

TEAM INC  
Form 10-Q  
April 08, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the quarterly period ended February 28, 2015

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-08604

**TEAM, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of

**74-1765729**  
(I.R.S. Employer

**Incorporation or Organization)**

**Identification No.)**

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

**77478**  
(Zip Code)

**(281) 331-6154**

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

**None**

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

The Registrant had 20,788,784 shares of common stock, par value \$0.30, outstanding as of March 30, 2015.

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TEAM, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except share and per share data)**

|                                                                                                                 | <b>February 28, 2015<br/>(unaudited)</b> | <b>May 31, 2014</b> |
|-----------------------------------------------------------------------------------------------------------------|------------------------------------------|---------------------|
| <b>ASSETS</b>                                                                                                   |                                          |                     |
| Current assets:                                                                                                 |                                          |                     |
| Cash and cash equivalents                                                                                       | \$ 35,570                                | \$ 34,656           |
| Receivables, net of allowance of \$4,190 and \$4,784                                                            | 172,163                                  | 175,601             |
| Income tax receivable                                                                                           | 4,028                                    |                     |
| Inventory                                                                                                       | 28,108                                   | 25,537              |
| Deferred income taxes                                                                                           | 4,786                                    | 4,717               |
| Prepaid expenses and other current assets                                                                       | 7,484                                    | 8,303               |
| Total current assets                                                                                            | 252,139                                  | 248,814             |
| Property, plant and equipment, net                                                                              | 93,124                                   | 89,961              |
| Assets held for sale                                                                                            | 5,207                                    | 5,207               |
| Intangible assets, net of accumulated amortization of \$15,058 and \$12,698                                     | 21,163                                   | 23,513              |
| Goodwill                                                                                                        | 108,185                                  | 113,763             |
| Other assets, net                                                                                               | 548                                      | 1,248               |
| Deferred income taxes                                                                                           | 3,185                                    | 2,435               |
| Total assets                                                                                                    | \$ 483,551                               | \$ 484,941          |
| <b>LIABILITIES AND EQUITY</b>                                                                                   |                                          |                     |
| Current liabilities:                                                                                            |                                          |                     |
| Accounts payable                                                                                                | \$ 21,453                                | \$ 21,755           |
| Other accrued liabilities                                                                                       | 39,597                                   | 48,391              |
| Income taxes payable                                                                                            |                                          | 4,997               |
| Total current liabilities                                                                                       | 61,050                                   | 75,143              |
| Deferred income taxes                                                                                           | 15,646                                   | 15,655              |
| Long-term debt                                                                                                  | 86,445                                   | 73,721              |
| Other long-term liabilities                                                                                     | 3,063                                    | 3,377               |
| Total liabilities                                                                                               | 166,204                                  | 167,896             |
| 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; 20,788,784 and 20,477,938 shares issued | 6,237                                    | 6,142               |
| Additional paid-in capital                                                                                      | 112,144                                  | 105,872             |
| Retained earnings                                                                                               | 226,733                                  | 202,032             |
| Accumulated other comprehensive loss                                                                            | (12,488)                                 | (2,679)             |

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|                                              |            |            |
|----------------------------------------------|------------|------------|
| Treasury stock at cost, 546,977 and 0 shares | (21,138)   |            |
| Total Team shareholders equity               | 311,488    | 311,367    |
| Non-controlling interest                     | 5,859      | 5,678      |
| Total equity                                 | 317,347    | 317,045    |
| Total liabilities and equity                 | \$ 483,551 | \$ 484,941 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

(in thousands, except per share data)

|                                                       | <b>Three Months Ended<br/>February 28,</b> |             | <b>Nine Months Ended<br/>February 28,</b> |             |
|-------------------------------------------------------|--------------------------------------------|-------------|-------------------------------------------|-------------|
|                                                       | <b>2015</b>                                | <b>2014</b> | <b>2015</b>                               | <b>2014</b> |
| Revenues                                              | \$ 174,589                                 | \$ 163,236  | \$ 603,329                                | \$ 538,040  |
| Operating expenses                                    | 127,877                                    | 121,540     | 421,448                                   | 382,532     |
| Gross margin                                          | 46,712                                     | 41,696      | 181,881                                   | 155,508     |
| Selling, general and administrative expenses          | 43,786                                     | 40,725      | 138,456                                   | 125,482     |
| Earnings from unconsolidated affiliates               |                                            | 29          |                                           | 822         |
| Gain on revaluation of contingent consideration       |                                            |             |                                           | 2,138       |
| Operating income                                      | 2,926                                      | 1,000       | 43,425                                    | 32,986      |
| Interest expense, net                                 | 560                                        | 660         | 1,786                                     | 2,079       |
| Loss on investment in Venezuela                       | 1,177                                      |             | 1,177                                     |             |
| Foreign currency loss                                 | 673                                        | 1,868       | 1,489                                     | 2,398       |
| Earnings (loss) before income taxes                   | 516                                        | (1,528)     | 38,973                                    | 28,509      |
| Less: Provision for income taxes                      | 187                                        | (557)       | 14,031                                    | 10,406      |
| Net income (loss)                                     | 329                                        | (971)       | 24,942                                    | 18,103      |
| Less: Income attributable to non-controlling interest | 25                                         | 39          | 241                                       | 178         |
| Net income (loss) available to Team shareholders      | \$ 304                                     | \$ (1,010)  | \$ 24,701                                 | \$ 17,925   |
| Net income (loss) per share: Basic                    | \$ 0.01                                    | \$ (0.05)   | \$ 1.20                                   | \$ 0.88     |
| Net income (loss) per share: Diluted                  | \$ 0.01                                    | \$ (0.05)   | \$ 1.13                                   | \$ 0.84     |

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****TEAM, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)**

|                                                                           | <b>Three Months Ended<br/>February 28,</b> |             | <b>Nine Months Ended<br/>February 28,</b> |             |
|---------------------------------------------------------------------------|--------------------------------------------|-------------|-------------------------------------------|-------------|
|                                                                           | <b>2015</b>                                | <b>2014</b> | <b>2015</b>                               | <b>2014</b> |
| Net income (loss)                                                         | \$ 329                                     | \$ (971)    | \$ 24,942                                 | \$ 18,103   |
| Foreign currency translation adjustment                                   | (7,852)                                    | (2,715)     | (14,791)                                  | (2,925)     |
| Foreign currency hedge                                                    | 1,527                                      | (94)        | 2,966                                     | (856)       |
| Tax benefit attributable to other comprehensive income                    | 1,179                                      | 1,111       | 1,956                                     | 1,944       |
| Total comprehensive income (loss)                                         | (4,817)                                    | (2,669)     | 15,073                                    | 16,266      |
| Less: Total comprehensive income attributable to non-controlling interest | 2                                          | 42          | 181                                       | 173         |
| Total comprehensive income (loss) available to Team shareholders          | \$ (4,819)                                 | \$ (2,711)  | \$ 14,892                                 | \$ 16,093   |

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)**

|                                                                                   | <b>Nine Months Ended<br/>February 28,</b> |                 |
|-----------------------------------------------------------------------------------|-------------------------------------------|-----------------|
|                                                                                   | <b>2015</b>                               | <b>2014</b>     |
| <b>Cash flows from operating activities:</b>                                      |                                           |                 |
| Net income                                                                        | \$ 24,942                                 | \$ 18,103       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                           |                 |
| Loss on investment in Venezuela                                                   | 1,177                                     |                 |
| Earnings from unconsolidated affiliates                                           |                                           | (822)           |
| Depreciation and amortization                                                     | 16,852                                    | 15,976          |
| Amortization of deferred loan costs                                               | 167                                       | 167             |
| Foreign currency loss                                                             | 1,489                                     | 2,398           |
| Deferred income taxes                                                             | 1,059                                     | 192             |
| Gain on contingent consideration revaluation                                      |                                           | (2,138)         |
| Write-down of fixed assets                                                        | 383                                       |                 |
| Loss (gain) on asset sales                                                        | 103                                       | (77)            |
| Non-cash compensation cost                                                        | 3,691                                     | 3,205           |
| (Increase) decrease:                                                              |                                           |                 |
| Receivables                                                                       | (833)                                     | 13,431          |
| Inventory                                                                         | (3,040)                                   | 75              |
| Prepaid expenses and other current assets                                         | 953                                       | 1,577           |
| Increase (decrease):                                                              |                                           |                 |
| Accounts payable                                                                  | (878)                                     | (1,598)         |
| Other accrued liabilities                                                         | (5,966)                                   | (9,505)         |
| Income taxes                                                                      | (8,887)                                   | (469)           |
| <b>Net cash provided by operating activities</b>                                  | <b>31,212</b>                             | <b>40,515</b>   |
| <b>Cash flows from investing activities:</b>                                      |                                           |                 |
| Capital expenditures                                                              | (18,712)                                  | (23,758)        |
| Business acquisitions, net of cash acquired                                       | (2,949)                                   | (10,175)        |
| Proceeds from sale of assets                                                      | 35                                        | 204             |
| Change related to Venezuelan operations                                           | (620)                                     |                 |
| Distributions from joint venture                                                  |                                           | 174             |
| Decrease in other assets, net                                                     | 269                                       | 3               |
| <b>Net cash used in investing activities</b>                                      | <b>(21,977)</b>                           | <b>(33,552)</b> |
| <b>Cash flows from financing activities:</b>                                      |                                           |                 |
| Net borrowings under revolving credit agreement                                   | 15,690                                    | 9,800           |
| Deferred consideration payments                                                   | (1,000)                                   | (1,000)         |
| Contingent consideration payments                                                 | (1,000)                                   |                 |
| Corporate tax effect from share-based payment arrangements                        | 2,088                                     | 1,092           |
| Issuance of common stock from share-based payment arrangements                    | 2,331                                     | 4,765           |
| Payments related to withholding tax for share-based payment arrangements          | (1,743)                                   | (1,692)         |
| Payments related to purchase of treasury stock                                    | (21,138)                                  | (13,334)        |
| <b>Net cash used in financing activities</b>                                      | <b>(4,772)</b>                            | <b>(369)</b>    |
| Effect of exchange rate changes on cash                                           | (3,549)                                   | (1,294)         |

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|                                                  |           |           |
|--------------------------------------------------|-----------|-----------|
| Net increase in cash and cash equivalents        | 914       | 5,300     |
| Cash and cash equivalents at beginning of period | 34,656    | 34,201    |
| Cash and cash equivalents at end of period       | \$ 35,570 | \$ 39,501 |

See accompanying notes to unaudited condensed consolidated financial statements.

