

TEAM INC  
Form 10-Q  
August 09, 2018  
Table of Contents

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 June 30, 2018

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

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

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

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

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

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

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

Yes  No

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

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

Large accelerated filer  Accelerated filer

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

Edgar Filing: TEAM INC - Form 10-Q

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 30,021,570 shares of common stock, par value \$0.30, outstanding as of August 3, 2018.

---

Table of Contents

INDEX

	Page No.
<u>PART I—FINANCIAL INFORMATION</u>	<u>2</u>
<u>ITEM 1. Financial Statements</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets as of June 30, 2018 (Unaudited) and December 31, 2017</u>	<u>2</u>
<u>Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2018 and 2017</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended June 30, 2018 and 2017</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017</u>	<u>5</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
<u>ITEM 4. Controls and Procedures</u>	<u>39</u>
<u>PART II—OTHER INFORMATION</u>	<u>40</u>
<u>ITEM 1. Legal Proceedings</u>	<u>40</u>
<u>ITEM 1A. Risk Factors</u>	<u>40</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
<u>ITEM 3. Defaults Upon Senior Securities</u>	<u>40</u>
<u>ITEM 4. Mine Safety Disclosures</u>	<u>40</u>
<u>ITEM 5. Other Information</u>	<u>40</u>
<u>ITEM 6. Exhibits</u>	<u>40</u>
<u>SIGNATURES</u>	<u>42</u>

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)

	June 30, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,296	\$ 26,552
Receivables, net of allowance of \$15,352 and \$11,308	323,169	301,963
Inventory	52,495	49,703
Income tax receivable	—	892
Prepaid expenses and other current assets	30,418	17,950
Total current assets	421,378	397,060
Property, plant and equipment, net	195,762	203,219
Intangible assets, net of accumulated amortization of \$68,230 and \$54,184	145,781	160,161
Goodwill	283,090	284,804
Other assets, net	6,617	5,798
Deferred income taxes	5,462	4,793
Total assets	\$ 1,058,090	\$ 1,055,835
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 51,813	\$ 55,312
Other accrued liabilities	94,843	92,472
Income taxes payable	742	—
Total current liabilities	147,398	147,784
Deferred income taxes	42,302	38,100
Long-term debt	390,481	387,749
Defined benefit pension liability	12,725	14,976
Other long-term liabilities	9,053	9,758
Total liabilities	601,959	598,367
Commitments and contingencies		
Equity:		
Preferred stock, 500,000 shares authorized, none issued	—	—
Common stock, par value \$0.30 per share, 60,000,000 shares authorized; 30,019,135 and 29,953,041 shares issued	9,004	8,984
Additional paid-in capital	396,800	352,500
Retained earnings	73,901	115,780
Accumulated other comprehensive loss	(23,574 )	(19,796 )
Total equity	456,131	457,468
Total liabilities and equity	\$ 1,058,090	\$ 1,055,835

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

## TEAM, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues	\$343,889	\$312,256	\$646,274	\$598,810
Operating expenses	246,707	227,613	473,558	439,363
Gross margin	97,182	84,643	172,716	159,447
Selling, general and administrative expenses	93,174	91,065	182,833	180,378
Restructuring and other related charges (credits), net	2,411	271	2,411	(976 )
Gain on revaluation of contingent consideration	(202 )	—	(202 )	(1,174 )
Operating income (loss)	1,799	(6,693 )	(12,326 )	(18,781 )
Interest expense, net	7,631	4,372	15,228	7,530
Loss on convertible debt embedded derivative (see Note 8)	29,330	—	24,783	—
Other expense, net	285	17	332	358
Loss before income taxes	(35,447 )	(11,082 )	(52,669 )	(26,669 )
Less: Provision (benefit) for income taxes	(2,977 )	4	(2,354 )	(6,075 )
Net loss	\$(32,470 )	\$(11,086 )	\$(50,315 )	\$(20,594 )
Loss per common share:				
Basic	\$(1.08 )	\$(0.37 )	\$(1.68 )	\$(0.69 )
Diluted	\$(1.08 )	\$(0.37 )	\$(1.68 )	\$(0.69 )

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net loss	\$(32,470)	\$(11,086)	\$(50,315)	\$(20,594)
Other comprehensive income (loss) before tax:				
Foreign currency translation adjustment	(4,809 )	4,448	(4,935 )	6,556
Foreign currency hedge	788	(949 )	367	(1,115 )
Amortization of net actuarial loss on defined benefit pension plans	—	17	—	34
Other comprehensive income (loss), before tax	(4,021 )	3,516	(4,568 )	5,475
Tax (provision) benefit attributable to other comprehensive income (loss)	560	(782 )	790	(1,230 )
Other comprehensive income (loss), net of tax	(3,461 )	2,734	(3,778 )	4,245
Total comprehensive loss	\$(35,931)	\$(8,352 )	\$(54,093)	\$(16,349)

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	
	June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(50,315)	\$(20,594)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	32,434	26,015
Amortization of deferred loan costs and debt discount	3,416	353
Provision for doubtful accounts	5,567	3,172
Foreign currency loss	1,037	437
Deferred income taxes	(3,700)	(9,066)
Gain on revaluation of contingent consideration	(202)	(1,174)
Gain on asset disposal	(912)	(921)
Loss on convertible debt embedded derivative	24,783	—
Non-cash compensation cost	7,006	4,263
Other, net	(1,951)	(2,243)
(Increase) decrease:		
Receivables	(29,361)	(17,896)
Inventory	(3,502)	(1,297)
Prepaid expenses and other current assets	(4,250)	1,857
Increase (decrease):		
Accounts payable	(3,181)	(1,708)
Other accrued liabilities	4,873	5,509
Income taxes	511	683
Net cash used in operating activities	(17,747)	(12,610)
Cash flows from investing activities:		
Capital expenditures	(12,082)	(18,662)
Proceeds from disposal of assets	1,463	2,558
Other	(483)	(508)
Net cash used in investing activities	(11,102)	(16,612)
Cash flows from financing activities:		
Net borrowings under revolving credit agreement	21,168	22,488
Payments under term loan	—	(10,000)
Contingent consideration payments	(1,106)	(1,278)
Debt issuance costs on Credit Facility	(855)	(738)
Issuance of common stock from share-based payment arrangements	—	449
Payments related to withholding tax for share-based payment arrangements	(225)	(302)
Net cash provided by financing activities	18,982	10,619
Effect of exchange rate changes on cash	(1,389)	1,541
Net decrease in cash and cash equivalents	(11,256)	(17,062)
Cash and cash equivalents at beginning of period	26,552	46,216
Cash and cash equivalents at end of period	\$15,296	\$29,154

See accompanying notes to unaudited condensed consolidated financial statements.



Table of Contents

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Description of business. Unless otherwise indicated, the terms “Team, Inc.,” “Team,” “the Company,” “we,” “our” and “us” are used in this report to refer to Team, Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole.

We are a leading provider of standard to specialty industrial services, including inspection, engineering assessment and mechanical repair and remediation required in maintaining high temperature and high pressure piping systems and vessels that are utilized extensively in the refining, petrochemical, power, pipeline and other heavy industries. We conduct operations in three segments: Inspection and Heat Treating Group (“IHT”) (formerly TeamQualspec), Mechanical Services Group (“MS”) (formerly TeamFurmanite) and Quest Integrity Group (“Quest Integrity”). IHT provides standard and advanced non-destructive testing (“NDT”) services for the process, pipeline and power sectors, pipeline integrity management services, field heat treating services, as well as associated engineering and assessment services. These services can be offered while facilities are running (on-stream), during facility turnarounds or during new construction or expansion activities.

MS provides primarily call-out and turnaround services under both on-stream and off-line/shut down circumstances. Turnaround services are project-related and demand is a function of the number and scope of scheduled and unscheduled facility turnarounds as well as new industrial facility construction or expansion activities. The turnaround and call-out services MS provides include field machining, technical bolting, field valve repair and isolation test plugging services. On-stream services offered by MS represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control and hot tapping.

Quest Integrity provides integrity and reliability management solutions for the process, pipeline and power sectors. These solutions encompass two broadly-defined disciplines: (1) highly specialized in-line inspection services for unpiggable process piping and pipelines using proprietary in-line inspection tools and analytical software; and (2) advanced condition assessment services through a multi-disciplined engineering team.

We offer these services globally through over 200 locations in 20 countries throughout the world with more than 7,300 employees. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, original equipment manufacturers (“OEMs”), distributors, and some of the world’s largest engineering and construction firms.

Basis for presentation. These interim financial statements are unaudited, but in the opinion of our management, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results for such periods. The condensed consolidated balance sheet at December 31, 2017 is derived from the December 31, 2017 audited consolidated financial statements. The results of operations for any interim period are not necessarily indicative of results for the full year. Certain disclosures have been condensed or omitted from the interim financial statements included in this report. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2017.

Use of estimates. Our accounting policies conform to Generally Accepted Accounting Principles in the United States (“GAAP”). 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, (7) the valuation of the embedded derivative liability in our convertible debt and (8) selecting assumptions used in the measurement of costs and liabilities associated with defined benefit pension plans. Fair value of financial instruments. Our financial instruments consist primarily of cash, cash equivalents, accounts receivable, accounts payable and debt obligations. The carrying amount of cash, cash equivalents, trade accounts receivable and trade accounts payable are representative of their respective fair values due to the short-term maturity of these instruments. The

Table of Contents

fair value of our credit facility is representative of the carrying value based upon the variable terms and management's opinion that the current rates available to us with the same maturity and security structure are equivalent to that of the banking facility. The fair value of our convertible senior notes as of June 30, 2018 and December 31, 2017 is \$293.3 million and \$231.6 million, respectively (inclusive of the fair value of the conversion option) and is a "Level 2" (as defined in Note 10) measurement, determined based on the observed trading price of these instruments.

Goodwill and intangible assets. Goodwill and intangible assets acquired in a 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.

Our goodwill annual test date is December 1. We measure goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit. We performed our most recent annual impairment test as of December 1, 2017 and concluded that there was no impairment based upon a qualitative assessment to determine if it was more likely than not (that is, a likelihood of more than 50 percent) that the fair values of the reporting units were less than their respective carrying values as of the reporting date. There have been no events that have required an interim assessment of the carrying value of goodwill during 2018.

There was \$283.1 million and \$284.8 million of goodwill at June 30, 2018 and December 31, 2017, respectively. A rollforward of goodwill for the six months ended June 30, 2018 is as follows (in thousands):

	Six Months Ended June 30, 2018 (unaudited)			
	IHT	MS	Quest Integrity	Total
Balance at beginning of period	\$194,211	\$56,600	\$33,993	\$284,804
Foreign currency adjustments	(905 )	(390 )	(419 )	(1,714 )
Balance at end of period	\$193,306	\$56,210	\$33,574	\$283,090

There was \$75.2 million of accumulated impairment losses at June 30, 2018 and December 31, 2017, comprised of \$21.1 million and \$54.1 million for IHT and MS, respectively, which relate to impairment losses recognized in the third quarter of 2017.

Income taxes. The 2017 Tax Cuts and Jobs Act (the "2017 Tax Act") was enacted on December 22, 2017 and represents a significant change to the United States ("U.S.") corporate income tax system including: a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of new minimum taxes such as the base erosion anti-abuse tax ("BEAT") and Global Intangible Low Taxed Income ("GILTI") tax; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system, which will result in a one-time U.S. tax liability on those earnings that have not previously been repatriated to the U.S.

Due to the complexities involved in accounting for the 2017 Tax Act, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118"), which requires companies include in their financial statements reasonable estimates of the impacts of the 2017 Tax Act to the extent such reasonable estimates have been determined. Under SAB 118, companies are allowed a measurement period of up to one year after the enactment date of the 2017 Tax Act to finalize the recording of the related tax impacts. Accordingly, the Company previously recorded certain reasonable estimates of the tax impact in its consolidated statement of operations for the fourth quarter of 2017. As of year ended December 31, 2017, we had not yet completed our accounting for the income tax effects of certain elements of the 2017 Tax Act, including the new GILTI and BEAT taxes. Due to the complexity of these new tax

rules, we continue to evaluate the provisions of the 2017 Tax Act and will record any resulting adjustments to our provisional estimates initially made during the fourth quarter of 2017, during the remainder of 2018, which may materially impact our income tax expense (benefit). Starting in the first quarter of 2018, we have recorded the GILTI tax as a current period expense as incurred. No adjustments to the provisional estimates determined as of December 31, 2017 were recorded during the three or six months ended June 30, 2018.

The effective tax rate was 4.5% for the six months ended June 30, 2018, compared to 22.8% for the six months ended June 30, 2017. The decrease in the effective tax rate was primarily due to increases in valuation allowances on deferred tax assets related

Table of Contents

to both U.S. net operating losses and recently enacted interest expense limitation carryovers under the 2017 Tax Act. The effective tax rate for the six months ended June 30, 2018 also reflects the reduced federal corporate income tax rate that resulted from the enactment of the 2017 Tax Act in December 2017.

