

TEAM INC
Form 10-Q
January 11, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the quarterly period ended November 30, 2015

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.

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(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of

74-1765729
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

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

77478
(Zip Code)

(281) 331-6154

(Registrant's Telephone Number, Including Area Code)

None

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

The Registrant had 21,836,694 shares of common stock, par value \$0.30, outstanding and 546,977 shares of treasury stock as of January 4, 2016.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TEAM, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

| | November 30, 2015 (unaudited) | May 31, 2015 |
|---|----------------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 46,502 | \$ 33,211 |
| Restricted cash | 5,000 | |
| Receivables, net of allowance of \$3,582 and \$2,775 | 244,062 | 212,934 |
| Inventory | 28,466 | 26,005 |
| Deferred income taxes | 5,655 | 5,926 |
| Prepaid expenses and other current assets | 12,467 | 10,620 |
| Total current assets | 342,152 | 288,696 |
| Property, plant and equipment, net | 123,221 | 97,926 |
| Assets held for sale | | 5,207 |
| Intangible assets, net of accumulated amortization of \$20,384 and \$15,957 | 96,518 | 20,268 |
| Goodwill | 253,677 | 107,773 |
| Other assets, net | 2,384 | 467 |
| Deferred income taxes | 1,916 | 3,496 |
| Total assets | \$ 819,868 | \$ 523,833 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 31,605 | \$ 32,854 |
| Other accrued liabilities | 62,989 | 54,185 |
| Income taxes payable | | 4,185 |
| Total current liabilities | 94,594 | 91,224 |
| Deferred income taxes | 10,228 | 15,631 |
| Long-term debt | 370,979 | 78,484 |
| Other long-term liabilities | 1,541 | 3,119 |
| Total liabilities | 477,342 | 188,458 |
| 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; 21,836,694 and 20,909,402 shares issued | 6,550 | 6,273 |
| Additional paid-in capital | 119,746 | 115,642 |
| Retained earnings | 255,019 | 242,102 |
| Accumulated other comprehensive loss | (17,651) | (13,538) |

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| | | |
|--|------------|------------|
| Treasury stock at cost, 546,977 and 546,977 shares | (21,138) | (21,138) |
| Total Team shareholders equity | 342,526 | 329,341 |
| Non-controlling interest | | 6,034 |
| Total equity | 342,526 | 335,375 |
| Total liabilities and equity | \$ 819,868 | \$ 523,833 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**TEAM, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---|------------------------------------|------------|----------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | \$ 280,859 | \$ 240,619 | \$ 503,553 | \$ 428,740 |
| Operating expenses | 196,664 | 161,777 | 356,247 | 293,571 |
| Gross margin | 84,195 | 78,842 | 147,306 | 135,169 |
| Selling, general and administrative expenses | 64,796 | 50,168 | 122,936 | 94,670 |
| Loss on revaluation of contingent consideration | | | 522 | |
| Operating income | 19,399 | 28,674 | 23,848 | 40,499 |
| Interest expense, net | 2,336 | 603 | 4,048 | 1,226 |
| Foreign currency loss | 131 | 635 | 624 | 816 |
| Earnings before income taxes | 16,932 | 27,436 | 19,176 | 38,457 |
| Less: Provision for income taxes | 5,440 | 9,876 | 6,259 | 13,844 |
| Net income | 11,492 | 17,560 | 12,917 | 24,613 |
| Less: Income attributable to non-controlling interest | | 194 | | 216 |
| Net income available to Team shareholders | \$ 11,492 | \$ 17,366 | \$ 12,917 | \$ 24,397 |
| Net income per share: Basic | \$ 0.54 | \$ 0.84 | \$ 0.62 | \$ 1.19 |
| Net income per share: Diluted | \$ 0.54 | \$ 0.80 | \$ 0.60 | \$ 1.12 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

(in thousands)

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---|------------------------------------|------------------|----------------------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$ 11,492 | \$ 17,560 | \$ 12,917 | \$ 24,613 |
| Foreign currency translation adjustment | (2,043) | (5,415) | (6,020) | (6,939) |
| Foreign currency hedge | 743 | 842 | 505 | 1,439 |
| Tax benefit attributable to other comprehensive income | 30 | 894 | 1,402 | 777 |
| Total comprehensive income | 10,222 | 13,881 | 8,804 | 19,890 |
| Less: Total comprehensive income attributable to non-controlling interest | | 163 | | 179 |
| Total comprehensive income available to Team shareholders | \$ 10,222 | \$ 13,718 | \$ 8,804 | \$ 19,711 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**TEAM, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

| | Six Months Ended November 30, | |
|--|----------------------------------|-----------------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income | \$ 12,917 | \$ 24,613 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 16,542 | 11,164 |
| Amortization of deferred loan costs | 186 | 112 |
| Foreign currency loss | 624 | 816 |
| Deferred income taxes | 1,520 | (1,052) |
| Loss on asset disposal | 53 | 103 |
| Loss on contingent consideration revaluation | 522 | |
| Non-cash compensation cost | 2,965 | 2,465 |
| (Increase) decrease, net of the effect of acquisitions: | | |
| Receivables | (12,961) | (41,509) |
| Inventory | (132) | (1,253) |
| Prepaid expenses and other current assets | (887) | (737) |
| Increase (decrease), net of the effect of acquisitions: | | |
| Accounts payable | (4,172) | 6,358 |
| Other accrued liabilities | 432 | 4,687 |
| Income taxes | (4,177) | 3,371 |
| Net cash provided by operating activities | 13,432 | 9,138 |
| Cash flows from investing activities: | | |
| Capital expenditures | (21,797) | (11,425) |
| Business acquisitions, net of cash acquired | (262,191) | (2,949) |
| Restricted cash | (5,000) | |
| Proceeds from sale of assets | 5,225 | 35 |
| Decrease in other assets, net | 8 | 288 |
| Net cash used in investing activities | (283,755) | (14,051) |
| Cash flows from financing activities: | | |
| Net borrowings under revolving credit agreement | 293,000 | 13,000 |
| Deferred consideration payments | (1,248) | (1,000) |
| Contingent consideration payments | (230) | |
| Purchase of non-controlling interest | (5,934) | |
| Debt issuance costs | (1,950) | |
| Corporate tax effect from share-based payment arrangements | 374 | 1,499 |
| Issuance of common stock from share-based payment arrangements | 2,325 | 1,290 |
| Payments related to withholding tax for share-based payment arrangements | (1,375) | (1,735) |
| Net cash provided by financing activities | 284,962 | 13,054 |
| Effect of exchange rate changes on cash | (1,348) | (1,776) |
| Net increase in cash and cash equivalents | 13,291 | 6,365 |
| Cash and cash equivalents at beginning of period | 33,211 | 34,656 |

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| | | |
|--|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 46,502 | \$ 41,021 |
|--|-----------|-----------|

See accompanying notes to unaudited condensed consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Introduction. Unless otherwise indicated, the terms Team, Inc., Team, the Company, we, our and us are used in this report to refer to Team, Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. We are incorporated in the State of Delaware and our company website can be found at www.teamindustrialservices.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 and our fiscal year ends on May 31 of each calendar year. On November 10, 2015, we announced we would change our fiscal year end to December 31 of each calendar year.

We are a leading provider of specialty industrial services, including inspection and assessment, required in maintaining high temperature and high pressure piping systems and vessels that are utilized extensively in the refining, petrochemical, power, pipeline and other heavy industries. We conduct operations in three segments: Inspection and Heat Treating Services (IHT) Group, Mechanical Services (MS) Group and Quest Integrity (Quest Integrity) Group. While our services are aligned in three business groups, we believe our services broadly fall into three different classifications that have unique customer demand drivers: inspection and assessment services, turnaround services, and on-stream services.