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**TEAM, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS**

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

**Introduction.** Unless otherwise indicated, the terms Team, Inc., Team, the Company, we, our and us are used in this report to refer to Team, Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. We are incorporated in the State of Delaware and our company website can be found at [www.teamindustrialservices.com](http://www.teamindustrialservices.com). Our stock is traded on the New York Stock Exchange ( NYSE ) under the symbol TISI and our fiscal year ends on May 31 of each calendar year.

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

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

Turnaround services are offered in both IHT and MS. These services are project-related and demand is a function of the number and scope of scheduled and unscheduled facility turnarounds as well as new industrial facility construction or expansion. Turnaround services include the field machining, technical bolting, field valve repair, heat exchanger repair, and isolation test plugging services that are part of MS and the field heat treating services that are part of IHT.

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

We offer these services in over 125 locations throughout the world. Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, original equipment manufacturers ( OEMs ), distributors, and some of the world's largest engineering and construction firms. Our services are also provided across a broad geographic reach.

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

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The condensed consolidated balance sheet at May 31, 2014 is derived from the May 31, 2014 audited consolidated financial statements. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in our annual report on Form 10-K for the fiscal year ended May 31, 2014.

The Company has revised its previously reported condensed consolidated statement of cash flows for an immaterial error associated with the classification of deferred consideration payments associated with our acquisition of TCI Services, Inc. in September 2012. The revision resulted in a \$1.0 million increase in cash flows from operating activities and a corresponding decrease in cash flows from financing activities and had no impact on the Company's financial position or net income for the periods impacted.

**Consolidation.** The consolidated financial statements include the accounts of Team, Inc. and our majority-owned subsidiaries where we have control over operating and financial policies. Investments in affiliates in which we have the ability to exert significant influence over operating and financial policies, but where we do not control the operating and financial policies, are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation. Effective February 1, 2015, we began reporting the results of our Venezuela operations using the cost method of accounting (see Note 16).

**Use of estimates.** Our accounting policies conform to Generally Accepted Accounting Principles in the U.S. ( GAAP ). Our most significant accounting policies are described below. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect our reported financial position and results of operations. We review significant estimates and judgments affecting our consolidated financial statements on a recurring basis and record the effect of any necessary adjustments prior to their publication. Estimates and judgments are based on information available at the time such estimates and judgments are made. Adjustments made with respect to the use of these estimates and judgments often relate to information not previously available. Uncertainties with respect to such estimates and judgments are inherent in the preparation of financial statements. Estimates and judgments are used in, among other things, (1) aspects of revenue recognition, (2) valuation of tangible and intangible assets and subsequent assessments for possible impairment, (3) the fair value of the non-controlling interest in subsidiaries that are not wholly-owned, (4) estimating various factors used to accrue liabilities for workers' compensation, auto, medical and general liability, (5) establishing an allowance for uncollectible accounts receivable, (6) estimating the useful lives of our assets, (7) assessing future tax exposure and the realization of tax assets and (8) estimating the value associated with contingent consideration payment arrangements.

**Fair value of financial instruments.** Our financial instruments consist primarily of cash, cash equivalents, accounts receivable, accounts payable and debt obligations. The carrying amount of cash, cash equivalents, trade accounts receivable and trade accounts payable are representative of their respective fair values due to the short-term maturity of these instruments. The fair value of our banking facility is representative of the carrying value based upon the variable terms and management's opinion that the current rates available to us with the same maturity and security structure are equivalent to that of the banking facility.

**Cash and cash equivalents.** Cash and cash equivalents consist of all demand deposits and funds invested in highly liquid short-term investments with original maturities of three months or less.

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

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

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

**Goodwill, intangible assets and non-controlling interest.** Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are instead tested for impairment at least annually in accordance with the provisions of the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 350, *Intangibles Goodwill and Other* ( ASC 350 ). Intangible assets with estimated useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with ASC 350. We assess goodwill for impairment at the reporting unit level, which we have determined to be the same as our operating segments. Each reporting unit has goodwill relating to past acquisitions.

On May 31, 2014, we completed our annual goodwill impairment test by performing a qualitative analysis that assessed relevant events and circumstances to evaluate whether it was more likely than not that the fair value of our individual reporting units was less than their respective carrying amount of goodwill. If, after assessing the totality of events and circumstances, an entity determines that it is more likely than not that the fair value of a reporting unit is greater than the carrying amount, then the first and second steps of the goodwill impairment test are not necessary. We evaluated considerations under ASC 350, such as macroeconomic effects on our business, industry and market considerations, cost factors that could have a negative effect on cash flows or earnings, overall financial performance, entity-specific events, events affecting reporting units, and any realization of a sustained decrease in the price of our stock. After consideration of the aforementioned events and circumstances, we concluded that it was more likely than not that the fair value of each reporting unit was greater than its respective carrying amount of goodwill. Accordingly, we did not perform the two-step process described above for our fiscal year 2014 annual test. There have been no events that have required an interim assessment of the carrying value of goodwill during the 2015 fiscal year.

There was \$108.2 million and \$113.8 million of goodwill at February 28, 2015 and May 31, 2014, respectively. A summary of goodwill is as follows (in thousands):

|                              | Nine Months Ended<br>February 28, 2015 |           |                    |            |
|------------------------------|----------------------------------------|-----------|--------------------|------------|
|                              | MS                                     | IHT       | Quest<br>Integrity | Total      |
| Balance at May 31, 2014      | \$ 19,685                              | \$ 63,249 | \$ 30,829          | \$ 113,763 |
| Acquisitions                 |                                        |           |                    |            |
| Foreign currency adjustments | (2,120)                                | (2,568)   | (890)              | (5,578)    |
| Balance at February 28, 2015 | \$ 17,565                              | \$ 60,681 | \$ 29,939          | \$ 108,185 |

In November 2010, we purchased 95% of Quest Integrity Group, LLC, a leading provider of proprietary in-line inspection and advanced engineering and assessment services. We expect to purchase the remaining 5%

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interest ( non-controlling interest ) at a consideration to be determined pursuant to a Put/Call Agreement that was executed at the time of the Quest Integrity acquisition. That agreement essentially rewards the 5% stakeholders with 35% of the agreed incremental value of Quest Integrity that is created after the original acquisition. The valuation of Quest Integrity will be made as of the end of fiscal year 2015 and will be determined as a multiple of average EBITDA (earnings before interest, taxes, depreciation and amortization) of Quest Integrity for fiscal years 2014 and 2015, subject to certain adjustments. The incremental purchase price for the non-controlling interests will be based upon the average value of Team's stock over the ninety trading days prior to May 31, 2015 and recorded as an equity transaction with a corresponding removal of the carrying value of the non-controlling interest. Assuming that Quest Integrity's actual EBITDA for fiscal year 2014 (\$14.4 million) and the first three quarters of fiscal year 2015 plus estimated EBITDA for the fourth quarter of fiscal year 2015, approximates the average of actual EBITDA for fiscal years 2014 and 2015 and that the average closing stock price over the ninety previous trading days ending February 28, 2015 (\$39.70) approximates the average closing stock price over the ninety trading days prior to May 31, 2015, we estimate that approximately 826,000 Team shares will be issued to acquire the non-controlling interest. These shares are included as dilutive securities in the earnings per share calculation as set forth herein. This estimate is subject to change based upon actual results for Quest Integrity the remainder of in fiscal year 2015 and the use of Team's actual average stock price as of the measurement date of May 31, 2015.

Information regarding the change in carrying value of the non-controlling interest is set forth below (in thousands):

|                                                                   |          |
|-------------------------------------------------------------------|----------|
| Carrying value of non-controlling interest at May 31, 2014        | \$ 5,678 |
| Income attributable to non-controlling interest                   | 241      |
| Other comprehensive loss attributable to non-controlling interest | (60)     |
| Carrying value of non-controlling interest at February 28, 2015   | \$ 5,859 |

**Income taxes.** We follow the guidance of ASC 740, *Income Taxes* ( ASC 740 ) which requires that we use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant temporary differences. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax payable and related tax expense together with assessing temporary differences resulting from differing treatment of certain items, such as depreciation, for tax and accounting purposes. These differences can result in deferred tax assets and liabilities, which are included within our consolidated balance sheet.