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

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

**Earnings (loss) per share.** Basic earnings (loss) per share is computed by dividing net income (loss) available to Team stockholders by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings (loss) per share is computed by dividing net income (loss) available to Team stockholders 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 convertible senior notes under the treasury stock method. The Company's intent is to settle the principal amount of the convertible senior notes in cash upon conversion. If the conversion value exceeds the principal amount, the Company may elect to deliver shares of its common stock with respect to the remainder of its conversion obligation in excess of the aggregate principal amount (the "conversion spread"). Accordingly, the conversion spread is included in the denominator for the computation of diluted earnings per common share using the treasury stock method and the numerator is adjusted for any recorded gain or loss, net of tax, on the embedded derivative associated with the conversion feature.

Amounts used in basic and diluted loss per share, for the three and six months ended June 30, 2018 and 2017, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(unaudited)	(audited)	(unaudited)	(audited)
Weighted-average number of basic shares outstanding	30,003	29,826	29,989	29,815
Stock options, stock units and performance awards	—	—	—	—
Convertible senior notes	—	—	—	—
Total shares and dilutive securities	30,003	29,826	29,989	29,815

For both the three and six months ended June 30, 2018 and 2017, all outstanding share-based compensation awards were excluded from the calculation of diluted loss per share because their inclusion would be antidilutive due to the net loss in those periods. Also, the effect of our convertible senior notes was excluded from the calculation of diluted earnings (loss) per share since the conversion price exceeded the average price of our common stock during the applicable periods. For information on our convertible senior notes and our share-based compensation awards, refer to Note 8 and Note 11, respectively.

#### Newly Adopted Accounting Principles

ASU No. 2014-09. In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which requires the Company 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 establishes ASC Topic 606, Revenue from Contracts with Customers. ("ASC 606"). We adopted ASC 606 effective January 1, 2018. ASC 606 replaces most of the previous revenue recognition guidance under GAAP. Most of our contracts with customers are short-term in nature and billed on a time and materials basis, while certain other contracts are at a fixed price. For these fixed price contracts, ASC 606 generally results in the recognition of revenue as the services are provided compared to recognition of revenue at the time of completion of those contracts, under previous guidance.

The adoption of ASC 606 has not resulted in significant changes to the overall pattern or timing of our revenue recognition.

To account for the cumulative effect of initially applying ASC 606 as of January 1, 2018, we recognized a pre-tax increase to the opening balance of retained earnings of \$8.8 million, pursuant to the modified retrospective transition method, for certain fixed-price contracts that were not yet completed as of the date of adoption. The cumulative effect of adoption resulted in a net increase to prepaid expenses and other current assets of \$8.5 million, a reduction to inventory of \$0.4 million and a reduction to

Table of Contents

other accrued liabilities of \$0.7 million. Also, we recorded the related tax impacts as of January 1, 2018, which resulted in a net reduction to the opening balance of retained earnings of \$0.4 million and a corresponding increase to deferred tax liabilities. Because we have applied the modified retrospective transition method of adoption, comparative periods prior to January 1, 2018 were not retrospectively adjusted to reflect adoption of ASU 2014-09 and are presented in accordance with our historical accounting.

The effect of ASC 606 on our condensed consolidated balance sheet as of June 30, 2018 and our condensed consolidated statements of operations for the three and six months ended June 30, 2018 were as follows (in thousands):

	June 30, 2018		
	Without adoption of ASC 606 (unaudited)	Adjustments to apply ASC 606 (unaudited)	As reported (unaudited)
Effect on condensed consolidated balance sheet			
Assets			
Prepaid expenses and other current assets	\$ 18,009	\$ 12,409	\$ 30,418
Liabilities and Equity			
Retained earnings	\$ 61,492	\$ 12,409	\$ 73,901
Three Months Ended June 30, 2018			
	Without adoption of ASC 606 (unaudited)	Adjustments to apply ASC 606 (unaudited)	As reported (unaudited)
Effect on condensed consolidated statement of operations			
Revenues	\$ 344,356	\$ (467 )	\$ 343,889
Operating expenses	\$ 246,310	\$ 397	\$ 246,707
Provision (benefit) for income taxes	\$ (2,439 )	\$ (538 )	\$ (2,977 )
Net loss	\$ (32,144 )	\$ (326 )	\$ (32,470 )
Six Months Ended June 30, 2018			
	Without adoption of ASC 606 (unaudited)	Adjustments to apply ASC 606 (unaudited)	As reported (unaudited)
Effect on condensed consolidated statement of operations			
Revenues	\$ 641,213	\$ 5,061	\$ 646,274
Operating expenses	\$ 472,112	\$ 1,446	\$ 473,558
Provision (benefit) for income taxes	\$ (1,995 )	\$ (359 )	\$ (2,354 )
Net income (loss)	\$ (54,289 )	\$ 3,974	\$ (50,315 )

Refer to Note 2 for additional disclosures required by ASC 606.

ASU No. 2016-15. In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which clarifies the classification in the statement of cash flows of certain items, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and cash receipts and payments having aspects of more than one class of cash flows. The adoption of this ASU on January 1, 2018 had no impact on our consolidated statements of cash flows.

ASU No. 2016-16. In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”), which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. Adoption of ASU 2016-16 on January 1, 2018 did not have a material impact on our consolidated financial statements.

ASU No. 2017-07. In March 2017, the FASB issued ASU No. 2017-07, Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”), which prescribes

Table of Contents

where in the statement of operations the components of net periodic pension cost and net periodic postretirement benefit cost should be reported. Under ASU 2017-07, the service cost component is required to be reported in the same line or line items that other compensation costs of the associated employees are reported, while the other components are reported outside of operating income (loss), in the “Other expense, net” line item of our consolidated statements of operations. Adoption of ASU 2017-07 on January 1, 2018 did not have a material impact on our consolidated statements of operations.

ASU No. 2017-09. In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation: Scope of Modification Accounting (“ASU 2017-09”), which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity apply modification accounting in Topic 718. Under ASU 2017-09, modification accounting is required unless the effect of the modification does not impact the award’s fair value, vesting conditions and its classification as an equity instrument or liability instrument. Our adoption of ASU 2017-09 on January 1, 2018 on a prospective basis did not have any impact on our share-based compensation expense.

## Accounting Principles Not Yet Adopted

ASU No. 2016-02. In February 2016, the FASB issued ASU No. 2016-02, Leases, which establishes ASC Topic 842, Leases (“ASC 842”), replacing previous lease accounting guidance. ASC 842 changes the accounting for leases, including a requirement to record leases with terms of greater than twelve months on the balance sheet as assets and liabilities. We are continuing to assess the requirements of ASC 842 and the related accounting impacts of our leasing arrangements and are unable to quantify the impacts at this time. However, we expect that, upon adoption of ASC 842, we will recognize significant amounts of right-of-use assets and lease liabilities on our consolidated balance sheet associated with our operating lease arrangements. ASC 842 will also require us to expand our financial statement disclosures on leasing activities. We do not currently anticipate that the adoption will result in significant impacts to our statements of operations or cash flows. ASC 842 is effective for us on January 1, 2019. In July 2018, the FASB issued ASU 2018-11, Leases—Targeted Improvements (“ASU 2018-11”), which provides an optional transition method under which entities initially apply ASC 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under this method, the comparative periods presented in the financial statements prior to the adoption date would not be adjusted to apply ASC 842. We intend to elect the optional transition method set forth in ASU 2018-11 in connection with our adoption of ASC 842 on January 1, 2019.

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

ASU No. 2017-12. In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedge Activities (“ASU 2017-12”). This update makes certain targeted improvements to the accounting and presentation of certain hedging relationships. For net investment hedges, ASU 2017-12 requires that the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness be recorded in the currency translation adjustment section of other comprehensive income (loss). ASU 2017-12 is required to be adopted for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact this ASU will have on our ongoing financial reporting.

ASU No. 2018-02. In February 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”). ASU 2018-02 introduces the option to reclassify from accumulated other comprehensive income (loss) to retained earnings the “stranded” tax effects resulting from the 2017 Tax Act. Under GAAP, certain deferred tax assets or liabilities may originate through income tax activity recognized in other comprehensive income (loss). However, because the adjustment of deferred tax assets and liabilities due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate is required to be included in income (loss) from continuing

operations, the tax effects of items within accumulated other comprehensive income (loss) are not adjusted to reflect the new tax rate, resulting in “stranded” tax effects. ASU 2018-02 provides an option to reclassify such tax effects from accumulated other comprehensive income (loss) to retained earnings. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating whether to elect the option set forth in ASU 2018-02.

Table of Contents

## 2. REVENUE

As discussed in “Newly Adopted Accounting Principles—ASU No. 2014-09” in Note 1, on January 1, 2018, we adopted ASC 606 using the modified retrospective method, which was applied to those contracts that were not completed as of January 1, 2018.

In accordance with ASC 606, we follow a five-step process to recognize revenue: 1) identify the contract with the customer, 2) identify the performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations and 5) recognize revenue when the performance obligations are satisfied.

Most of our contracts with customers are short-term in nature and billed on a time and materials basis, while certain other contracts are at a fixed price. Certain contracts may contain a combination of fixed and variable elements. We act as a principal and have performance obligations to provide the service itself or oversee the services provided by any subcontractors. Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties, such as taxes assessed by governmental authorities. In contracts where the amount of consideration is variable, we consider our experience with similar contracts in estimating the amount to which we will be entitled and recognize revenues accordingly. As most of our contracts contain only one performance obligation, the allocation of a contract's transaction price to multiple performance obligations is generally not applicable. Customers are generally billed as we satisfy our performance obligations and payment terms typically range from 30 to 90 days from the invoice date. Billings under certain fixed-price contracts may be based upon the achievement of specified milestones, while some arrangements may require advance customer payment. Our contracts do not include significant financing components since the contracts typically span less than one year. Contracts generally include an assurance type warranty clause to guarantee that the services comply with agreed specifications. The warranty period typically is 12 months or less from the date of service. Warranty expenses were not material for the three and six months ended June 30, 2018 and 2017.

Revenue is recognized as (or when) the performance obligations are satisfied by transferring control over a service or product to the customer. Revenue recognition guidance prescribes two recognition methods (over time or point in time). Most of our performance obligations qualify for recognition over time because we typically perform our services on customer facilities or assets and customers receive the benefits of our services as we perform. Where a performance obligation is satisfied over time, the related revenue is also recognized over time using the method deemed most appropriate to reflect the measure of progress and transfer of control. For our time and materials contracts, we are generally able to elect the right-to-invoice practical expedient, which permits us to recognize revenue in the amount to which we have a right to invoice the customer if that amount corresponds directly with the value to the customer of our performance completed to date. For our fixed price contracts, we typically recognize revenue using the cost-to-cost method, which measures the extent of progress towards completion based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Under this method, revenue is recognized proportionately as costs are incurred. For contracts where control is transferred at a point in time, revenue is recognized at the time control of the asset is transferred to the customer, which is typically upon delivery and acceptance by the customer.

Disaggregation of revenue. Essentially all of our revenues are associated with contracts with customers. A disaggregation of our revenue from contracts with customers by geographic region, by reportable operating segment and by service type is presented below (in thousands):

	Three Months Ended June 30, 2018 (unaudited)			Six Months Ended June 30, 2018 (unaudited)		
	United States and Canada	Other Countries	Total	United States and Canada	Other Countries	Total
Revenue:						
IHT	\$ 164,983	\$ 3,690	\$ 168,673	\$ 313,193	\$ 6,899	\$ 320,092
MS	111,964	37,014	148,978	211,788	70,091	281,879

Edgar Filing: TEAM INC - Form 10-Q

Quest Integrity	16,990	9,248	26,238	29,700	14,603	44,303
Total	\$293,937	\$ 49,952	\$343,889	\$554,681	\$ 91,593	\$646,274

11

---

Table of Contents

	Three Months Ended June 30, 2018 (unaudited)					
	Asset Integrity Management	Repair and Maintenance Services	Heat Treating	Non-Destructive Evaluation	Other	Total
Revenue:						
IHT	\$8,985	\$ 5,037	\$22,459	\$ 124,635	\$7,557	\$168,673
MS	155	146,175	439	—	2,209	148,978
Quest Integrity	26,238	—	—	—	—	26,238
Total	\$35,378	\$ 151,212	\$22,898	\$ 124,635	\$9,766	\$343,889
	Six Months Ended June 30, 2018 (unaudited)					
	Asset Integrity Management	Repair and Maintenance Services	Heat Treating	Non-Destructive Evaluation	Other	Total
Revenue:						
IHT	\$18,141	\$ 5,883	\$41,755	\$ 239,015	\$15,298	\$320,092
MS	155	277,374	943	—	3,407	281,879
Quest Integrity	44,303	—	—	—	—	44,303
Total	\$62,599	\$ 283,257	\$42,698	\$ 239,015	\$18,705	\$646,274

For additional information on our reportable operating segments and geographic information, refer to Note 14. Contract balances. The timing of revenue recognition, billings and cash collections results in trade accounts receivable, contract assets and contract liabilities on the consolidated balance sheets. Trade accounts receivable include billed and unbilled amounts currently due from customers and represent unconditional rights to receive consideration. The amounts due are stated at their net estimated realizable value. Refer to Notes 1 and 3 for additional information on our trade receivables and the allowance for doubtful accounts. Contract assets include unbilled amounts typically resulting from sales under fixed-price contracts when the cost-to-cost method of revenue recognition is utilized, the revenue recognized exceeds the amount billed to the customer and the right to payment is conditional on something other than the passage of time. Amounts may not exceed their net realizable value. If we receive advances or deposits from our customers, a contract liability is recorded. Additionally, a contract liability arises if items of variable consideration result in less revenue being recorded than what is billed. Contract assets and contract liabilities are generally classified as current.

