarily

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Europe, are unionized. There have been no employee work stoppages to date and we believe our relations with our employees and their representative organizations are fair and productive.

### Regulation

A significant portion of our business activities are subject to foreign, federal, state and local laws and regulations. These regulations are administered by various foreign, federal, state and local health and safety and environmental agencies and authorities, including the Occupational Safety and Health Administration of the U.S. Department of Labor and the EPA. Failure to comply with these laws and regulations may involve civil and criminal liability. From time to time, we are also subject to a wide range of reporting requirements, certifications and compliance as prescribed by various federal and state governmental agencies that include, but are not limited to, the EPA, the Nuclear Regulatory Commission, the Chemical Safety Board, the Department of Transportation and the Federal Aviation Administration. Expenditures relating to such regulations are made in the normal course of our business and are neither material nor place us at any competitive disadvantage. We do not currently expect that compliance with such laws and regulations will require us to make material expenditures.

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

### Intellectual Property

We hold various patents, trademarks, trade secrets and licenses, which have not historically been material to our consolidated business operations. However, Quest Integrity has significant trade secrets and intellectual property pertaining to its in-line inspection tool technologies. This subsidiary was acquired in the fiscal year ended 2011 and a significant amount of the purchase price was allocated to these intangible assets.

### Competition

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

### Available Information

As a public company, we are required to file periodic reports with the Securities and Exchange Commission (the "SEC") within established deadlines. Any document we file with the SEC may be viewed or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Additional information regarding the Public Reference Room can be obtained by calling the SEC at (800) SEC-0330. Our SEC filings are also available to the public through the SEC's website located at [www.sec.gov](http://www.sec.gov). Our internet website address is [www.teaminc.com](http://www.teaminc.com). Information contained on our website is not part of this Annual Report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, Proxy Statements and current reports on Form 8-K filed with (or furnished to)

the SEC are available on our website, free of charge, as soon as reasonably practicable after we file or furnish such material. We also post our code of ethical conduct, our governance principles, our social responsibility policy and the charters of our Board of Directors' (the "Board") committees on our website. Our governance documents are available in print to any stockholder that submits a written request to Team, Inc., Attn: Corporate Secretary, 13131 Dairy Ashford, Suite 600, Sugar Land, Texas 77478.

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ITEM 1A. RISK FACTORS

Our business, financial condition or results of operations could be materially adversely affected by any of the risks and uncertainties described below.

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

Our revenues are heavily dependent on certain industries. Sales of our services are dependent on customers in certain industries, particularly the refining and petrochemical industries. As experienced in the past, and as expected to occur in the future, downturns characterized by diminished demand for services in these industries could have a material impact on our results of operations, financial position or cash flows. Certain of our customers have employees represented by unions and could be subject to temporary work stoppage which could impact our activity level.

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

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

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

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

We are subject to risks associated with indebtedness under our banking credit facility, including the risk of failure to maintain compliance with financial covenants, the risk of being unable to make interest and principal payments when due and the risk of rising interest rates. Under our credit agreement, which we renewed in July 2015 (the "Credit Facility"), we are required to maintain compliance with certain financial covenants, as discussed in "Liquidity and Capital Resources" in Part II, Item 7 of this Form 10-K. As of December 31, 2016, we are in compliance with these covenants. With respect to the covenant not to exceed a maximum ratio of consolidated funded debt to consolidated

EBITDA (the “Total Leverage Ratio”, as defined in our Credit Facility agreement), our ratio stood at 4.19 to 1.00 as of December 31, 2016, compared to the maximum permitted ratio as of such date of 4.50 to 1.00. Under the Credit Facility, the maximum permitted ratio decreases to 4.25 to 1.00 as of March 31, 2017 and June 30, 2017, 3.75 to 1.00 as of September 30, 2017 and thereafter decreases by 0.25 to 1.00 every quarter until it reaches 3.00 to 1.00. While we are in compliance with our financial covenants as of December 31, 2016, management continues to execute various initiatives designed to reduce the Company’s obligations outstanding under the

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Credit Facility and improve operating cash flows. However, there can be no assurance that these actions will be successful or that we will be able to maintain compliance with the financial covenants as of any future date. Our future compliance is dependent upon our future operating performance and future financial condition, both of which are subject to various risks and uncertainties, such as those risks and uncertainties described in this Item 1A.

We rely primarily on cash flows from our operations to make required interest and principal payments on our debt under the Credit Facility. If we are unable to generate sufficient cash flows from our operations, we may be unable to pay interest and principal obligations on our debt when they become due. Failure to comply with these obligations or failure to comply with the financial covenants discussed above could result in an event of default, which would permit our lenders to accelerate the repayment of the debt. If our lenders accelerate the repayment of debt, there is no assurance that we could refinance such debt on terms favorable to us or at all. Also, our debt under the Credit Facility bears interest at variable rates and therefore we are exposed to the risk of rising market interest rates, which could adversely impact our cash flows and increase our interest expense. Further, our Credit Facility restricts our ability to, among other items, incur additional indebtedness, engage in mergers, acquisitions and dispositions and alter the business conducted by the Company and its subsidiaries. These restrictions could adversely affect our ability to operate our businesses and may limit our ability to take advantage of potential business opportunities as they arise.

An impairment of our goodwill and intangible assets could have a material adverse impact on our results of operations and financial condition. As a result of past acquisitions, goodwill and intangible assets comprise a substantial portion of our total assets. As of December 31, 2016, our goodwill and intangible assets totaled \$355.8 million and \$176.1 million, respectively. We assess or test goodwill and intangible assets for impairment at least annually in accordance with Generally Accepted Accounting Principles in the U.S. (“GAAP”). A decrease in our market capitalization or profitability or unfavorable changes in market, economic and industry conditions all would increase the risk of impairment. If we determine an impairment exists, we may be required to recognize significant impairment charges, which could materially and adversely impact our results of operations and financial condition.

The implementation of a new enterprise resource planning (“ERP”) system may disrupt the Company’s operations or its system of internal controls. At the end of 2013, we initiated the design and implementation of a new ERP system, which is expected to be substantially installed by the end of 2017. As this system continues to be deployed throughout the Company, delays or difficulties may be encountered in effectively and efficiently processing transactions and conducting business operations until personnel are familiar with all appropriate aspects and capabilities of the upgraded systems.

The Company’s operations and information systems are subject to cybersecurity risks. Team continues to increase its dependence on digital technologies to conduct its operations. Many of the Company’s files are digitized and more employees are working in almost paperless and remote environments. We have also outsourced certain information technology development, maintenance and support functions. As a result, the Company may be exposed to potentially severe cyber incidents at both its internal locations and outside vendor locations that could result in a theft of intellectual property and/or disruption of its operations for an extended period of time resulting in the loss of critical data and in higher costs to correct and remedy the effects of such incidents, although no such material incidents have occurred to date to the Company’s knowledge.

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

complete contracted services. A defect in our services or faulty workmanship could result in an environmental liability if, as a result of the defect or faulty workmanship, a contaminate is released into the environment.

We currently maintain liability insurance to limit any potential loss, but there can be no assurance that our insurance will fully protect us against a claim or loss. We perform services in hazardous environments on or around high-pressure, high temperature systems and our employees are exposed to a number of hazards, including exposure to hazardous materials, explosion hazards and fire hazards. Incidents that occur at these large industrial facilities or systems, regardless of fault, may be catastrophic and adversely impact our employees and third parties by causing serious personal injury, loss of life, damage to

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property or the environment, and interruption of operations. Our contracts typically require us to indemnify our customers for injury, damage or loss arising out of our presence at our customers' location, regardless of fault, or the performance of our services and provide for warranties for materials and workmanship. We may also be required to name the customer as an additional insured under our insurance policies. We maintain insurance coverage against these and other risks associated with our business. Due to the high cost of general liability coverage, we maintain insurance with a self-insured retention of \$3.0 million per occurrence. This insurance may not protect us against liability for certain events, including events involving pollution, product or professional liability, losses resulting from business interruption or acts of terrorism or damages from breach of contract by the Company. We cannot assure you that our insurance will be adequate in risk coverage or policy limits to cover all losses or liabilities that we may incur. Moreover, in the future, we cannot assure that we will be able to maintain insurance at levels of risk coverage or policy limits that we deem adequate. Any future damages caused by our products or services that are not covered by insurance or are in excess of policy limits could have a material adverse effect on our results of operations, financial position or cash flows.

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

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

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



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

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variations in manufacturing efficiencies and costs, and the relative strength or weakness of international markets. Since our quarterly and annual revenues and operating results vary, we believe that period-to-period comparisons are not necessarily meaningful and should not be relied upon as indicators of our future performance.

Our business may be adversely impacted by work stoppages, staffing shortages and other labor matters. At December 31, 2016, we had approximately 7,400 employees, approximately 950 of whom were located in Canada and Europe where employees predominantly are represented by unions. Although we believe that our relations with our employees are good and we have had no strikes or work stoppages, no assurances can be made that we will not experience these and other types of conflicts with labor unions, works councils, other groups representing employees, or our employees in general, or that any future negotiations with our labor unions will not result in significant increases in the cost of labor.

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

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

Regulations related to conflict-free minerals may cause us to incur additional expenses. The SEC has established annual disclosure and reporting requirements for those companies who use “conflict” minerals sourced from the Democratic Republic of Congo and adjoining countries in their products. These requirements could limit the pool of suppliers who can provide conflict-free minerals and as a result, we cannot ensure that we will be able to obtain these minerals at competitive prices. Compliance with these new requirements may also increase our costs. In addition, we may face challenges with our customers if we are unable to sufficiently verify the origins of the minerals used in our products.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

NONE

ITEM 2. PROPERTIES

There are several materially important physical properties used in our operations. Our 120,000 square foot facility in Alvin, Texas consists of our primary training facility, equipment center and ISO-9001 certified manufacturing facility for clamps, enclosures, and sealants. Additionally, we own a 39,000 square foot manufacturing facility in Houston, Texas. We lease approximately 60,000 square feet of office space utilized as our corporate headquarters in Sugar Land, Texas. The following is a list of owned and leased branch service locations considered materially important physical properties:

• Beaumont, Texas

• Pasadena, Texas (2 locations)

Pearland, Texas  
Hammond, Indiana  
Cincinnati, Ohio

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• Gonzales, Louisiana

• Wood River, Illinois

• Long Beach, California

• Columbus, Ohio

• Vlissingen, Netherlands

• Kendal, Cumbria, United Kingdom

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

ITEM 3. 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 (“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 December 31, 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 filed a motion to dismiss in December 2016. Based upon the current briefing schedule, a ruling on the motion is anticipated in the fall of 2017. 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 2018.

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 (the “Delaware Cases”) and one in the U.S. District of Western Washington (“Washington Case”). 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 in 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 4. MINE SAFETY DISCLOSURES

NOT APPLICABLE



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## PART II

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

## Market Information

Our stock is traded on the NYSE under the symbol "TISI". The table below reflects the high and low sales prices of our common stock by quarter for the year ended December 31, 2016, the seven-month transition period from June 1, 2015 to December 31, 2015 and the year ended May 31, 2015.

	Sales Price	
	High	Low
2016		
Quarter ended:		
March 31, 2016	\$31.86	\$21.75
June 30, 2016	\$32.49	\$23.53
September 30, 2016	\$33.71	\$24.10
December 31, 2016	\$39.60	\$28.00
2015		
Transition period:		
June 1, 2015 - December 31, 2015	\$47.55	\$30.81
Quarter ended:		
August 31, 2014	\$43.53	\$36.09
November 30, 2014	\$44.36	\$35.18
February 28, 2015	\$41.42	\$35.44
May 31, 2015	\$41.22	\$35.60

## Holders

There were 579 holders of record of our common stock as of March 10, 2017, excluding beneficial owners of stock held in street name.

## Dividends

No cash dividends were declared or paid during the year ended December 31, 2016, the seven months ended December 31, 2015 or the year ended May 31, 2015. We are limited in our ability to pay cash dividends without the consent of our bank syndicate. Accordingly, we have no present intention to pay cash dividends in the foreseeable future. Additionally, any future dividend payments will continue to depend on our financial condition, market conditions and other matters deemed relevant by the Board.

## Securities Authorized for Issuance Under Equity Compensation Plans

This information has been omitted from this Annual Report on Form 10-K as we intend to file such information in our Definitive Proxy Statement no later than 120 days following the close of our fiscal year ended December 31, 2016. The information required regarding equity compensation plans is hereby incorporated by reference.

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## Performance Graph

The following performance graph compares the performance of our common stock to the NYSE Composite Index and a Peer Group Index. The comparison assumes \$100 was invested on May 31, 2011 in our common stock, the NYSE Composite Index and a Peer Group Index. The values of each investment are based on share price appreciation, with reinvestment of all dividends, assuming any were paid. For each graph, the investments are assumed to have occurred at the beginning of each period presented. The following companies are included in our Peer Group Index used in the graph: Matrix Service Company, Englobal Corporation and Mistras Group, Inc.