Inspection and assessment services are offered in both IHT and Quest Integrity. IHT provides basic and advanced non-destructive testing services for the process, pipeline and power sectors, pipeline integrity management 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. Quest Integrity provides integrity and reliability management solutions for the process, pipeline and power sectors. These solutions encompass two broadly-defined disciplines: (1) highly specialized in-line inspection services for unpiggable process piping and pipelines using proprietary in-line inspection tools and analytical software; and (2) advanced condition assessment services through a multi-disciplined engineering team. We believe there is a general growth in market demand for inspection and assessment services as improved inspection technologies enable better information about asset reliability to be available to facility owners and operators.

Turnaround services are offered in both IHT and MS. These 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. Turnaround services include the field machining, technical bolting, field valve repair, heat exchanger repair, and isolation test plugging services that are part of MS and the field heat treating services that are part of IHT.

On-stream services are offered by MS and represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control and hot tapping. We believe demand for on-stream services is a function of the population of the existing infrastructure of operating industrial facilities.

We offer these services in over 150 locations throughout the world. Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, original equipment manufacturers (OEMs), distributors, and some of the world's largest engineering and construction firms. Our services are also provided across a broad geographic reach.

Basis for presentation. These interim financial statements are unaudited, but in the opinion of our management, reflect all adjustments, consisting of normal recurring adjustments necessary for a fair presentation

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of results for such periods. The consolidated condensed balance sheet at May 31, 2015 is derived from the May 31, 2015 audited consolidated financial statements. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in our annual report on Form 10-K for the fiscal year ended May 31, 2015.

Consolidation. The consolidated financial statements include the accounts of Team, Inc. and our majority-owned subsidiaries where we have control over operating and financial policies. Investments in affiliates in which we have the ability to exert significant influence over operating and financial policies, but where we do not control the operating and financial policies, are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates. Our accounting policies conform to Generally Accepted Accounting Principles in the U.S. (GAAP). Our most significant accounting policies are described below. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect our reported financial position and results of operations. We review significant estimates and judgments affecting our consolidated financial statements on a recurring basis 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 and (7) estimating the value associated with contingent consideration payment arrangements.

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.

Restricted cash. We have recorded \$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.

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

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

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

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Goodwill, intangible assets, and non-controlling interest. Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are instead tested for impairment at least annually in accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, *Intangibles Goodwill and Other* (ASC 350). Intangible assets with estimated useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with ASC 350. We 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.

On May 31, 2015 we completed our annual goodwill impairment test by performing a qualitative analysis that assessed relevant events and circumstances to evaluate whether it was more likely than not that the fair value of our individual reporting units was less than their respective carrying amount of goodwill. If, after assessing the totality of events and circumstances, an entity determines that it is more likely than not that the fair value of a reporting unit is greater than the carrying amount, then the first and second steps of the goodwill impairment test are not necessary. We evaluated considerations under ASC 350, such as macroeconomic effects on our business, industry and market considerations, cost factors that could have a negative effect on cash flows or earnings, overall financial performance, entity-specific events, events affecting reporting units, and any realization of a sustained decrease in the price of our stock. After consideration of the aforementioned events and circumstances, we concluded that it was more likely than not that the fair value of each reporting unit was greater than its respective carrying amount of goodwill. Accordingly, we did not perform the two-step process described above for our fiscal year 2015 annual goodwill impairment testing. There have been no events that have required an interim assessment of the carrying value of goodwill during the 2016 fiscal year. With the change in our fiscal year end to December 31 of each calendar year, our goodwill annual test date will be December 1, effective December 1, 2015.

There was \$253.7 million and \$107.8 million of goodwill at November 30, 2015 and May 31, 2015, respectively. See Note 2 for additional information related to the acquisitions that increased goodwill in the period. A rollforward of goodwill for the six months ended November 30, 2015 is as follows (in thousands):

| | Six Months Ended November 30, 2015 (unaudited) | | | |
|--------------------------------|---|-----------|----------------------------|--------------|
| | IHT | MS | Quest Integrity | Total |
| Balance at beginning of period | \$ 60,737 | \$ 17,466 | \$ 29,570 | \$ 107,773 |
| Acquisitions | 145,440 | 2,483 | | 147,923 |
| Foreign currency adjustments | (1,152) | (363) | (504) | (2,019) |
| Balance at end of period | \$ 205,025 | \$ 19,586 | \$ 29,066 | \$ 253,677 |

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 non-controlling interest. Prior to August 31, 2015, these shares were included as dilutive securities in the earnings per share calculation as set forth herein.

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

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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.

Workers compensation, auto, medical and general liability accruals. In accordance with ASC 450, *Contingencies*, we record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review our loss contingencies on an ongoing basis to ensure that we have appropriate reserves recorded on our balance sheet. These reserves are based on historical experience with claims incurred but not received, estimates and judgments made by management, applicable insurance coverage for litigation matters, and are adjusted as circumstances warrant. For workers compensation, our self-insured retention is \$1.0 million and our automobile liability self-insured retention is currently \$500,000 per occurrence. For general liability claims we have an effective self-insured retention of \$3.0 million per occurrence. For medical claims, our self-insured retention is \$175,000 per individual claimant determined on an annual basis. For environmental liability claims, our self-insured retention is \$500,000 per occurrence. We maintain insurance for claims that exceed such self-retention limits. The insurance is subject to terms, conditions, limitations and exclusions that may not fully compensate us for all losses. Our estimates and judgments could change based on new information, changes in laws or regulations, changes in management's plans or intentions, or the outcome of legal proceedings, settlements or other factors. If different estimates and judgments were applied with respect to these matters, it is likely that reserves would be recorded for different amounts.

Revenue recognition. We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the FASB and the Securities and Exchange Commission (SEC). Most of our projects are short-term in nature and we predominantly derive revenues by providing a variety of industrial services on a time and material basis. For all of these services our revenues are recognized when services are rendered or when product is shipped to the job site and risk of ownership passes to the customer. However, due to various contractual terms with our customers, at the end of any reporting period, there may be earned but unbilled revenue that is accrued to properly match revenues with related costs. At November 30, 2015 and May 31, 2015, the amount of earned but unbilled revenue included in accounts receivable was \$28.6 million and \$18.4 million, respectively.

Allowance for doubtful accounts. In the ordinary course of business, a portion of our accounts receivable are not collected due to billing disputes, customer bankruptcies, dissatisfaction with the services we performed and other various reasons. We establish an allowance to account for those accounts receivable that will eventually be deemed uncollectible. The allowance for doubtful accounts is based on a combination of our historical experience and management's review of long outstanding accounts receivable.

Concentration of credit risk. No single customer accounts for more than 10% of consolidated revenues.

Earnings per share. Basic earnings per share is computed by dividing net income available to Team shareholders by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share is computed by dividing net income available to Team shareholders, less income or loss for the period attributable to the non-controlling interest, by the sum of (1) the weighted-average number of shares of common stock, outstanding during the period, (2) the dilutive effect of the assumed exercise of share-based compensation using the treasury stock method and (3) the dilutive effect of the assumed conversion of our non-controlling interest to our common stock prior to the acquisition of that interest.

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Amounts used in basic and diluted earnings per share, for the three and six months ended November 30, 2015 and 2014, are as follows (in thousands):

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---|------------------------------------|---------------------|----------------------------------|---------------------|
| | 2015 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2014 (unaudited) |
| Weighted-average number of basic shares outstanding | 21,193 | 20,645 | 20,781 | 20,574 |
| Stock options, stock units and performance awards | 228 | 442 | 284 | 497 |
| Conversion of non-controlling interest | | 757 | 362 | 757 |
| Total shares and dilutive securities | 21,421 | 21,844 | 21,427 | 21,828 |

There were no stock options outstanding during the three or six months ended November 30, 2015 and 2014 excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares during the periods.