The following table provides information about trade accounts receivable, contract assets and contract liabilities as of June 30, 2018 and January 1, 2018, the date of adoption of ASC 606, (in thousands):

	June 30, 2018 (unaudited)	January 1, 2018 (unaudited)
Trade accounts receivable, net <sup>1</sup>	\$ 323,169	\$ 301,963
Contract assets <sup>2</sup>	\$ 15,685	\$ 9,823
Contract liabilities <sup>3</sup>	\$ 3,462	\$ 5,415

1 Includes billed and unbilled amounts, net of allowance for doubtful accounts. See Note 3 for details.

2 Included in the "Prepaid expenses and other current assets" line on the condensed consolidated balance sheet.

3 Included in the "Other accrued liabilities" line of the condensed consolidated balance sheet.

The \$5.9 million increase in our contract assets from January 1, 2018 to June 30, 2018 was due to additional contracts in process, reflecting higher activity levels. Due to the short-term nature of our contracts, contract liability balances as of the end of any period are generally recognized as revenue in the following quarter.

Contract costs. The Company recognizes the incremental costs of obtaining contracts as selling, general and administrative expenses when incurred if the amortization period of the asset that otherwise would have been recognized is one year or less.

Table of Contents

Assets recognized for costs to obtain a contract were not material as of June 30, 2018 or January 1, 2018. Costs to fulfill a contract are recorded as assets if they relate directly to a contract or a specific anticipated contract, the costs generate or enhance resources that will be used in satisfying performance obligations in the future and the costs are expected to be recovered. Costs to fulfill recognized as assets primarily consist of labor and materials costs and generally relate to engineering and set-up costs incurred prior to the satisfaction of performance obligations begins. Assets recognized for costs to fulfill a contract are included in the "Prepaid expenses and other current assets" line of the condensed consolidated balance sheets and were not material as of June 30, 2018 and January 1, 2018. Such assets are recognized as expenses as we transfer the related goods or services to the customer. All other costs to fulfill a contract are expensed as incurred.

Remaining performance obligations. As of June 30, 2018 and January 1, 2018, there were no material amounts of remaining performance obligations that are required to be disclosed. As permitted by ASC 606, we have elected not to disclose information about remaining performance obligations where i) the performance obligation is part of a contract that has an original expected duration of one year or less or ii) when we recognize revenue from the satisfaction of the performance obligation in accordance with the right-to-invoice practical expedient.

**3. RECEIVABLES**

A summary of accounts receivable as of June 30, 2018 and December 31, 2017 is as follows (in thousands):

	June 30, 2018 (unaudited)	December 31, 2017
Trade accounts receivable	\$ 246,941	\$ 244,133
Unbilled receivables	91,580	69,138
Allowance for doubtful accounts	(15,352 )	(11,308 )
Total	\$ 323,169	\$ 301,963

**4. INVENTORY**

A summary of inventory as of June 30, 2018 and December 31, 2017 is as follows (in thousands):

	June 30, 2018 (unaudited)	December 31, 2017
Raw materials	\$ 8,665	\$ 8,707
Work in progress	3,374	2,836
Finished goods	40,456	38,160
Total	\$ 52,495	\$ 49,703

Table of Contents

## 5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of June 30, 2018 and December 31, 2017 is as follows (in thousands):

	June 30, 2018 (unaudited)	December 31, 2017
Land	\$6,654	\$6,698
Buildings and leasehold improvements	49,091	47,924
Machinery and equipment	263,535	261,343
Furniture and fixtures	9,723	9,405
Capitalized ERP system development costs	46,637	46,637
Computers and computer software	14,827	13,052
Automobiles	4,993	5,070
Construction in progress	12,144	12,613
Total	407,604	402,742
Accumulated depreciation and amortization	(211,842 )	(199,523 )
Property, plant, and equipment, net	\$195,762	\$203,219

Depreciation expense for the three months ended June 30, 2018 and 2017 was \$8.8 million and \$8.9 million, respectively. Depreciation expense for the six months ended June 30, 2018 and 2017 was \$18.1 million and \$17.6 million, respectively.

## 6. INTANGIBLE ASSETS

A summary of intangible assets as of June 30, 2018 and December 31, 2017 is as follows (in thousands):

	June 30, 2018 (unaudited)			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$175,026	\$ (44,827 )	\$130,199	\$175,226	\$ (38,712 )	\$136,514
Non-compete agreements	5,486	(4,685 )	801	5,563	(4,509 )	1,054
Trade names	24,788	(13,456 )	11,332	24,830	(6,211 )	18,619
Technology	7,856	(4,740 )	3,116	7,867	(4,292 )	3,575
Licenses	855	(522 )	333	859	(460 )	399
Total	\$214,011	\$ (68,230 )	\$145,781	\$214,345	\$ (54,184 )	\$160,161

Amortization expense for the three months ended June 30, 2018 and 2017 was \$7.1 million and \$4.2 million, respectively. Amortization expense for the six months ended June 30, 2018 and 2017 was \$14.3 million and \$8.4 million, respectively. With respect to our intangible asset associated with the Furmanite trade name, management has determined that, as a result of initiatives to consolidate the Company's branding, the useful life of this intangible asset is not expected to extend beyond December 31, 2018. In accordance with ASC 350, we are accounting for the change in useful life prospectively effective January 1, 2018 and are amortizing the remaining balance over 2018. For the three and six months ended June 30, 2018, the change in estimate resulted in \$3.1 million, and \$6.2 million, respectively, of incremental amortization expense.

Table of Contents

## 7. OTHER ACCRUED LIABILITIES

A summary of other accrued liabilities as of June 30, 2018 and December 31, 2017 is as follows (in thousands):

	June 30, 2018 (unaudited)	December 31, 2017
Payroll and other compensation expenses	\$ 44,912	\$ 40,988
Insurance accruals	14,831	15,799
Property, sales and other non-income related taxes	6,409	6,483
Lease commitments	1,007	1,616
Contract liabilities	3,462	6,102
Accrued commission	2,124	1,473
Accrued interest	5,237	5,950
Volume discount	2,700	1,545
Contingent consideration	438	1,246
Professional fees	1,432	1,098
Other	12,291	10,172
Total	\$ 94,843	\$ 92,472

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

As of June 30, 2018 and December 31, 2017, our long-term debt is summarized as follows (in thousands):

	June 30, 2018 (unaudited)	December 31, 2017
Credit Facility	\$ 198,306	\$ 177,857
Convertible debt <sup>1</sup>	192,175	209,892
Total long-term debt	390,481	387,749
Less: current portion of long-term debt	—	—
Total long-term debt, less current portion	\$ 390,481	\$ 387,749

<sup>1</sup> Comprised of principal amount outstanding plus embedded derivative liability (if any), less unamortized discount and issuance costs. See Convertible Debt section below for additional information.

## Credit Facility

In July 2015, we renewed our banking credit facility (the “Credit Facility”). In accordance with the second amendment to the Credit Facility, which was signed in February 2016, the Credit Facility had a borrowing capacity of up to \$600 million and consisted of a \$400 million, five-year revolving loan facility and a \$200 million five-year term loan facility. The swing line facility is \$35.0 million. On July 31, 2017, we completed the issuance of \$230.0 million of 5.00% convertible senior notes in a private offering (the “Offering,” which is described further below) and used the proceeds from the Offering to repay in full the then-outstanding term-loan portion of our Credit Facility and a portion of the outstanding revolving borrowings. Concurrent with the completion of the Offering and the repayment of outstanding borrowings discussed above, we entered into the sixth amendment to the Credit Facility, effective as of June 30, 2017, which reduced the capacity of the Credit Facility to a \$300 million revolving loan facility, subject to a borrowing availability test (based on eligible accounts, inventory and fixed assets). The Credit Facility matures in July 2020, bears interest based on a variable Eurodollar rate option (LIBOR plus 3.75% margin at June 30, 2018) and has commitment fees on unused borrowing capacity (0.75% at June 30, 2018). The Credit Facility limits our ability to pay cash dividends. The Company’s obligations under the Credit Facility are guaranteed by its material direct and indirect domestic subsidiaries and are secured by a lien on substantially all of the Company’s and the guarantors’ tangible and intangible property (subject to certain specified exclusions) and by a pledge of all of the equity interests in the

Company's material direct and indirect domestic subsidiaries and 65% of the equity interests in the Company's material first-tier foreign subsidiaries.

The Credit Facility contains financial covenants, which were amended in March 2018 pursuant to the seventh amendment (the "Seventh Amendment") to the Credit Facility. The Seventh Amendment eliminated the ratio of consolidated funded debt to

15

---

## Table of Contents

consolidated EBITDA (the “Total Leverage Ratio,” as defined in the Credit Facility agreement) covenant through the remainder of the term of the Credit Facility and also modified both the ratio of senior secured debt to consolidated EBITDA (the “Senior Secured Leverage Ratio,” as defined in the Credit Facility agreement) and the ratio of consolidated EBITDA to consolidated interest charges (the “Interest Coverage Ratio,” as defined in the Credit Facility agreement) as follows. The Company is required to maintain a maximum Senior Secured Leverage Ratio of not more than 4.25 to 1.00 as of June 30, 2018, not more than 3.50 to 1.00 as of September 30, 2018 and each quarter thereafter through June 30, 2019 and not more than 2.75 to 1.00 as of September 30, 2019 and each quarter thereafter. With respect to the Interest Coverage Ratio, the Company is required to maintain a ratio of not less than 2.25 to 1.00 as of June 30, 2018 and each quarter thereafter through December 31, 2018 and not less than 2.50 to 1.00 as of March 31, 2019 and each quarter thereafter. As of June 30, 2018, we are in compliance with the covenants in effect as of such date. The Senior Secured Leverage Ratio and the Interest Coverage Ratio stood at 2.95 to 1.00 and 3.19 to 1.00, respectively, as of June 30, 2018. At June 30, 2018, we had \$15.3 million of cash on hand and had approximately \$80 million of available borrowing capacity through our Credit Facility. As of June 30, 2018, we had \$2.4 million of unamortized debt issuance costs that are being amortized over the life of the Credit Facility.

Our ability to maintain compliance with the financial covenants is dependent upon our future operating performance and future financial condition, both of which are subject to various risks and uncertainties. Accordingly, there can be no assurance that we will be able to maintain compliance with the Credit Facility covenants as of any future date. In the event we are unable to maintain compliance with our financial covenants, we would seek to enter into an amendment to the Credit Facility with our bank group in order to modify and/or to provide relief from the financial covenants for an additional period of time. Although we have entered into amendments in the past, there can be no assurance that any future amendments would be available on terms acceptable to us, if at all.

In order to secure our casualty insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. We were contingently liable for outstanding stand-by letters of credit totaling \$21.8 million at June 30, 2018 and \$22.5 million at December 31, 2017. Outstanding letters of credit reduce amounts available under our Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the Credit Facility.

## Convertible Debt

### Description of the Notes

On July 31, 2017, we issued \$230.0 million principal amount of 5.00% Convertible Senior Notes due 2023 (the “Notes”). The Notes, which are senior unsecured obligations of the Company, bear interest at rate of 5.0% per year, payable semiannually in arrears on February 1 and August 1 of each year, beginning on February 1, 2018. The Notes will mature on August 1, 2023 unless repurchased, redeemed or converted in accordance with their terms prior to such date. The Notes will be convertible at an initial conversion rate of 46.0829 shares of our common stock per \$1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately \$21.70 per share. The conversion rate, and thus the conversion price, may be adjusted under certain circumstances as described in the indenture governing the Notes.

Holders may convert their Notes at their option prior to the close of business on the business day immediately preceding May 1, 2023, but only under the following circumstances:

during any calendar quarter commencing after the calendar quarter ending on December 31, 2017 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of Notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on such trading day;

if we call any or all of the Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; or;

upon the occurrence of specified corporate events described in the indenture governing the Notes.

Table of Contents

On or after May 1, 2023 until the close of business on the business day immediately preceding the maturity date, holders may, at their option, convert their Notes at any time, regardless of the foregoing circumstances.

The Notes are initially convertible into 10,599,067 shares of common stock. Because the Notes could be convertible in full into more than 19.99 percent of our outstanding common stock, we were required by the listing rules of the New York Stock Exchange to obtain the approval of the holders of our outstanding shares of common stock before the Notes could be converted into more than 5,964,858 shares of common stock. At our annual shareholders' meeting, held on May 17, 2018, our shareholders approved the issuance of shares of common stock upon conversion of the Notes. The Notes will be convertible into, subject to various conditions, cash or shares of the Company's common stock or a combination of cash and shares of the Company's common stock, in each case, at the Company's election.