\* \$100 invested on 5/31/11 in stock or index, including reinvestment of dividends. Years ended May 31, 2012, 2013, 2014 and 2015; seven-month transition period ended December 31, 2015; and year ended December 31, 2016.

	5/11	5/12	5/13	5/14	5/15	12/15	12/16
Team, Inc.	100.00	116.00	156.83	182.26	173.04	138.96	170.65
NYSE Composite	100.00	90.38	116.26	136.99	144.14	134.13	150.14
Peer Group	100.00	100.50	110.43	166.73	105.39	115.66	145.13

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

## ITEM 6. SELECTED FINANCIAL DATA

We have included selected financial data for the year ended December 31, 2016, the seven months ended December 31, 2015 and for the years ended May 31, 2012 through 2015 under "Five Year Comparison," in the financial information that is included in this report in Part II, Item 8, "Financial Statements and Supplementary Data." This information is incorporated herein by reference.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Management's Discussion and Analysis of Financial Condition and Results of Operations listed in the Financial Table of Contents included in this report is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have included a discussion about market risks under "Market Risk" in the Management's Analysis that is included in this report in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." This information is incorporated herein by reference.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Consolidated Financial Statements, the Notes to Consolidated Financial Statements, the reports of our Independent Registered Public Accounting Firm and the information under "Quarterly Results" listed in this report are incorporated herein by reference. All other schedules for which provision is made in the applicable accounting regulation of the SEC are not required under the related instructions or are inapplicable, and therefore, have been omitted.

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

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

ITEM 9A. CONTROLS AND PROCEDURES

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

Evaluation of disclosure controls and procedures. As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")). This evaluation included consideration of the various processes carried out under the direction of our disclosure committee in an effort to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC. This evaluation also considered the work completed related to our compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Based on this evaluation, our CEO and CFO concluded that, as of December 31, 2016, our disclosure controls and procedures were operating effectively to ensure that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the requisite time periods and that such information is appropriately accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.





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Management's Annual Report on Internal Control Over Financial Reporting

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

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

We have used the framework set forth in the report entitled Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) to evaluate the effectiveness of our internal control over financial reporting. We have concluded that our internal control over financial reporting was effective as of December 31, 2016.

Management's annual assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016 excluded the internal control over financial reporting of Furmanite, representing total assets of approximately \$215 million and total revenues of approximately \$216 million included in the financial statements of Team, Inc. and subsidiaries as of and for the year ended December 31, 2016.

Attestation report of the registered public accounting firm. The attestation report of KPMG LLP, the Company's independent registered public accounting firm, on the Company's internal control over financial reporting is set forth in this Annual Report on Form 10-K on page 35.

Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the fourth quarter of our fiscal year ended December 31, 2016.

ITEM 9B. OTHER INFORMATION

NONE

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PART III

The information for the following items of Part III has been omitted from this Annual Report on Form 10-K since we will file, not later than 120 days following the close of our fiscal year ended December 31, 2016, our Definitive Proxy Statement. The information required by Part III will be included in that proxy statement and such information is hereby incorporated by reference, with the exception of the information under the headings “Compensation Committee Report” and “Audit Committee Report.”

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

ITEM 11. EXECUTIVE COMPENSATION

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

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Consolidated Financial Statements filed as part of this report are listed in the Financial Table of Contents

- (a) 1) included in this report and incorporated by reference in this report in Part II, Item 7 “ Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8, “Consolidated Financial Statements and Supplementary Data.”
  - 2) All schedules for which provision is made in the applicable accounting regulations of the SEC are listed in this report in Part II, Item 8, “Consolidated Financial Statements and Supplementary Data.”
  - 3) Reference is made to the Exhibit Index beginning on page 20 hereof.
- (b) Exhibits  
Reference is made to the Exhibit Index beginning on page 20 hereof.

ITEM 16. FORM 10-K SUMMARY

NONE

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized March 15, 2017.

TEAM, INC.

/S/ TED W. OWEN

Ted W. Owen

President and Chief Executive Officer

(Principal Executive Officer)

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

/S/ TED W. OWEN (Ted W. Owen)	President and Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2017
/S/ GREG L. BOANE (Greg L. Boane)	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 15, 2017
/S/ JEFFERY G. DAVIS (Jeffery G. Davis)	Director	March 15, 2017
/S/ VINCENT D. FOSTER (Vincent D. Foster)	Director	March 15, 2017
/S/ PHILIP J. HAWK (Philip J. Hawk)	Chairman of the Board	March 15, 2017
/S/ SYLVIA J. KERRIGAN (Sylvia J. Kerrigan)	Director	March 15, 2017
/S/ EMMETT J. LESCROART (Emmett J. Lescroart)	Director	March 15, 2017
/S/ MICHAEL A. LUCAS (Michael A. Lucas)	Director	March 15, 2017
/S/ LOUIS A. WATERS (Louis A. Waters)	Director	March 15, 2017

/s/ GARY G.  
YESAVAGE  
(Gary G. Yesavage)

Director

March 15,  
2017

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EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 2, 2011, incorporated by reference herein).
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company, dated October 24, 2013 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 25, 2013, incorporated by reference herein).
3.3	Amended and Restated Bylaws of the Company (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on April 4, 2014, incorporated by reference herein).
4.1	Certificate representing shares of common stock of Company (filed as Exhibit 4(1) to the Company's Registration Statement on Form S-1, File No. 2-68928, incorporated by reference herein).
10.1†	Team, Inc. 2004 Restricted Stock Option and Award Plan dated June 24, 2004 (filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended May 31, 2004, incorporated by reference herein).
10.2†	Team, Inc. 2006 Stock Incentive Plan (as Amended and Restated August 1, 2009) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 30, 2009, incorporated by reference herein).
10.3†	Form of Stock Unit Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 17, 2008, incorporated by reference herein).
10.4†	Form of Performance-Based Stock Unit Agreement (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 17, 2008, incorporated by reference herein).
10.5†	Form of Performance Share Award Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 4, 2014, incorporated by reference herein).
10.6	Third Amended and Restated Credit Agreement dated as of July 7, 2015 among Team, Inc., Bank of America, N.A. as Administrative Agent, Swingline Lender and L/C Issuer, JPMorgan Chase Bank, N.A., as Syndication Agent, Compass Bank, as Documentation Agent and the other Lenders party thereto (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 9, 2015, incorporated by reference herein).
10.7†	Furmanite Corporation 1994 Stock Incentive Plan, Amendment and Restatement effective May 9, 2013 (filed as Exhibit 4.4 to the Company's Registration Statement on Form S-8, File No. 333-209871, filed on March 1, 2016, incorporated by reference herein).
10.8	Second Amendment and Commitment Increase to Credit Agreement, dated February 24, 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 Company's Current Report on Form 8-K filed on March 1, 2016, incorporated by reference herein).

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- 10.9† Team, Inc. 2016 Equity Incentive Plan (incorporated by reference to Annex A of the Company's Definitive Proxy on Schedule 14A, as filed with the SEC on April 12, 2016, incorporated by reference herein).
- 10.10† 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 Company's Quarterly Report on Form 10-Q filed on August 9, 2016, incorporated herein by reference).
- 10.11 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 Company's Current Report on Form 8-K filed on August 23, 2016, incorporated by reference herein).
- 10.12 Fourth Amendment and Limited Waiver to Credit Agreement, dated December 19, 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.
- 10.13 ATM Equity Offering<sup>SM</sup> Sales Agreement, dated as of November 28, 2016, by and among Team, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Raymond James & Associates, Inc. and SunTrust Robinson Humphrey, Inc. (filed as Exhibit 1.1 to the Company's Current Report on Form 8-K filed on November 28, 2016, incorporated by reference herein).
- 10.14† Form of Performance Award Agreement.



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Exhibit Number	Description
21	Subsidiaries of the Company.
23.1	Consent of Independent Registered Public Accounting Firm—KPMG LLP.
31.1	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Schema Document.
101.CAL	XBRL Calculation Linkbase Document.
101.DEF	XBRL Definition Linkbase Document.
101.LAB	XBRL Label Linkbase Document.
101.PRE	XBRL Presentation Linkbase Document.
	Management contract or compensation plan or arrangement.

Note: Unless otherwise indicated, documents incorporated by reference are located under SEC file number 001-08604.

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<u>Consolidated Statements of Comprehensive Income (Loss) for the Year Ended December 31, 2016, for the Seven Months Ended December 31, 2015 and for the Years Ended May 31, 2015 and 2014</u>	<u>39</u>
<u>Consolidated Statements of Shareholders' Equity for the Year Ended December 31, 2016, for the Seven Months Ended December 31, 2015, and for the Years Ended May 31, 2015 and 2014</u>	<u>40</u>
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MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

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

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

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

General Information

We are a leading provider of standard to specialty industrial services, including inspection, engineering assessment and mechanical repair and remediation 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. Through the capabilities and resources in these three segments, we believe that Team is uniquely qualified to provide integrated solutions involving in their most basic form, inspection to assess condition, engineering assessment to determine fitness for purpose in the context of industry standards and regulatory codes and mechanical services to repair, rerate or replace based upon the client’s election. In addition, our Company is capable of escalating with the client’s needs—as dictated by the severity of the damage found and the related operating conditions—from standard services to some of the most advanced services and expertise available in the industry.

TeamQualspec provides standard 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

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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 offer these services globally through over 220 locations in 20 countries throughout the world with more than 7,400 employees. 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.

**Results of Operations**

In November 2015, we announced we would change our fiscal year end to December 31 of each calendar year from May 31. In connection with this change, we previously filed a Transition Report on Form 10-K to report the results of the seven-month transition period from June 1, 2015 to December 31, 2015. In this report, the periods presented are the year ended December 31, 2016, the seven-month transition period from June 1, 2015 to December 31, 2015 and the years ended May 31, 2015 and 2014. For comparison purposes, we have also included unaudited data for the year ended December 31, 2015 and for the seven months ended December 31, 2014.

**Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**

The following table sets forth the components of revenue and operating income (loss) from our operations for years ended December 31, 2016 and 2015 (in thousands):

	Year Ended December 31,		Increase (Decrease)		
	2016	2015 (unaudited)	\$	%	
<b>Revenues by business segment:</b>					
TeamQualspec	\$589,478	\$549,307	\$40,171	7.3	%
TeamFurmanite	539,627	302,581	237,046	78.3	%
Quest Integrity	67,591	74,468	(6,877 )	(9.2)	)%
Total	\$1,196,696	\$926,356	\$270,340	29.2	%
<b>Operating income (loss):</b>					
TeamQualspec	\$43,367	\$56,001	\$(12,634 )	(22.6)	)%
TeamFurmanite	27,283	26,164	1,119	4.3	%
Quest Integrity	4,780	11,497	(6,717 )	(58.4)	)%
Corporate and shared support services	(78,548 )	(46,371 )	(32,177 )	69.4	%
Total	\$(3,118 )	\$47,291	\$(50,409 )	(106.6)	)%

Revenues. Total revenues grew \$270.3 million or 29.2% from the same period in the prior year, primarily due to the Furmanite and Qualspec acquisitions, completed in February 2016 and July 2015, respectively, partially offset by lower Quest Integrity revenues and an adverse impact of \$6.6 million due to changes in foreign exchange rates. Due to the integration of both Furmanite and Qualspec into our existing operations during 2016, it is not practicable to specifically quantify the year-over-year revenue impact of these acquisitions. On a pro forma basis, assuming that the Furmanite and Qualspec acquisitions has occurred at the beginning of 2015, total revenues declined \$120.8 million, or 8.9%. Market softness, which began in the second half of 2015, continued throughout 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 29% lower sales volumes in heat treating services, typically associated with large, more complex turnaround projects, within our TeamQualspec segment. 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



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flooding in Louisiana in the third quarter of 2016. In the fall of 2016, what appeared to be the first signs of more normalized market activity did not ultimately develop into sustained increases as we saw demand weaken again in the latter part of the year. In spite of the soft demand in 2016, we continue to be optimistic that end markets could begin to improve during 2017.