Foreign currency. For subsidiaries whose functional currency is not the U.S. Dollar, assets and liabilities are translated at period ending rates of exchange and revenues and expenses are translated at period average exchange rates. Translation adjustments for the asset and liability accounts are included as a separate component of accumulated other comprehensive income in shareholders' equity. Foreign currency transaction gains and losses are included in our statement of income.

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 Euro, Australian Dollar, Brazilian Real, Malaysian Ringgit and Mexican Peso. The impact from these swap contracts was not material for the three months or six months ended November 30, 2015 nor as of the balance sheet date of November 30, 2015 and May 31, 2015.

Accounting Principles Not Yet Adopted

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

ASU No. 2015-03. In April 2015, the FASB issued 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. The update is effective for fiscal years beginning after December 15, 2015 on a retrospective basis. 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. 2015-11. 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

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measurement of inventory in U.S. GAAP with International Financial Reporting Standards (IFRS). Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The update 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. 2015-15. 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. In April 2015, the FASB issued ASU No. 2015-03, which requires the presentation of debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 does not address presentation or subsequent measurement of debt issuance costs related to 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. ASU 2015-15 is effective upon adoption of ASU 2015-03 which is effective for fiscal years beginning after December 15, 2015 on a retrospective basis. The adoption of ASU 2015-03 and ASU 2015-15 is not expected to have a material impact on our results of operations, financial position or cash flows.

ASU No. 2015-16. In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations-Simplifying the Accounting for Measurement-Period Adjustments* (ASU 2015-16), that requires the acquirer in a business combination to recognize in the reporting period in which adjustment amounts are determined, any adjustments to provisional amounts that are identified during the measurement period, calculated as if the accounting had been completed at the acquisition date. Prior to the issuance of ASU 2015-16, an acquirer was required to restate prior period financial statements as of the acquisition date for adjustments to provisional amounts. The update is effective for fiscal years beginning after December 15, 2015 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. This update is effective for fiscal years beginning after December 15, 2016. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. The adoption of this update is not expected to have a material impact on our results of operations, financial position or cash flows.

2. ACQUISITIONS

In November 2015, Team and Furmanite Corporation (Furmanite) entered into an Agreement and Plan of Merger (the Merger Agreement) under which we would acquire all the outstanding shares of Furmanite in a stock transaction initially valued at \$335.0 million, including the assumption of debt. Under the terms of the Merger Agreement, Furmanite shareholders will receive 0.215 shares of Team common stock for each share of Furmanite common stock they own. We expect to complete the business combination in the first calendar quarter of 2016.

In July 2015, we acquired Qualspec for total cash consideration of \$255.6 million, which could have been increased by \$10.0 million depending upon the operating results of Qualspec through the end of calendar year 2015. Based on our current expectation of Qualspec results through the end of the calendar year, we no longer believe any additional amount will be payable and, accordingly, have reversed our initial contingent consideration obligation of \$5.8 million to zero with a corresponding decrease to goodwill. Qualspec is a leading

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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. The acquisition is expected to add about \$180.0 million of annual revenue to our operations and nearly 1,000 new employees to our human capital resources. Qualspec results are included in the IHT segment. The purchase of Qualspec was financed through borrowings under our new banking credit facility. Our consolidated results include the activity of Qualspec beginning on the acquisition date of July 7, 2015.

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

| | July 7, 2015 (unaudited) |
|--------------------------------|---|
| Cash and cash equivalents | \$ 3,981 |
| Accounts receivable | 20,445 |
| Current deferred tax assets | 279 |
| Prepaid expenses | 1,049 |
| Plant, property and equipment | 15,472 |
| Intangible assets | 74,700 |
| Goodwill | 145,440 |
| Non-current deferred tax asset | 3,459 |
| Other assets | 147 |
| | |
| Total assets acquired | \$ 264,972 |
| | |
| Accounts payable | \$ 2,892 |
| Other accrued liabilities | 6,448 |
| | |
| Total liabilities assumed | 9,340 |
| | |
| Net assets acquired | \$ 255,632 |

The preliminary purchase price allocation shown above is based upon the fair values at acquisition date. Team is in the process of obtaining third-party valuations of certain items in property, plant and equipment and intangible assets, as well as valuing contingent consideration thus, the provisional measurements of contingent consideration, property, plant and equipment, intangible assets, goodwill and deferred tax asset are subject to change. The fair values recorded are Level 3 measurements as defined in Note 10. The intangible assets recognized are being amortized over the life of one to fifteen years.

Our unaudited pro forma consolidated results of operations are shown below as if the acquisition of Qualspec had occurred at the beginning of fiscal years 2015 and 2016. These results are not necessarily indicative of the results which would actually have occurred if the purchase had taken place at the beginning of fiscal years 2015 or 2016, nor are they necessarily indicative of future results (in thousands, except per share data).

| | Pro forma data | | Pro forma data | |
|---------------------|-----------------------|------------|-------------------------|--|
| | Three | | Six Months Ended | |
| | Months Ended | | November 30, | |
| | November 30, | | November 30, | |
| | 2014 | | 2015 | |
| | (unaudited) | | (unaudited) | |
| Revenues | \$ 287,003 | \$ 521,388 | \$ 514,763 | |
| Net income | \$ 18,255 | \$ 13,261 | \$ 25,597 | |
| Earnings per share: | | | | |
| Basic | \$ 0.88 | \$ 0.64 | \$ 1.24 | |
| Diluted | \$ 0.84 | \$ 0.62 | \$ 1.17 | |

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In June 2015, we purchased 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

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allocated to goodwill. 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.

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.

3. RECEIVABLES

A summary of accounts receivable as of November 30, 2015 and May 31, 2015 is as follows (in thousands):

| | November 30, 2015 (unaudited) | May 31, 2015 |
|---------------------------------|----------------------------------|--------------|
| Trade accounts receivable | \$ 219,030 | \$ 197,322 |
| Unbilled revenues | 28,614 | 18,387 |
| Allowance for doubtful accounts | (3,582) | (2,775) |
| Total | \$ 244,062 | \$ 212,934 |

4. INVENTORY

A summary of inventory as of November 30, 2015 and May 31, 2015 is as follows (in thousands):

| | November 30, 2015 (unaudited) | May 31, 2015 |
|------------------|----------------------------------|--------------|
| Raw materials | \$ 3,007 | \$ 3,168 |
| Work in progress | 980 | 924 |
| Finished goods | 24,479 | 21,913 |
| Total | \$ 28,466 | \$ 26,005 |

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of November 30, 2015 and May 31, 2015 is as follows (in thousands):

| | November 30, 2015 (unaudited) | May 31, 2015 |
|---|----------------------------------|--------------|
| Land | \$ 3,136 | \$ 3,025 |
| Buildings and leasehold improvements | 29,627 | 27,390 |
| Machinery and equipment | 173,600 | 154,891 |
| Furniture and fixtures | 6,576 | 5,939 |
| Capitalized ERP system development costs | 23,885 | 14,524 |
| Computers and computer software | 7,966 | 7,252 |
| Automobiles | 5,384 | 3,095 |
| Construction in progress | 4,252 | 2,934 |
| Total | 254,426 | 219,050 |
| Accumulated depreciation and amortization | (131,205) | (121,124) |

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| | | | | |
|-------------------------------------|----|---------|----|--------|
| Property, plant, and equipment, net | \$ | 123,221 | \$ | 97,926 |
|-------------------------------------|----|---------|----|--------|

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In the second quarter of fiscal year 2014, we initiated the design and implementation of a new enterprise resource planning (ERP) system, which is expected to be installed by the end of calendar year 2017. Amortization of the ERP system development costs will be computed by the straight-line method, commencing in the period when substantial testing is completed and the asset is ready for its intended use. Through November 30, 2015, we have capitalized \$24.1 million associated with the project that includes \$0.4 million of capitalized interest.