If holders elect to convert the Notes in connection with certain fundamental change transactions described in the indenture governing the Notes, we will, under certain circumstances described in the indenture governing the Notes, increase the conversion rate for the Notes so surrendered for conversion.

We may not redeem the Notes prior to August 5, 2021. We will have the option to redeem all or any portion of the Notes on or after August 5, 2021, if certain conditions (including that our common stock is trading at or above 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive)), including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

## Accounting Treatment of the Notes

As of June 30, 2018, the Notes were recorded in our condensed consolidated balance sheets as follows (in thousands):

	June 30, 2018 (unaudited)	December 31, 2017
Liability component:		
Principal	\$ 230,000	\$ 230,000
Unamortized issuance costs	(6,338 )	(6,820 )
Unamortized discount	(31,487 )	(33,882 )
Net carrying amount of the liability component	192,175	189,298
Embedded derivative liability <sup>1</sup>	—	20,594
Total <sup>2</sup>	\$ 192,175	\$ 209,892
Equity component:		
Carrying amount of the equity component, net of issuance costs <sup>3</sup>	\$ 13,912	\$ 13,912

<sup>1</sup> The embedded derivative liability was reclassified to stockholders' equity as of May 17, 2018 and is no longer marked to fair value each period, as discussed further below. It is excluded from the table above as of June 30, 2018.

<sup>2</sup> Included in the "Long-term debt" line of the condensed consolidated balance sheets.

<sup>3</sup> Relates to the portion of the Notes accounted for under ASC 470-20 (defined below) and is included in the "Additional paid-in capital" line of the condensed consolidated balance sheets.

Under ASC 470-20, Debt with Conversion and Other Options, ("ASC 470-20"), an entity must separately account for the liability and equity components of convertible debt instruments that may be settled entirely or partially in cash upon conversion (such as the Notes) in a manner that reflects the issuer's economic interest cost. However, entities

must first consider the guidance in ASC 815-15, Embedded Derivatives (“ASC 815-15”), to determine if an instrument contains an embedded feature that should be separately accounted for as a derivative. We applied this guidance as of the issuance date of the Notes and concluded that for the conversion feature for a portion of the Notes, we must recognize an embedded derivative under ASC 815-15, while the remainder of the Notes is subject to ASC 470-20. The Company determined the portions of the Notes subject to ASC 815-15 and ASC 470-20 as follows. First, while the Notes are initially convertible into 10,599,067 shares of common stock, the occurrence of certain corporate events could increase

Table of Contents

the conversion rate, which could result in the Notes becoming convertible into a maximum of 14,838,703 shares. As of the issuance date of the Notes, 5,964,858 shares, or approximately 40% of the maximum number of shares, was authorized for issuance without shareholder approval, while 8,873,845 shares, or approximately 60%, would have been required to be settled in cash. Therefore, the Company concluded that embedded derivative accounting under ASC 815-15 was applicable to approximately 60% of the Notes, while the remaining 40% of the Notes was subject to ASC 470-20. As a result of obtaining shareholder approval for the issuance of shares of common stock upon conversion of the Notes, the embedded derivative meets the criteria to be classified in stockholders' equity, effective on the date of shareholder approval. Accordingly, we recorded the change in fair value of the embedded derivative liability in our results of operations through the shareholder approval date of May 17, 2018 and then reclassified the embedded derivative liability to stockholders' equity at its May 17, 2018 fair value of \$45.4 million. The related income tax effects of the reclassification charged directly to stockholders' equity were \$7.8 million. As a result of the reclassification to stockholders' equity, the embedded derivative will no longer be marked to fair value each period. Losses on the embedded derivative liability recognized in the condensed consolidated statements of operations were \$29.3 million and \$24.8 million for the three and six months ended June 30, 2018.

The following table sets forth interest expense information related to the Notes (in thousands, except percentage):

	Three Months Ended June 30, 2018 (unaudited)	Six Months Ended June 30, 2018 (unaudited)		
Coupon interest	\$ 2,875	\$ 5,750		
Amortization of debt discount and issuance costs	1,450	2,878		
Total interest expense on convertible senior notes	\$ 4,325	\$ 8,628		
Effective interest rate	9.12	%	9.12	%

As of June 30, 2018, the remaining amortization period for the debt discount and issuance costs is 61 months.

Derivatives and Hedging

ASC 815, Derivatives and Hedging ("ASC 815"), requires that derivative instruments be recorded at fair value and included in the balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception date of a derivative. Special accounting for derivatives qualifying as fair value hedges allows derivatives' gains and losses to offset related results on the hedged item in the statement of operations. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. Hedge effectiveness is measured at least quarterly based on the relative cumulative changes in fair value between the derivative contract and the hedged item over time. Credit risks related to derivatives include the possibility that the counter-party will not fulfill the terms of the contract. We consider counterparty credit risk to our derivative contracts when valuing our derivative instruments. Our borrowing of €12.3 million under the Credit Facility serves as an economic hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate will offset translation gains or losses attributable to our investment in our European operations. At June 30, 2018, the €12.3 million borrowing had a U.S. Dollar value of \$14.4 million.

As discussed above, we previously recorded an embedded derivative liability for a portion of the Notes. In accordance with ASC 815-15, the embedded derivative instrument was recorded at fair value each period with changes in fair value reflected in our results of operations. No hedge accounting was applied. As a result of obtaining shareholder approval for the issuance of shares upon conversion of the Notes, we recorded the change in fair value of the embedded derivative liability in our results of operations through the shareholder approval date of May 17, 2018 and

then reclassified the embedded derivative liability to stockholders' equity at its May 17, 2018 fair value of \$45.4 million. As a result of the reclassification to stockholders' equity, the embedded derivative will no longer be marked to fair value each period. See Note 10 for more information on the fair value measurement of the embedded derivative liability.





Table of Contents

## 9. EMPLOYEE BENEFIT PLANS

We have defined benefit pension plans in two foreign subsidiaries, one plan covering certain United Kingdom employees (the “U.K. Plan”) and the other covering certain Norwegian employees (the “Norwegian Plan”). As the Norwegian Plan represents approximately one percent of both the Company’s total pension plan liabilities and total pension plan assets, only the schedule of net periodic pension credit includes combined amounts from the two plans, while assumption and narrative information relates solely to the U.K. Plan.

Net periodic pension credit for the U.K. and Norwegian Plans includes the following components (in thousands):

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Service cost	\$23	\$ 4	\$47	\$ 8
Interest cost	588	597	1,189	1,176
Expected return on plan assets	(948 )	(761 )	(1,918)	(1,499 )
Amortization of net actuarial loss	—	17	—	34
Net periodic pension credit	\$(337)	\$(143 )	\$(682)	\$(281 )

The expected long-term rate of return on invested assets is determined based on the weighted average of expected returns on asset investment categories as follows: 4.7% overall, 5.8% for equities and 1.8% for debt securities. We expect to contribute \$2.5 million to the pension plan for 2018, of which \$1.2 million has been contributed through June 30, 2018.

## 10. FAIR VALUE MEASUREMENTS

We apply the provisions of ASC 820, which among other things, requires certain 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.

Table of Contents

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 June 30, 2018 and December 31, 2017. 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):

	June 30, 2018 (unaudited)		
	Quoted Prices in Active Markets for Identical Items (Level 1)		
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Liabilities:			
Contingent consideration <sup>1</sup>	\$ —	\$ 438	\$438
Net investment hedge	\$ (3,613)	\$ —	\$(3,613)
Embedded derivative in convertible debt <sup>2</sup>	\$ —	\$ —	\$—
	December 31, 2017		
	Quoted Prices in Active Markets for Identical Items (Level 1)		
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Liabilities:			
Contingent consideration <sup>1</sup>	\$ —	\$ 1,712	\$1,712
Net investment hedge	\$ (3,246)	\$ —	\$(3,246)
Embedded derivative in convertible debt <sup>2</sup>	\$ 20,594	\$ —	\$20,594

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

<sup>2</sup> The embedded derivative liability was reclassified to stockholders' equity as of May 17, 2018 and is no longer marked to fair value each period, as discussed in Note 8.

There were no transfers in and out of Level 1, Level 2 and Level 3 during the six months ended June 30, 2018 and 2017.

The fair value of the convertible debt embedded derivative liability was estimated using a lattice model with inputs including our stock price, our stock price volatility and interest rates. As the assumptions used in the valuation are primarily derived from observable market data, the fair value measurement was classified as Level 2 in the fair value hierarchy. See Note 8 for more information on the embedded derivative liability.

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 agreements.

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

	Six Months Ended June 30, 2018 (unaudited)
Balance, beginning of period	\$ 1,712
Accretion of liability	39
Foreign currency effects	(5 )
Payment	(1,106 )
Revaluation	(202 )
Balance, end of period	\$ 438

21

---

Table of Contents**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 June 30, 2018, there were approximately 1.6 million restricted stock units, performance awards and stock options outstanding to officers, directors and key employees. The exercise price, terms and other conditions applicable to each form of share-based compensation under our plans are generally determined by the Compensation Committee of our Board at the time of grant and may vary.

Our share-based payments consist primarily of stock units, performance awards, common stock and stock options. In May 2018, our shareholders approved the 2018 Team, Inc. Equity Incentive Plan (the “2018 Plan”), which replaces the 2016 Team, Inc. Equity Incentive Plan (the “2016 Plan”). The 2018 Plan authorizes the issuance of share-based awards representing up to 450,000 shares of common stock, plus the number of shares remaining available for issuance under the 2016 Plan, plus the number of shares subject to outstanding awards under specified prior plans that may become available for reissuance in certain circumstances. 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 \$7.0 million and \$4.3 million for the six months ended June 30, 2018 and 2017, respectively. Share-based compensation expense reflects an estimate of expected forfeitures. At June 30, 2018, \$17.5 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 2.2 years. The excess tax benefit derived when share-based awards result in a tax deduction for the Company was not material for the six months ended June 30, 2018 and 2017.

Stock units are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each stock unit based on the market price on the date of grant. Stock units generally vest in annual installments over four years and the expense associated with the units is recognized over the same vesting period. We also grant common stock to our directors, which typically vests immediately. Compensation expense related to stock units and director stock grants totaled \$5.2 million and \$3.8 million for the six months ended June 30, 2018 and 2017.

Transactions involving our stock units and director stock grants during the six months ended June 30, 2018 are summarized below:

	Six Months Ended June 30, 2018 (unaudited)	
	No. of Stock Units	Weighted Average Fair Value
	(in thousands)	
Stock and stock units, beginning of period	854	\$ 21.42
Changes during the period:		
Granted	40	\$ 19.85
Vested and settled	(65 )	\$ 20.40
Cancelled	(13 )	\$ 20.85
Stock and stock units, end of period	816	\$ 21.37

We have a performance stock unit award program whereby we grant Long-Term Performance Stock Unit (“LTPSU”) awards to our executive officers. Under this program, the Company communicates “target awards” to the executive officers at the beginning of a performance period. LTPSU awards cliff vest with the achievement of the performance goals and completion of the required service period. Settlement occurs with common stock as soon as practicable following the vesting date. LTPSU awards granted on October 15, 2015 are subject to a three-year performance period and a concurrent three-year service 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 granted on March 15, 2017 and March 21, 2018 are subject to a two-year performance period and a concurrent two-year service period. For March 15, 2017 awards, the performance goal is separated into three independent performance factors based on (i) relative total shareholder total return (“RTSR”) as measured against a designated peer group, (ii) RTSR as measured against a designated index and (iii) results of operations over the two-year performance period, with possible payouts ranging from 0% to 200% of the target awards for the first two performance factors and ranging from 0% to 300% of the target awards for the third performance factor. For the March 21, 2018 awards, the performance goal is separated into two independent performance factors based on (i) RTSR as measured against a designated peer group and (ii) results of operations

Table of Contents

over the two-year performance period, with possible payouts ranging from 0% to 200% of the target awards for each of the two performance factors.

On January 24, 2018, we granted 350,000 performance units to our Chief Executive Officer (“CEO”) that vest in 20% increments upon the achievement of five specified Company stock price milestones, subject to a minimum vesting period of one year and the provision of service through each of the vesting dates. Settlement occurs with common stock within 30 days of the respective vesting dates. Any outstanding unvested performance units are forfeited on the fifth anniversary of the grant date.

The RTSR and the stock price milestone factors are considered to be market conditions under GAAP. For performance units subject to market conditions, we determine the fair value of the performance units based on the results of a Monte Carlo simulation, which uses market-based inputs as of the date of grant to simulate future stock returns. Compensation expense for awards with market conditions is recognized on a straight-line basis over the longer of (i) the minimum required service period and (ii) the service period derived from the Monte Carlo simulation, separately for each vesting tranche. For performance units subject to market conditions, because the expected outcome is incorporated into the grant date fair value through the Monte Carlo simulation, compensation expense is not subsequently adjusted for changes in the expected or actual performance outcome. For performance units not subject to market conditions, we determine the fair value of each performance unit based on the market price of our common stock on the date of grant. For these awards, we recognize compensation expense over the vesting term on a straight-line basis based upon the performance target that is probable of being met, subject to adjustment for changes in the expected or actual performance outcome. Compensation expense related to performance awards totaled \$1.8 million and \$0.5 million for the six months ended June 30, 2018 and 2017, respectively.