**Operating income (loss).** Overall operating loss was \$3.1 million, compared to operating income of \$47.3 million in the prior year. The current year includes non-routine expenses totaling \$34.6 million consisting of \$14.5 million in professional fees and other costs associated with mergers and acquisitions activity and change in fiscal year end, \$7.6 million in costs related to the implementation of our new ERP system, \$5.5 million in exit costs and other related charges primarily associated with severance costs related to the closure of certain acquired Furmanite locations in Western Europe, \$3.0 million in legal fees associated with a legal defense of Quest Integrity intellectual property and \$4.0 million in other non-routine items. The non-routine items were attributed to our operating segments as follows: \$0.9 million in TeamQualspec, \$8.9 million in TeamFurmanite, \$3.1 million in Quest Integrity and \$21.7 million in corporate and shared support services. Approximately \$5.2 million of the merger and acquisition-related costs were attributable to Furmanite obligations, primarily for change of control and severance payments. The prior year included \$14.2 million of non-routine expenses resulting from \$7.7 million in professional fees and other costs associated with mergers and acquisitions activity and a change in fiscal year end, \$2.7 million in legal fees associated with a legal defense of Quest Integrity intellectual property, \$2.9 million in costs related to the implementation of our new ERP system and \$0.9 million of other non-routine items. The non-routine items were attributed to our operating segments as follows: \$0.5 million in TeamQualspec, \$0.4 million in TeamFurmanite, \$2.7 million in Quest Integrity and \$10.6 million in corporate and shared support services. Excluding the impact of these non-routine items, operating income (loss) changed unfavorably by \$30.0 million 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 (loss) was affected by an increase in corporate and shared support services of \$21.1 million, which includes the addition of Furmanite's ongoing corporate-related costs and higher share-based compensation expense.

**Interest expense.** Interest expense increased from \$5.8 million in the prior year to \$12.7 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.

**Venezuelan Impairment Loss.** During the year ended December 31, 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. We disposed of our Venezuelan operations in June 2015.

**Foreign currency gain (loss).** Foreign currency gains were \$0.1 million for the year ended December 31, 2016 compared to foreign currency losses of \$1.1 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.

**Taxes.** The benefit for income tax was \$3.1 million on the pre-tax loss from continuing operations of \$15.7 million in the current year compared to the provision for income tax of \$13.7 million on pre-tax income from continuing operations of \$39.2 million in the prior year. The effective tax rate was 19.8% for the year ended December 31, 2016 and 35.1% for the year ended December 31, 2015. The decrease in the effective tax rate was primarily driven by the effects of discrete items such as the settlement of prior years with the Internal Revenue Service and changes in valuation allowances as well as permanent differences that had significant impacts due to the size and direction of pre-tax income (loss) from continuing operations in both periods.

Discontinued operations. Loss from discontinued operations, net of income tax, was \$0.1 million for the year ended December 31, 2016 and relates to the operating results and disposal of an acquired Furmanite business that we sold in December 2016.



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Seven Months Ended December 31, 2015 Compared to Seven Months Ended December 31, 2014

The following table sets forth the components of revenue and operating income from our operations for the seven months ended December 31, 2015 and 2014 (in thousands):

	Seven Months Ended		Increase	
	December 31, 2015	2014	(Decrease)	
			\$	%
	(unaudited)			
Revenues by business segment:				
TeamQualspec	\$351,949	\$269,742	\$82,207	30.5 %
TeamFurmanite	178,238	176,112	2,126	1.2 %
Quest Integrity	41,531	41,554	(23 )	(0.1 )%
Total	\$571,718	\$487,408	\$84,310	17.3 %
Operating income:				
TeamQualspec	\$31,175	\$35,696	\$(4,521 )	(12.7)%
TeamFurmanite	14,335	16,838	(2,503 )	(14.9)%
Quest Integrity	5,491	7,194	(1,703 )	(23.7)%
Corporate and shared support services	(31,839 )	(19,645 )	(12,194 )	62.1 %
Total	\$19,162	\$40,083	\$(20,921)	(52.2)%

Revenues. Total revenues grew \$84.3 million or 17.3% from the same period in 2014. Of this amount, approximately \$85.8 million represents revenues from acquisitions completed during 2015. Excluding the impacts of acquisitions and an adverse impact of \$16.3 million due to foreign exchange rates, total revenues increased by \$14.8 million, TeamQualspec revenues increased by \$11.6 million, TeamFurmanite revenues increased by \$2.3 million and Quest revenues increased by \$0.9 million. While activity levels were up slightly in the seven months ended December 31, 2015, the fall turnaround season was softer than expected as our refining and petrochemical customers deferred many of their planned capital and maintenance projects.

Operating income. Overall operating income declined by \$20.9 million or 52.2% from the same period in 2014. The seven months ended December 31, 2015 includes non-routine expenses totaling \$11.1 million related to \$7.1 million in professional fees related to costs associated with mergers and acquisitions activity and a change in fiscal year end, \$0.5 million in contingent consideration revaluation, \$1.2 million in intellectual property defense legal costs and \$2.3 million in costs related to the implementation of our ERP system (all included in Corporate and shared support services). The seven months ended December 31, 2014 included \$0.2 million of professional fees related to mergers and acquisitions activity. Additionally, adverse foreign exchange rates reduced operating income by \$1.1 million. Excluding the impact of these non-routine items, operating income decreased by \$8.7 million or 21.7% as a result of weaker than expected revenue generation mentioned above coupled with an increase in corporate and shared support services of \$2.8 million.

Interest expense. Interest expense increased from \$1.3 million for the seven months ended December 31, 2014 to \$4.9 million for the seven months ended December 31, 2015. The increase is due primarily to additional debt financing used to fund the July 2015 acquisition of Qualspec.

Foreign currency loss. Foreign currency losses decreased from \$1.2 million in the seven months ended December 31, 2014 to \$0.8 million in the seven months ended December 31, 2015. The seven-month period ended December 31, 2015 reflected the effects of a strengthening U.S. Dollar relative to the currencies we have exposure to, including but not limited to, the Euro, Australian Dollar, Brazilian Real, Canadian Dollar, Malaysian Ringgit and Mexican Peso.

Taxes. The provision for income tax was \$4.6 million on pre-tax income of \$13.5 million for the seven months ended December 31, 2015 compared to the provision for income tax of \$13.6 million on pre-tax income of \$37.6 million for the same period in 2014. The effective tax rate was 34% for the seven months ended December 31, 2015 and 36% for the seven months ended December 31, 2014. The reduction in the effective tax rate was primarily the result of foreign exchange rate changes to certain deferred tax liability accounts.



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Year Ended May 31, 2015 Compared to Year Ended May 31, 2014

The following table sets forth the components of revenue and operating income from our operations for years ended May 31, 2015 and 2014 (in thousands):

	Year Ended		Increase	
	May 31, 2015	2014	(Decrease) \$	%
Revenues by business segment:				
TeamQualspec	\$467,099	\$408,259	\$58,840	14.4%
TeamFurmanite	300,456	275,322	25,134	9.1%
Quest Integrity	74,492	65,946	8,546	13.0%
Total	\$842,047	\$749,527	\$92,520	12.3%
Operating income:				
TeamQualspec	\$60,198	\$47,787	\$12,411	26.0%
TeamFurmanite	28,713	26,177	2,536	9.7%
Quest Integrity	13,196	9,260	3,936	42.5%
Corporate and shared support services	(33,642)	(29,803)	(3,839)	12.9%
Total	\$68,465	\$53,421	\$15,044	28.2%

Revenues. Total revenues increased 12.3% or \$92.5 million in 2015 versus 2014, with TeamQualspec revenues growing \$58.8 million, TeamFurmanite revenues growing \$25.1 million and Quest Integrity revenues growing \$8.5 million. The TeamQualspec business is comprised of both traditional and advanced NDE services, as well as Heat Treating services. The TeamQualspec NDE services were \$364.3 million in 2015, up \$44.3 million or 14% from 2014. Overall favorable market conditions across most of our regions, coupled with growth in tank inspection and rope access services, all contributed to the increase in TeamQualspec revenues. Advanced inspection services, such as Phased Array Ultrasonics also experienced increased demand in 2015. TeamQualspec Heat Treating services, which are fundamentally performed in turnarounds or projects, were \$102.8 million, up \$12.8 million or 14% from 2014 due to favorable market conditions, increased large project activity levels, and successful deployment of our mobile smart rigs and smart heat consoles. Unfavorable foreign currency exchange rate fluctuations in Canada negatively impacted TeamQualspec's revenue by approximately \$8.0 million when compared to 2014.

TeamFurmanite includes both on-stream and turnaround/project services. On-stream services were \$158.7 million in 2015, consistent with 2014 results. Turnaround services within TeamFurmanite were \$141.8 million, up \$25.8 million or 22% from 2014. Overall market conditions were favorable as TeamFurmanite experienced revenue growth across most regions and service offerings. Turnaround project levels were strong during the year and favorably impacted by several large projects. Offsetting these market growth factors, TeamFurmanite was negatively impacted by unfavorable foreign currency exchange rate fluctuations during 2015 relating primarily to the Euro and Canadian dollar. We estimate an unfavorable foreign currency impact of approximately \$6.0 million.

Quest Integrity revenues increased \$8.5 million or 13% in 2015 from 2014 as Quest Integrity's pipeline inspection business was up significantly in 2015. However, this was partially offset by a generally weak process inspection market, resulting from lower crude oil prices, which led to some turnaround project deferrals.

Operating Income. Total operating income was \$68.5 million in 2015 compared to \$53.4 million in 2014, an increase of \$15.0 million or 28%. Changes in operating income within business groups were driven primarily by increased revenues from higher activity levels. Gross margins improved by one point and four points in 2015 for TeamQualspec and Quest Integrity, respectively, while gross margin for TeamFurmanite was unchanged in comparison to the prior year. Operating income in 2015 was negatively impacted by \$3.2 million in non-routine costs consisting of acquisition-related fees, legal fees surrounding the defense of intellectual property associated with Quest Integrity, ERP system implementation costs, and a fixed asset write down. Non-routine items benefitted operating income in 2014 by \$1.4 million consisting of a revaluation of contingent consideration, partially offset by severance costs.



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Earnings from Unconsolidated Affiliates. The earnings from unconsolidated affiliates in the 2014 results represented our interest in a joint venture providing inspection services in Alaska. The joint venture was dissolved in December 2013 and the operations that were formerly conducted in the joint venture are now conducted directly by the TeamQualspec business unit.

Venezuelan Impairment Loss. During the year ended May 31, 2015, Team began reporting the results of its Venezuelan operations using the cost method of accounting. This change resulted in a one-time pre-tax charge of \$1.2 million. 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. We disposed of our Venezuelan operations in June 2015.

Foreign Currency Loss. Non-operating results include \$1.5 million foreign currency transaction losses for the year ended May 31, 2015 compared to losses of \$4.2 million for the year ended May 31, 2014. Currency transaction losses in the year ended May 31, 2015 were driven primarily by a weakening of the Euro, Canadian Dollar and Mexican Peso against the U.S. Dollar. Currency transaction losses in the year ended May 31, 2014 were primarily due to fluctuations between the Venezuelan Bolivar and the U.S. Dollar. We accounted for Venezuela as a highly-inflationary economy and accordingly, all currency fluctuations between the Bolivar and the U.S. Dollar were recorded in our statement of operations. Due to the devaluations of the Bolivar in 2014, we recorded a \$4.0 million foreign currency loss during the year ended May 31, 2014.

Taxes. The provision for income tax was \$22.8 million on pre-tax income of \$63.3 million for the year ended May 31, 2015 compared to the provision for income tax of \$16.2 million on pre-tax income of \$46.4 million for the year ended May 31, 2014. The effective tax rate was 36% for the year ended May 31, 2015 and 35% for the year ended May 31, 2014. The increase in the effective tax rate was primarily due to changes in deferred tax liabilities related to the differences between the financial reporting basis and U.S. tax basis of investments in certain foreign subsidiaries.

#### 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 banking 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 proceeds of which were used to fund, in part, the Company's acquisition of Qualspec. 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 December 31, 2016) and has commitment fees on unused borrowing capacity (0.40% at December 31, 2016). The Credit Facility limits our ability to pay cash dividends without the consent of our bank syndicate. 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 (the "Total Leverage Ratio", as defined in the Credit Facility agreement) of 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 December 31, 2016, we are in compliance with these covenants. With respect to the Total Leverage Ratio, our ratio stood at 4.19 to 1.00 as of December 31, 2016. At December 31, 2016, we had \$46.2 million of cash on hand and approximately \$29 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. While we are in compliance with our financial covenants as of December 31, 2016, management continues to execute various initiatives designed to reduce the Company's obligations outstanding under the Credit Facility and improve operating cash flows. However, there can be no assurance that these actions will be successful or that we will be able to maintain compliance with the financial covenants as of any future date.

At the end of 2013, we initiated the design and implementation of a new ERP system, which is expected to be substantially installed by the end of 2017. Through December 31, 2016, we have capitalized \$44.9 million associated

with the project which includes \$1.4 million of capitalized interest.