In accordance with ASC 740, we are required to assess the likelihood that our deferred tax assets will be realized and, to the extent we believe that it is more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax assets will not be realized, we must establish a valuation allowance. We consider all available evidence to determine whether, based on the weight of the evidence, a valuation allowance is needed. Evidence used includes information about our current financial position and our results of operations for the current and preceding years, as well as all currently available information about future years, including our anticipated future performance, the reversal of existing taxable temporary differences and tax planning strategies.

**Workers' compensation, auto, medical and general liability accruals.** In accordance with ASC 450, *Contingencies*, we record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review our loss contingencies on an ongoing basis to ensure that we have appropriate reserves recorded on our consolidated balance sheet. These reserves are based on historical experience with claims incurred but not received, estimates and judgments made by management, applicable insurance coverage for litigation matters, and are adjusted as circumstances warrant. For workers' compensation, our self-insured retention is \$1.0 million and our automobile liability self-insured retention is currently \$500,000 per occurrence. For general liability claims, we have an effective self-insured retention of \$3.0 million per occurrence. For medical claims, our self-insured retention is \$175,000 per individual claimant determined on an

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annual basis. For environmental liability claims, our self-insured retention is \$500,000 per occurrence. We maintain insurance for claims that exceed such self-retention limits. The insurance is subject to terms, conditions, limitations and exclusions that may not fully compensate us for all losses. Our estimates and judgments could change based on new information, changes in laws or regulations, changes in management's plans or intentions, or the outcome of legal proceedings, settlements or other factors. If different estimates and judgments were applied with respect to these matters, it is likely that reserves would be recorded for different amounts.

**Revenue recognition.** We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the FASB and the Securities and Exchange Commission (SEC). Most of our projects are short-term in nature and we predominantly derive revenues by providing a variety of industrial services on a time and material basis. For all of these services our revenues are recognized when services are rendered or when product is shipped to the job site and risk of ownership passes to the customer. However, due to various contractual terms with our customers, at the end of any reporting period, there may be services that have been rendered but not billed and an accrual of estimated revenue and unbilled receivables is recorded. At February 28, 2015 and May 31, 2014, the amount of earned but unbilled revenue included in accounts receivable was \$15.4 million and \$14.9 million, respectively.

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

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

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

Amounts used in basic and diluted earnings per share, for the three and nine months ended February 28, 2015 and 2014, are as follows (in thousands):

|                                                     | Three Months Ended<br>February 28, |             | Nine Months Ended<br>February 28, |             |
|-----------------------------------------------------|------------------------------------|-------------|-----------------------------------|-------------|
|                                                     | 2015                               | 2014        | 2015                              | 2014        |
|                                                     | (unaudited)                        | (unaudited) | (unaudited)                       | (unaudited) |
| Weighted-average number of basic shares outstanding | 20,560                             | 20,384      | 20,569                            | 20,432      |
| Stock options, stock units and performance awards   | 354                                | 614         | 449                               | 643         |
| Assumed conversion of non-controlling interest      | 826                                | 195         | 826                               | 209         |
| Total shares and dilutive securities                | 21,740                             | 21,193      | 21,844                            | 21,284      |

There were no share-based awards outstanding during the three or nine months ended February 28, 2015 and 2014 excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares during the periods.

**Foreign currency.** For subsidiaries whose functional currency is not the U.S. Dollar, assets and liabilities are translated at period ending rates of exchange and revenues and expenses are translated at period average exchange rates. Translation adjustments for the asset and liability accounts are included as a separate component of

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accumulated other comprehensive loss in shareholders' equity. Foreign currency transaction gains and losses are included in our condensed consolidated statement of income. Effective December 1, 2009, we began to account for Venezuela as a highly-inflationary economy and the effect of all subsequent currency fluctuations between the Bolivar and the U.S. Dollar are recorded in our condensed consolidated statement of income. Subsequently, effective February 1, 2015, we began reporting the results of our Venezuela operations using the cost method of accounting (see Note 16).

**Accounting Principles Not Yet Adopted**

**ASU No. 2014-09.** On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for us on June 1, 2017. Early application is not permitted. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method or determined the effect ASU 2014-09 will have on our ongoing financial reporting.

**2. ACQUISITIONS**

In August 2014, we purchased a valve repair company in the U.K. for total consideration of \$2.9 million, net of cash acquired of \$0.2 million, including estimated contingent consideration of \$0.1 million. We are in the process of determining the valuations associated with the tangible and intangible assets. Our preliminary purchase price allocation resulted in \$2.4 million being allocated to fixed assets and net working capital and \$0.8 million being applied to intangible assets.

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

**3. RECEIVABLES**

A summary of accounts receivable as of February 28, 2015 and May 31, 2014 is as follows (in thousands):

|                                 | February 28, 2015<br>(unaudited) | May 31, 2014 |
|---------------------------------|----------------------------------|--------------|
| Trade accounts receivable       | \$ 160,920                       | \$ 165,484   |
| Unbilled revenues               | 15,433                           | 14,901       |
| Allowance for doubtful accounts | (4,190)                          | (4,784)      |
| Total                           | \$ 172,163                       | \$ 175,601   |

**4. INVENTORY**

A summary of inventory as of February 28, 2015 and May 31, 2014 is as follows (in thousands):

|                  | February 28, 2015<br>(unaudited) | May 31, 2014 |
|------------------|----------------------------------|--------------|
| Raw materials    | \$ 3,117                         | \$ 2,924     |
| Work in progress | 1,188                            | 894          |
| Finished goods   | 23,803                           | 21,719       |
| Total            | \$ 28,108                        | \$ 25,537    |



**Table of Contents****5. PROPERTY, PLANT AND EQUIPMENT**

A summary of property, plant and equipment as of February 28, 2015 and May 31, 2014 is as follows (in thousands):

|                                           | February 28, 2015<br>(unaudited) | May 31, 2014     |
|-------------------------------------------|----------------------------------|------------------|
| Land                                      | \$ 3,024                         | \$ 3,078         |
| Buildings and leasehold improvements      | 27,081                           | 26,793           |
| Machinery and equipment                   | 149,901                          | 150,050          |
| Furniture and fixtures                    | 5,558                            | 5,530            |
| Capitalized ERP system development costs  | 11,772                           | 4,655            |
| Computers and computer software           | 6,895                            | 6,842            |
| Automobiles                               | 3,361                            | 3,550            |
| Construction in progress                  | 2,896                            | 3,123            |
| <b>Total</b>                              | <b>210,488</b>                   | <b>203,621</b>   |
| Accumulated depreciation and amortization | (117,364)                        | (113,660)        |
| <b>Property, plant and equipment, net</b> | <b>\$ 93,124</b>                 | <b>\$ 89,961</b> |

In the second quarter of fiscal year 2014, we initiated the design and implementation of a new enterprise resource planning ( ERP ) system, which we will begin installing during fiscal year 2016. Amortization of the ERP system development costs will be computed by the straight-line method, commencing in the period when substantial testing is completed and the asset is ready for its intended use. Through February 28, 2015, we have capitalized \$11.8 million associated with the project.

**6. ASSETS HELD FOR SALE**

Assets held for sale consists of \$5.2 million related to approximately fifty acres of undeveloped land purchased in October 2007 on which we had previously planned to construct future facilities in Pearland, Texas. During the fourth quarter of fiscal year 2012, we decided not to proceed with construction of the future facilities at this location. The property is being actively marketed using the services of a broker.

**7. INTANGIBLE ASSETS**

A summary of intangible assets as of February 28, 2015 and May 31, 2014 is as follows (in thousands):

|                        | February 28, 2015<br>(unaudited) |                             |                           | May 31, 2014                |                             |                           |
|------------------------|----------------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|                        | Gross<br>Carrying<br>Amount      | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Customer relationships | \$ 22,669                        | \$ (8,521)                  | \$ 14,148                 | \$ 22,424                   | \$ (6,739)                  | \$ 15,685                 |
| Non-compete agreements | 3,432                            | (3,335)                     | 97                        | 3,667                       | (3,430)                     | 237                       |
| Trade names            | 4,325                            | (942)                       | 3,383                     | 4,325                       | (717)                       | 3,608                     |
| Technology             | 5,112                            | (2,097)                     | 3,015                     | 5,112                       | (1,698)                     | 3,414                     |
| Licenses               | 683                              | (163)                       | 520                       | 683                         | (114)                       | 569                       |
| <b>Total</b>           | <b>\$ 36,221</b>                 | <b>\$ (15,058)</b>          | <b>\$ 21,163</b>          | <b>\$ 36,211</b>            | <b>\$ (12,698)</b>          | <b>\$ 23,513</b>          |

Amortization expense was \$0.9 million for the three months ended February 28, 2015 and 2014. Amortization expense was \$2.8 million for the nine months ended February 28, 2015 and 2014.