6. ASSETS HELD FOR SALE

Assets held for sale consisted of \$5.2 million related to approximately 50 acres of undeveloped land purchased in October 2007 in Pearland, Texas. The property was sold on July 29, 2015, for \$5.3 million.

7. INTANGIBLE ASSETS

A summary of intangible assets as of November 30, 2015 and May 31, 2015 is as follows (in thousands):

| | November 30, 2015 (unaudited) | | | May 31, 2015 | | |
|------------------------|----------------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | \$ 99,789 | \$ (12,412) | \$ 87,377 | \$ 22,612 | \$ (9,111) | \$ 13,501 |
| Non-compete agreements | 5,018 | (3,460) | 1,558 | 3,417 | (3,363) | 54 |
| Trade names | 6,300 | (1,805) | 4,495 | 4,401 | (1,074) | 3,327 |
| Technology | 5,112 | (2,496) | 2,616 | 5,112 | (2,230) | 2,882 |
| Licenses | 683 | (211) | 472 | 683 | (179) | 504 |
| Total | \$ 116,902 | \$ (20,384) | \$ 96,518 | \$ 36,225 | \$ (15,957) | \$ 20,268 |

Amortization expense for the three months ended November 30, 2015 and 2014 was \$2.5 million and \$0.9 million, respectively. Amortization expense for the six months ended November 30, 2015 and 2014 was \$4.7 million and \$1.9 million, respectively.

8. OTHER ACCRUED LIABILITIES

A summary of other accrued liabilities as of November 30, 2015 and May 31, 2015 is as follows (in thousands):

| | November 30, 2015 (unaudited) | May 31, 2015 |
|--|----------------------------------|--------------|
| Payroll and other compensation expenses | \$ 34,962 | \$ 35,858 |
| Insurance accruals | 6,563 | 5,712 |
| Property, sales and other non-income related taxes | 3,342 | 2,840 |
| Lease commitments | 1,737 | 1,703 |
| Deferred revenue | 1,193 | 1,116 |
| Contingent consideration | 2,800 | 229 |
| Other | 12,392 | 6,727 |
| Total | \$ 62,989 | \$ 54,185 |

Table of Contents**9. LONG-TERM DEBT, DERIVATIVES AND LETTERS OF CREDIT**

In July 2015, we renewed our banking credit facility (the New Credit Facility). The New Credit Facility has borrowing capacity of up to \$500 million and consists of a \$300 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 New Credit Facility matures in July 2020. The New Credit Facility also contains financial covenants requiring the Company to maintain as of the end of each fiscal quarter (i) a maximum ratio of consolidated funded debt to consolidated EBITDA of not more than 4.00 to 1.00 (until August 31, 2016, at which point the ratio will decrease by 0.25 to 1.00 every other 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 November 30, 2015, we are in compliance with these covenants. With the change in our fiscal year end to December 31 of each calendar year, the amended test dates to determine compliance with the financial covenants will be the calendar year quarters subsequent to December 31, 2015.

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 \$13.2 million at November 30, 2015 and \$12.1 million at May 31, 2015. Outstanding letters of credit reduce amounts available under our New Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the New Credit Facility.

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 income. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Hedge effectiveness is measured at least quarterly based on the relative cumulative changes in fair value between the derivative contract and the hedged item over time. Credit risks related to derivatives include the possibility that the counter-party will not fulfill the terms of the contract. We considered counter-party credit risk to our derivative contracts when valuing our derivative instruments.

Our borrowing of \$12.3 million under the New 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 November 30, 2015, the \$12.3 million borrowing had a U.S. Dollar value of \$13.0 million.

The amounts recognized in other comprehensive income, and reclassified into income, for the three and six months ended November 30, 2015 and 2014, are as follows (in thousands):

| | Gain Recognized in Other Comprehensive Income Three Months Ended November 30, (unaudited) | | Gain Reclassified from Other Comprehensive Income to Earnings Three Months Ended November 30, (unaudited) | | Gain Recognized in Other Comprehensive Income Six Months Ended November 30, (unaudited) | | Gain Reclassified from Other Comprehensive Income to Earnings Six Months Ended November 30, (unaudited) | |
|----------------------|---|--------|---|------|---|----------|---|------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Net investment hedge | \$ 743 | \$ 842 | \$ | \$ | \$ 505 | \$ 1,439 | \$ | \$ |

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

| | November 30, 2015 (unaudited) | | | May 31, 2015 | | |
|----------------------|----------------------------------|------------------------|------------|----------------|------------------------|------------|
| | Classification | Balance Sheet Location | Fair Value | Classification | Balance Sheet Location | Fair Value |
| Net investment hedge | Liability | Long-term debt | \$ (4,971) | Liability | Long-term debt | \$ (4,466) |

10. FAIR VALUE MEASUREMENTS

We apply the provisions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), which among other things, requires enhanced disclosures about assets and liabilities carried at fair value.

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best information available. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The use of unobservable inputs is intended to allow for fair value determinations in situations in which there is little, if any, market activity for the asset or liability at the measurement date. We are able to classify fair value balances based on the observability of those inputs. ASC 820 establishes a fair value hierarchy such that Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market, Level 2 measurements include quoted market prices for identical assets or liabilities in an active market which have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets, and Level 3 measurements include those that are unobservable and of a highly subjective measure.

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of November 30, 2015 and May 31, 2015. As required by ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

| | November 30, 2015 (unaudited) | | | Total |
|--------------------------|---|---|---|------------|
| | Quoted Prices in Active Markets for Identical Items (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Liabilities: | | | | |
| Contingent consideration | \$ | \$ | \$ 3,618 | \$ 3,618 |
| Net investment hedge | \$ | \$ (4,971) | \$ | \$ (4,971) |

| | May 31, 2015 | | | Total |
|--|---|---|---|-------|
| | Quoted Prices in Active Markets for Identical Items (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| | | | | |

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| | | | | |
|--------------------------|----|------------|----------|------------|
| Liabilities: | | | | |
| Contingent consideration | \$ | \$ | \$ 1,407 | \$ 1,407 |
| Net investment hedge | \$ | \$ (4,466) | \$ | \$ (4,466) |

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There were no transfers in and out of Level 1 & Level 2 during the six months ended November 30, 2015 and 2014. There was a transfer out of Level 3 of \$5.8 million relating to a revaluation of contingent consideration during the six months ended November 30, 2015 and no transfers in and out of Level 3 during the six months ended November 30, 2014.

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.

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

| | Six Months Ended November 30, 2015 (unaudited) | Twelve Months Ended May 31, 2015 |
|------------------------------|--|-------------------------------------|
| Balance, beginning of period | \$ 1,407 | \$ 2,015 |
| Accretion of liability | 119 | 163 |
| Foreign currency effects | | (21) |
| Payment | (230) | (1,000) |
| Revaluation | (5,256) | |
| Acquisitions | 7,578 | 250 |
| Balance, end of period | \$ 3,618 | \$ 1,407 |

11. SHARE-BASED COMPENSATION

We have adopted stock incentive plans and other arrangements pursuant to which our Board of Directors (the Board) may grant stock options, restricted stock, stock units, stock appreciation rights, common stock or performance awards to officers, directors and key employees. At November 30, 2015, 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. The governance of our share-based compensation does not directly limit the number of future awards. However, the total number of shares ultimately issued may not exceed the total number of shares cumulatively authorized, which is 7,120,000 at November 30, 2015. Shares issued in connection with our share-based compensation are issued out of authorized but unissued common stock. Compensation expense related to share-based compensation totaled \$1.8 million and \$1.5 million for the three months ended November 30, 2015 and 2014, respectively. Compensation expense related to share-based compensation totaled \$3.0 million and \$2.5 million for the six months ended November 30, 2015 and 2014, respectively. At November 30, 2015, \$15.0 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 2.9 years. The tax benefit derived when share-based awards result in a tax deduction for the Company was \$0.4 million and \$1.5 million for the six months ended November 30, 2015 and 2014, respectively.