On October 1, 2013, our Board approved an initial \$25 million stock repurchase plan, superseding and replacing our previous stock repurchase plan. During the second quarter ended November 30, 2013, we repurchased 369,900 shares for a total cost of \$13.3 million. These shares, along with 89,569 shares purchased under a previous plan in a prior period at a cost of \$1.3 million, were retired and are not included in common stock issued and outstanding as of May 31, 2014. The retirement of

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the shares purchased resulted in a reduction in common stock of \$0.1 million, a reduction of \$2.2 million to additional paid-in capital, and a \$12.3 million reduction in retained earnings.

On June 23, 2014, our Board authorized an increase in the stock repurchase plan limit to repurchase Team common stock up to \$50 million (net of the \$13.3 million repurchased in the quarter ended November 30, 2013). During the quarter ended February 28, 2015, we repurchased 546,977 shares for a total cost of \$21.1 million. During the year ended December 31, 2016, we repurchased 274,110 shares for a total cost of \$7.6 million. In the fourth quarter of 2016, these 821,087 shares were retired and are not included in common stock issued and outstanding as of December 31, 2016. The retirement of the shares resulted in a reduction in common stock of \$0.2 million, a reduction of \$9.1 million to additional paid-in capital and a \$19.4 million reduction to retained earnings. At December 31, 2016, \$7.9 million remained available to repurchase shares under the stock repurchase plan.

On October 11, 2016, we filed a 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 require the filing of a prospectus supplement with the SEC identifying the amount and terms of the securities to be issued.

On November 28, 2016, we filed a prospectus supplement to the Shelf Registration Statement under which we may sell up to \$150.0 million of our common stock through an “at-the-market” equity offering program (the “ATM Program”). Through December 31, 2016, we sold 167,931 shares of common stock under the ATM Program. The net proceeds from such sales were \$6.0 million after deducting the aggregate commissions paid of approximately \$0.1 million and were used to reduce outstanding indebtedness. The Company intends to use the net proceeds from any future sales under the ATM Program primarily to reduce outstanding indebtedness, which may include amounts outstanding under the Company’s Credit Facility, and for general corporate purposes. The timing of any additional sales of common stock made pursuant to the ATM Program will depend on a variety of factors to be determined by the Company. In connection with the filing of the Shelf Registration Statement and the commencement of the ATM program, we capitalized costs totaling \$0.7 million, which are being allocated as issuance costs as sales of securities occur.

Restrictions on cash. Included in our cash and cash equivalents at December 31, 2016 is \$14.0 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. At December 31, 2015, we had \$5.0 million in restricted cash on our balance sheet to reflect the amount held in escrow for contingent consideration as stipulated by the 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 2016.

Cash flows attributable to our operating activities. For the year ended December 31, 2016, net cash provided by operating activities was \$79.6 million. Although we incurred a net loss of \$12.7 million, the effect of depreciation and amortization of \$48.7 million, a decrease in working capital of \$31.2 million and non-cash compensation cost of \$7.3 million resulted in positive operating cash flow.

For the seven months ended December 31, 2015, net cash provided by operating activities was \$17.3 million. Positive operating cash flow was primarily attributable to net income of \$8.9 million, depreciation and amortization of \$19.4 million, and non-cash compensation cost of \$3.5 million offset by a increase in working capital of \$20.4 million.

For the year ended May 31, 2015, net cash provided by operating activities was \$43.5 million. Positive operating cash flow was primarily attributable to net income of \$40.5 million, depreciation and amortization of \$22.8 million, and non-cash compensation cost of \$4.8 million offset by a \$27.7 million increase in working capital.

For the year ended May 31, 2014, net cash provided by operating activities was \$52.9 million. Positive operating cash flow was primarily attributable to net income of \$30.1 million, depreciation and amortization of \$21.5 million, and non-cash compensation cost of \$4.2 million offset by a \$5.6 million increase in working capital.

Cash flows attributable to our investing activities. For the year ended December 31, 2016, net cash used in investing activities was \$70.8 million, consisting primarily of \$48.4 million for business acquisitions, \$45.8 million of capital

expenditures and \$13.3 million in net proceeds from the sale of discontinued operations. Capital expenditures included \$19.3 million in costs related to our ERP project. Capital expenditures can vary depending upon specific customer needs that may

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arise unexpectedly. Discontinued operations relates to a pipeline inspection business that we acquired as part of the acquisition of Furmanite. This operation was sold in December 2016.

For the seven months ended December 31, 2015, net cash used in investing activities was \$287.8 million, consisting primarily of \$262.1 million for business acquisitions and \$25.8 million of capital expenditures. Capital expenditures included \$11.1 million in costs related to our ERP project. Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly.

For the year ended May 31, 2015, net cash used in investing activities was \$31.8 million, consisting primarily of \$28.8 million of capital expenditures and \$3.1 million related to business acquisitions. Capital expenditures included \$10.0 million in costs related to our ERP project.

For the year ended May 31, 2014, net cash used in investing activities was \$40.6 million, consisting primarily of \$33.0 million of capital expenditures and \$10.2 million related to business acquisitions. Capital expenditures included \$4.7 million in costs related to our ERP project.

Cash flows attributable to our financing activities. For the year ended December 31, 2016, net cash used in financing activities was \$6.0 million, consisting primarily of \$7.6 million of cash related to the purchase of stock pursuant to our stock repurchase plan, \$4.0 million of net cash used for debt repayments and \$2.5 million of contingent and deferred consideration payments, partially offset by \$11.1 million of net cash generated from the issuance of common stock and exercise of stock options.

For the seven months ended December 31, 2015, net cash provided by financing activities was \$283.7 million consisting primarily of \$293.0 million of net borrowings related to our Credit Facility principally to fund the Qualspec acquisition and \$2.1 million from the issuance of common stock from share-based payment arrangements. These amounts were partially offset by \$5.9 million for the acquisition of the noncontrolling interest in Quest Integrity, \$2.3 million in deferred consideration payments and \$2.0 million related to debt issuance costs.

For the year ended May 31, 2015, net cash used in financing activities was \$10.1 million, consisting primarily of \$21.1 million of cash related to the purchase of stock pursuant to our stock repurchase plan partially offset by \$8.0 million of borrowings.

For the year ended May 31, 2014, net cash used in financing activities was \$9.6 million, consisting primarily of \$13.3 million of cash related to the purchase of stock pursuant to our stock repurchase plan partially offset by \$5.3 million provided by the issuance of common stock from share-based payment arrangements.

Effect of exchange rate changes on cash. For the year ended December 31, 2016, the effect of foreign exchange rate changes on cash was a negative impact of \$1.3 million. The negative impact in the current period is primarily attributable to changes in U.S. Dollar exchange rates with the British Pound.

For the seven months ended December 31, 2015, the effect of foreign exchange rate changes on cash was a negative impact of \$1.6 million. The negative impact in the current period is primarily attributable to changes in U.S. Dollar exchange rates with Canada, Europe and Malaysia.

For the years ended May 31, 2015 and 2014, the effect of foreign exchange rate changes on cash was a negative impact of \$3.1 million and \$2.2 million, respectively. The negative impact in 2015 was primarily attributable to changes in U.S. Dollar exchange rates with Canada and Europe. The negative impact in 2014 was primarily due to changes in U.S. Dollar exchange rates with Canada and Venezuela.

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## Contractual Obligations

A summary of contractual obligations as of December 31, 2016 is as follows (in thousands):

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Long-term debt obligations	\$ 20,000	\$40,000	\$306,911	\$ —	\$366,911
Operating lease obligations	32,418	42,647	18,766	16,295	110,126
Defined benefit pension plan contribution obligations	1,481	3,088	3,265	9,009	16,843
Total	\$ 53,899	\$85,735	\$328,942	\$ 25,304	\$493,880

The table above excludes interest on our Credit Facility. We cannot predict with any certainty the amount of interest due to the expected variability of interest rates and principal amounts outstanding. If we assume interest payment amounts are calculated using the outstanding principal balances and interest rates as of December 31, 2016, the estimated interest payments on our Credit Facility would be approximately \$10 million for 2017 and 2018, approximately \$9 million for 2019 and approximately \$4 million for 2020 for a total of approximately \$33 million over the remaining contractual period.

A summary of long-term debt and other long-term obligations as of December 31, 2016 and 2015 is as follows (in thousands):

	December 31, 2016	December 31, 2015
Credit facility	\$ 366,911	\$ 371,383
Current maturities	(20,000 )	(20,000 )
Long-term debt, excluding current maturities	\$ 346,911	\$ 351,383
Outstanding letters of credit	\$ 21,600	\$ 13,218
Leasing arrangements	\$ 110,126	\$ 81,437
Defined benefit pension liability	\$ 21,239	\$ —
Other long-term liabilities	\$ 2,592	\$ —

## Critical Accounting Policies

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

## Revenue Recognition

## Goodwill and Intangible Assets

## Income Taxes

## Workers' Compensation, Auto, Medical and General Liability Accruals

## Allowance for Doubtful Accounts

## Estimated Useful Lives

Revenue recognition. 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 December 31, 2016 and December 31, 2015, the amount of earned but unbilled revenue included in accounts receivable was \$39.7 million, \$47.1 million, respectively.



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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. We use 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, and it involves using 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 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 our 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 up 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 was performed at the reporting unit level which is deemed to be at the operating segment level. The test was a two-step process that involved comparing the estimated fair value of each reporting unit to the reporting unit’s carrying value, including goodwill. If the fair value of a reporting unit exceeded its carrying amount, the goodwill of the reporting unit was not considered impaired; therefore, the second step of the impairment test would not be deemed necessary. If the carrying amount of the reporting unit exceeded its fair value, we would then perform a second step to the goodwill impairment test to measure the amount of goodwill impairment loss to be recorded. With the change in our fiscal year end to December 31 of each calendar year, our goodwill annual test date is now December 1, effective December 1, 2015. We performed our impairment testing as of December 1, 2016 and 2015 and concluded that there was no impairment.

The fair values of the reporting units at December 1, 2016 and 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 five-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. Major assumptions applied in an income approach include forecasted growth rates as well as forecasted profitability by reporting unit. The fair value derived from the income approach, in the aggregate, approximated our market capitalization. At December 1, 2016, our market capitalization exceeded the carrying value of our consolidated net assets by approximately \$437 million or 80%, and the fair value of each reporting unit significantly exceeded its respective carrying amount as of that date. 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 was \$355.8 million and \$256.7 million of goodwill at December 31, 2016, December 31, 2015, respectively. A summary of goodwill is as follows (in thousands):

Twelve Months Ended  
December 31, 2016

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	TeamQual	Span	Furmanite	Quest Integrity	Total
Balance at beginning of year	\$207,497	\$ 19,874		\$ 29,283	\$256,654
Acquisitions	5,955	89,646		4,137	99,738
Foreign currency adjustments	23	(461	)	(168	) (606 )
Balance at end of year	\$213,475	\$ 109,059		\$ 33,252	\$355,786

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	Seven Months Ended December 31, 2015				
	TeamQuest	Qualisfile	TeamFurmanite	Quest Integrity	Total
Balance at beginning of period	\$60,737	\$ 17,466		\$ 29,570	\$107,773
Acquisitions	148,482	2,483		—	150,965
Foreign currency adjustments	(1,722 )	(75 )		(287 )	(2,084 )
Balance at end of period	\$207,497	\$ 19,874		\$ 29,283	\$256,654

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 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.

Management believes future sources of taxable income, reversing temporary differences and other tax planning strategies will be sufficient to realize assets for which no reserve has been established. While we have considered these factors in assessing the need for a valuation allowance, there is no assurance that a valuation allowance would not need to be established in the future if information about future years change. Any change in the valuation allowance would impact our income tax provision and net income (loss) in the period in which such a determination is made. As of December 31, 2016, we believe that it is more likely than not that we will have sufficient reversals of temporary differences and future taxable income to allow us to realize the benefits of the net deferred tax assets except for those primarily related to net operating loss carry forwards of certain foreign subsidiaries in the amount \$41.0 million. Our belief is based upon our record of historical earnings levels in recent years and projections of future taxable income over the periods in which the future deductible temporary differences become deductible. As of December 31, 2016, our deferred tax assets were \$67.7 million, less a valuation allowance of \$13.2 million. As of December 31, 2016, our deferred tax liabilities were \$125.1 million.

Significant judgment is required in assessing the timing and amounts of deductible and taxable items for tax purposes. In accordance with ASC 740-10, we establish reserves for uncertain tax positions when, despite our belief that our tax return positions are supportable, we believe that it is not more likely than not that the position will be sustained upon challenge. When facts and circumstances change, we adjust these reserves through our provision for income taxes. To the extent interest and penalties may be assessed by taxing authorities on any related underpayment of income tax, such amounts have been accrued and are classified as a component of income tax provision (benefit) in our consolidated statements of operations. As of December 31, 2016, our unrecognized tax benefits related to uncertain tax positions were \$0.9 million.