Transactions involving our performance awards during the six months ended June 30, 2018 are summarized below:

	Six Months Ended June 30, 2018 (unaudited)			
	Performance Units Subject to Market Conditions		Performance Units Not Subject to Market Conditions	
	No. of Stock Units <sup>1</sup>	Weighted Average Fair Value (in thousands)	No. of Stock Units <sup>1</sup>	Weighted Average Fair Value (in thousands)
Performance stock units, beginning of period	45	\$ 17.66	84	\$ 25.76
Changes during the period:				
Granted	455	\$ 14.01	105	\$ 14.35
Vested and settled	—	\$ —	(15 )	\$ 13.45
Cancelled	—	\$ —	—	\$ —
Performance stock units, end of period	500	\$ 14.33	174	\$ 19.91

<sup>1</sup> Performance units with variable payouts are shown at target level of performance.

Table of Contents

We determine the fair value of each stock option at the grant date using a Black-Scholes model and recognize the resulting expense of our stock option awards over the period during which an employee is required to provide services in exchange for the awards, usually the vesting period. Compensation expense related to stock options for the six months ended June 30, 2018 and 2017 was not material. 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 June 30, 2018 are summarized below:

	Six Months Ended June 30, 2018 (unaudited)	
	No. of Options (in thousands)	Weighted Average Exercise Price (\$)
Shares under option, beginning of period	79	\$ 31.94
Changes during the period:		
Granted	—	\$ —
Exercised	—	\$ —
Cancelled	—	\$ —
Expired	(11)	\$ 32.42
Shares under option, end of period	68	\$ 31.86
Exercisable at end of period	68	\$ 31.86

Options exercisable at June 30, 2018 had a weighted-average remaining contractual life of 3.9 years, and exercise prices ranged from \$21.12 to \$50.47.

**12. ACCUMULATED OTHER COMPREHENSIVE LOSS**

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

	Six Months Ended June 30, 2018 (unaudited)					Six Months Ended June 30, 2017 (unaudited)				
	Foreign Currency Translation Adjustments	Foreign Currency Hedge	Defined Benefit Pension Plans	Tax Provision	Total	Foreign Currency Translation Adjustments	Foreign Currency Hedge	Defined Benefit Pension Plans	Tax Provision	Total
Balance, beginning of period	\$(21,366)	\$3,246	\$(7,221)	\$5,545	\$(19,796)	\$(31,973)	\$5,048	\$(10,518)	\$8,443	\$(29,000)
Other comprehensive income (loss)	(4,935)	367	—	790	(3,778)	6,556	(1,115)	34	(1,230)	4,245
Balance, end of period	\$(26,301)	\$3,613	\$(7,221)	\$6,335	\$(23,574)	\$(25,417)	\$3,933	\$(10,484)	\$7,213	\$(24,755)

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

	Six Months Ended June 30, 2018 (unaudited)	Six Months Ended June 30, 2017 (unaudited)
--	--	--

Edgar Filing: TEAM INC - Form 10-Q

	Gross Amount	Tax Effect	Net Amount	Gross Amount	Tax Effect	Net Amount
Foreign currency translation adjustments	\$(4,935)	\$892	\$(4,043)	\$6,556	\$(1,649)	\$4,907
Foreign currency hedge	367	(102 )	265	(1,115 )	426	(689 )
Defined benefit pension plans	—	—	—	34	(7 )	27
Total	\$(4,568)	\$790	\$(3,778)	\$5,475	\$(1,230)	\$4,245

24

---

Table of Contents**13. COMMITMENTS AND CONTINGENCIES**

**Con Ed Matter**—We have, from time to time, provided temporary leak repair services to the steam system 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 resulting in one death and other injuries and property damage. As of June 30, 2018, eighty-three lawsuits are currently pending against Con Ed, the City of New York and Team in the Supreme Court of New York, alleging that our temporary leak repair services may have contributed to the cause of the rupture, allegations which we dispute. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, Con Ed is alleging that our contract with Con Ed requires us to fully indemnify and defend Con Ed for all claims asserted against Con Ed including those amounts that Con Ed has paid to settle with certain plaintiffs for undisclosed sums as well as Con Ed’s own alleged damages to its infrastructure. 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 filed a motion to dismiss in April 2016. 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 Group, LLC, filed three patent infringement lawsuits against three different defendants, two in the U.S. District of Delaware (the “Delaware Cases”) and one in the U.S. District of Western Washington (the “Washington Case”). Quest Integrity alleges that the three defendants infringed Quest Integrity’s patent, entitled “2D and 3D Display System and Method for Furnace Tube Inspection”. This Quest Integrity patent generally teaches a system and method for displaying inspection data collected during the inspection of furnace tubes in petroleum and petro-chemical refineries. The subject patent litigation is specific to the visual display of the collected data and does not relate to Quest Integrity’s underlying advanced inspection technology. In these lawsuits Quest Integrity is seeking temporary and permanent injunctive relief, as well as monetary damages. Defendants have denied they infringe any valid claim of Quest Integrity’s patent, and have asserted declaratory judgment counterclaims that the patent at issue is invalid and/or unenforceable, and not infringed. In June 2015, the U.S. District of Delaware denied our motions for preliminary injunctive relief in the Delaware Cases (that is, our request that the defendants stop using our patented systems and methods during the pendency of the actions). In March 2017, the judge in the Delaware Cases granted summary judgment against Quest Integrity, finding certain patent claims of the asserted patent invalid. In August 2017, the judge in the Washington Case granted summary judgment against Quest Integrity based on the Delaware Cases ruling. Quest Integrity is in the process of appealing both Delaware Cases and the Washington Case.

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.

We establish a liability for loss contingencies, when information available to us indicates that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

**14. SEGMENT AND GEOGRAPHIC 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, MS and Quest Integrity.

In July 2018, we announced an organizational restructuring and certain new leadership appointments. The organizational changes will include a Product and Service Line organization and an Operations organization. The Product and Service Lines will be responsible for value positioning and pricing, standardization of best practices, technical training and program development, and technology innovation across Team’s global enterprise. The Operations organization, comprised of cross-segment divisions aligned by major geographic regions, will be responsible for executing product and service delivery in accordance with established Team service line standards,

safety and quality protocols. The Company is currently working to transition its operations, management structure, support functions and technology infrastructure to align with the new organization, which we expect to be fully operational in the fourth quarter of 2018. It is possible that our reportable segments could be affected by these changes once the transition is complete. Management is currently evaluating the potential impacts of these changes on the Company's segment reporting.

25

---

Table of Contents

Segment data for our three operating segments are as follows (in thousands):

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2018	2017	2018	2017	
	(unaudited)(unaudited)		(unaudited)(unaudited)		
Revenues:					
IHT	\$ 168,673	\$ 158,412	\$ 320,092	\$ 301,368	
MS	148,978	132,564	281,879	254,386	
Quest Integrity	26,238	21,280	44,303	43,056	
Total	\$ 343,889	\$ 312,256	\$ 646,274	\$ 598,810	
	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2018	2017	2018	2017	
	(unaudited)(unaudited)		(unaudited)(unaudited)		
Operating income (loss):					
IHT		\$ 13,281	\$ 10,529	\$ 20,021	\$ 18,654
MS		10,582	5,385	13,100	5,836
Quest Integrity		5,751	3,889	6,845	8,080
Corporate and shared support services		(27,815 )	(26,496 )	(52,292 )	(51,351 )
Total		\$ 1,799	\$ (6,693 )	\$ (12,326)	\$ (18,781 )

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	June 30,	2018	2017
	2018	2017	2018	2017
	(unaudited)(unaudited)		(unaudited)(unaudited)	
Capital expenditures:				
IHT	\$ 2,063	\$ 2,852	\$ 4,398	\$ 5,364
MS	2,369	3,580	4,025	7,900
Quest Integrity	1,031	827	1,652	1,273
Corporate and shared support services	1,132	685	2,007	4,125
Total	\$ 6,595	\$ 7,944	\$ 12,082	\$ 18,662

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(unaudited)(unaudited)		(unaudited)(unaudited)	
Depreciation and amortization:				
IHT	\$ 4,725	\$ 4,861	\$ 9,530	\$ 9,716
MS	8,944	5,797	18,222	11,660
Quest Integrity	966	1,096	1,965	2,365
Corporate and shared support services	1,344	1,300	2,717	2,274
Total	\$ 15,979	\$ 13,054	\$ 32,434	\$ 26,015

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



Table of Contents

A geographic breakdown of our revenues for the three and six months ended June 30, 2018 and 2017 is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total Revenues: <sup>1</sup>				
United States	\$242,773	\$226,035	\$476,149	\$441,247
Canada	51,164	37,444	78,532	64,692
Europe	32,471	30,229	60,696	56,228
Other foreign countries	17,481	18,548	30,897	36,643
Total	\$343,889	\$312,256	\$646,274	\$598,810

<sup>1</sup> Revenues attributable to individual countries/geographic areas are based on the country of domicile of the legal entity that performs the work.

## 15. RESTRUCTURING AND OTHER RELATED CHARGES (CREDITS)

Our restructuring and other related charges (credits), net for the three and six months ended June 30, 2018 and 2017 are summarized by segment as follows (in thousands):

	Three Months		Six Months Ended	
	Ended June 30, 2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Furmanite Belgium and Netherlands Exit Severance and related costs (credits)				
MS	\$—	\$ 34	\$—	\$ (157 )
Disposal gain				
MS	—	—	—	(1,056 )
Subtotal	—	34	—	(1,213 )
OneTEAM Program Severance and related costs				
IHT	967	—	967	—
MS	331	—	331	—
Quest Integrity	33	—	33	—
Corporate and shared support services	1,080	—	1,080	—
Subtotal	2,411	—	2,411	—
2017 Cost Savings Initiative Severance and related costs				
Corporate and shared support services	—	237	—	237
Subtotal	—	237	—	237
Grand Total	\$2,411	\$ 271	\$2,411	\$ (976 )

Furmanite Belgium and Netherlands Exit

Due to continued economic softness and unfavorable costs structures, we committed to a plan to exit the acquired Furmanite operations in Belgium and the Netherlands in the fourth quarter of 2016 and communicated the plan to the affected employees. The closures are now complete. During the six months ended June 30, 2017, we recorded a reduction to severance costs of \$0.2 million and a disposal gain of \$1.1 million. The disposal gain resulted from an asset sale of the Furmanite operations in Belgium,

Table of Contents

which was completed during the first quarter of 2017, whereby we conveyed the business operations and certain assets to the purchaser in exchange for the assumption by the purchaser of certain liabilities, primarily severance-related liabilities associated with the employees who transferred to the purchaser in connection with the transaction. With respect to these exit activities, to date we have incurred cumulatively \$4.7 million of severance-related costs and an impairment loss on property, plant and equipment of \$0.7 million, partially offset by a disposal gain of \$1.1 million.

**2017 Cost Savings Initiative**  
In July 2017, we announced our commitment to a cost savings initiative to take direct actions to reduce our overall cost structure given the recent weak and uncertain macro environment in the industries in which we operate. This initiative was completed in the latter part of 2017. No costs or expenses were recognized in the condensed consolidated statements of operations for this initiative during the three and six months ended June 30, 2018. With respect to this initiative, to date we have incurred cumulatively \$3.9 million in severance and related expenses, most of which were paid in cash in 2017.

**OneTEAM Program**

In the fourth quarter of 2017, we engaged outside consultants to assess all aspects of our business for improvement and cost saving opportunities. In the first quarter of 2018, we completed the design phase of the project, known as OneTEAM, and have now entered the deployment phase. As part of the OneTEAM Program, we have decided to eliminate certain employee positions. For the three and six months ended June 30, 2018, we incurred severance charges of \$2.4 million, which is also the amount we have incurred cumulatively to date. We currently expect that total severance charges from the OneTEAM Program will amount to approximately \$10 million, inclusive of the amounts incurred to date. We expect that the OneTEAM Program will be largely completed in the first half of 2019.

A rollforward of our accrued severance liability associated with this program is presented below (in thousands):

	Six Months Ended June 30, 2018 (unaudited)
Balance, beginning of period	\$ —
Charges	2,411
Payments	(332 )
Balance, end of period	\$ 2,079

Table of Contents

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

Overview

Unless otherwise indicated, the terms "Team, Inc.," "Team," "the Company," "we," "our" and "us" are used in this report to refer to Team, Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. We are incorporated in the State of Delaware and our company website can be found at [www.teaminc.com](http://www.teaminc.com). Our corporate headquarters is located at 13131 Dairy Ashford, Suite 600, Sugar Land, Texas, 77478 and our telephone number is (281) 331-6154. Our stock is traded on the New York Stock Exchange ("NYSE") under the symbol "TISI."

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 Contractual Obligations and Critical Accounting Policies, included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K").

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, except as may be required by law. 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 the 2017 Form 10-K.