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 two to four years and the expense associated with the units is recognized over the same vesting period. We also grant common stock to our

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directors which typically vest immediately. Compensation expense related to stock units and director stock grants totaled \$2.5 million and \$2.1 million for the six months ended November 30, 2015 and 2014, respectively. Transactions involving our stock units and director stock grants during the six months ended November 30, 2015 and 2014 are summarized below:

| | Six Months Ended November 30, 2015 (unaudited) | | Six Months Ended November 30, 2014 (unaudited) | |
|--|--|-----------------------------------|--|-----------------------------------|
| | No. of Stock Units (in thousands) | Weighted Average Fair Value | No. of Stock Units (in thousands) | Weighted Average Fair Value |
| Stock and stock units, beginning of period | 303 | \$ 36.28 | 310 | \$ 31.42 |
| Changes during the period: | | | | |
| Granted | 197 | \$ 35.14 | 156 | \$ 39.51 |
| Vested and settled | (125) | \$ 34.43 | (129) | \$ 29.18 |
| Cancelled | (3) | \$ 40.36 | (9) | \$ 32.10 |
| Stock and stock units, end of period | 372 | \$ 36.26 | 328 | \$ 36.14 |

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

| | Six Months Ended November 30, 2015 (unaudited) | | Six Months Ended November 30, 2014 (unaudited) | |
|--|--|-----------------------------------|--|-----------------------------------|
| | No. of Stock Units (in thousands) | Weighted Average Fair Value | No. of Stock Units (in thousands) | Weighted Average Fair Value |
| Long-term performance stock units, beginning of period | 23 | \$ 42.25 | | \$ |
| Changes during the period: | | | | |
| Granted | 36 | \$ 33.91 | 23 | \$ 42.25 |
| Vested and settled | | \$ | | \$ |
| Cancelled | | \$ | | \$ |
| Long-term performance stock units, end of period | 59 | \$ 37.16 | 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 totaled \$0.2 million and \$0.3 million for the

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six months ended November 30, 2015 and 2014, respectively. Transactions involving our performance awards during the six months ended November 30, 2015 and 2014 are summarized below:

| | Six Months Ended November 30, 2015 (unaudited) | | Six Months Ended November 30, 2014 (unaudited) | |
|---|--|-----------------------------------|--|-----------------------------------|
| | No. of Performance Awards (in thousands) | Weighted Average Fair Value | No. of Performance Awards (in thousands) | Weighted Average Fair Value |
| Performance awards, beginning of period | 28 | \$ 32.86 | 50 | \$ 30.63 |
| Changes during the period: | | | | |
| Granted | | \$ | | \$ |
| Vested and settled | (15) | \$ 30.82 | (22) | \$ 27.66 |
| Cancelled | | \$ | | \$ |
| Performance awards, end of period | 13 | \$ 35.15 | 28 | \$ 32.86 |

We determine the fair value of each stock option at the grant date using a Black-Scholes model and recognize the resulting expense of our stock option awards over the period during which an employee is required to provide services in exchange for the awards, usually the vesting period. There was no compensation expense related to stock options for the six months ended November 30, 2015 and 2014, as all stock option awards were fully vested. Our options typically vest in equal annual installments over a four year service period. Expense related to an option grant is recognized on a straight line basis over the specified vesting period for those options. Stock options generally have a ten year term. Transactions involving our stock options during the six months ended November 30, 2015 and 2014 are summarized below:

| | Six Months Ended November 30, 2015 (unaudited) | | Six Months Ended November 30, 2014 (unaudited) | |
|--|--|---------------------------------------|--|---------------------------------------|
| | No. of Options (in thousands) | Weighted Average Exercise Price | No. of Options (in thousands) | Weighted Average Exercise Price |
| Shares under option, beginning of period | 490 | \$ 24.80 | 816 | \$ 19.61 |
| Changes during the period: | | | | |
| Granted | | \$ | | \$ |
| Exercised | (109) | \$ 21.41 | (124) | \$ 10.40 |
| Cancelled | | \$ | | \$ |
| Expired | | \$ | | \$ |
| Shares under option, end of period | 381 | \$ 25.77 | 692 | \$ 21.26 |
| Exercisable at end of period | 381 | \$ 25.77 | 692 | \$ 21.26 |

Options exercisable at November 30, 2015 had a weighted-average remaining contractual life of 1.6 years. For total options outstanding at November 30, 2015, the range of exercise prices and remaining contractual lives are as follows:

| Range of Prices | No. of Options | Weighted Average Exercise Price | Weighted Average Remaining Life |
|-----------------|-------------------|---------------------------------------|--|
|-----------------|-------------------|---------------------------------------|--|

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| | (in thousands) | | (in years) |
|--------------------|----------------|----------|------------|
| \$9.63 to \$12.82 | 30 | \$ 12.63 | 0.8 |
| \$12.83 to \$16.03 | 69 | \$ 15.15 | 0.9 |
| \$16.04 to \$32.05 | 282 | \$ 29.79 | 1.8 |
| | 381 | \$ 25.77 | 1.6 |

Table of Contents**12. ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

| | Six Months Ended November 30, 2015 (unaudited) | | | | Six Months Ended November 30, 2014 (unaudited) | | | |
|---|--|------------------------------|------------------|-------------|--|------------------------------|------------------|------------|
| | Foreign Currency Translation Adjustments | Foreign Currency Hedge | Tax Provision | Total | Foreign Currency Translation Adjustments | Foreign Currency Hedge | Tax Provision | Total |
| Balance, beginning of period | \$ (20,896) | \$ 4,466 | \$ 2,892 | \$ (13,538) | \$ (5,145) | \$ 1,229 | \$ 1,237 | \$ (2,679) |
| Other comprehensive income (loss) before tax | (6,020) | 505 | 1,402 | (4,113) | (6,939) | 1,439 | 777 | (4,723) |
| Non-controlling interest | | | | | 37 | | | 37 |
| Balance, end of period | \$ (26,916) | \$ 4,971 | \$ 4,294 | \$ (17,651) | \$ (12,047) | \$ 2,668 | \$ 2,014 | \$ (7,365) |

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

| | Six Months Ended November 30, 2015 (unaudited) | | | Six Months Ended November 30, 2014 (unaudited) | | |
|--|--|---------------|---------------|--|---------------|---------------|
| | Gross Amount | Tax Effect | Net Amount | Gross Amount | Tax Effect | Net Amount |
| Foreign currency translation adjustments | \$ (6,020) | \$ 1,594 | \$ (4,426) | \$ (6,939) | \$ 1,336 | \$ (5,603) |
| Foreign currency hedge | 505 | (192) | 313 | 1,439 | (559) | 880 |
| Total | \$ (5,515) | \$ 1,402 | \$ (4,113) | \$ (5,500) | \$ 777 | \$ (4,723) |

13. COMMITMENTS AND CONTINGENCIES

Con Ed Matter We have, from time to time, provided temporary leak repair services for the steam operations of Consolidated Edison Company of New York (Con Ed) located in New York City. In July 2007, a Con Ed steam main located in midtown Manhattan ruptured causing one death and other injuries and property damage. As of November 30, 2015, ninety-two lawsuits are currently pending against Con Ed, the City of New York and Team in the Supreme Courts of New York located in Kings, New York and Bronx County, alleging that our temporary leak repair services may have contributed to the cause of the rupture. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, on March 31, 2008, we received a letter from Con Ed alleging that our contract with Con Ed requires us to indemnify and defend Con Ed for additional claims filed against Con Ed as a result of the rupture. Con Ed filed an action to join Team and the City of New York as defendants in all lawsuits filed against Con Ed that did not include Team and the City of New York as direct defendants. We are vigorously defending the lawsuits and Con Ed's claim for indemnification. We are unable to estimate the amount of liability to us, if any, associated with these lawsuits and the claim for indemnification. We maintain insurance coverage, subject to a deductible limit of \$250,000, which we believe should cover these claims. We have not accrued any liability in excess of the deductible limit for the lawsuits. We do not believe the ultimate outcome of these matters will have a material adverse effect on our financial position, results of operations, or cash flows.