**Table of Contents****8. OTHER ACCRUED LIABILITIES**

A summary of other accrued liabilities as of February 28, 2015 and May 31, 2014 is as follows (in thousands):

|                                                    | February 28, 2015<br>(unaudited) | May 31, 2014     |
|----------------------------------------------------|----------------------------------|------------------|
| Payroll and other compensation expenses            | \$ 21,539                        | \$ 28,737        |
| Insurance accruals                                 | 6,180                            | 5,897            |
| Property, sales and other non-income related taxes | 1,583                            | 2,381            |
| Lease commitments                                  | 1,811                            | 1,881            |
| Deferred revenue                                   | 1,299                            | 1,198            |
| Other                                              | 7,185                            | 8,297            |
| <b>Total</b>                                       | <b>\$ 39,597</b>                 | <b>\$ 48,391</b> |

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

Our banking credit facility ( Credit Facility ) with our banking syndicate has borrowing capacity of up to \$150 million in multiple currencies, is secured by virtually all of our domestic assets and a majority of the stock of our foreign subsidiaries, and matures in July 2016. In connection with a prior renewal of the Credit Facility, we are amortizing \$0.8 million of associated debt issuance costs over the life of the Credit Facility. The Credit Facility bears interest based on a variable Eurodollar rate option (LIBOR plus 1.75% margin at February 28, 2015) and has commitment fees of 0.30% on unused borrowing capacity. At February 28, 2015 we had approximately \$50 million of borrowing capacity on our Credit Facility.

In order to secure our casualty insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. We were contingently liable for outstanding stand-by letters of credit totaling \$13.1 million at February 28, 2015 and \$13.6 million at May 31, 2014. Outstanding letters of credit reduce amounts available under our Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the Credit Facility.

ASC 815, *Derivatives and Hedging*, established accounting and reporting standards requiring that derivative instruments be recorded at fair value and included in the consolidated 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 consolidated statement of income. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Hedge effectiveness is measured at least quarterly based on the relative cumulative changes in fair value between the derivative contract and the hedged item over time. Credit risks related to derivatives include the possibility that the counter-party will not fulfill the terms of the contract. We considered counter-party credit risk to our derivative contracts when valuing our derivative instruments.

Our borrowing of 12.3 million under the 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 February 28, 2015, the 12.3 million borrowing had a U.S. Dollar value of \$13.8 million.

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The amounts recognized in other comprehensive income, and reclassified into income, for the three and nine months ended February 28, 2015 and 2014, are as follows (in thousands):

|                      | Gain (Loss)<br>Recognized in<br>Other<br>Comprehensive<br>Income<br>Three Months<br>Ended<br>February 28,<br>(unaudited)<br>2015      2014 |         | Gain (Loss)<br>Reclassified from<br>Other<br>Comprehensive<br>Income to<br>Earnings<br>Three Months<br>Ended<br>February 28,<br>(unaudited)<br>2015      2014 |    | Gain (Loss)<br>Recognized in<br>Other<br>Comprehensive<br>Income<br>Nine Months<br>Ended<br>February 28,<br>(unaudited)<br>2015      2014 |          | Gain (Loss)<br>Reclassified from<br>Other<br>Comprehensive<br>Income to<br>Earnings<br>Nine Months<br>Ended<br>February 28,<br>(unaudited)<br>2015      2014 |    |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|----|-------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Net investment hedge | \$ 1,527                                                                                                                                   | \$ (94) | \$                                                                                                                                                            | \$ | \$ 2,966                                                                                                                                  | \$ (856) | \$                                                                                                                                                           | \$ |

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

|                      |                             | February 28, 2015<br>(unaudited)<br>Balance Sheet<br>Location |  | Fair<br>Value |                             | May 31, 2014<br>Balance Sheet<br>Location |  | Fair<br>Value |
|----------------------|-----------------------------|---------------------------------------------------------------|--|---------------|-----------------------------|-------------------------------------------|--|---------------|
| Net investment hedge | Classification<br>Liability | Long-term debt                                                |  | \$ (4,195)    | Classification<br>Liability | Long-term debt                            |  | \$ (1,229)    |

**10. FAIR VALUE MEASUREMENTS**

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

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

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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 February 28, 2015 and May 31, 2014. 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):

| February 28, 2015<br>(unaudited) |                                                                              |                                                        |                                                 |            |
|----------------------------------|------------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------|------------|
|                                  | Quoted Prices<br>in<br>Active<br>Markets for<br>Identical<br>Items (Level 1) | Significant<br>Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Total      |
| Liabilities:                     |                                                                              |                                                        |                                                 |            |
| Contingent consideration         | \$                                                                           | \$                                                     | \$ 1,261                                        | \$ 1,261   |
| Net investment hedge             | \$                                                                           | \$ (4,195)                                             | \$                                              | \$ (4,195) |

| May 31, 2014             |                                                                              |                                                        |                                                 |            |
|--------------------------|------------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------|------------|
|                          | Quoted Prices<br>in<br>Active<br>Markets for<br>Identical<br>Items (Level 1) | Significant<br>Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Total      |
| Liabilities:             |                                                                              |                                                        |                                                 |            |
| Contingent consideration | \$                                                                           | \$                                                     | \$ 2,015                                        | \$ 2,015   |
| Net investment hedge     | \$                                                                           | \$ (1,229)                                             | \$                                              | \$ (1,229) |

There were no transfers in and out of Level 1, Level 2 or Level 3 during the nine months ended February 28, 2015 and 2014.

The fair value of contingent consideration liabilities classified in the table above were estimated using a discounted cash flow technique with significant inputs that are not observable in the market and thus represents a Level 3 fair value measurement as defined in ASC 820. The significant inputs in the Level 3 measurement not supported by market activity include a combination of actual cash flows and probability-weighted assessments of expected future cash flows related to the acquired businesses, appropriately discounted considering the uncertainties associated with the obligation, and as calculated in accordance with the terms of the acquisition agreement.

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

|                              | Nine Months Ended<br>February 28, 2015<br>(unaudited) |
|------------------------------|-------------------------------------------------------|
| Balance at May 31, 2014      | \$ 2,015                                              |
| Accretion of liability       | 122                                                   |
| Payment                      | (1,000)                                               |
| Acquisitions                 | 124                                                   |
| Balance at February 28, 2015 | \$ 1,261                                              |

**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 February 28, 2015, there were approximately 1.0 million stock options, restricted stock units and performance awards outstanding to officers, directors and key



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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 options, stock units, common stock and performance awards. The governance of our share-based compensation does not directly limit the number of future awards. However, the total number of shares ultimately issued may not exceed the total number of shares cumulatively authorized, which is 7,120,000 at February 28, 2015. Shares issued in connection with our share-based compensation are issued out of authorized but unissued common stock. Compensation expense related to share-based compensation totaled \$3.7 million and \$3.2 million for the nine months ended February 28, 2015 and 2014, respectively. At February 28, 2015, \$11.8 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 2.8 years. The tax benefit derived when share-based awards result in a tax deduction for the company was \$2.1 million and \$1.1 million for the nine months ended February 28, 2015 and 2014, respectively.

We determine the fair value of each stock option at the grant date using a Black-Scholes model and recognize the resulting expense of our stock option awards over the period during which an employee is required to provide services in exchange for the awards, usually the vesting period. There was no compensation expense related to stock options for the nine months ended February 28, 2015 and 2014 as all stock option awards were fully vested. Our options typically vest in equal annual installments over a four year service period. Expense related to an option grant is recognized on a straight line basis over the specified vesting period for those options. Stock options generally have a ten year term. Transactions involving our stock options during the nine months ended February 28, 2015 and 2014 are summarized below:

|                                          | Nine Months Ended<br>February 28, 2015<br>(unaudited) |                                       | Nine Months Ended<br>February 28, 2014<br>(unaudited) |                                       |
|------------------------------------------|-------------------------------------------------------|---------------------------------------|-------------------------------------------------------|---------------------------------------|
|                                          | No. of<br>Options<br>(in thousands)                   | Weighted<br>Average<br>Exercise Price | No. of<br>Options<br>(in thousands)                   | Weighted<br>Average<br>Exercise Price |
| Shares under option, beginning of period | 816                                                   | \$ 19.61                              | 1,052                                                 | \$ 20.24                              |
| Changes during the period:               |                                                       |                                       |                                                       |                                       |
| Granted                                  |                                                       | \$                                    |                                                       | \$                                    |
| Exercised                                | (206)                                                 | \$ 11.35                              | (195)                                                 | \$ 24.48                              |
| Cancelled                                |                                                       | \$                                    |                                                       | \$                                    |
| Expired                                  |                                                       | \$                                    |                                                       | \$                                    |
| Shares under option, end of period       | 610                                                   | \$ 22.39                              | 857                                                   | \$ 19.28                              |
| Exercisable at end of period             | 610                                                   | \$ 22.39                              | 857                                                   | \$ 19.28                              |

Options exercisable at February 28, 2015 had a weighted-average remaining contractual life of 2.0 years. For total options outstanding at February 28, 2015, the range of exercise prices and remaining contractual lives are as follows:

| Range of Prices    | No. of<br>Options<br>(in thousands) | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Life<br>(in years) |
|--------------------|-------------------------------------|---------------------------------------|--------------------------------------------------------|
| \$9.23 to \$9.62   | 17                                  | \$ 9.23                               | 0.5                                                    |
| \$9.63 to \$12.82  | 61                                  | \$ 11.74                              | 1.1                                                    |
| \$12.83 to \$16.03 | 208                                 | \$ 14.78                              | 1.4                                                    |
| \$16.04 to \$32.05 | 324                                 | \$ 29.92                              | 2.6                                                    |
|                    | 610                                 | \$ 22.39                              | 2.0                                                    |