Workers’ compensation, auto, medical and general liability accruals. In accordance with ASC 450, Contingencies (“ASC 450”), we record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review our loss contingencies on an ongoing basis to ensure that we have appropriate reserves recorded on our balance sheet. These reserves are based on historical experience with claims incurred but not received, estimates and judgments made by management, applicable insurance coverage for litigation matters, and are adjusted as circumstances warrant. For workers’ compensation, our self-insured retention is \$1.0 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 \$350,000 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 incorporated into our existing insurance coverage during 2016, but for certain items it maintained separate insurance policies during portions of 2016 and accordingly maintained 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

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plans or intentions, or the outcome of legal proceedings, settlements or other factors. If different estimates and judgments were applied with respect to these matters, it is likely that reserves would be recorded for different amounts.

**Allowance for doubtful accounts.** In the ordinary course of business, a 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 we estimate will eventually be deemed uncollectible. The allowance for doubtful accounts is based on a combination of our historical experience and management's review of long outstanding accounts receivable.

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

### **New Accounting Principles**

For information about newly adopted accounting principles as well as information about new accounting principles pending adoption, see Note 1 to the consolidated financial statements.

### **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 for the year ended December 31, 2016 were \$0.1 million. The foreign currency transaction gains realized in the year ended December 31, 2016 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.

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 as of and for the year ended December 31, 2016, as of and for the seven months ended December 31, 2015 nor for the year ended May 31, 2015.

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 losses recognized in other comprehensive loss were \$3.8 million for the year ended December 31, 2016.

For the year ended December 31, 2016, we had foreign currency-based revenues and operating income of \$306.7 million and \$15.0 million, respectively, a hypothetical 10% adverse change in all applicable foreign currencies would result in an annual change in revenues and operating income of \$30.7 million and \$1.5 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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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Team, Inc.:

We have audited Team, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Team, Inc. acquired Furmanite Corporation (Furmanite) in February 2016, and management excluded from its assessment of the effectiveness of Team, Inc.'s internal control over financial reporting as of December 31, 2016, Furmanite's internal control over financial reporting associated with total assets of \$215 million and total revenues of \$216 million included in the consolidated financial statements of Team, Inc. and subsidiaries as of and for the year ended December 31, 2016. Our audit of internal control over financial reporting of Team, Inc. also excluded an evaluation of the internal control over financial reporting of Furmanite.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Team, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the year ended December 31, 2016, the seven months ended December 31, 2015 and each of the years in the two-year period ended May 31, 2015, and our report dated March 15, 2017 expressed an unqualified opinion on those

consolidated financial statements.

(signed) KPMG LLP

Houston, Texas

March 15, 2017

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Team, Inc.:

We have audited the accompanying consolidated balance sheets of Team, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the year ended December 31, 2016, the seven months ended December 31, 2015 and each of the years in the two-year period ended May 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Team, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the year ended December 31, 2016, the seven months ended December 31, 2015 and each of the years in the two-year period ended May 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Team, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

(signed) KPMG LLP

Houston, Texas

March 15, 2017

Table of ContentsTEAM, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31,	
	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$46,216	\$44,825
Restricted cash	—	5,000
Receivables, net of allowance of \$7,835 and \$3,548	262,773	214,324
Inventory	49,571	27,936
Income tax receivable	512	3,893
Deferred income taxes	16,521	6,917
Prepaid expenses and other current assets	25,764	11,664
Total current assets	401,357	314,559
Property, plant and equipment, net	203,130	124,983
Intangible assets, net of accumulated amortization of \$37,309 and \$21,161	176,104	99,119
Goodwill	355,786	256,654
Other assets, net	4,826	2,421
Deferred income taxes	6,215	1,255
Total assets	\$1,147,418	\$798,991
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current-portion of long term debt	\$20,000	\$20,000
Accounts payable	47,817	22,364
Other accrued liabilities	79,904	49,796
Total current liabilities	147,721	92,160
Deferred income taxes	93,318	17,302
Long-term debt	346,911	351,383
Defined benefit pension liability	21,239	—
Other long-term liabilities	2,592	—
Total liabilities	611,781	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; 29,784,734 and 21,836,694 shares issued	8,934	6,552
Additional paid-in capital	336,756	120,126
Retained earnings	218,947	250,980
Accumulated other comprehensive loss	(29,000 )	(18,374 )
Treasury stock at cost, 0 and 546,977 shares	—	(21,138 )
Total equity	535,637	338,146
Total liabilities and equity	\$1,147,418	\$798,991

See accompanying notes to consolidated financial statements.



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

	Twelve Months Ended December 31, 2016	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	
			2015	2014
Revenues	\$1,196,696	\$571,718	\$842,047	\$749,527
Operating expenses	868,144	409,391	584,054	527,611
Gross margin	328,552	162,327	257,993	221,916
Selling, general and administrative expenses	323,973	142,643	189,528	171,455
Exit costs and other related charges	5,513	—	—	—
Loss (gain) on revaluation of contingent consideration	2,184	522	—	(2,138 )
Earnings from unconsolidated affiliates	—	—	—	822
Operating income (loss)	(3,118 )	19,162	68,465	53,421
Interest expense, net	12,667	4,898	2,489	2,851
Loss on investment in Venezuela	—	—	1,177	—
Foreign currency (gain) loss	(93 )	813	1,509	4,185
Other expense (income), net	(34 )	—	—	—
Earnings (loss) from continuing operations before income taxes	(15,658 )	13,451	63,290	46,385
Less: Provision (benefit) for income taxes (see Note 8)	(3,093 )	4,573	22,793	16,236
Income (loss) from continuing operations	(12,565 )	8,878	40,497	30,149
Loss from discontinued operations, net of income tax	(111 )	—	—	—
Net income (loss)	(12,676 )	8,878	40,497	30,149
Less: Income attributable to noncontrolling interest	—	—	427	294
Net income (loss) available to Team shareholders	\$(12,676 )	\$8,878	\$40,070	\$29,855
Basic earnings (loss) per share:				
Continuing operations	\$(0.45 )	\$0.43	\$1.95	\$1.46
Discontinued operations	—	—	—	—
Net income (loss)	\$(0.45 )	\$0.43	\$1.95	\$1.46
Diluted earnings (loss) per share:				
Continuing operations	\$(0.45 )	\$0.41	\$1.85	\$1.40
Discontinued operations	—	—	—	—
Net income (loss)	\$(0.45 )	\$0.41	\$1.85	\$1.40
Amounts attributable to Team shareholders:				
Income (loss) from continuing operations, net of income tax	\$(12,565 )	\$8,878	\$40,070	\$29,855
Loss from discontinued operations, net of income tax	(111 )	—	—	—
Net income (loss)	\$(12,676 )	\$8,878	\$40,070	\$29,855

See accompanying notes to consolidated financial statements.





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

	Twelve Months Ended December 31, 2016	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015 2014	
Net income (loss)	\$(12,676)	\$ 8,878	\$40,497	\$30,149
Foreign currency translation adjustment	(3,849 )	(7,228 )	(15,822 )	(1,613 )
Foreign currency hedge	481	101	3,237	(775 )
Net actuarial loss on defined benefit pension plans	(10,518 )	—	—	—
Tax benefit attributable to other comprehensive loss	3,260	2,291	1,655	1,498
Total comprehensive income (loss)	(23,302 )	4,042	29,567	29,259
Less: Total comprehensive income attributable to noncontrolling interest	—	—	356	294
Total comprehensive income (loss) available to Team shareholders	\$(23,302)	\$ 4,042	\$29,211	\$28,965

See accompanying notes to consolidated financial statements.

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

	Common Shares	Treasury Shares	Common Stock	Treasury Stock	Additional Paid in Capital	Noncontrolling Interest	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at June 1, 2013	20,588	(90 )	\$6,176	\$(1,344)	\$99,278	\$ 5,384	\$ 184,485	\$ (1,789 )	\$ 292,190
Net income	—	—	—	—	—	—	30,149	—	30,149
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	(400 )	(400 )
Foreign currency hedge, net of tax	—	—	—	—	—	—	—	(490 )	(490 )
Comprehensive income attributable to noncontrolling interest	—	—	—	—	—	294	(294 )	—	—
Non-cash compensation	—	—	—	—	4,239	—	—	—	4,239
Vesting of stock awards	117	—	34	—	(1,744 )	—	—	—	(1,710 )
Tax effect of share-based payment arrangements	—	—	—	—	1,131	—	—	—	1,131
Exercise of stock options	232	—	70	—	5,200	—	—	—	5,270
Purchase of treasury stock	—	(369 )	—	(13,334)	—	—	—	—	(13,334 )
Retirement of treasury stock	(459 )	459	(138 )	14,678	(2,232 )	—	(12,308 )	—	—
Balance at May 31, 2014	20,478	—	6,142	—	105,872	5,678	202,032	(2,679 )	317,045
Net income	—	—	—	—	—	—	40,497	—	40,497
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	(13,263 )	(13,263 )
Foreign currency hedge, net of tax	—	—	—	—	—	—	—	2,333	2,333
Comprehensive income attributable to noncontrolling interest	—	—	—	—	—	356	(427 )	71	—

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Non-cash compensation	—	—	—	—	4,838	—	—	—	4,838
Vesting of stock awards	106	—	33	—	(1,808 )	—	—	—	(1,775 )
Tax effect of share-based payment arrangements	—	—	—	—	3,034	—	—	—	3,034
Exercise of stock options	325	—	98	—	3,706	—	—	—	3,804
Purchase of treasury stock	—	(547 )	—	(21,138 )	—	—	—	—	(21,138 )
Balance at May 31, 2015	20,909	(547 )	6,273	(21,138 )	115,642	6,034	242,102	(13,538 )	335,375
Net income	—	—	—	—	—	—	8,878	—	8,878
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	(4,898 )	(4,898 )
Foreign currency hedge, net of tax	—	—	—	—	—	—	—	62	62
Purchase of noncontrolling interest	728	—	218	—	(118 )	(6,034 )	—	—	(5,934 )
Non-cash compensation	—	—	—	—	3,522	—	—	—	3,522
Vesting of stock awards	89	—	27	—	(1,402 )	—	—	—	(1,375 )
Tax effect of share-based payment arrangements	—	—	—	—	374	—	—	—	374
Exercise of stock options	111	—	34	—	2,108	—	—	—	2,142
Balance at December 31, 2015	21,837	(547 )	6,552	(21,138 )	120,126	—	250,980	(18,374 )	338,146
Net loss	—	—	—	—	—	—	(12,676 )	—	(12,676 )
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	(2,498 )	(2,498 )
Foreign currency hedge, net of tax	—	—	—	—	—	—	—	300	300
Change in defined benefit pension plan net actuarial loss, net of tax	—	—	—	—	—	—	—	(8,428 )	(8,428 )
Non-cash compensation	—	—	—	—	7,313	—	—	—	7,313
Vesting of stock awards	142	—	40	—	(1,749 )	—	—	—	(1,709 )

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Tax effect of share-based payment arrangements	—	—	—	—	(535 )	—	—	—	(535 )
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	251	—	75	—	5,828	—	—	—	5,903
Issuance of common stock	168	—	50	—	5,884	—	—	—	5,934
Purchase of treasury stock	—	(274 )	—	(7,593 )	—	—	—	—	(7,593 )
Retirement of treasury stock	(821 )	821	(245 )	28,731	(9,129 )	—	(19,357 )	—	—
Other	—	—	—	—	(50 )	—	—	—	(50 )
Balance at December 31, 2016	29,785	—	\$8,934	\$—	\$336,756	\$—	\$218,947	\$(29,000 )	\$535,637

See accompanying notes to consolidated financial statements.