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 (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

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Inspection . This Quest Integrity patent generally teaches a system and method for displaying inspection data collected during the inspection of furnace tubes in petroleum and petro-chemical refineries. The subject patent litigation is specific to the visual display of the collected data and does not relate to Quest Integrity's underlying advanced inspection technology. In these lawsuits Quest Integrity is seeking temporary and permanent injunctive relief, as well as monetary damages. Defendants have denied they infringe any valid claim of Quest Integrity's patent, and have asserted declaratory judgment counterclaims that the patent at issue is invalid and/or unenforceable, and not infringed. In June 2015, the U.S. District of Delaware denied our motions for preliminary injunctive relief in the Delaware Cases (that is, our request that the defendants stop using our patented systems and methods during the pendency of the actions). The Delaware Cases are expected to proceed to trial on our claims during the third calendar quarter of 2016. The preliminary injunction hearing for the Washington Case is expected to occur in the second half of calendar 2016.

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

14. ENTITY WIDE DISCLOSURES

ASC 280, *Segment Reporting*, requires us to disclose certain information about our operating segments where operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. We conduct operations in three segments: IHT Group, MS Group and Quest Integrity Group. All three operating segments operate under a business segment manager who reports directly to Team's Chief Executive Officer who operates as the chief operating decision maker. Segment data for our three operating segments are as follows (in thousands):

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|-----------------|------------------------------------|---------------------|----------------------------------|---------------------|
| | 2015 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2014 (unaudited) |
| Revenues: | | | | |
| IHT | \$ 174,694 | \$ 134,080 | \$ 311,461 | \$ 239,674 |
| MS | 86,390 | 84,221 | 154,748 | 152,067 |
| Quest Integrity | 19,775 | 22,318 | 37,344 | 36,999 |
| Total | \$ 280,859 | \$ 240,619 | \$ 503,553 | \$ 428,740 |

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---------------------------------------|------------------------------------|---------------------|----------------------------------|---------------------|
| | 2015 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2014 (unaudited) |
| Operating income: | | | | |
| IHT | \$ 19,758 | \$ 21,999 | \$ 32,285 | \$ 34,286 |
| MS | 9,830 | 8,809 | 13,461 | 15,513 |
| Quest Integrity | 3,591 | 6,350 | 5,336 | 7,117 |
| Corporate and shared support services | (13,780) | (8,484) | (27,234) | (16,417) |
| Total | \$ 19,399 | \$ 28,674 | \$ 23,848 | \$ 40,499 |

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| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---------------------------------------|------------------------------------|---------------------|----------------------------------|---------------------|
| | 2015 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2014 (unaudited) |
| Capital expenditures: | | | | |
| IHT | \$ 2,430 | \$ 2,325 | \$ 5,763 | \$ 3,864 |
| MS | 2,119 | 907 | 4,558 | 2,087 |
| Quest Integrity | 456 | 815 | 1,694 | 1,611 |
| Corporate and shared support services | 5,574 | 1,910 | 9,782 | 3,863 |
| Total | \$ 10,579 | \$ 5,957 | \$ 21,797 | \$ 11,425 |

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---------------------------------------|------------------------------------|---------------------|----------------------------------|---------------------|
| | 2015 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2014 (unaudited) |
| Depreciation and amortization: | | | | |
| IHT | \$ 4,872 | \$ 2,068 | \$ 8,904 | \$ 4,069 |
| MS | 1,969 | 1,884 | 4,094 | 3,748 |
| Quest Integrity | 1,525 | 1,420 | 2,966 | 2,825 |
| Corporate and shared support services | 292 | 263 | 578 | 522 |
| Total | \$ 8,658 | \$ 5,635 | \$ 16,542 | \$ 11,164 |

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

A geographic breakdown of our revenues for the three and six months ended November 30, 2015 and 2014 and total assets as of November 30, 2015 and May 31, 2015 are as follows (in thousands):

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|-------------------------|------------------------------------|---------------------|----------------------------------|---------------------|
| | 2015 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2014 (unaudited) |
| Revenues: | | | | |
| United States | \$ 219,886 | \$ 177,593 | \$ 393,246 | \$ 315,657 |
| Canada | 39,334 | 40,042 | 64,879 | 72,118 |
| Europe | 11,966 | 13,464 | 23,782 | 23,910 |
| Other foreign countries | 9,673 | 9,520 | 21,646 | 17,055 |
| Total | \$ 280,859 | \$ 240,619 | \$ 503,553 | \$ 428,740 |

| | November 30, 2015 (unaudited) | May 31, 2015 |
|-------------------------|----------------------------------|--------------|
| Total assets: | | |
| United States | \$ 697,308 | \$ 399,173 |
| Canada | 66,190 | 68,043 |
| Europe | 32,396 | 34,612 |
| Other foreign countries | 23,974 | 22,005 |

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| | | | | |
|-------|----|---------|----|---------|
| Total | \$ | 819,868 | \$ | 523,833 |
|-------|----|---------|----|---------|

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15. REPURCHASE OF COMMON STOCK

On June 23, 2014, our Board authorized an increase in the stock repurchase plan limit to \$50 million. There were no repurchases during the six months ended November 30, 2015. At November 30, 2015, \$15.5 million remained available to repurchase shares under the stock repurchase plan. Under the New Credit Facility, the Company is limited in its ability to make stock repurchases unless the leverage ratio is below 2.50 to 1.00.

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

Overview

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

We based our forward-looking statements on our reasonable beliefs and assumptions, and our current expectations, estimates and projections about ourselves and our industry. We caution that these statements are not guarantees of future performance and involve risks, uncertainties and assumptions that we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. We wish to ensure that such statements are accompanied by meaningful cautionary statements, so as to obtain the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including, but not limited to the statements under Risk Factors. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Differences between actual results and any future performance suggested in these forward-looking statements could result from a variety of factors, including those listed beginning on page 8 of our Annual Report on Form 10-K for the year ended May 31, 2015.

General Description of Business

We are a leading provider of specialty industrial services, including inspection and assessment, required in maintaining high temperature and high pressure piping systems and vessels that are utilized extensively in the refining, petrochemical, power, pipeline and other heavy industries. We conduct operations in three segments: IHT, MS and Quest Integrity. While our services are aligned in three business groups, we believe our services broadly fall into three different classifications that have unique customer demand drivers: inspection and assessment services, turnaround services, and on-stream services.

Inspection and assessment services are offered in both IHT and Quest Integrity. IHT provides basic and advanced non-destructive testing services for the process, pipeline and power sectors; pipeline integrity management 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. Quest Integrity provides integrity and reliability management solutions for the process, pipeline and power sectors. These solutions encompass two broadly-defined disciplines: (1) highly specialized in-line inspection services for unpiggable process piping and pipelines using proprietary in-line inspection tools and analytical software; and (2) advanced condition assessment services through a multi-disciplined engineering team. We believe there is a general growth in market demand for inspection and assessment services as improved inspection technologies enable better information about asset reliability to be available to facility owners and operators.