General Description of Business

We are a leading provider of standard to specialty industrial services, including inspection, engineering assessment and mechanical repair and remediation required in maintaining high temperature and high pressure piping systems and vessels that are utilized extensively in the refining, petrochemical, power, pipeline and other heavy industries. We conduct operations in three segments: Inspection and Heat Treating Group ("IHT") (formerly TeamQualspec), Mechanical Services Group ("MS") (formerly TeamFurmanite) and Quest Integrity Group ("Quest Integrity"). Through the capabilities and resources in these three segments, we believe that Team is uniquely qualified to provide integrated solutions involving in their most basic form, inspection to assess condition, engineering assessment to determine fitness for purpose in the context of industry standards and regulatory codes and mechanical services to repair, rerate or replace based upon the client's election. In addition, we believe the Company is capable of escalating with the client's needs—as dictated by the severity of the damage found and the related operating conditions—from standard services to some of the most advanced services and integrated integrity management and asset reliability solutions available in the industry. We also believe that Team is unique in its ability to provide services in three unique client demand profiles: (i) turnaround or project services, (ii) call-out services and (iii) nested or run and maintain services. IHT provides standard and advanced non-destructive testing ("NDT") services for the process, pipeline and power sectors, pipeline integrity management services, field heat treating services, as well as associated engineering and assessment services. These services can be offered while facilities are running (on-stream), during facility turnarounds or during new construction or expansion activities.

MS provides primarily call-out and turnaround services under both on-stream and off-line/shut down circumstances. Turnaround services are project-related and demand is a function of the number and scope of scheduled and unscheduled facility turnarounds as well as new industrial facility construction or expansion activities. The turnaround

and call-out services MS provides include field machining, technical bolting, field valve repair and isolation test plugging services. On-stream services offered by MS represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control and hot tapping.

Quest Integrity provides integrity and reliability management solutions for the process, pipeline and power sectors. These solutions encompass two broadly-defined disciplines: (1) highly specialized in-line inspection services for unpiggable process

Table of Contents

pipings and pipelines using proprietary in-line inspection tools and analytical software; and (2) advanced condition assessment services through a multi-disciplined engineering team.

We offer these services globally through over 200 locations in 20 countries throughout the world with more than 7,300 employees. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, original equipment manufacturers (“OEMs”), distributors, and some of the world’s largest engineering and construction firms.

In July 2018, we announced an organizational restructuring and certain new leadership appointments. The organizational changes will include a Product and Service Line organization and an Operations organization. The Product and Service Lines will be responsible for value positioning and pricing, standardization of best practices, technical training and program development, and technology innovation across Team’s global enterprise. The Operations organization, comprised of cross-segment divisions aligned by major geographic regions, will be responsible for executing product and service delivery in accordance with established Team service line standards, safety and quality protocols. The Company is currently working to transition its operations, management structure, support functions and technology infrastructure to align with the new organization, which we expect to be fully operational in the fourth quarter of 2018. It is possible that our reportable segments could be affected by these changes once the transition is complete. Management is currently evaluating the potential impacts of these changes on the Company’s segment reporting.

## Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

	Three Months Ended		Increase		
	June 30, 2018 (unaudited)	2017 (unaudited)	\$	%	
Revenues by business segment:					
IHT	\$ 168,673	\$ 158,412	\$ 10,261	6.5	%
MS	148,978	132,564	16,414	12.4	%
Quest Integrity	26,238	21,280	4,958	23.3	%
Total	\$ 343,889	\$ 312,256	\$ 31,633	10.1	%
Operating income (loss):					
IHT	\$ 13,281	\$ 10,529	\$ 2,752	26.1	%
MS	10,582	5,385	5,197	96.5	%
Quest Integrity	5,751	3,889	1,862	47.9	%
Corporate and shared support services	(27,815)	(26,496)	(1,319)	(5.0)	%
Total	\$ 1,799	\$ (6,693)	\$ 8,492	NM <sup>1</sup>	

<sup>1</sup>NM - Not meaningful

Revenues. The overall higher revenues are primarily attributable to increased activity levels across all segments reflecting increased demand and customer spending levels due to improved market conditions, particularly within the refining and petrochemical industries. Total revenues increased \$31.6 million or 10.1% from the prior year quarter. Excluding the favorable impact of \$4.8 million due to foreign currency exchange rate changes, total revenues increased by \$26.9 million, IHT revenues increased by \$8.2 million, MS revenues increased by \$14.2 million and Quest Integrity revenues increased by \$4.5 million. The favorable impacts of foreign exchange rate changes are primarily due to the weakening of the U.S. dollar relative to the Canadian dollar, the Euro and the British Pound this year. The increased activity levels in each segment were primarily associated with our operations in North America and included increases in advanced inspection and mechanical integrity services within IHT, higher leak repair, hot tapping and valve services within MS and increased inspection services within Quest Integrity.



Table of Contents

Operating income (loss). Overall operating income was \$1.8 million in the current year quarter compared to an operating loss of \$6.7 million in the prior year quarter. The \$8.5 million improvement in operating income (loss) is primarily attributable to improved operating performance in all segments. IHT, MS and Quest Integrity experienced increases in operating income of \$2.8 million, \$5.2 million and \$1.9 million, respectively. These improvements were partially offset by higher corporate and shared support expenses of \$1.3 million. For the three months ended June 30, 2018, operating loss includes net expenses totaling \$8.0 million that we do not believe are indicative of the Company's core operating activities, while the prior year quarter included \$6.9 million of such items, as detailed by segment in the table below (in thousands):

Expenses reflected in operating income (loss) that are not indicative of the Company's core operating activities (unaudited):

	IHT	MS	Quest Integrity	Corporate and shared support services	Total
Three Months Ended June 30, 2018					
Professional fees, legal and other <sup>1</sup>	\$(1 )	\$8	\$ —	\$ 5,677	\$5,684
Restructuring and other related charges, net <sup>3</sup>	968	331	33	1,079	2,411
Executive transition cost <sup>2</sup>	—	—	—	150	150
Revaluation of contingent consideration	—	—	—	(202 )	(202 )
Total	\$967	\$339	\$ 33	\$ 6,704	\$8,043
Three Months Ended June 30, 2017					
Professional fees, legal and other <sup>1</sup>	\$—	\$69	\$ —	\$ 2,734	\$2,803
Implementation of the new ERP system	—	—	—	3,854	3,854
Restructuring and other related charges, net <sup>3</sup>	—	34	—	237	271
Total	\$—	\$103	\$ —	\$ 6,825	\$6,928

<sup>1</sup> Consists primarily of professional fees and other costs for assessment of corporate and support cost structures, acquired business integration and intellectual property legal defense costs associated with Quest Integrity. For the three months ended June 30, 2018, includes \$4.1 million (exclusive of restructuring costs) associated with the OneTEAM program, which is discussed further below.

<sup>2</sup> Transition costs associated with the September 2017 executive leadership change.

<sup>3</sup> For 2018, associated with employee severance costs related to the OneTEAM program. For 2017, associated with the Furmanite Belgium and Netherlands exit.

Excluding the impact of these identified items in both periods, operating income (loss) changed favorably by \$9.6 million, consisting of increased operating income in MS, IHT and Quest Integrity of \$5.6 million \$3.5 million and \$1.9 million, respectively, partially offset by higher corporate and shared support expenses of \$1.4 million. The higher operating income in MS and IHT reflects higher activity levels, reflecting an improvement in market conditions, certain workforce planning and labor utilization efficiencies and the benefits from both the Company's cost savings initiative completed last year as well as the OneTEAM program this year. Within Quest Integrity, the higher operating income reflects both higher activity levels and a favorable project mix. Within MS, the benefit of the higher activity levels was partially offset by additional amortization expense of \$3.1 million associated with the Furmanite trade name intangible asset. As a result of initiatives to consolidate the Company's branding, the useful life of this intangible asset is not expected to extend beyond December 31, 2018. We are accounting for this change in useful life prospectively and are amortizing the remaining balance during 2018. Within corporate and shared support services, the lower operating income is primarily attributable to higher incentive and stock-based compensation costs, partially offset by labor cost savings from our 2017 cost saving initiative as well as the OneTEAM program this year. While our markets are improving, we are beginning to observe cost increases in labor, materials, freight, and fuel that could impact our future operating performance.

Interest expense. Interest expense increased from \$4.4 million in the prior year quarter to \$7.6 million in the current year quarter. The increase is due to a combination of higher overall debt balances outstanding and higher interest rates. The higher interest rates are attributable to both higher rates on our Credit Facility (as defined below) borrowings as well as the effect of the July 31, 2017 issuance of \$230.0 million principal amount of 5.00% Convertible Senior Notes due 2023 (the “Notes”), which bear a higher effective interest rate than our Credit Facility borrowings.

Loss on convertible debt embedded derivative. For the three months ended June 30, 2018, we recorded a loss of \$29.3 million associated with the increase in fair value of our convertible debt embedded derivative liability. The loss recognized during the three months ended June 30, 2018 is primarily attributable to the 50.5% increase in the Company’s stock price during the period through May 17, 2018. On May 17, 2018 we received shareholder approval to issue shares of common stock upon conversion of the Notes. As discussed further in Note 8 to the condensed consolidated financial statements, in accordance with ASC 815-15, Embedded Derivatives (“ASC 815-15”), we recorded a loss to adjust the embedded derivative liability to its fair value as of this date and then reclassified the balance of \$45.4 million to stockholders’ equity. As a result of this reclassification, the embedded derivative liability will no longer be marked to fair value each period.

Table of Contents

Other expense, net. Non-operating results include \$0.6 million in foreign currency transaction losses in the current year quarter compared to \$0.1 million in the prior year quarter. Foreign currency transaction losses in both periods reflect the effects of fluctuations in the U.S. Dollar relative to the currencies to which we have exposure, including but not limited to, the Brazilian Real, British Pound, Canadian Dollar, Euro, Malaysian Ringgit, Mexican Peso, and Singapore Dollar. Non-operating results also include certain components of our net periodic pension cost (credit).

Taxes. The income tax benefit was \$3.0 million on the pre-tax loss of \$35.4 million in the current year quarter compared to a provision for income tax of \$4 thousand on the pre-tax loss of \$11.1 million in the prior year quarter. The effective tax rate was 8.4% for the three months ended June 30, 2018, compared to the effective tax rate of essentially zero for the three months ended June 30, 2017. The increase in the effective tax rate was primarily due to discrete items in the current period and increases in valuation allowances on deferred tax assets related to both U.S. net operating losses and recently enacted interest expense limitation carryovers under the 2017 Tax Cuts and Jobs Act enacted on December 22, 2017 (the "2017 Tax Act"). The effective tax rate for the three months ended June 30, 2018 also reflects the reduced federal corporate income tax rate that resulted from the enactment of the 2017 Tax Act. In the fourth quarter of 2017, we recorded a provisional estimate to account for the effects of the 2017 Tax Act. The Company is continuing to evaluate the impact of the 2017 Tax Act and will record any resulting adjustments to its provisional estimates during the remainder of 2018, which may materially impact our income tax expense (benefit). No adjustments to the provisional estimates determined as of December 31, 2017 were recorded during the three months ended June 30, 2018. See Note 1 to the condensed consolidated financial statements for additional information on the 2017 Tax Act.

## Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

The following table sets forth the components of revenue and operating income (loss) from our operations for the six months ended June 30, 2018 and 2017 (in thousands):

	Six Months Ended		Increase		
	June 30,		(Decrease)		
	2018	2017	\$	%	
	(unaudited)(unaudited)				
Revenues by business segment:					
IHT	\$320,092	\$301,368	\$18,724	6.2	%
MS	281,879	254,386	27,493	10.8	%
Quest Integrity	44,303	43,056	1,247	2.9	%
Total	\$646,274	\$598,810	\$47,464	7.9	%
Operating income (loss):					
IHT	\$20,021	\$18,654	\$1,367	7.3	%
MS	13,100	5,836	7,264	124.5	%
Quest Integrity	6,845	8,080	(1,235)	(15.3)	%
Corporate and shared support services	(52,292)	(51,351)	(941)	(1.8)	%
Total	\$(12,326)	\$(18,781)	\$6,455	34.4	%

Revenues. The overall higher revenues are primarily attributable to increased activity levels, primarily in MS and IHT, due to improved market conditions this year, as noted above. Total revenues increased \$47.5 million or 7.9% from the prior year period. Excluding the favorable impact of \$9.5 million due to foreign currency exchange rate changes, total revenues increased by \$38.0 million, IHT revenues increased by \$15.2 million, MS revenues increased by \$22.6 million and Quest Integrity revenues increased by \$0.2 million. The increased activity levels in MS and IHT were primarily associated with our operations in North America. The favorable impacts of foreign exchange rate changes are primarily due to the weakening of the U.S. dollar relative to the Canadian dollar and the Euro this year. The

increased activity levels in each segment were primarily associated with our operations in North America and included increases in advanced inspection and mechanical integrity services within IHT, higher leak repair, hot tapping and valve services within MS and increased inspection services within Quest Integrity. Revenues for the six months ended June 30, 2018 include \$5.1 million associated with the adoption of Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers, (“ASC 606”) effective January 1, 2018.