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Performance awards are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each performance award based on the market price on the date of grant. Performance awards granted to the Chairman of our Board vest over the longer of four years or the achievement of performance goals based upon our future results of operations. Compensation expense related to performance awards totaled \$0.4 million for the nine months ended February 28, 2015 and 2014. Transactions involving our performance awards during the nine months ended February 28, 2015 and 2014 are summarized below:

|                                         | Nine Months Ended<br>February 28, 2015<br>(unaudited) |                                   | Nine Months Ended<br>February 28, 2014<br>(unaudited) |                                   |
|-----------------------------------------|-------------------------------------------------------|-----------------------------------|-------------------------------------------------------|-----------------------------------|
|                                         | No. of<br>Performance<br>Awards<br>(in thousands)     | Weighted<br>Average<br>Fair Value | No. of<br>Performance<br>Awards<br>(in thousands)     | Weighted<br>Average<br>Fair Value |
| Performance awards, beginning of period | 50                                                    | \$ 30.63                          | 57                                                    | \$ 25.45                          |
| Changes during the period:              |                                                       |                                   |                                                       |                                   |
| Granted                                 |                                                       | \$                                | 17                                                    | \$ 36.40                          |
| Vested and settled                      | (22)                                                  | \$ 27.66                          | (24)                                                  | \$ 22.65                          |
| Cancelled                               |                                                       | \$                                |                                                       | \$                                |
| Performance awards, end of period       | 28                                                    | \$ 32.86                          | 50                                                    | \$ 30.63                          |

Under a new performance stock unit award program adopted on November 4, 2014, Long-Term Performance Stock Unit ( LTPSU ) awards granted to our Executive Officers are subject to a three year performance period and a concurrent three year service period. Under this program, the Company communicates target awards to the Executive Officers at the beginning of a performance period. The performance target is based on results of operations over the three year performance period with possible payouts ranging from 0% to 300% of the target awards. LTPSU awards cliff vest with achievement of the performance goals and completion of the three year service period. Settlement occurs with common stock within 20 business days of vesting. We determine the fair value of each LTPSU award based on the market price on the date of grant. Compensation expense is recognized on a straight-line basis over the vesting term of three years based upon the probable performance target that will be met. Compensation expense of \$0.1 million related to performance awards was recognized for the nine months ended February 28, 2015. Transactions involving our performance awards during the nine months ended February 28, 2015 and 2014 are summarized below:

|                                                        | Nine Months Ended<br>February 28, 2015<br>(unaudited)               |                                   | Nine Months Ended<br>February 28, 2014<br>(unaudited)               |                                   |
|--------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------|---------------------------------------------------------------------|-----------------------------------|
|                                                        | No. of Long-Term<br>Performance<br>Stock<br>Units<br>(in thousands) | Weighted<br>Average<br>Fair Value | No. of Long-Term<br>Performance<br>Stock<br>Units<br>(in thousands) | Weighted<br>Average<br>Fair Value |
| Long-term performance stock units, beginning of period |                                                                     | \$                                |                                                                     | \$                                |
| Changes during the period:                             |                                                                     |                                   |                                                                     |                                   |
| Granted                                                | 23                                                                  | \$ 42.25                          |                                                                     | \$                                |
| Vested and settled                                     |                                                                     | \$                                |                                                                     | \$                                |
| Cancelled                                              |                                                                     | \$                                |                                                                     | \$                                |
| Long-term performance stock units, end of period       | 23                                                                  | \$ 42.25                          |                                                                     | \$                                |

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Stock units are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each stock unit based on the market price on the date of grant. Stock units generally vest in annual installments over four years and the expense associated with the units is recognized over the same vesting period. We also grant common stock to our directors which typically vest immediately. Compensation expense related to stock units and director stock grants totaled \$3.2 million for the nine months ended February 28, 2015 and \$2.8 million for the nine months ended February 28, 2014. Transactions involving our stock units and director stock grants during the nine months ended February 28, 2015 and 2014 are summarized below:

|                                            | Nine Months Ended<br>February 28, 2015<br>(unaudited) |                                   | Nine Months Ended<br>February 28, 2014<br>(unaudited) |                                   |
|--------------------------------------------|-------------------------------------------------------|-----------------------------------|-------------------------------------------------------|-----------------------------------|
|                                            | No. of Stock<br>Units<br>(in thousands)               | Weighted<br>Average<br>Fair Value | No. of Stock<br>Units<br>(in thousands)               | Weighted<br>Average<br>Fair Value |
| Stock and stock units, beginning of period | 310                                                   | \$ 31.42                          | 329                                                   | \$ 26.07                          |
| Changes during the period:                 |                                                       |                                   |                                                       |                                   |
| Granted                                    | 156                                                   | \$ 39.51                          | 136                                                   | \$ 36.71                          |
| Vested and settled                         | (133)                                                 | \$ 29.21                          | (138)                                                 | \$ 24.34                          |
| Cancelled                                  | (7)                                                   | \$ 32.10                          | (16)                                                  | \$ 27.94                          |
| Stock and stock units, end of period       | 326                                                   | \$ 36.15                          | 311                                                   | \$ 31.39                          |

**12. OTHER COMPREHENSIVE INCOME**

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

|                                   | Nine Months Ended<br>February 28, 2015<br>(unaudited) |                              |                  |             | Nine Months Ended<br>February 28, 2014<br>(unaudited) |                              |                  |            |
|-----------------------------------|-------------------------------------------------------|------------------------------|------------------|-------------|-------------------------------------------------------|------------------------------|------------------|------------|
|                                   | Foreign<br>Currency<br>Translation<br>Adjustments     | Foreign<br>Currency<br>Hedge | Tax<br>Provision | Total       | Foreign<br>Currency<br>Translation<br>Adjustments     | Foreign<br>Currency<br>Hedge | Tax<br>Provision | Total      |
| Balance, beginning of period      | \$ (5,145)                                            | \$ 1,229                     | \$ 1,237         | \$ (2,679)  | \$ (3,532)                                            | \$ 2,004                     | \$ (261)         | \$ (1,789) |
| Other comprehensive income (loss) |                                                       |                              |                  |             |                                                       |                              |                  |            |
| before tax                        | (14,791)                                              | 2,966                        | 1,956            | (9,869)     | (2,925)                                               | (856)                        | 1,944            | (1,837)    |
| Non-controlling interest          | 60                                                    |                              |                  | 60          | 5                                                     |                              |                  | 5          |
| Balance, end of period            | \$ (19,876)                                           | \$ 4,195                     | \$ 3,193         | \$ (12,488) | \$ (6,452)                                            | \$ 1,148                     | \$ 1,683         | \$ (3,621) |

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

|                                          | Nine Months Ended<br>February 28, 2015<br>(unaudited) |               |               | Nine Months Ended<br>February 28, 2014<br>(unaudited) |               |               |
|------------------------------------------|-------------------------------------------------------|---------------|---------------|-------------------------------------------------------|---------------|---------------|
|                                          | Gross<br>Amount                                       | Tax<br>Effect | Net<br>Amount | Gross<br>Amount                                       | Tax<br>Effect | Net<br>Amount |
| Foreign currency translation adjustments | \$ (14,791)                                           | \$ 3,108      | \$ (11,683)   | \$ (2,925)                                            | \$ 1,617      | \$ (1,308)    |
| Foreign currency hedge                   | 2,966                                                 | (1,152)       | 1,814         | (856)                                                 | 327           | (529)         |
| Total                                    | \$ (11,825)                                           | \$ 1,956      | \$ (9,869)    | \$ (3,781)                                            | \$ 1,944      | \$ (1,837)    |



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*Con Ed Matter* We have, from time to time, provided temporary leak repair services for the steam operations of Consolidated Edison Company of New York (Con Ed) located in New York City. In July 2007, a Con Ed steam main located in midtown Manhattan ruptured causing one death and other injuries and property damage. As of February 28, 2015, ninety-five lawsuits have been filed against Con Ed, the City of New York and Team in the Supreme Courts of New York located in Kings, New York and Bronx County, alleging that our temporary leak repair services may have contributed to the cause of the rupture. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, on March 31, 2008, we received a letter from Con Ed alleging that our contract with Con Ed requires us to indemnify and defend Con Ed for additional claims filed against Con Ed as a result of the rupture. Con Ed filed an action to join Team and the City of New York as defendants in all lawsuits filed against Con Ed that did not include Team and the City of New York as direct defendants. We are vigorously defending the lawsuits and Con Ed's claim for indemnification. We are unable to estimate the amount of liability to us, if any, associated with these lawsuits and the claim for indemnification. We maintain insurance coverage, subject to a deductible limit of \$250,000, which we believe should cover these claims. We have not accrued any liability in excess of the deductible limit for the lawsuits. We do not believe the ultimate outcome of these matters will have a material adverse effect on our financial position, results of operations or cash flows.

In December 2014, our subsidiary, Quest Integrity, filed three patent infringement lawsuits against three different defendants. 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 provides 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 money damages. Defendants have denied they infringe any valid claim of the patent and are contesting the allegations.