Turnaround services are offered in both IHT and MS. These 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 projects. Turnaround services include the field machining, technical bolting, field valve repair, heat exchanger repair, and isolation test plugging services that are part of MS and the field heat treating services that are part of IHT.

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On-stream services are offered by MS and represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control and hot tapping. We believe demand for on-stream services is a function of the population of the existing infrastructure of operating industrial facilities.

We offer these services in over 150 locations throughout the world. Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, OEMs, distributors, and some of the world's largest engineering and construction firms. Our services are also provided across a broad geographic reach.

Three Months Ended November 30, 2015 Compared to Three Months Ended November 30, 2014

The following table sets forth the components of revenue and operating income from our operations for the three months ended November 30, 2015 and 2014 (in thousands):

| | Three Months Ended November 30, | | Increase (Decrease) | |
|---------------------------------------|------------------------------------|---------------------|------------------------|----------------|
| | 2015 (unaudited) | 2014 (unaudited) | \$ | % |
| Revenues by business segment: | | | | |
| IHT | \$ 174,694 | \$ 134,080 | \$ 40,614 | 30.3% |
| MS | 86,390 | 84,221 | 2,169 | 2.6% |
| Quest Integrity | 19,775 | 22,318 | (2,543) | (11.4)% |
| Total | \$ 280,859 | \$ 240,619 | \$ 40,240 | 16.7% |
| Operating income: | | | | |
| IHT | \$ 19,758 | \$ 21,999 | \$ (2,241) | (10.2)% |
| MS | 9,830 | 8,809 | 1,021 | 11.6% |
| Quest Integrity | 3,591 | 6,350 | (2,759) | (43.4)% |
| Corporate and shared support services | (13,780) | (8,484) | (5,296) | (62.4)% |
| Total | \$ 19,399 | \$ 28,674 | \$ (9,275) | (32.3)% |

Revenues. Total revenues grew \$40.2 million or 16.7% from the prior year quarter. Of this amount, approximately \$47.7 million represents revenues from acquisitions completed during the current fiscal year. Excluding the impacts of acquisitions and an adverse impact of \$8.6 million due to foreign exchange rates, total revenues increased by \$1.2 million, IHT revenues increased by \$0.4 million, MS revenues increased by \$2.9 million and Quest revenues declined by \$2.1 million. Markets were softer than expected in the current quarter as our refining and petrochemical customers deferred planned capital and maintenance projects.

Operating income. Overall operating income declined by \$9.3 million or 32.3% from the prior year quarter. The current year quarter includes non-routine expenses totaling \$4.5 million related to \$2.8 million in professional fees related to costs associated with mergers and acquisitions activity and a change in fiscal year end, \$0.5 million in intellectual property defense legal costs and \$1.3 million in costs related to the implementation of our new ERP system (all included in corporate and shared support services). Additionally, adverse foreign exchange rates reduced operating income by \$1.1 million. Excluding the impact of these non-routine items, operating income decreased by \$3.7 million or 12.5% as a result of weaker demand from project deferrals mentioned above, an unfavorable shift in revenue mix to a higher proportion of lower margin services in the current year quarter and an increase in corporate and shared support services of \$0.6 million.

Interest expense. Interest expense increased from \$0.6 million in the prior year quarter to \$2.3 million in the current year quarter. The increase is due primarily to additional debt financing used to fund the July 2015 acquisition of Qualspec.

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Foreign currency loss. Foreign currency losses decreased from \$0.6 million in the prior year quarter to \$0.1 million in the current year quarter. The current year quarter reflects 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.

Six Months Ended November 30, 2015 Compared to Six Months Ended November 30, 2014

The following table sets forth the components of revenue and operating income from our operations for the six months ended November 30, 2015 and 2014 (in thousands):

| | Six Months Ended November 30, | | Increase (Decrease) | |
|---------------------------------------|----------------------------------|---------------------|------------------------|----------------|
| | 2015 (unaudited) | 2014 (unaudited) | \$ | % |
| Revenues by business segment: | | | | |
| IHT | \$ 311,461 | \$ 239,674 | \$ 71,787 | 30.0% |
| MS | 154,748 | 152,067 | 2,681 | 1.8% |
| Quest Integrity | 37,344 | 36,999 | 345 | 0.9% |
| Total | \$ 503,553 | \$ 428,740 | \$ 74,813 | 17.4% |
| Operating income: | | | | |
| IHT | \$ 32,285 | \$ 34,286 | \$ (2,001) | (5.8)% |
| MS | 13,461 | 15,513 | (2,052) | (13.2)% |
| Quest Integrity | 5,336 | 7,117 | (1,781) | (25.0)% |
| Corporate and shared support services | (27,234) | (16,417) | (10,817) | (65.9)% |
| Total | \$ 23,848 | \$ 40,499 | \$ (16,651) | (41.1)% |

Revenues. Total revenues grew \$74.8 million or 17.4% from the same period in the prior year. Of this amount, approximately \$73.5 million represents revenues from acquisitions completed during the current fiscal year. Excluding the impacts of acquisitions and an adverse impact of \$14.6 million due to foreign exchange rates, total revenues increased by \$15.9 million, IHT revenues increased by \$11.3 million, MS revenues increased by \$3.4 million and Quest revenues increased by \$1.2 million. Markets were softer than expected in the current period as our refining and petrochemical customers deferred planned capital and maintenance projects.

Operating income. Overall operating income declined by \$16.7 million or 41.1% from the same period in the prior year. The current year includes non-routine expenses totaling \$10.0 million related to \$6.4 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, \$1.1 million in intellectual property defense legal costs and \$2.0 million in costs related to the implementation of our new ERP system (all included in Corporate and shared support services). The prior year included \$0.2 million of professional fees related to mergers and acquisitions activity. Additionally, adverse foreign exchange rates reduced operating income by \$1.2 million. Excluding the impact of these non-routine items, operating income decreased by \$5.6 million or 13.8% as a result of weaker than expected revenue generation mentioned above coupled with an increase in corporate and shared support services of \$2.4 million.

Interest expense. Interest expense increased from \$1.2 million in the prior year to \$4.0 million in the current year. 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 \$0.8 million in the prior year to \$0.6 million in the current year. The current year period reflects 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.

Table of Contents**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 New Credit Facility. The New Credit Facility has borrowing capacity of up to \$500 million and consists of a \$300 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 New Credit Facility matures in July 2020 and expands the number of banks in the syndicate from four to seven. The New Credit Facility also contains financial covenants requiring the Company to maintain as of the end of each fiscal quarter (i) a maximum ratio of consolidated funded debt to consolidated EBITDA of not more than 4.00 to 1.00 (until August 31, 2016, at which point the ratio will decrease by 0.25 to 1.00 every other 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 November 30, 2015, we are in compliance with these covenants. With the change in our fiscal year end to December 31, the amended test dates to determine compliance with the financial covenants will be the calendar year quarters subsequent to December 31, 2015. At November 30, 2015, we had \$46.5 million of cash on hand and approximately \$41 million of available borrowing capacity through our New Credit Facility.

In the second quarter of fiscal year 2014, we initiated the design and implementation of a new ERP system, which is expected to be installed by the end of calendar year 2017. Through November 30, 2015, we have capitalized \$24.1 million associated with the project that includes \$0.4 million of capitalized interest.

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 second quarter of fiscal year 2014). During the third quarter of fiscal year 2015, we repurchased 546,977 shares for a total cost of \$21.1 million. At November 30, 2015, \$15.5 million remained available to repurchase shares under the stock repurchase plan.