Table of Contents

Operating loss. Overall operating loss was \$12.3 million in the current year compared to \$18.8 million in the same period last year. The \$6.5 million improvement is primarily attributable higher operating income in the MS segment, which experienced higher operating income of \$7.3 million, as well as the IHT segment, which improved by \$1.4 million. These improvements were partially offset by lower operating income from Quest Integrity of \$1.2 million and higher corporate and shared support services expenses of \$0.9 million. The current year period includes \$3.6 million of operating income associated with the adoption of ASC 606. For the six months ended June 30, 2018, operating loss includes net expenses totaling \$13.2 million that we do not believe are indicative of the Company's core operating activities, while the prior year period included \$10.6 million of such items, as detailed by segment in the table below (in thousands):

Expenses reflected in operating income (loss) that are not indicative of the Company's core operating activities (unaudited):

	IHT	MS	Quest Integrity	Corporate and shared support services	Total
Six Months Ended June 30, 2018					
Professional fees, legal and other <sup>1</sup>	\$48	\$507	\$ —	\$10,025	\$10,580
Implementation of the new ERP system	—	—	—	87	87
Restructuring and other related charges, net <sup>3</sup>	968	331	33	1,079	2,411
Executive transition cost <sup>2</sup>	—	—	—	300	300
Revaluation of contingent consideration	—	—	—	(202 )	(202 )
Total	\$1,016	\$838	\$ 33	\$11,289	\$13,176
Six Months Ended June 30, 2017					
Professional fees, legal and other <sup>1</sup>	\$—	\$163	\$ —	\$4,602	\$4,765
Implementation of the new ERP system	—	—	—	7,940	7,940
Restructuring and other related charges (credits), net <sup>3</sup>	—	(1,213 )	—	237	(976 )
Revaluation of contingent consideration	(1,174 )	—	—	—	(1,174 )
Total	\$(1,174)	\$(1,050)	\$ —	\$12,779	\$10,555

<sup>1</sup> Consists primarily of professional fees and other costs for assessment of corporate and support cost structures, acquired business integration and intellectual property legal defense costs associated with Quest Integrity. For the six months ended June 30, 2018, includes \$7.5 million (exclusive of restructuring costs) associated with the OneTEAM program, which is discussed further below.

<sup>2</sup> Transition costs associated with the September 2017 executive leadership change.

<sup>3</sup> For 2018, associated with employee severance costs related to the OneTEAM program. For 2017, associated with the Furmanite Belgium and Netherlands exit, primarily a disposal gain.

Excluding the impact of these identified items in both periods, operating income (loss) changed favorably by \$9.1 million, consisting of increased operating income of \$9.2 million and \$3.5 million in MS and IHT, respectively, partially offset by decreased operating income in Quest Integrity of \$1.2 million and increased corporate and shared support services expenses of \$2.4 million. The higher operating income in MS and IHT is attributable to higher activity levels, reflecting an improvement in market conditions, and the benefits from both the Company's cost savings initiative completed last year as well as the OneTEAM program this year. Within MS, the benefit of the higher activity levels was partially offset by additional amortization expense of \$6.2 million associated with the Furmanite trade name intangible asset. As a result of initiatives to consolidate the Company's branding, the useful life of this intangible asset is not expected to extend beyond December 31, 2018. We are accounting for this change in useful life prospectively and are amortizing the remaining balance during 2018. Within IHT, the benefits of the higher activity levels were partially offset by increases in labor costs, including overtime compensation and flexible labor cost to meet customer demand. The lower operating income in the Quest Integrity segment is primarily due to a slower first

quarter of 2018 as certain projects were deferred to later in 2018. Within corporate and shared support services, the lower operating income is primarily attributable to higher incentive and non-cash compensation cost, partially offset by labor cost savings from our 2017 cost saving initiative as well as the OneTEAM program this year. While our markets are improving, we are beginning to observe cost increases in labor, materials, freight, and fuel that could impact our future operating performance.

Interest expense. Interest expense increased from \$7.5 million in the prior year to \$15.2 million in the current year. The increase is due to a combination of higher overall debt balances outstanding and higher interest rates. The higher interest rates are attributable to both higher rates on our Credit Facility (as defined below) borrowings as well as the effect of the July 31, 2017 issuance of the Notes, which bear a higher effective interest rate than our Credit Facility borrowings.

Loss on convertible debt embedded derivative. For the six months ended June 30, 2018, we recorded a loss of \$24.8 million associated with the increase in fair value of our convertible debt embedded derivative liability. The loss recognized during the six months ended June 30, 2018 is primarily attributable to the 38.9% increase in the Company's stock price during the period through May 17, 2018. On May 17, 2018, we received shareholder approval to issue shares of common stock upon conversion of the Notes.

## Table of Contents

As discussed further in Note 8 to the condensed consolidated financial statements, in accordance with ASC 815-15, we recorded a loss to adjust the embedded derivative liability to its fair value as of this date and then reclassified the balance of \$45.4 million to stockholders' equity. As a result of this reclassification, the embedded derivative liability will no longer be marked to fair value each period.

Other expense, net. Non-operating results include \$1.0 million in foreign currency transaction losses in the current year compared to \$0.4 million in the prior year. Foreign currency transaction losses in both periods reflect the effects of fluctuations in the U.S. Dollar relative to the currencies to which we have exposure, including but not limited to, the Brazilian Real, British Pound, Canadian Dollar, Euro, Malaysian Ringgit, Mexican Peso, and Singapore Dollar. Non-operating results also include certain components of our net periodic pension cost (credit).

Taxes. The income tax benefit was \$2.4 million on the pre-tax loss of \$52.7 million for the six months ended June 30, 2018 compared to \$6.1 million on the pre-tax loss of \$26.7 million in the same period in 2017. The effective tax rate was 4.5% for the six months ended June 30, 2018, compared to the effective tax rate of 22.8% for the six months ended June 30, 2017. The decrease in the effective tax rate was primarily due to increases in valuation allowances on deferred tax assets related to both U.S. net operating losses and recently enacted interest expense limitation carryovers under the 2017 Tax Act enacted on December 22, 2017. The effective tax rate for the six months ended June 30, 2018 also reflects the reduced federal corporate income tax rate that resulted from the enactment of the 2017 Tax Act. In the fourth quarter of 2017, we recorded a provisional estimate to account for the effects of the 2017 Tax Act. The Company is continuing to evaluate the impact of the 2017 Tax Act and will record any resulting adjustments to its provisional estimates during the remainder of 2018, which may materially impact our income tax expense (benefit). No adjustments to the provisional estimates determined as of December 31, 2017 were recorded during the six months ended June 30, 2018. See Note 1 to the condensed consolidated financial statements for additional information on the 2017 Tax Act.

## Liquidity and Capital Resources

Financing for our operations consists primarily of our Credit Facility (as defined below) and cash flows attributable to our operations, which we believe are sufficient to fund our business needs. From time to time, we may experience periods of weakness in the industries in which we operate, with activity levels below historical levels. These conditions, depending on their duration and severity, have the potential to adversely impact our operating cash flows. In the event that existing liquidity sources are no longer sufficient for our capital requirements, we would explore additional external financing sources. However, there can be no assurance that such sources would be available on terms acceptable to us, if at all.

Credit Facility. In July 2015, we renewed our banking credit facility (the "Credit Facility"). In accordance with the second amendment to the Credit Facility, which was signed in February 2016, the Credit Facility had a borrowing capacity of up to \$600 million and consisted of a \$400 million, five-year revolving loan facility and a \$200 million five-year term loan facility. The swing line facility is \$35.0 million. On July 31, 2017, we completed the issuance of \$230.0 million of 5.00% convertible senior notes in a private offering (the "Offering," which is described further below) and used the proceeds from the Offering to repay in full the then-outstanding term-loan portion of our Credit Facility and a portion of the outstanding revolving borrowings. Concurrent with the completion of the Offering and the repayment of outstanding borrowings discussed above, we entered into the sixth amendment to the Credit Facility, effective as of June 30, 2017, which reduced the capacity of the Credit Facility to a \$300 million revolving loan facility, subject to a borrowing availability test (based on eligible accounts, inventory and fixed assets). The Credit Facility matures in July 2020, bears interest based on a variable Eurodollar rate option (LIBOR plus 3.75% margin at June 30, 2018) and has commitment fees on unused borrowing capacity (0.75% at June 30, 2018). The Credit Facility limits our ability to pay cash dividends. The Company's obligations under the Credit Facility are guaranteed by its material direct and indirect domestic subsidiaries and are secured by a lien on substantially all of the Company's and

the guarantors' tangible and intangible property (subject to certain specified exclusions) and by a pledge of all of the equity interests in the Company's material direct and indirect domestic subsidiaries and 65% of the equity interests in the Company's material first-tier foreign subsidiaries.

The Credit Facility contains financial covenants, which were amended in March 2018 pursuant to the seventh amendment (the "Seventh Amendment") to the Credit Facility. The Seventh Amendment eliminated the ratio of consolidated funded debt to consolidated EBITDA (the "Total Leverage Ratio," as defined in the Credit Facility agreement) covenant through the remainder of the term of the Credit Facility and also modified both the ratio of senior secured debt to consolidated EBITDA (the "Senior Secured Leverage Ratio," as defined in the Credit Facility agreement) and the ratio of consolidated EBITDA to consolidated interest charges (the "Interest Coverage Ratio," as defined in the Credit Facility agreement) as follows. The Company is required to maintain a maximum Senior Secured Leverage Ratio of not more than 4.25 to 1.00 as of June 30, 2018, not more than 3.50 to 1.00 as of September 30, 2018 and each quarter thereafter through June 30, 2019 and not more than 2.75 to 1.00 as of September 30, 2019 and each quarter thereafter. With respect to the Interest Coverage Ratio, the Company is required to maintain a ratio of not less than 2.25 to 1.00 as of June 30, 2018 and each quarter thereafter through December 31, 2018 and not less than 2.50 to

Table of Contents

1.00 as of March 31, 2019 and each quarter thereafter. As of June 30, 2018, we are in compliance with the covenants in effect as of such date. The Senior Secured Leverage Ratio and the Interest Coverage Ratio stood at 2.95 to 1.00 and 3.19 to 1.00, respectively, as of June 30, 2018. At June 30, 2018, we had \$15.3 million of cash on hand and had approximately \$80 million of available borrowing capacity through our Credit Facility. As of June 30, 2018, we had \$2.4 million of unamortized debt issuance costs that are being amortized over the life of the Credit Facility. Our ability to maintain compliance with the financial covenants is dependent upon our future operating performance and future financial condition, both of which are subject to various risks and uncertainties. Accordingly, there can be no assurance that we will be able to maintain compliance with the Credit Facility covenants as of any future date. In the event we are unable to maintain compliance with our financial covenants, we would seek to enter into an amendment to the Credit Facility with our bank group in order to modify and/or to provide relief from the financial covenants for an additional period of time. Although we have entered into amendments in the past, there can be no assurance that any future amendments would be available on terms acceptable to us, if at all.

In order to secure our casualty insurance programs, we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. We were contingently liable for outstanding stand-by letters of credit totaling \$21.8 million at June 30, 2018 and \$22.5 million at December 31, 2017. Outstanding letters of credit reduce amounts available under our Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the Credit Facility.

**Convertible Senior Notes.** On July 31, 2017, we issued \$230.0 million principal amount of 5.00% Convertible Senior Notes due 2023. The Notes, which are senior unsecured obligations of the Company, bear interest at a rate of 5.0% per year, payable semiannually in arrears on February 1 and August 1 of each year, beginning on February 1, 2018. The Notes will mature on August 1, 2023 unless repurchased, redeemed or converted in accordance with their terms prior to such date. The Notes will be convertible at an initial conversion rate of 46.0829 shares of our common stock per \$1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately \$21.70 per share. The conversion rate, and thus the conversion price, may be adjusted under certain circumstances as described in the indenture governing the Notes.

• Holders may convert their Notes at their option prior to the close of business on the business day immediately preceding May 1, 2023, but only under the following circumstances:

• during any calendar quarter commencing after the calendar quarter ending on December 31, 2017 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

• during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of Notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on such trading day;

• if we call any or all of the Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; or;

• upon the occurrence of specified corporate events described in the indenture governing the Notes.

On or after May 1, 2023 until the close of business on the business day immediately preceding the maturity date, holders may, at their option, convert their Notes at any time, regardless of the foregoing circumstances.

The Notes are initially convertible into 10,599,067 shares of common stock. Because the Notes could be convertible in full into more than 19.99 percent of our outstanding common stock, we were required by the listing rules of the New York Stock Exchange to obtain the approval of the holders of our outstanding shares of common stock before the Notes could be converted into more than 5,964,858 shares of common stock. At our annual shareholders' meeting, held on May 17, 2018, our shareholders approved the issuance of shares of common stock upon conversion of the Notes. The Notes will be convertible into, subject to various conditions, cash or shares of the Company's common stock or a combination of cash and shares of the Company's common stock, in each case, at the Company's election.