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

**14. ENTITY WIDE DISCLOSURES**

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

|                 | Three Months Ended<br>February 28, |                     | Nine Months Ended<br>February 28, |                     |
|-----------------|------------------------------------|---------------------|-----------------------------------|---------------------|
|                 | 2015<br>(unaudited)                | 2014<br>(unaudited) | 2015<br>(unaudited)               | 2014<br>(unaudited) |
| Revenues:       |                                    |                     |                                   |                     |
| IHT             | \$ 95,350                          | \$ 85,149           | \$ 335,024                        | \$ 290,409          |
| MS              | 64,999                             | 63,440              | 217,066                           | 200,196             |
| Quest Integrity | 14,240                             | 14,647              | 51,239                            | 47,435              |
| Total           | \$ 174,589                         | \$ 163,236          | \$ 603,329                        | \$ 538,040          |

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|                                       | Three Months Ended<br>February 28, |                     | Nine Months Ended<br>February 28, |                     |
|---------------------------------------|------------------------------------|---------------------|-----------------------------------|---------------------|
|                                       | 2015<br>(unaudited)                | 2014<br>(unaudited) | 2015<br>(unaudited)               | 2014<br>(unaudited) |
| Operating income:                     |                                    |                     |                                   |                     |
| IHT                                   | \$ 7,536                           | \$ 3,783            | \$ 41,822                         | \$ 31,666           |
| MS                                    | 3,357                              | 2,939               | 18,870                            | 17,120              |
| Quest Integrity                       | 100                                | 1,170               | 7,217                             | 5,986               |
| Corporate and shared support services | (8,067)                            | (6,892)             | (24,484)                          | (21,786)            |
| Total                                 | \$ 2,926                           | \$ 1,000            | \$ 43,425                         | \$ 32,986           |

|                                       | Three Months Ended<br>February 28, |                     | Nine Months Ended<br>February 28, |                     |
|---------------------------------------|------------------------------------|---------------------|-----------------------------------|---------------------|
|                                       | 2015<br>(unaudited)                | 2014<br>(unaudited) | 2015<br>(unaudited)               | 2014<br>(unaudited) |
| Capital expenditures:                 |                                    |                     |                                   |                     |
| IHT                                   | \$ 2,029                           | \$ 2,187            | \$ 5,893                          | \$ 5,602            |
| MS                                    | 797                                | 1,503               | 2,884                             | 4,694               |
| Quest Integrity                       | 855                                | 582                 | 2,466                             | 3,257               |
| Corporate and shared support services | 3,606                              | 5,867               | 7,469                             | 10,205              |
| Total                                 | \$ 7,287                           | \$ 10,139           | \$ 18,712                         | \$ 23,758           |

|                                       | Three Months Ended<br>February 28, |                     | Nine Months Ended<br>February 28, |                     |
|---------------------------------------|------------------------------------|---------------------|-----------------------------------|---------------------|
|                                       | 2015<br>(unaudited)                | 2014<br>(unaudited) | 2015<br>(unaudited)               | 2014<br>(unaudited) |
| Depreciation and amortization:        |                                    |                     |                                   |                     |
| IHT                                   | \$ 2,138                           | \$ 1,936            | \$ 6,207                          | \$ 5,947            |
| MS                                    | 1,850                              | 1,801               | 5,598                             | 5,391               |
| Quest Integrity                       | 1,429                              | 1,343               | 4,254                             | 4,033               |
| Corporate and shared support services | 271                                | 205                 | 793                               | 605                 |
| Total                                 | \$ 5,688                           | \$ 5,285            | \$ 16,852                         | \$ 15,976           |

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

A geographic breakdown of our revenues and total assets are as follows (in thousands):

|                         | Three Months Ended<br>February 28, |                     | Nine Months Ended<br>February 28, |                     |
|-------------------------|------------------------------------|---------------------|-----------------------------------|---------------------|
|                         | 2015<br>(unaudited)                | 2014<br>(unaudited) | 2015<br>(unaudited)               | 2014<br>(unaudited) |
| Revenues:               |                                    |                     |                                   |                     |
| United States           | \$ 134,805                         | \$ 120,916          | \$ 450,462                        | \$ 382,322          |
| Canada                  | 22,454                             | 22,267              | 94,572                            | 93,621              |
| Europe                  | 9,365                              | 10,448              | 33,275                            | 31,079              |
| Other foreign countries | 7,965                              | 9,605               | 25,020                            | 31,018              |
| Total                   | \$ 174,589                         | \$ 163,236          | \$ 603,329                        | \$ 538,040          |



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|                         | February 28, 2015<br>(unaudited) | May 31, 2014 |
|-------------------------|----------------------------------|--------------|
| Total assets:           |                                  |              |
| United States           | \$ 369,808                       | \$ 353,624   |
| Canada                  | 61,068                           | 68,515       |
| Europe                  | 32,127                           | 38,870       |
| Other foreign countries | 20,548                           | 23,932       |
| Total                   | \$ 483,551                       | \$ 484,941   |

**15. UNCONSOLIDATED SUBSIDIARIES**

Our earnings from unconsolidated affiliates consisted entirely of our joint venture (50% ownership) to perform non-destructive testing and inspection services in Alaska. At December 31, 2013 the joint venture was dissolved and the net assets were liquidated resulting in no material gain or loss. However, the operations of the joint venture have been continued by our IHT division. Revenues from the joint venture not reflected in our consolidated revenues were zero and \$8.5 million for the nine months ended February 28, 2015 and 2014, respectively.

**16. VENEZUELAN OPERATIONS**

We operate a small service location in Punta Fijo, Venezuela, whose annual revenues have historically been less than one percent of our consolidated revenues for all periods presented. Because of the uncertain political environment in Venezuela, starting in the third quarter of fiscal year 2010, we began to account for Venezuelan operations pursuant to accounting guidance for hyperinflationary economies. Following the designation of the Venezuelan economy as hyperinflationary, we ceased taking the effects of currency fluctuations to accumulated other comprehensive income and began reflecting all effects as a component of other income in our statement of operations.

In the third quarter of fiscal year 2014, we began using an alternative Venezuelan, state-run exchange rate, commonly referred to as SICAD-1, to translate local currency financial statements. As a result of the revaluation, we recognized a \$1.9 million foreign currency loss in the third quarter of fiscal year 2014. In March 2014, a market-based, state-run exchange, commonly referred to as SICAD-2, was initiated by the Central Bank of Venezuela. As of the beginning of the fourth quarter of fiscal year 2014, Team began using the nascent market-based, state-run exchange rate, commonly referred to as SICAD-2 (approximately 50 Bolivars to the U.S. Dollar) to translate local currency financial statements, changing from the SICAD-1 rate (which fluctuated between 10 and 11.8 Bolivars per U.S. Dollar). As a result, Team incurred an additional \$2.1 million foreign currency loss associated with a further revaluation of our Venezuelan business in the fourth quarter of fiscal year 2014.

Prior to February 1, 2015, we included the results of our Venezuelan operations in our consolidated financial statements using the consolidation method of accounting. Venezuelan exchange control regulations have resulted in an other-than-temporary lack of exchangeability between the Venezuelan Bolivar and U.S. Dollar, and have restricted our Venezuelan operations' ability to pay dividends and obligations denominated in U.S. Dollars. These exchange regulations, combined with other recent Venezuelan regulations, have constrained equipment availability and are now significantly limiting our Venezuelan operations' ability to maintain normal operations. As a result of these conditions, and in accordance with ASC 810, *Consolidation*, we began reporting the results of our Venezuelan operations using the cost method of accounting. The change, which we made effective February 1, 2015, resulted in a third quarter 2015 pre-tax charge of \$1.2 million. In future periods, our financial results will not include the operating results of our Venezuelan operations. Instead, we will record cash and recognize income from our Venezuelan operations in our consolidated financial statements to the extent we receive payments for obligations or dividends from them.

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**17. REPURCHASE OF COMMON STOCK**

On October 1, 2013, our Board approved an initial \$25 million stock repurchase plan, superseding and replacing our previous stock repurchase plan. During the second quarter of fiscal year 2014, we repurchased 369,900 shares for a total cost of \$13.3 million. These shares, along with 89,569 shares purchased under a previous plan in a prior period at a cost of \$1.3 million, were retired and not included in common stock issued and outstanding as of May 31, 2014. The retirement of the shares purchased resulted in a reduction in common stock of \$0.1 million, a reduction of \$2.2 million to additional paid-in capital, and a \$12.3 million reduction in retained earnings.

On June 23, 2014 our Board authorized an increase in the stock repurchase plan limit to \$50 million (net of the \$13.3 million repurchased in the second quarter of fiscal year 2014). During the third quarter of fiscal year 2015, we repurchased 546,977 shares for a total cost of \$21.1 million. At February 28, 2015 \$15.5 million remained available to repurchase shares under the stock repurchase plan.

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of this report, and the consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, including Critical Accounting Policies, included in our Annual Report on Form 10-K for the year ended May 31, 2014.

We based our forward-looking statements on our reasonable beliefs and assumptions, and our current expectations, estimates and projections about ourselves and our industry. We caution that these statements are not guarantees of future performance and involve risks, uncertainties and assumptions that we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. We wish to ensure that such statements are accompanied by meaningful cautionary statements, so as to obtain the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including, but not limited to the statements under "Risk Factors". We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Differences between actual results and any future performance suggested in these forward-looking statements could result from a variety of factors, including those listed beginning on page 8 of our Annual Report on Form 10-K for the year ended May 31, 2014.

#### **General Description of Business**

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

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

Turnaround services are offered in both IHT and MS. These services are project-related and demand is a function of the number and scope of scheduled and unscheduled facility turnarounds as well as new industrial facility construction or expansion. Turnaround services include: field machining, technical bolting, field valve repair, heat exchanger repair and isolation test plugging services that are part of MS and the field heat treating services that are part of IHT.

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

We offer these services in over 125 locations throughout the world. Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, OEMs, distributors, and some of the world's largest engineering and construction firms. Our services are also provided across a broad geographic reach.