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

	Twelve Months Ended December 31, 2016	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014
Cash flows from operating activities:				
Net income (loss)	\$(12,676)	\$8,878	\$40,497	\$30,149
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Earnings from unconsolidated affiliates	—	—	—	(822 )
Depreciation and amortization	48,673	19,426	22,787	21,468
Loss on asset impairment and disposals	1,540	51	617	78
Amortization of deferred loan costs	541	256	223	223
Provision for doubtful accounts	6,336	1,819	233	2,140
Loss on investment in Venezuela	—	—	1,177	—
Foreign currency (gain) loss	(93 )	813	1,509	4,185
Deferred income taxes	(4,236 )	2,411	(729 )	(1,040 )
Loss (gain) on contingent consideration revaluation	2,184	522	—	(2,138 )
Non-cash compensation cost	7,313	3,469	4,838	4,239
Other, net	(1,182 )	—	—	—
(Increase) decrease, net of the effects of acquisitions:				
Receivables	16,518	15,231	(43,425 )	(8,952 )
Inventory	2,119	372	(925 )	822
Prepaid expenses and other current assets	(163 )	(111 )	(2,525 )	(17 )
Increase (decrease), net of the effects of acquisitions:				
Accounts payable	8,361	(13,365 )	10,789	(295 )
Other accrued liabilities	(2,346 )	(14,426 )	9,377	(1,208 )
Income taxes	6,675	(8,085 )	(972 )	4,029
Net cash provided by operating activities	79,564	17,261	43,471	52,861
Cash flows from investing activities:				
Capital expenditures	(45,812 )	(25,802 )	(28,769 )	(33,016 )
Proceeds from sale of assets	4,232	5,227	133	357
Net proceeds from sale of discontinued operations	13,295	—	—	—
Business acquisitions, net of cash acquired	(48,382 )	(262,100)	(3,075 )	(10,175 )
Change in restricted cash	5,000	(5,000 )	—	—
Change related to Venezuelan operations	—	—	(620 )	—
Distributions from joint venture	—	—	—	2,223
(Increase) decrease in other assets, net	827	(105 )	550	2
Net cash used in investing activities	(70,840 )	(287,780)	(31,781 )	(40,609 )
Cash flows from financing activities:				
Net debt borrowings	15,996	103,000	8,000	—
Net (payments) borrowings under term loan	(20,000 )	190,000	—	—
Deferred consideration payments	(694 )	(2,307 )	(1,000 )	(1,000 )
Contingent consideration payments	(1,816 )	(230 )	(1,000 )	—

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Purchase of noncontrolling interest	—	(5,934 )	—	—
Debt issuance costs	(801 )	(1,950 )	—	—
Payments related to withholding tax for share-based payment arrangements	(1,709 )	(1,375 )	(1,775 )	(1,710 )
Corporate tax effect from share-based payment arrangements	(535 )	374	3,034	1,131
Exercise of stock options	5,903	2,142	3,804	5,270
Issuance of common stock, net of issuance costs	5,243	—	—	—
Purchase of treasury stock	(7,593 )	—	(21,138 )	(13,334 )
Net cash provided by (used in) financing activities	(6,006 )	283,720	(10,075 )	(9,643 )
Effect of exchange rate changes on cash	(1,327 )	(1,587 )	(3,060 )	(2,154 )
Net increase (decrease) in cash and cash equivalents	1,391	11,614	(1,445 )	455
Cash and cash equivalents at beginning of period	44,825	33,211	34,656	34,201
Cash and cash equivalents at end of period	\$46,216	\$44,825	\$33,211	\$34,656
Supplemental disclosure of cash flow information:				
Cash paid (refunded) during the year for:				
Interest	\$12,207	\$3,907	\$2,028	\$2,728
Income taxes	(2,741 )	10,252	21,491	12,111
See accompanying notes to consolidated financial statements.				

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TEAM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Description of Business. 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 a leading provider of standard to specialty industrial services, including inspection, engineering assessment and mechanical repair and remediation 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 (“Quest Integrity”). Through the capabilities and resources in these three segments, we believe that Team is uniquely qualified to provide integrated solutions involving in their most basic form, inspection to assess condition, engineering assessment to determine fitness for purpose in the context of industry standards and regulatory codes and mechanical services to repair, rerate or replace based upon the client’s election. In addition, our Company is capable of escalating with the client’s needs—as dictated by the severity of the damage found and the related operating conditions—from standard services to some of the most advanced services and expertise available in the industry.

TeamQualspec provides standard 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 offer these services globally through over 220 locations in 20 countries throughout the world with more than 7,400 employees. 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 stock is traded on the New York Stock Exchange under the symbol “TISI”.

In November 2015, we announced we would change our fiscal year end to December 31 of each calendar year from May 31. In connection with this change, we previously filed a Transition Report on Form 10-K to report the results of the seven-month transition period from June 1, 2015 to December 31, 2015. In this report, the periods presented are the year ended December 31, 2016, the seven-month transition period from June 1, 2015 to December 31, 2015 and for the years ended May 31, 2015 and 2014. For comparison purposes, we have also included unaudited data for the year ended December 31, 2015 and for the seven months ended December 31, 2014 (see Note 20).

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. Effective February 1, 2015, we began reporting the results of our Venezuelan operations using the cost method of accounting (see Note 17).

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

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recurring basis and record the effect of any necessary adjustments prior to their publication. Estimates and judgments are based on information available at the time such estimates and judgments are made. Adjustments made with respect to the use of these estimates and judgments often relate to information not previously available. Uncertainties with respect to such estimates and judgments are inherent in the preparation of financial statements. Estimates and judgments are used in, among other things, (1) aspects of revenue recognition, (2) valuation of 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 December 31, 2016 is \$14.0 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.

**Restricted cash.** At December 31, 2015, we had \$5.0 million in restricted cash on our balance sheet 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 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

**Revenue recognition.** 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 December 31, 2016 and December 31, 2015, the amount of earned but unbilled revenue included in accounts receivable was \$39.7 million and \$47.1 million, respectively.

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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. We use 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, and it involves using of Level 3 measurements as defined in Financial Accounting Standards Board (“FASB”) 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 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 our 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 performed at the reporting unit level which is deemed to be at the operating segment level. The test was a two-step process that involved comparing the estimated fair value of each reporting unit to the reporting unit’s carrying value, including goodwill. If the fair value of a reporting unit exceeded its carrying amount, the goodwill of the reporting unit was not considered impaired; therefore, the second step of the impairment test would not be deemed necessary. If the carrying amount of the reporting unit exceeded its fair value, we would then perform a second step to the goodwill impairment test to measure the amount of goodwill impairment loss to be recorded. With the change in our fiscal year end to December 31 of each calendar year, our goodwill annual test date is now December 1, effective December 1, 2015. We performed our impairment testing as of December 1, 2016 and 2015 and concluded that there was no impairment. The fair values of the reporting units at December 1, 2016 and 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 five-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. Major assumptions applied in an income approach include forecasted growth rates as well as forecasted profitability by reporting unit. The fair value derived from the income approach, in the aggregate, approximated our market capitalization. At December 1, 2016, our market capitalization exceeded the carrying value of our consolidated net assets by approximately \$437 million or 80%, and the fair value of each reporting unit significantly exceeded its respective carrying amount as of that date. 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.

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There was \$355.8 million and \$256.7 million of goodwill at December 31, 2016 and 2015, respectively. A summary of goodwill is as follows (in thousands):

	Twelve Months Ended December 31, 2016				Total
	TeamQuest	TeamFurmanite	Quest Integrity		
Balance at beginning of period	\$207,497	\$ 19,874	\$ 29,283		\$256,654
Acquisitions	5,955	89,646	4,137		99,738
Foreign currency adjustments	23	(461	) (168	) (606	)
Balance at end of period	\$213,475	\$ 109,059	\$ 33,252		\$355,786

  

	Seven Months Ended December 31, 2015				Total
	TeamQuest	TeamFurmanite	Quest Integrity		
Balance at beginning of year	\$60,737	\$ 17,466	\$ 29,570		\$107,773
Acquisitions	148,482	2,483	—		150,965
Foreign currency adjustments	(1,722	) (75	) (287	) (2,084	)
Balance at end of year	\$207,497	\$ 19,874	\$ 29,283		\$256,654

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 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.

Management believes future sources of taxable income, reversing temporary differences and other tax planning strategies will be sufficient to realize assets for which no reserve has been established. While we have considered these factors in assessing the need for a valuation allowance, there is no assurance that a valuation allowance would not need to be established in the future if information about future years change. Any change in the valuation allowance would impact our income tax provision and net income (loss) in the period in which such a determination is made. As of December 31, 2016, we believe that it is more likely than not that we will have sufficient reversals of temporary differences and future taxable income to allow us to realize the benefits of the net deferred tax assets except for those related to net operating loss carry forwards of certain foreign subsidiaries in the amount \$41.0 million. Our belief is based upon our record of historical earnings levels in recent years and projections of future taxable income over the periods in which the future deductible temporary differences become deductible. As of December 31, 2016, our deferred tax assets were \$67.7 million, less a valuation allowance of \$13.2 million. As of December 31, 2016, our deferred tax liabilities were \$125.1 million.

Significant judgment is required in assessing the timing and amounts of deductible and taxable items for tax purposes. In accordance with ASC 740-10, we establish reserves for uncertain tax positions when, despite our belief that our tax return positions are supportable, we believe that it is not more likely than not that the position will be sustained upon challenge. When facts and circumstances change, we adjust these reserves through our provision for income taxes. To

the extent interest and penalties may be assessed by taxing authorities on any related underpayment of income tax, such amounts have been accrued

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and are classified as a component of income tax provision (benefit) in our consolidated statements of operations. As of December 31, 2016, our unrecognized tax benefits related to uncertain tax positions were \$0.9 million.

Workers' compensation, auto, medical and general liability accruals. In accordance with ASC 450 Contingencies ("ASC 450"), we record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review our loss contingencies on an ongoing basis to ensure that we have appropriate reserves recorded on our balance sheet. These reserves are based on historical experience with claims incurred but not received, estimates and judgments made by management, applicable insurance coverage for litigation matters, and are adjusted as circumstances warrant. For workers' compensation, our self-insured retention is \$1.0 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 \$350,000 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 incorporated into our existing insurance coverage during 2016, but for certain items it maintained separate insurance policies during portions of 2016 and accordingly maintained 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.

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 we estimate 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 (loss) 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 (loss) 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.

Amounts used in basic and diluted earnings (loss) per share, for all periods presented, are as follows (in thousands):

	Twelve Months Ended December 31, 2016	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014
Weighted-average number of basic shares outstanding	28,095	20,852	20,500	20,439
Stock options, stock units and performance awards	—	260	419	633
Conversion of noncontrolling interest	—	313	732	213
Total shares and dilutive securities	28,095	21,425	21,651	21,285

For the year ended December 31, 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 period. There were no share-based awards outstanding during the seven months ended December 31, 2015 and the twelve months ended May 31, 2015 and 2014, that were 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.

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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 statements of operations. Effective December 1, 2009, we began to account for Venezuela as a highly-inflationary economy and the effect of all subsequent currency fluctuations between the Bolivar and the U.S. Dollar are recorded in our statements of operations. Subsequently, effective February 1, 2015, we began reporting the results of our Venezuelan operations using the cost method of accounting (see Note 17).

We utilize monthly foreign currency swap contracts to reduce exposures to changes in foreign currency exchange rates 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 as of and for the year ended December 31, 2016, as of and for the seven months ended December 31, 2015 nor for the years ended May 31, 2015 and 2014.

**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 are subject to amortization 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.

**Reclassifications.** Certain reclassifications were made to previously reported amounts in the consolidated financial statements and notes thereto to make them consistent with the current presentation format.

#### 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 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.

#### 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 will not elect early application and therefore we will apply ASU 2014-09 on January 1, 2018. To adopt the new standard, we anticipate applying the cumulative effect transition method, pursuant to which we will record an adjustment to the opening balance of retained earnings as of January 1, 2018 for the impact of applying ASU 2014-09 to all contracts existing as of the date of application. We are continuing our assessment of ASU 2014-09 and are not able to quantify

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the potential impacts at the time. However, as most of our projects are short-term in nature and billed on a time and materials basis, we do not currently anticipate that the adoption of ASU 2014-09 will result in substantial changes to the overall pattern or timing of our revenue recognition.

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. 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 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.

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## 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 29, 2016
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 purchase price allocation for Furmanite (in thousands):

	February 29, 2016
Cash and cash equivalents	\$37,734
Accounts receivable	65,925
Inventory	25,847
Current deferred tax assets	19,857
Prepaid expenses and other current assets	23,044
Current assets of discontinued operations	18,623
Property, plant and equipment	63,259
Intangible assets	88,958
Goodwill	89,646
Other non-current assets	687
Non-current deferred tax assets	2,542
Total assets acquired	436,122
Accounts payable	12,359
Other accrued liabilities	33,127
Income taxes payable	229
Current liabilities of discontinued operations	1,434
Non-current deferred tax liabilities	91,431
Defined benefit pension liability	13,509
Other long-term liabilities	1,692
Total liabilities assumed	153,781
Net assets acquired	\$282,341

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 \$89.0 million of acquired intangible assets, \$69.8 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 \$89.6 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 \$65.9 million with the gross contractual amount being \$88.0 million. We expect \$7.9 million to be uncollectible. Additionally, we acquired accounts receivable with a fair value of \$13.6 million associated with discontinued operations, which is included in the current assets of discontinued operations line above.