Table of Contents

If holders elect to convert the Notes in connection with certain fundamental change transactions described in the indenture governing the Notes, we will, under certain circumstances described in the indenture governing the Notes, increase the conversion rate for the Notes so surrendered for conversion.

We may not redeem the Notes prior to August 5, 2021. We will have the option to redeem all or any portion of the Notes on or after August 5, 2021, if certain conditions (including that our common stock is trading at or above 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive)), including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

**Cost Savings Initiative.** In July 2017, we announced our commitment to a cost savings initiative to take direct actions to reduce our overall cost structure given the recent weak and uncertain macro environment in the industries in which we operate. The cost savings initiative included reductions to discretionary spending and the elimination of certain employee positions. Based upon estimates from our current planning model for workforce reductions, we believe that the actions we have taken have reduced our annual operating expenses by approximately \$30 million, with the impact to operating results of those reduction synergies having begun in the third quarter of 2017. This initiative was completed in the latter part of 2017. The resulting severance and related charges, which were generally recorded in the third and fourth quarters of 2017, were approximately \$3.9 million, most of which were paid in cash in 2017.

**OneTEAM Program.** In the fourth quarter of 2017, we engaged outside consultants to assess all aspects of our business for improvement and cost saving opportunities. In the first quarter of 2018, we completed the design phase of the project and have now entered the deployment phase. We incurred \$3.4 million and \$7.5 million of expenses during the three and six months ended June 30, 2018, respectively, primarily related to professional fees associated with the project. Additionally, we incurred \$2.4 million of severance-related costs during the three and six months ended June 30, 2018 related to the elimination of certain employee positions. We expect to incur various additional expenses associated with execution of OneTEAM, the majority of which will be incurred in 2018, with funding provided by our operating cash flows and the Credit Facility. Currently, we estimate that total expenses for the OneTEAM initiative will not exceed \$30 million in 2018, including approximately \$10 million for severance-related costs. The Company expects to realize certain cost savings and other business improvements upon implementation of the project, but does not expect to fully realize such benefits until 2020. Although management expects that cost savings and other business improvements will result from these actions, there can be no assurance that such results will be achieved.

**Cash and cash equivalents.** Our cash and cash equivalents at June 30, 2018 totaled \$15.3 million, of which \$13.7 million was in foreign accounts, primarily in Europe, Australia, Canada, Singapore and Trinidad.

**Cash flows attributable to our operating activities.** For the six months ended June 30, 2018, net cash used in operating activities was \$17.7 million. Negative operating cash flow was primarily attributable to the net loss of \$50.3 million, an increase in working capital of \$34.9 million and deferred income tax benefits of \$3.7 million, partially offset by depreciation and amortization of \$32.4 million, a non-cash loss on our convertible debt embedded derivative of \$24.8 million, non-cash compensation costs of \$7.0 million and a provision for doubtful accounts of \$5.6 million.

For the six months ended June 30, 2017, net cash used in operating activities was \$12.6 million. Negative operating cash flow was primarily attributable to the net loss of \$20.6 million, deferred income tax benefits of \$9.1 million and an increase in working capital of \$12.9 million, partially offset by depreciation and amortization of \$26.0 million and non-cash compensation costs of \$4.3 million.

**Cash flows attributable to our investing activities.** For the six months ended June 30, 2018, net cash used in investing activities was \$11.1 million, consisting primarily of \$12.1 million for capital expenditures. Capital expenditures can vary depending upon specific customer needs or organization needs that may arise unexpectedly.

For the six months ended June 30, 2017, net cash used in investing activities was \$16.6 million, consisting primarily of \$18.7 million for capital expenditures. Capital expenditures included \$1.2 million in costs related to our ERP project.

Cash flows attributable to our financing activities. For the six months ended June 30, 2018, net cash provided by financing activities was \$19.0 million consisting primarily of \$21.2 million of net borrowings under our revolving credit agreement, partially offset by \$1.1 million of contingent consideration payments and \$0.9 million of debt issuance costs associated with an amendment to the Credit Facility.

## Table of Contents

For the six months ended June 30, 2017, net cash provided by financing activities was \$10.6 million consisting primarily of \$22.5 million of net borrowings under our revolving credit agreement, partially offset by \$10.0 million in payments on our term loan, \$1.3 million in contingent consideration payments and \$0.7 million of debt issuance costs associated with an amendment to the Credit Facility.

Effect of exchange rate changes on cash. For the six months ended June 30, 2018 and 2017, the effect of exchange rate changes on cash was a negative impact of \$1.4 million and a positive impact of \$1.5 million, respectively. The negative impact in the current year is primarily attributable to unfavorable fluctuations in U.S. Dollar exchange rates with the Canadian dollar, the Australian Dollar, the Euro, the British Pound, the Brazilian Real and the New Zealand Dollar. The impact in the prior year is primarily due to favorable fluctuations in U.S. Dollar exchange rates with the Australian Dollar, Canadian Dollar, Euro, British Pound, Singapore Dollar, New Zealand Dollar, Malaysian Ringgit and Mexican Peso.

### Contractual Obligations

Information on our contractual obligations is set forth on page 38 of our 2017 Form 10-K. The following updates our disclosure of estimated defined benefit pension plan contribution obligations. For the Company's defined benefit pension plan covering certain United Kingdom employees (the "U.K. Plan"), as of June 30, 2018, the Company has committed to fund contributions of \$1.2 million for the remainder of 2018, \$2.4 million for 2019 and \$4.0 million annually thereafter through January 2032 for a total funding commitment of up to approximately \$51.4 million (undiscounted). Further, in any year in which specified operating performance levels are exceeded, we have committed to an additional contribution for that year, of up to approximately \$1.3 million, depending on actual performance levels. Notwithstanding these commitments, the Company will make contributions to the U.K. Plan only to the extent necessary to eliminate the funding deficit. Accordingly, the aggregate amount of contributions ultimately made may be less than those noted above. As of June 30, 2018 and December 31, 2017, our consolidated balance sheets reflected liabilities for defined benefit pension plans of \$12.7 million and \$15.0 million, respectively, substantially all of which relate to the U.K. Plan. For additional information on the U.K. Plan, see Note 12 to the consolidated financial statements included in the 2017 Form 10-K and Note 9 to the condensed consolidated financial statements included in this report.

### Critical Accounting Policies

A discussion of our critical accounting policies is included in the 2017 Form 10-K beginning on page 38. Effective January 1, 2018, we adopted the revenue recognition standard, ASC 606, on a modified retrospective basis. The information below updates the revenue recognition policy included in the 2017 Form 10-K to reflect the adoption of ASC 606. Additional information on ASC 606, including the effects of adoption, is set forth in Notes 1 and 2 to the condensed consolidated financial statements included in this report. There were no material changes to our other critical accounting policies during the six months ended June 30, 2018.

Revenue from contracts with customers. In accordance with ASC 606, we follow a five-step process to recognize revenue: 1) identify the contract with the customer, 2) identify the performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations and 5) recognize revenue when the performance obligations are satisfied.

Most of our contracts with customers are short-term in nature and billed on a time and materials basis, while certain other contracts are at a fixed price. Certain contracts may contain a combination of fixed and variable elements. We act as a principal and have performance obligations to provide the service itself or oversee the services provided by any subcontractors. Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties, such as taxes assessed by governmental authorities. In contracts where the amount of consideration is variable, we consider our experience with similar contracts in estimating the amount to which we will be entitled and recognize revenues accordingly. As most of our contracts contain only one performance obligation, the allocation of a contract's transaction price to multiple performance obligations is generally not applicable. Customers are generally billed as we satisfy our performance obligations and payment terms typically range from 30 to 90 days from the invoice date. Billings under certain fixed-price contracts may be based upon the

achievement of specified milestones, while some arrangements may require advance customer payment. Our contracts do not include significant financing components since the contracts typically span less than one year. Contracts generally include an assurance type warranty clause to guarantee that the services comply with agreed specifications. The warranty period typically is 12 months or less from the date of service. Warranty expenses were not material for the three and six months ended June 30, 2018 and 2017.

Revenue is recognized as (or when) the performance obligations are satisfied by transferring control over a service or product to the customer. Revenue recognition guidance prescribes two recognition methods (over time or point in time). Most of our performance obligations qualify for recognition over time because we typically perform our services on customer facilities or assets and customers receive the benefits of our services as we perform. Where a performance obligation is satisfied over time, the related revenue is also recognized over time using the method deemed most appropriate to reflect the measure of progress and

Table of Contents

transfer of control. For our time and materials contracts, we are generally able to elect the right-to-invoice practical expedient, which permits us to recognize revenue in the amount to which we have a right to invoice the customer if that amount corresponds directly with the value to the customer of our performance completed to date. For our fixed price contracts, we typically recognize revenue using the cost-to-cost method, which measures the extent of progress towards completion based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Under this method, revenue is recognized proportionately as costs are incurred. For contracts where control is transferred at a point in time, revenue is recognized at the time control of the asset is transferred to the customer, which is typically upon delivery and acceptance by the customer.

**New Accounting Principles**

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have operations in foreign countries with functional currencies that are not the U.S. Dollar. We are exposed to market risk, primarily related to foreign currency fluctuations related to these operations. Subsidiaries with asset and liability balances denominated in currencies other than their functional currency are remeasured in the preparation of their financial statements using a combination of current and historical exchange rates, with any resulting remeasurement adjustments included in net income (loss) for the period. Net foreign currency transaction losses for the six months ended June 30, 2018 and 2017 were \$1.0 million and \$0.4 million, respectively. The foreign currency transaction losses realized in the current year relate primarily to fluctuations in the U.S. Dollar in relation to the Brazilian Real, the Euro and the British Pound, while the losses in the prior year relate to fluctuations in the U.S. Dollar in relation to the British Pound and Canadian Dollar.

We have 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 Brazilian Real, British Pound, Canadian Dollar, Euro, Malaysian Ringgit, Mexican Peso and Singapore Dollar. The impact from these swap contracts was not material for the three and six months ended June 30, 2018 and June 30, 2017.

Translation adjustments for the assets and liability accounts are included as a separate component of accumulated other comprehensive loss in shareholders' equity. Foreign currency translation losses recognized in other comprehensive loss were \$4.9 million for the six months ended June 30, 2018.

We had foreign currency-based revenues and operating profit of approximately \$168.5 million and \$0.6 million, respectively, for the six months ended June 30, 2018. A hypothetical 10% adverse change in all applicable foreign currencies would result in a change in revenues and operating income of \$16.8 million and \$0.1 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.

All of the debt outstanding under the Credit Facility bears interest at variable market rates. If market interest rates increase, our interest expense and cash flows could be adversely impacted. Based on Credit Facility borrowings outstanding at June 30, 2018, an increase in market interest rates of 100 basis points would increase our interest expense and decrease our operating cash flows by approximately \$2 million on an annual basis.

Our convertible senior notes bear interest at a fixed rate, but the fair value of the Notes is subject to fluctuations as market interest rates change. In addition, the fair value of the Notes is affected by changes in our stock price. As of June 30, 2018, the outstanding principal balance of the Notes was \$230.0 million. After subtracting unamortized discount and issuance costs, the carrying value of the liability component of the Notes was \$192.2 million. The estimated fair value of the Notes at June 30, 2018 was \$293.3 million (inclusive of the fair value of the conversion option), and was determined based on the observed trading price of the Notes. Through May 17, 2018, a portion of the

conversion feature of the Notes was accounted for as an embedded derivative liability under ASC 815, with changes in fair value reflected in our results of operations each period. As a result of obtaining shareholder approval on May 17, 2018 to issue shares of common stock upon conversion of the Notes, we reclassified the embedded derivative to stockholders' equity at its May 17, 2018 fair value of \$45.4 million. As a result of the reclassification to stockholders' equity, the embedded derivative will no longer be marked to fair value each period. See Note 8 to the condensed consolidated financial statements for additional information regarding the Notes.

Table of Contents

**ITEM 4. CONTROLS AND PROCEDURES**

Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information on legal proceedings, see Note 13 to the condensed consolidated financial statements included in this report.

ITEM 1A. RISK FACTORS

Refer to the discussion of our risk factors included in Part I, Item 1A of the 2017 Form 10-K.

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

NONE

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
10.1†	<u>Team, Inc. 2018 Equity Incentive Plan (filed as Exhibit 4.5 to the Company’s Registration Statement on Form S-8, File No. 333-225727, filed on June 19, 2018, incorporated by reference herein).</u>
10.2†	<u>Transition, Severance, and Release Agreement dated July 2, 2018 between Team, Inc. and Arthur F. Victorson (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on July 3, 2018, incorporated by reference herein).</u>
10.3†	<u>Offer Letter, dated July 1, 2018, between TEAM, Inc. and Grant Roscoe (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on July 11, 2018, incorporated by reference herein).</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
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.

40

---

Table of Contents

Exhibit Number	Description
101.PRE	XBRL Presentation Linkbase Document.
†	Management contract or compensation plan.

Note: Unless otherwise indicated, documents incorporated by reference are located under Securities and Exchange Commission file number 001-08604.

Table of Contents

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: August 9, 2018 /S/ AMERINO GATTI  
Amerino Gatti  
Chief Executive Officer  
(Principal Executive Officer)

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