**Three Months Ended February 28, 2015 Compared to Three Months Ended February 28, 2014**

The following table sets forth the components of revenue and operating income from our operations for the three months ended February 28, 2015 and 2014 (in thousands):

|                                             | <b>Three Months Ended<br/>February 28,</b> |                   | <b>Increase<br/>(Decrease)</b> |               |
|---------------------------------------------|--------------------------------------------|-------------------|--------------------------------|---------------|
|                                             | <b>2015</b>                                | <b>2014</b>       | <b>\$</b>                      | <b>%</b>      |
| <b><u>Revenues by business segment:</u></b> |                                            |                   |                                |               |
| IHT                                         | \$ 95,350                                  | \$ 85,149         | \$ 10,201                      | 12.0%         |
| MS                                          | 64,999                                     | 63,440            | 1,559                          | 2.5%          |
| Quest Integrity                             | 14,240                                     | 14,647            | (407)                          | 2.8%          |
| <b>Total</b>                                | <b>\$ 174,589</b>                          | <b>\$ 163,236</b> | <b>\$ 11,353</b>               | <b>7.0%</b>   |
| <b><u>Operating income:</u></b>             |                                            |                   |                                |               |
| IHT                                         | \$ 7,536                                   | \$ 3,783          | \$ 3,753                       | 99.2%         |
| MS                                          | 3,357                                      | 2,939             | 418                            | 14.2%         |
| Quest Integrity                             | 100                                        | 1,170             | (1,070)                        | 91.5%         |
| Corporate and shared support services       | (8,067)                                    | (6,892)           | (1,175)                        | 17.0%         |
| <b>Total</b>                                | <b>\$ 2,926</b>                            | <b>\$ 1,000</b>   | <b>\$ 1,926</b>                | <b>192.6%</b> |

**Revenues.** Our revenues for the three months ended February 28, 2015 were \$174.6 million compared to \$163.2 million for the prior year quarter, an increase of \$11.4 million or 7%. IHT revenues were \$95.4 million in the quarter, up 12% compared to the prior year quarter. MS revenues of \$65.0 million for the quarter were up 3% over the prior year quarter. Quest Integrity revenues were \$14.2 million, down 3% over the prior year quarter. While activity levels were higher for our IHT and MS segments, market conditions softened some in the third quarter of fiscal year 2015 due to U.S. refinery strikes and reduced oil commodity pricing. Quest Integrity's processing business line experienced the most significant impact as several planned projects were deferred. Foreign revenues were also negatively impacted from the significant strengthening of the U.S. Dollar and related impact on nearly all of our foreign operations.

**Operating Income.** Operating income for the three months ended February 28, 2015 was \$2.9 million compared to \$1.0 million for the prior year quarter, an increase of \$1.9 million or 193%. After removal of \$1.1 million in legal fees associated with a legal defense of Quest Integrity intellectual property, and \$0.4 million in a fixed asset write-down, operating income would have improved by \$3.4 million or 340%. Additionally, operating income as a percentage of revenue would have been 2.5% in the current year quarter compared to 0.6% in the prior year quarter after removal of the two non-routine items mentioned above. While our third quarter is traditionally our most challenging period of our fiscal year, the increased leverage obtained by improved revenues discussed earlier were the biggest contributing factor to the improvement in current year operating margin. Corporate and shared support costs increased \$1.2 million due primarily to IT infrastructure improvements, non cash stock compensation related to the issuance of Long-Term Performance Stock Units and other general corporate support costs to support higher activity levels during the quarter.

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**Venezuela Impairment Loss.** During the three months ended February 28, 2015, management began reporting the results of our Venezuelan operations using the cost method of accounting. This change resulted in a one-time pretax charge of \$1.2 million. This decision was made given the other-than-temporary lack of exchangeability in the Venezuelan currency combined with other recent Venezuelan regulations that negatively impacted our ability to control operations and maintain normal service levels.

**Foreign Currency Loss.** During the three months ended February 28, 2015, losses due to changes in foreign currency rates were \$0.7 million as compared to \$1.9 million in the prior year quarter. The current year quarter reflects the effects of a strengthening U.S. Dollar relative to the currencies we have exposure to, principally the Canadian Dollar and the Euro. The prior year quarter reflects losses associated with a devaluation in Venezuelan currency.

## Nine Months Ended February 28, 2015 Compared to Nine Months Ended February 28, 2014

The following table sets forth the components of revenue and operating income from our operations for the nine months ended February 28, 2015 and 2014 (in thousands):

|                                       | Nine Months Ended<br>February 28, |                   | Increase<br>(Decrease) |              |
|---------------------------------------|-----------------------------------|-------------------|------------------------|--------------|
|                                       | 2015                              | 2014              | \$                     | %            |
| <b>Revenues by business segment:</b>  |                                   |                   |                        |              |
| IHT                                   | \$ 335,024                        | \$ 290,409        | \$ 44,615              | 15.4%        |
| MS                                    | 217,066                           | 200,196           | 16,870                 | 8.4%         |
| Quest Integrity                       | 51,239                            | 47,435            | 3,804                  | 8.0%         |
| <b>Total</b>                          | <b>\$ 603,329</b>                 | <b>\$ 538,040</b> | <b>\$ 65,289</b>       | <b>12.1%</b> |
| <b>Operating income:</b>              |                                   |                   |                        |              |
| IHT                                   | \$ 41,822                         | \$ 31,666         | \$ 10,156              | 32.1%        |
| MS                                    | 18,870                            | 17,120            | 1,750                  | 10.2%        |
| Quest Integrity                       | 7,217                             | 5,986             | 1,231                  | 20.6%        |
| Corporate and shared support services | (24,484)                          | (21,786)          | (2,698)                | 12.4%        |
| <b>Total</b>                          | <b>\$ 43,425</b>                  | <b>\$ 32,986</b>  | <b>\$ 10,439</b>       | <b>31.6%</b> |

**Revenues.** Our revenues for the nine months ended February 28, 2015 were \$603.3 million compared to \$538.0 million for the same period in the prior year, an increase of \$65.3 million or 12%. IHT revenues were \$335.0 million in the nine months ended February 28, 2015, up 15% compared to the prior year period. MS revenues were \$217.1 million in the nine months ended February 28, 2015, up 8% over the same period in the prior year. Quest Integrity revenues were \$51.2 million, up 8% over the same period in the prior year. Some of the contributing factors to this broad-based growth are pipeline projects, new construction and capital projects, large heat treating projects, as well as turnaround and outage services across all regions.

**Operating Income.** Operating income for the nine months ended February 28, 2015 was \$43.4 million compared to \$33.0 million for the same period in the prior year, an increase of \$10.4 million or 32%. The current year period includes \$0.2 million in acquisition costs, \$1.1 million in legal fees associated with a legal defense of Quest Integrity intellectual property and \$0.4 million in a non-routine fixed asset write-down. The prior year period includes \$2.1 million in contingent consideration revaluation benefit along with \$0.7 million in non-routine severance costs. After removal of these non-routine items, operating income would have improved by \$13.5 million or 43%. Additionally, operating income as a percentage of revenue would have improved to 7.5% in the current year period compared to 5.9% in the prior year period after removal of these non-routine items. The improvement in operating margin is a function of increased operating leverage of 20% in the current fiscal year coupled with a improvement in gross margin percentage that is in excess of 100 basis points. Corporate and shared support costs increased \$2.7 million due primarily to non cash stock compensation related to the issuance

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of Long-Term Performance Stock Units in the prior quarter, IT infrastructure improvements during the quarter and other general corporate support costs to support higher activity levels during the nine months ended February 28, 2015.

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

**Venezuelan Impairment Loss.** During the nine months ended February 28, 2015, management began reporting the results of our Venezuelan operations using the cost method of accounting. This change resulted in a one-time pretax charge of \$1.2 million. This decision was made given the other-than-temporary lack of exchangeability in the Venezuelan currency combined with other recent Venezuelan regulations that negatively impacted our ability to control operations and maintain normal service levels.

**Foreign Currency Loss.** During the current year period, losses due to changes in foreign currency rates were \$1.5 million as compared to \$2.4 million in the prior year quarter. The current year period reflects the effects of a strengthening U.S. Dollar relative to the currencies we have exposure to, principally the Canadian Dollar and the Euro. The prior year quarter is mostly composed of losses associated with a devaluation in Venezuelan currency.

## **Liquidity and Capital Resources**

Financing for our operations consists primarily of vendor financing and leasing arrangements, our Credit Facility and cash flows attributable to our operations, which we believe are sufficient to fund our business needs. The Credit Facility has borrowing capacity of up to \$150 million in multiple currencies, bears interest based on a variable Eurodollar rate option (LIBOR plus 1.75% margin at February 28, 2015) with the margin based on financial covenants set forth in the Credit Facility. In connection with a prior renewal of the Credit Facility, we are amortizing \$0.8 million of associated debt issuance costs over the life of the Credit Facility. At February 28, 2015, we had \$35.6 million of cash on hand and approximately \$50 million of available borrowing capacity through our Credit Facility. Our Credit Facility matures in July 2016 and there are no mandatory payments before the maturity date. At that time, we expect to be able to renew the facility based upon our long-term relationships with each member bank of our Credit Facility and the relatively low credit leverage defined as our debt to EBITDA ratio.

In the second quarter of fiscal year 2014, we initiated the design and implementation of a new ERP system which we will begin installing during fiscal year 2016. Through the end of our third quarter of fiscal year 2015, we have capitalized \$11.8 million associated with the project.