Restrictions on cash. Included in our cash and cash equivalents at November 30, 2015 is \$17.3 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. Additionally, we have recorded \$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.

Cash flows attributable to our operating activities. For the six months ended November 30, 2015, net cash provided by operating activities was \$13.4 million. Positive operating cash flow was primarily attributable to net income of \$12.9 million, depreciation and amortization of \$16.5 million, and non-cash compensation cost of \$3.0 million offset by an increase in working capital of \$21.9 million.

For the six months ended November 30, 2014, net cash provided by operating activities was \$9.1 million. Net income of \$24.6 million, depreciation and amortization of \$11.2 million, foreign currency loss of \$0.8 million and non-cash compensation cost of \$2.5 million were offset by an increase in working capital of \$29.1 million.

Cash flows attributable to our investing activities. For the six months ended November 30, 2015, net cash used in investing activities was \$283.8 million, consisting primarily of \$262.2 million for business acquisitions and \$21.8 million of capital expenditures. Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly.

For the six months ended November 30, 2014, net cash used in investing activities was \$14.1 million, consisting primarily of \$11.4 million of capital expenditures and \$2.9 million for business acquisitions.

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Cash flows attributable to our financing activities. For the six months ended November 30, 2015, net cash provided by financing activities was \$285.0 million consisting primarily of \$293.0 million of net borrowings related to our New Credit Facility principally to fund the Qualspec acquisition and \$2.3 million through the issuance of common stock from share-based payment arrangements. These amounts were offset by \$5.9 million for the acquisition of the non-controlling interest and \$2.0 million related to debt issuance costs.

For the six months ended November 30, 2014, net cash provided by financing activities was \$13.1 million consisting primarily of \$13.0 million of net borrowings related to our previous credit facility.

Effect of exchange rate changes on cash. For the six months ended November 30, 2015 and 2014, the effect of exchange rate changes on cash was a negative impact of \$1.3 million and \$1.8 million, respectively. The negative impact in the current fiscal year is primarily attributable to changes in U.S. Dollar exchange rates with Canada, Europe and Malaysia. The negative impact in the prior fiscal year is primarily due to changes in U.S. Dollar exchange rates with Canada and Europe.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations in foreign countries with a functional currency that is not the U.S. Dollar. We are exposed to market risk, primarily related to foreign currency fluctuations related to these operations. Subsidiaries with asset and liability balances denominated in currencies other than their functional currency are remeasured in the preparation of their financial statements using a combination of current and historical exchange rates, with any resulting remeasurement adjustments included in net income for the period. Net foreign currency transaction losses for the six months ended November 30, 2015 and November 30, 2014 were \$0.6 million and \$0.8 million, respectively. The foreign currency transaction losses realized relate primarily to the strengthening of the U.S. Dollar in relation to the Euro, Canadian Dollar, Australian Dollar and Mexican Peso.

In the fourth quarter of fiscal year 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 Euro, Australian Dollar, Brazilian Real, Malaysian Ringgit and Mexican Peso. The impact from these swap contracts was not material for the three months or six months ended November 30, 2015 nor as of the balance sheet date of November 30, 2015 and May 31, 2015.

Translation adjustments for the assets and liability accounts are included as a separate component of accumulated other comprehensive income in shareholders' equity. Foreign currency translation losses in other comprehensive income were \$6.0 million for the six months ended November 30, 2015.

Based on the six months ended November 30, 2015, foreign currency-based revenues and operating income of \$110.3 million and \$8.7 million, respectively, a hypothetical 10% adverse change in all applicable foreign currencies would result in an annual change in revenues and operating income of \$11.0 million and \$0.9 million, respectively.

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

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

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ITEM 4. CONTROLS AND PROCEDURES

Limitations on effectiveness of control. Our management, including the principal executive and principal financial officers, 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 relating 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 November 30, 2015, our disclosure controls and procedures were operating effectively to ensure that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the requisite time periods and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting (as defined in Rules 13a-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 second quarter ending November 30, 2015.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Con Ed Matter We have, from time to time, provided temporary leak repair services for the steam operations of 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 November 30, 2015, ninety-two lawsuits are currently pending against Con Ed, the City of New York and Team in the Supreme Courts of New York located in Kings, New York and Bronx County, alleging that our temporary leak repair services may have contributed to the cause of the rupture. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, on March 31, 2008, we received a letter from Con Ed alleging that our contract with Con Ed requires us to indemnify and defend Con Ed for additional claims filed against Con Ed as a result of the rupture. Con Ed filed an action to join Team and the City of New York as defendants in all lawsuits filed against Con Ed that did not include Team and the City of New York as direct defendants. We are vigorously defending the lawsuits and Con Ed's claim for indemnification. We are unable to estimate the amount of liability to us, if any, associated with these lawsuits and the claim for indemnification. We maintain insurance coverage, subject to a deductible limit of \$250,000, which we believe should cover these claims. We have not accrued any liability in excess of the deductible limit for the lawsuits. We do not believe the ultimate outcome of these matters will have a material adverse effect on our financial position, results of operations, or cash flows.

Patent Infringement Matters In December 2014, our subsidiary, Quest Integrity, filed three patent infringement lawsuits against three different defendants, two in the U.S. District of Delaware and one in the U.S. District of Western Washington. Quest Integrity alleges that the three defendants infringed Quest Integrity's patent, entitled "2D and 3D Display System and Method for Furnace Tube Inspection". This Quest Integrity patent generally teaches a system and method for displaying inspection data collected during the inspection of furnace tubes in petroleum and petro-chemical refineries. The subject patent litigation is specific to the visual display of the collected data and does not relate to Quest Integrity's underlying advanced inspection technology. In these lawsuits Quest Integrity is seeking temporary and permanent injunctive relief, as well as monetary damages. Defendants have denied they infringe any valid claim of Quest Integrity's patent, and have asserted declaratory judgment counterclaims that the patent at issue is invalid and/or unenforceable, and not infringed. In June 2015, the U.S. District of Delaware denied our motions for preliminary injunctive relief in the Delaware Cases (that is, our request that the defendants stop using our patented systems and methods during the pendency of the actions). The Delaware Cases are expected to proceed to trial on our claims during the third calendar quarter of 2016. The preliminary injunction hearing for the Washington Case is expected to occur in the second half of calendar 2016.

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

ITEM 1A. RISK FACTORS

See page 8 of our Annual Report on Form 10-K for the year ended May 31, 2015 for a detailed discussion of our risk factors.

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

On June 23, 2014, our Board authorized an increase in the stock repurchase plan limit to \$50 million. There were no repurchases during the three months ended November 30, 2015. At November 30, 2015 \$15.5 million remained available to repurchase under the stock repurchase plan. Under the New Credit Facility, the Company is limited in its ability to make stock repurchases unless the leverage ratio is below 2.50 to 1.00.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES
NONE

ITEM 4. MINE SAFETY DISCLOSURES
NOT APPLICABLE

ITEM 5. OTHER INFORMATION
NONE

ITEM 6. EXHIBITS

| Exhibit Number | Description |
|---------------------------|--|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Schema Document. |
| 101.CAL | XBRL Calculation Linkbase Document. |
| 101.DEF | XBRL Definition Linkbase Document. |
| 101.LAB | XBRL Label Linkbase Document. |
| 101.PRE | XBRL Presentation Linkbase Document. |

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SIGNATURES

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

TEAM, INC.

(Registrant)

Date: January 11, 2016

/s/ TED W. OWEN
Ted W. Owen

President and Chief Executive Officer

(Principal Executive Officer)

/s/ GREG L. BOANE
Greg L. Boane

Senior Vice President and Chief Financial Officer

(Principal Financial Officer and

Principal Accounting Officer)