Current assets of discontinued operations as of the acquisition date includes \$3.3 million of goodwill and \$1.6 million of intangible assets that were allocated to a business that we sold in December 2016, as discussed in Note 15. The amount of current assets of discontinued operations acquired shown above is net of costs to sell of \$1.1 million. For the year ended December 31, 2016 and for the seven months ended December 31, 2015, we recognized a total of \$6.7 million and \$3.0 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 consolidated statement of operations for the year ended December 31, 2016 includes 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 \$216 million and a net loss of \$6.4 million are included in the year ended December 31, 2016 and only include operating results that are directly



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attributable to legacy Furmanite operations. These amounts do not reflect any attempt to adjust 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 year ended December 31, 2016.

Our unaudited pro forma consolidated results of operations are shown below as if the acquisition of Furmanite had occurred on June 1, 2015. These results are not necessarily indicative of the results that would actually have occurred if the acquisition had taken place at June 1, 2015, nor are they necessarily indicative of future results (in thousands, except per share data).

	Pro forma data Year Ended December 31, 2016 (unaudited)	Pro forma data Seven Months Ended December 31, 2015 (unaudited)
Revenues	\$1,240,466	\$ 787,914
Income (loss) from continuing operations attributable to Team shareholders	\$(7,497 )	\$ 15,979
Earnings (loss) per share from continuing operations:		
Basic	\$(0.25 )	\$ 0.55
Diluted	\$(0.25 )	\$ 0.54

These amounts have been calculated after applying Team's accounting policies and adjusting the results of Furmanite 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 June 1, 2015, together with the related tax effects. Additionally, these pro forma results exclude discontinued operations as well as the impact of transaction and integration-related costs associated with the Furmanite acquisition included in the historical results. These pro forma results also assume the Qualspec acquisition, which is discussed below, had been completed as of June 1, 2014.

Qualspec

In July 2015, we acquired 100% of the membership interests in 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 purchase price allocation for Qualspec (in thousands):

	July 7, 2015
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 \$79.3 million and net income of \$2.7 million of Qualspec are included in the consolidated statement of operations (in the TeamQualspec segment) for the seven months ended December 31, 2015.

Our unaudited pro forma consolidated results of operations are shown below as if the acquisition of Qualspec had occurred at June 1, 2014. These results are not necessarily indicative of the results which would actually have occurred if the acquisition had taken place at June 1, 2014, nor are they necessarily indicative of future results (in thousands, except per share data).

	Pro forma data Seven Months Ended December 31, 2015 (unaudited)	Pro forma data Year Ended May 31, 2015 (unaudited)
Revenues	\$ 589,553	\$ 1,011,829
Income from continuing operations attributable to Team shareholders	\$ 9,215	\$ 41,597
Earnings per share from continuing operations:		
Basic	\$ 0.44	\$ 2.03
Diluted	\$ 0.43	\$ 1.92



These amounts have been calculated after applying Team's accounting policies, reflecting additional interest expense and adjusting the results of Qualspec to reflect the additional depreciation and amortization that would have been charged assuming

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the fair value adjustments to property, plant and equipment and intangible assets had been applied on June 1, 2014, together with the consequential tax effects.

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 year ended December 31, 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.

In August 2014, we purchased a valve repair company in the U.K. for total consideration of \$3.1 million, net of cash acquired of \$0.2 million, including estimated contingent consideration of \$0.3 million.

In July 2013, we purchased a leading provider of industrial rope access services, for total consideration of approximately \$12.9 million including net working capital of \$1.3 million and \$11.6 million allocated to goodwill and intangible assets. We expect \$9.2 million of the goodwill recognized to be deductible for tax purposes. The purchase price allocation included contingent consideration valued at \$1.9 million. The contingent consideration is based upon the achievement of operating earnings thresholds over a six-year period for an amount of up to \$4.0 million.

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## 3. RECEIVABLES

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

	December 31, 2016	December 31, 2015
Trade accounts receivable	\$230,889	\$170,774
Unbilled revenues	39,719	47,098
Allowance for doubtful accounts	(7,835 )	(3,548 )
Total	\$262,773	\$214,324

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote. The following summarizes the activity in the allowance for doubtful accounts as of December 31, 2016, December 31, 2015, and May 31, 2015 and 2014 (in thousands):

	Twelve Months Ended December 31, 2016	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	Twelve Months Ended May 31, 2014
Balance at beginning of period	\$ 3,548	\$ 2,775	\$4,784	\$5,438
Provision for doubtful accounts	6,336	1,819	233	2,140
Write-off of bad debts	(2,049 )	(1,046 )	(2,242 )	(2,794 )
Balance at end of period	\$ 7,835	\$ 3,548	\$2,775	\$4,784

## 4. INVENTORY

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

	December 31, 2016	December 31, 2015
Raw materials	\$ 6,844	\$ 3,167
Work in progress	2,713	1,018
Finished goods	40,014	23,751
Total	\$ 49,571	\$ 27,936

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## 5. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2016	December 31, 2015
Land	\$7,429	\$3,124
Buildings and leasehold improvements	42,257	29,690
Machinery and equipment	233,063	174,222
Furniture and fixtures	8,431	6,561
Capitalized ERP system development costs	44,876	25,606
Computers and computer software	11,775	8,062
Automobiles	5,370	5,280
Construction in progress	12,997	5,177
Total	366,198	257,722
Accumulated depreciation and amortization (163,068 )		(132,739 )
Property, plant, and equipment, net	\$203,130	\$124,983

At the end of 2013, we initiated the design and implementation of a new ERP system, which is expected to be substantially installed by the end of 2017. Amortization of the enterprise resource planning (“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 December 31, 2016, we have capitalized \$44.9 million associated with the project which includes \$1.4 million of capitalized interest.

## 6. INTANGIBLE ASSETS

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

	December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$174,742	\$ (25,508 )	\$149,234
Non-compete agreements	5,397	(3,896 )	1,501
Trade names	24,624	(4,216 )	20,408
Technology	7,812	(3,364 )	4,448
Licenses	838	(325 )	513
Total	\$213,413	\$ (37,309 )	\$176,104

	December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$103,288	\$ (12,995 )	\$90,293
Non-compete agreements	4,898	(3,468 )	1,430
Trade names	6,299	(1,940 )	4,359
Technology	5,112	(2,541 )	2,571
Licenses	683	(217 )	466
Total	\$120,280	\$ (21,161 )	\$99,119

Amortization expense for the twelve months ended December 31, 2016, the seven months ended December 31, 2015, and twelve months ended May 31, 2015 and 2014 was \$16.1 million, \$5.5 million, \$3.8 million, and \$3.7 million, respectively.



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Amortization expense for current intangible assets is forecast to be approximately \$16 million per year in 2017, 2018 and 2019, and approximately \$15 million per year in 2020 and 2021. The weighted average amortization period for intangible assets subject to amortization is 13.2 years. The weighted average amortization period is 13.5 years for customer relationships, 4.5 years for non-compete agreements, 12.5 years for trade names, 9.5 years for technology, and 8.8 years for licenses.

**7. OTHER ACCRUED LIABILITIES**

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

	December 31, 2016	December 31, 2015
Payroll and other compensation expenses	\$ 38,214	\$ 21,879
Insurance accruals	13,896	7,008
Property, sales and other non-income related taxes	5,599	3,058
Lease commitments	2,119	1,721
Deferred revenue	3,433	1,355
Accrued commission	1,355	1,159
Accrued interest	603	984
Volume discount	1,067	1,280
Contingent consideration	2,103	3,638
Other	11,515	7,714
Total	\$ 79,904	\$ 49,796

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## 8. INCOME TAXES

For the twelve months ended December 31, 2016, the seven months ended December 31, 2015, and the twelve months ended May 31, 2015 and 2014, we were taxed on income (loss) from continuing operations at an effective tax rate of 20%, 34%, 36% and 35%, respectively. Our income tax provision (benefit) on continuing operations for twelve months ended December 31, 2016, the seven months ended December 31, 2015, and the twelve months ended May 31, 2015 and 2014, was \$(3.1) million, \$4.6 million, \$22.8 million and \$16.2 million, respectively, and includes federal, state and foreign taxes. The components of our tax provision (benefit) on continuing operations were as follows (in thousands):

	Current	Deferred	Total
Twelve months ended December 31, 2016:			
U.S. Federal	\$(2,048 )	\$(5,262)	\$(7,310 )
State & local	(1,338 )	206	(1,132 )
Foreign jurisdictions	4,529	820	5,349
	\$1,143	\$(4,236)	\$(3,093 )
Seven months ended December 31, 2015:			
U.S. Federal	\$(4 )	\$1,667	\$1,663
State & local	90	187	277
Foreign jurisdictions	2,128	505	2,633
	\$2,214	\$2,359	\$4,573
Twelve months ended May 31, 2015:			
U.S. Federal	\$17,183	\$606	\$17,789
State & local	2,634	(141 )	2,493
Foreign jurisdictions	3,598	(1,087 )	2,511
	\$23,415	\$(622 )	\$22,793
Twelve months ended May 31, 2014:			
U.S. Federal	\$11,933	\$358	\$12,291
State & local	1,759	319	2,078
Foreign jurisdictions	3,573	(1,706 )	1,867
	\$17,265	\$(1,029)	\$16,236

The components of pre-tax income (loss) from continuing operations for the twelve months ended December 31, 2016, the seven months ended December 31, 2015, and the twelve months ended May 31, 2015 and 2014 were as follows (in thousands):

	Twelve Months Ended December 31, 2016	Seven Months Ended December 31, 2015	Twelve Months Ended May 31,	
			2015	2014
Domestic	\$(25,488)	\$6,627	\$51,784	\$38,214
Foreign	9,830	6,824	11,506	8,171
	\$(15,658)	\$13,451	\$63,290	\$46,385

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

	Twelve Months Ended December 31, 2016	Seven Months Ended December 31, 2015	Twelve Months Ended May 31,	
			2015	2014
Pre-tax income (loss) from continuing operations	\$(15,658)	\$13,451	\$63,290	\$46,385
Computed income taxes at statutory rate	(5,481 )	\$4,710	\$22,153	\$16,235
State income taxes, net of federal benefit	(713 )	258	1,670	1,505
Foreign tax rate differential	(707 )	(648 )	(1,318 )	(1,004 )
Production activity deduction	—	(10 )	(136 )	(174 )
Deferred taxes on investment in foreign subsidiaries	1,777	(335 )	819	(1,133 )
Non-deductible expenses	871	335	513	510
Foreign tax credits	(2,302 )	(19 )	(11 )	(1,942 )
Other tax credits	(1,033 )	(446 )	(223 )	(244 )
Dividend from foreign subsidiaries	2,021	—	—	2,062
Valuation allowance	1,986	771	(394 )	414
Other	488	(43 )	(280 )	7
Total provision (benefit) for income tax on continuing operations	\$(3,093 )	\$4,573	\$22,793	\$16,236

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

	December 31,	
	2016	2015
Deferred tax assets:		
Accrued compensation and benefits	\$12,559	\$4,023
Receivables	3,856	739
Inventory	3,539	552
Stock options	1,526	2,241
Foreign currency translation and other equity adjustments	6,359	5,189
Other accrued liabilities	5,811	1,473
Tax credit carry forward	4,769	—
Net operating loss carry forwards	25,061	1,420
Other	4,227	1,174
Deferred tax assets	67,707	16,811
Less: Valuation allowance	(13,168 )	(857 )
Deferred tax assets, net	54,539	15,954
Deferred tax liabilities:		
Property, plant and equipment	(28,700 )	(11,840 )
Goodwill and intangible costs	(43,737 )	(10,496 )
Unremitted earnings of foreign subsidiaries	(51,087 )	(1,669 )
Prepays	(775 )	(580 )
Other	(827 )	(499 )
Deferred tax liabilities	(125,126 )	(25,084 )
Net deferred tax liability	\$(70,587)	\$(9,130)





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As of December 31, 2016, we had a valuation allowance of \$13.2 million to reduce our deferred tax assets to an amount more likely than not to be recovered. This valuation allowance relates primarily to net operating loss carry forwards related to various foreign subsidiaries in the amount of \$41.0 million. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider factors including the reversal of future taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment.

As of December 31, 2016, we had net foreign net operating loss carry forwards totaling \$4.3 million that were expected to be realized in the future periods. A total of \$3.4 million has an unlimited carry forward period and will therefore not expire.

At December 31, 2016, we also have net operating loss carry forwards for U.S. federal income tax purposes of \$30.7 million, which are available, subject to certain limitations, to offset future taxable income, if any, through the year 2034. In addition, we have alternative minimum tax credit carry forwards of approximately \$1.2 million, which are available to reduce future regular federal income taxes, if any, over an indefinite period.