On October 1, 2013, our Board approved an initial \$25 million stock repurchase plan, superseding and replacing our previous stock repurchase plan. During the second quarter of fiscal year 2014, we repurchased 369,900 shares for a total cost of \$13.3 million. These shares, along with 89,569 shares purchased under a previous plan in a prior period at a cost of \$1.3 million, were retired and not included in common stock issued and outstanding as of February 28, 2015. The retirement of the shares purchased resulted in a reduction in common stock of \$0.1 million, a reduction of \$2.2 million to additional paid-in capital, and a \$12.3 million reduction in retained earnings.

On June 23, 2014, our Board authorized an increase in the stock repurchase plan limit to \$50 million (net of the \$13.3 million repurchased in the second quarter of fiscal year 2014). During the third quarter of fiscal year 2015, we repurchased 546,977 shares for a total cost of \$21.1 million. At February 28, 2015 \$15.5 million remained available to repurchase shares under the stock repurchase plan.

**Restrictions on cash.** Included in our cash and cash equivalents at February 28, 2015 is \$15.2 million of cash in certain foreign subsidiaries (located in primarily Europe and Canada) where earnings are considered by

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the Company to be permanently reinvested. In the event that some or all of this cash were to be repatriated, we would be required to accrue and pay additional taxes. While not legally restricted from repatriating this cash, we consider all undistributed earnings of these foreign subsidiaries to be indefinitely reinvested and access to cash to be limited.

At February 1, 2015, our Venezuelan subsidiary had \$0.6 million of cash on hand based on the SICAD-2, rate in effect at that date. On February 1, 2015 Team management began reporting the results of our Venezuelan operations using the cost method of accounting due to the other-than-temporary lack of exchangeability in the Venezuelan currency combined with other recent Venezuelan regulations. This resulted in recognition of a pre-tax loss of \$1.2 million in our third quarter of fiscal year 2015.

***Cash flows attributable to our operating activities.*** For the nine months ended February 28, 2015, net cash provided by operating activities was \$31.2 million. Net income of \$24.9 million, depreciation and amortization of \$16.9 million, foreign currency loss of \$1.5 million and non-cash compensation cost of \$3.7 million were offset by an increase in working capital of \$18.7 million.

***Cash flows attributable to our investing activities.*** For the nine months ended February 28, 2015, net cash used in investing activities was \$22.0 million, consisting primarily of \$18.7 million of capital expenditures and \$2.9 million for business acquisitions. Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly.

***Cash flows attributable to our financing activities.*** For the nine months ended February 28, 2015, net cash used in financing activities was \$4.8 million consisting primarily of \$15.7 million of net borrowings related to our Credit Facility offset by \$21.1 million in payments related to the purchase of treasury stock.

***Effect of exchange rate changes on cash.*** For the nine months ended February 28, 2015, the effect of exchange rate changes on cash was a negative \$3.5 million. We have significant operations in Europe and Canada. The impact of foreign currency exchange rates on cash in the current year is primarily attributable to changes in U.S. Dollar exchange rates with Canada and Europe.

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

We have operations in foreign countries with a functional currency that is not the U.S. Dollar. We are exposed to market risk, primarily related to foreign currency fluctuations related to these operations. Subsidiaries with asset and liability balances denominated in currencies other than their functional currency are remeasured in the preparation of their financial statements using a combination of current and historical exchange rates, with any resulting remeasurement adjustments included in net income for the period. Net foreign currency transaction losses for the three and nine month periods ended February 28, 2015 were \$0.7 million and \$1.5 million, respectively. The foreign currency transaction losses realized in fiscal year 2015 relate primarily to the strengthening of the U.S. Dollar in relation to the Euro, Canadian Dollar, Australian Dollar and Mexican Peso. Subsequent to the period end February 28, 2015, we initiated a foreign currency hedging program to mitigate the foreign currency risk in countries where we have significant assets and liabilities denominated in currencies other than the functional currency. Translation adjustments for the assets and liability accounts are included as a separate component of accumulated other comprehensive income in shareholders' equity. Foreign currency translation losses in other comprehensive income were \$14.8 million for the nine months ended February 28, 2015.

We carry Euro based debt to serve as an economic hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate 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.

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Prior to February 1, 2015, we accounted for Venezuelan operations pursuant to accounting guidance for hyperinflationary economies. Following the designation of the Venezuelan economy as hyperinflationary, we ceased recording the effects of currency fluctuations to accumulated other comprehensive income and began reflecting all effects as a component of other income in our statement of operations. At February 1, 2015, our Venezuelan subsidiary had \$0.6 million of cash on hand based on the SICAD-2, rate in effect at that date. On February 1, 2015 Team management began reporting the results of our Venezuelan operations using the cost method of accounting due to the other-than-temporary lack of exchangeability in the Venezuelan currency combined with other recent Venezuelan regulations. This resulted in recognition of a pre-tax loss of \$1.2 million in our third quarter of fiscal year 2015.

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

### **ITEM 4. CONTROLS AND PROCEDURES**

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

***Evaluation of disclosure controls and procedures.*** As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer ( CEO ) and our Chief Financial Officer ( CFO ), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934, as amended ( Exchange Act )). This evaluation included consideration of the various processes carried out under the direction of our disclosure committee in an effort to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC. This evaluation also considered the work completed relating to our compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Based on this evaluation, our CEO and CFO concluded that, as of February 28, 2015, our disclosure controls and procedures were operating effectively to ensure that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the requisite time periods and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

***Changes in internal control over financial reporting.*** There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) of the Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the third quarter of our fiscal year ending May 31, 2015.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

*Con Ed Matter* We have, from time to time, provided temporary leak repair services for the steam operations of Consolidated Edison Company of New York ( Con Ed ) located in New York City. In July 2007, a Con Ed steam main located in midtown Manhattan ruptured causing one death and other injuries and property damage. As of February 28, 2015, ninety-five lawsuits have been filed against Con Ed, the City of New York and Team in the Supreme Courts of New York located in Kings, New York and Bronx County, alleging that our temporary leak repair services may have contributed to the cause of the rupture. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, on March 31, 2008, we received a letter from Con Ed alleging that our contract with Con Ed requires us to indemnify and defend Con Ed for additional claims filed against Con Ed as a result of the rupture. Con Ed filed an action to join Team and the City of New York as defendants in all lawsuits filed against Con Ed that did not include Team and the City of New York as direct defendants. We are vigorously defending the lawsuits and Con Ed s claim for indemnification. We are unable to estimate the amount of liability to us, if any, associated with these lawsuits and the claim for indemnification. We maintain insurance coverage, subject to a deductible limit of \$250,000, which we believe should cover these claims. We have not accrued any liability in excess of the deductible limit for the lawsuits. We do not believe the ultimate outcome of these matters will have a material adverse effect on our financial position, results of operations or cash flows.

In December 2014, our subsidiary, Quest Integrity, filed three patent infringement lawsuits against three different defendants. 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 provides 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 money damages. Defendants have denied they infringe any valid claim of the patent and are contesting the allegations.

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

**ITEM 1A. RISK FACTORS**

See page 8 of our Annual Report on Form 10-K for the year ended May 31, 2014 for a detailed discussion of our risk factors.

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

On October 1, 2013, our Board approved an initial \$25 million stock repurchase plan, superseding and replacing our previous stock repurchase plan. Concurrently, our Credit Facility was amended to exclude the first \$25 million of stock repurchases from the definition of fixed charges for purposes of calculating the fixed charge coverage ratio under the Credit Facility. Through November 30, 2013, we repurchased a total of 369,900 shares under this program for an aggregate cost of \$13.3 million, or an average price of \$36.05 per share.

On June 23, 2014, our Board authorized an increase in the stock purchase plan limit to \$50 million (net of the \$13.3 million repurchased in the second quarter of fiscal year 2014). During the third quarter of fiscal year 2015, we repurchased 546,977 shares for a total cost of \$21.1 million or an average price of \$38.62 per share.

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Repurchases during the third quarter of fiscal year 2015 were as follows:

| Period     |                   | (a) Total Number of<br>Shares<br>Purchased | (b) Average Price<br>Paid per Share | (c) Total Number of<br>Shares<br>Purchased as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d) Maximum Number<br>(or Appropriate<br>Dollar Value) of<br>Shares that<br>May Yet be Purchased<br>Under the Plans or<br>Programs |
|------------|-------------------|--------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| December 1 | December 31, 2014 |                                            | \$                                  |                                                                                                        | \$ 36,666,511                                                                                                                      |
| January 1  | January 31, 2015  | 276,710                                    | \$ 38.10                            | 276,710                                                                                                | \$ 28,939,260                                                                                                                      |
| February 1 | February 28, 2015 | 270,267                                    | \$ 39.12                            | 270,267                                                                                                | \$ 15,528,399                                                                                                                      |
| Total      |                   | 546,977                                    | \$ 38.62                            | 546,977                                                                                                |                                                                                                                                    |

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

**ITEM 4. MINE SAFETY DISCLOSURES**

NOT APPLICABLE

**ITEM 5. OTHER INFORMATION**

NONE

**ITEM 6. EXHIBITS**

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



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**SIGNATURES**

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

TEAM, INC.

(Registrant)

Date: April 8, 2015

/s/ TED W. OWEN  
**Ted W. Owen**

**President and Chief Executive Officer**

**(Principal Executive Officer)**

/s/ GREG L. BOANE  
**Greg L. Boane**

**Senior Vice President and Chief Financial Officer**

**(Principal Financial Officer and**

**Principal Accounting Officer)**