At December 31, 2016, undistributed earnings of foreign operations totaling \$16.4 million were considered to be permanently reinvested. We have recognized no deferred tax liability for the remittance of such earnings to the U.S. since it is our intention to utilize those earnings in the foreign operations. Generally, such earnings become subject to U.S. tax upon the remittance of dividends and under certain other circumstances. Determination of the unrecognized deferred U.S. income tax liability is not practicable due to uncertainties related to the timing and source of any potential distribution of such funds, along with other important factors such as the amount of associated foreign tax credits.

At December 31, 2016, we have established liabilities for uncertain tax positions of \$0.9 million, inclusive of interest and penalties. To the extent these uncertainties are ultimately resolved favorably, the resulting reduction of recorded liabilities would have an effect on our effective tax rate. In accordance with ASC 740-10, our policy is to recognize interest and penalties related to unrecognized tax benefits through the tax provision.

We file income tax returns in the U.S. with federal and state jurisdictions as well as various foreign jurisdictions. With few exceptions, we are no longer subject to U.S. Federal, state and local or non-U.S. income tax examinations by tax authorities for years prior to 2015. We are currently in the examination phase of IRS audits for the tax years ended May 31, 2015 and December 31, 2015. The income tax laws and regulations are voluminous and are often ambiguous. As such, we are required to make certain subjective assumptions and judgments regarding our tax positions that may have a material effect on our results of operations, financial position or cash flows. We believe, however, that there is appropriate support for the income tax positions taken, and to be taken, on our returns, and that our accruals for tax liabilities are adequate for all open tax years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

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

	Twelve Months Ended December 31, 2016	Year Ended Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014
Balance at beginning of year	\$ 539	\$ 477	\$715	\$697
Acquisition of Furmanite uncertain tax positions	660	—	—	—
Additions based on current year tax positions	464	—	—	—

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Additions based on tax positions related to prior years	96	62	68	110
Reductions based on tax positions related to prior years	(564 )	—	(306 )	—
Settlements	(337 )	—	—	—
Reductions resulting from a lapse of the applicable statute of limitations	—	—	—	(92 )
Balance at end of year	\$ 858	\$ 539	\$477	\$715

We believe that in the next twelve months it is reasonably possible that \$0.4 million of liabilities recorded for tax uncertainties will be effectively settled.

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## Recent Legislation

The Protecting Americans From Tax Hikes Act of 2015 (the “PATH Act”) was signed into law on December 18, 2015 and included an extension of the 50% bonus depreciation allowance, with a phase down of the bonus percentage amount for later years. The extended provision for 50% bonus depreciation specifically applies to qualifying property placed in service after December 31, 2014 and before January 1, 2018. The acceleration of deductions for the year ended December 31, 2016 and the seven months ended December 31, 2015 on qualifying capital expenditures resulting from the bonus depreciation provision had no impact on our current period effective tax rate because the acceleration of deductions does not result in permanent differences between asset bases for financial reporting purposes and income tax purposes. However, the ability to accelerate depreciation deductions decreased our cash taxes for the year ended December 31, 2016 and the seven-month period ended December 31, 2015 by approximately \$3.9 million and \$1.7 million, respectively. Taking the accelerated tax depreciation will result in increased cash taxes in subsequent periods when the deductions for these capital expenditures would have otherwise been taken. The PATH Act also reinstated and made permanent the research and development credit retroactively from January 1, 2015. This change in legislation resulted in a permanent decrease in income tax expense for the year ended December 31, 2016 and seven months ended December 31, 2015 of \$0.8 million and \$0.4 million, respectively.

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

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 a borrowing capacity of up to 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 proceeds of which were used to fund, in part, the Company’s acquisition of Qualspec. The swing line facility is \$35.0 million. The Credit Facility matures in July 2020, bears interest based on a variable Eurodollar rate option (LIBOR plus 2.25% margin at December 31, 2016) and has commitment fees on unused borrowing capacity (0.40% at December 31, 2016). The Credit Facility limits our ability to pay cash dividends without the consent of our bank syndicate. The Credit Facility also contains financial covenants, which were amended in August 2016 pursuant to the third amendment to the Credit Facility. 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 (the “Total Leverage Ratio”, as defined in the Credit Facility agreement) of 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 December 31, 2016, we are in compliance with these covenants. With respect to the Total Leverage Ratio, our ratio stood at 4.19 to 1.00 as of December 31, 2016. At December 31, 2016, we had \$46.2 million of cash on hand and approximately \$29 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.

Future maturities of long-term debt, are as follows (in thousands):

December 31	
2017	\$20,000
2018	20,000
2019	20,000
2020	306,911
2021	—
Thereafter	—
Total	\$366,911

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 \$21.6 million at December 31, 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.

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ASC 815, Derivatives and Hedging (“ASC 815”), established accounting and reporting standards requiring that derivative instruments be recorded at fair value and included in the balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception date of a derivative. Special accounting for derivatives qualifying as fair value hedges allows 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 until the hedged item is recognized in earnings. Hedge effectiveness is measured at least quarterly based on the relative cumulative changes in fair value between the derivative contract and the hedged item over time. Credit risks related to derivatives include the possibility that the counter-party will not fulfill the terms of the contract. We consider counter-party credit risk to our derivative contracts when valuing our derivative instruments.

Our borrowing of €12.3 million under the Credit Facility serves as an economic hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate will offset translation gains or losses attributable to our investment in our European operations. At December 31, 2016 the €12.3 million borrowing had a U.S. Dollar value of \$13.0 million.

The amounts recognized in other comprehensive income (loss), and reclassified into income, for the twelve months ended December 31, 2016, seven months ended December 31, 2015, and the twelve months ended May 31, 2015 and 2014 are as follows (in thousands):

	Gain (Loss) Recognized in Other Comprehensive Income (Loss)		Gain (Loss) Reclassified from Other Comprehensive Income (Loss) to Earnings (Loss)	
	Twelve Months Ended December 31, 2016	Seven Months Ended December 31, 2015	Twelve Months Ended December 31, 2016	Seven Months Ended December 31, 2015
		Twelve months ended May 31,	Twelve Months Ended December 31, 2016	Twelve Months Ended December 31, 2015
		2015		2015
		2014		2014
Net investment hedge	\$481	\$ 101	\$3,237	\$(775)
			\$ —	\$ —
			\$ —	\$ —

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

	December 31, 2016		December 31, 2015	
	Classification	Balance Sheet Location	Fair Value	Classification
Net investment hedge	Liability	Long-term debt	\$(5,048)	Liability
				Long-term debt
				\$(4,567)

We enter into operating leases to rent facilities and obtain vehicles and equipment for our field operations. Our obligations under non-cancellable operating leases, primarily consisting of facility and auto leases, were approximately \$110.1 million at December 31, 2016 and are as follows (in thousands):

Twelve Months Ended December 31,	Operating Leases
2017	\$32,418
2018	25,200
2019	17,447
2020	10,941
2021	7,825
Thereafter	16,295

Total \$ 110,126

Total rent expense resulting from operating leases for the twelve months ended December 31, 2016, the seven months ended December 31, 2015 and the twelve months ended May 31, 2015 and 2014 was \$40.0 million, \$18.8 million, \$29.5 million and \$26.2 million, respectively.

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## 10. FAIR VALUE MEASUREMENTS

We apply the provisions of 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 December 31, 2016 and 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):

	December 31, 2016			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Liabilities:				
Contingent consideration <sup>1</sup>	\$—	\$—	\$ 3,739	\$3,739
Net investment hedge	\$—	\$(5,048)	\$—	\$(5,048)

	December 31, 2015			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Liabilities:				
Contingent consideration <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 twelve months ended December 31, 2016 and seven months ended December 31, 2015. There were no transfers in and out of Level 3 for the year ended December 31, 2016, but there was a transfer in and out of Level 3 of \$5.8 million relating to a revaluation of contingent consideration during the seven months ended December 31, 2015.

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):

	Twelve Months Ended December 31, 2016	Seven Months Ended December 31, 2015
Beginning balance	\$ 3,638	\$ 1,407
Accretion of liability	366	139
Foreign currency effects	80	—
Payment	(4,000 )	(230 )
Revaluation	2,184	(5,256 )
Acquisitions	1,471	7,578
Ending balance	\$ 3,739	\$ 3,638

**11. SHARE-BASED COMPENSATION**

We have adopted stock incentive plans and other arrangements pursuant to which our Board of Directors may grant stock options, restricted stock, stock units, stock appreciation rights, common stock or performance awards to officers, directors and key employees. At December 31, 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 \$7.3 million, \$3.5 million, \$4.8 million, and \$4.2 million for the twelve months ended December 31, 2016, the seven months ended December 31, 2015, and the years ended May 31, 2015, and 2014 respectively. At December 31, 2016, \$16.7 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 3.0 years. The excess tax benefit (deficiency) derived when share-based awards result in a tax deduction for the company was \$(0.5) million, \$0.4 million, \$3.0 million, and \$1.1 million for the twelve months ended December 31, 2016, the seven months ended December 31, 2015, and the years ended May 31, 2015, and 2014, 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 vests immediately. Compensation expense related to stock units and director stock grants totaled \$7.2 million, \$3.0 million, \$4.1 million and \$3.7 million for the twelve months ended December 31, 2016, the seven months ended December 31, 2016, years ended May 31, 2015, and 2014 respectively. Transactions involving our stock units and director stock grants during the twelve months ended December 31, 2016, the seven months ended December 31, 2016 and the years ended May 31, 2015, and 2014 are summarized below:

	Twelve Months Ended December 31, 2016		Seven Months Ended December 31, 2015	
	No. of Stock Units	Weighted Average Fair Value (in thousands)	No. of Stock Units	Weighted Average Fair Value (in thousands)
Stock and stock units, beginning of year	371	\$ 36.26	304	\$ 36.23
Changes during the year:				
Granted	322	\$ 34.23	197	\$ 35.14
Assumed - Furmanite Acquisition	40	\$ 25.63	—	\$ —
Vested and settled	(180)	\$ 34.19	(126)	\$ 34.43
Cancelled	(18)	\$ 30.75	(4)	\$ 39.27
Stock and stock units, end of year	535	\$ 35.11	371	\$ 36.26

	Year Ended May 31, 2015		Year Ended May 31, 2014	
	No. of Stock Units	Weighted Average Fair Value (in thousands)	No. of Stock Units	Weighted Average Fair Value (in thousands)
Stock and stock units, beginning of year	310	\$ 31.42	329	\$ 26.07
Changes during the year:				
Granted	156	\$ 39.51	136	\$ 36.70
Vested and settled	(133)	\$ 29.23	(139)	\$ 24.32
Cancelled	(29)	\$ 34.12	(16)	\$ 28.01
Stock and stock units, end of year	304	\$ 36.23	310	\$ 31.42

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 (credit) of \$(0.4)

million, \$0.3 million and \$0.2 million related to performance awards was recognized for the twelve months ended December 31, 2016, the seven months ended December 31, 2015 and the year ended May 31, 2015, respectively.

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Transactions involving our performance awards during the year ended December 31, 2016, the seven months ended December 31, 2015, and the year ended May 31, 2015 are summarized below:

	Twelve Months Ended December 31, 2016 No. of Long-Term Performance Stock Units (in thousands)	Weighted Average Fair Value	Seven Months Ended December 31, 2015 No. of Long-Term Performance Stock Units (in thousands)	Weighted Average Fair Value
Long-term performance stock units, beginning of year	59	\$ 37.16	23	\$ 42.25
Changes during the year:				
Granted	—	\$ —	36	\$ 33.91
Vested and settled	—	\$ —	—	\$ —
Cancelled	—	\$ —	—	\$ —
Long-term performance stock units, end of year	59	\$ 37.16	59	\$ 37.16
	Year Ended May 31, 2015 No. of Long-Term Performance Stock Units (in thousands)			
Long-term performance stock units, beginning of year	—	\$ —		
Changes during the year:				
Granted	23	\$ 42.25		
Vested and settled	—	\$ —		
Cancelled	—	\$ —		
Long-term performance stock units, end of year	23	\$ 42.25		

Performance awards are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each performance award based on the market price on the date of grant. Performance awards granted to our Chairman of our Board vest over the longer of four years or the achievement of performance goals based upon our future results of operations. Compensation expense related to performance awards was \$0.3 million for the twelve months ended December 31, 2016, \$0.5 million for the seven months ended December 31, 2015 and \$0.6 million for each of the years ended May 31, 2015 and 2014. Transactions involving our performance awards during the twelve months ended December 31, 2016, the seven months ended December 31, 2016, and the years ended May 31, 2015, and 2014 are summarized below:

Twelve Months Ended December 31,	Seven Months Ended December 31,
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	2016		2015	
	No. of Performance Awards	Weighted Average Fair Value (in thousands)	No. of Performance Awards	Weighted Average Fair Value (in thousands)
Performance awards, beginning of year	13	\$ 35.15	28	\$ 32.86
Changes during the year:				
Granted	—	\$ —	—	\$ —