

**TEAM**<sup>®</sup>

# INNOVATION IN ACTION

2019 ANNUAL REPORT





## INVESTING IN INNOVATION TO ACCELERATE GROWTH

TEAM's modern-day achievements are built upon a century of innovation, exceptional service and strong client relationships. We are proud of our history and the companies that paved the path to creating OneTEAM that provides an unparalleled breadth and depth of solutions.

As we focus on the future, innovation continues to serve as an essential strategic driver to outpace competitors and accelerate growth. We are investing in differentiating proprietary engineered technologies, digitizing work processes, software solutions and modernizing manufacturing through automation to enhance performance outputs and efficiencies.

The investments in new technologies serve to differentiate our offerings in our core markets while driving a diffusion of innovation into emerging markets further diversifying our portfolio.

TEAM's deep domain expertise is at the root of our innovation and technology applications. This expertise enables us to act boldly, creating value while maintaining a strategic focus to achieve growth.



Dear Fellow Shareholders:

In 2019, we made significant strides to improve TEAM's overall performance, positioning the Company for sustainable and long-term profitable growth. We completed a number of important strategic initiatives through our OneTEAM integration and transformation program. Since OneTEAM's launch in 2017, our focus has been on increasing margins and generating cash flow that led to these positive financial achievements:

- Our Adjusted EBITDA<sup>1</sup> of \$80.3 million grew by approximately \$28 million, or 50%, over 2017.
- Gross Margin was \$328 million, or 28.2% of revenue, a 240-basis points expansion over the last two years.
- SG&A was \$328 million, a decrease of \$32.5 million, or 9%, compared to 2018.
- Operating cash flow was approximately \$59 million for 2019, highest generated in the last three years.
- Free cash flow was approximately \$30 million for the full year 2019, an improvement of \$80 million since 2017.
- TEAM paid down approximately \$33 million of debt, reducing our debt to the lowest level in over three years.

The **Mechanical Services** segment delivered positive year-over-year revenue and Gross Margin and reported a 66% growth in EBITDA. This positive performance was driven by TEAM's OnStream service line, investments in manufacturing and engineering, technology, and workforce management.

The **Quest Integrity** segment delivered back-to-back years of record performance with more than 18% revenue growth for each of the past two years and expanded EBITDA margin by 30% when compared to 2018. Quest continues to perform exceptionally well in its target markets and is quickly building market share in new industry sectors.

The **Inspection and Heat Treating** segment reported lower year-over-year revenue and adjusted EBITDA due to our clients' focus on maintaining high utilization rates and operational flexibility to maximize margins. Despite lower revenues, EBITDA fall-through was limited to 17% as a result of disciplined project selection and effective cost control measures.

### Safety is Our Number One Core Value

We improved TRIR year-over-year by 25% and reduced recordable injuries by more than 30%. During the year, we received the Voluntary Protection Program Star of Excellence from four clients and the American Fuel and Petroleum Manufacturers Distinguished Safety Award from three others. **The 2019 safety performance was one of the best for the Company.** I remain extremely proud of our people and their commitment to safety as we strive for ZERO recordable injuries.

### The Strength of OneTEAM

In 2019, we made significant progress with the successful implementation of the OneTEAM transformation and integration program in North America. OneTEAM provides us with a foundation to drive sustainable, profitable growth and deliver both discrete specialized services and differentiated integrated solutions to clients worldwide.

#### TEAM PERFORMANCE

*Overall, TEAM's 2019 performance improvement showcases our ongoing commitment to generate increased free cash flow for debt paydown, focus on working capital, and other efforts to reduce costs.*

1. See page A-2 in the Company's Proxy Statement filed on April 9, 2020 for a reconciliation of Adjusted EBITDA, a non-GAAP measure to the corresponding GAAP results.

Through OneTEAM we accomplished the following:

- The OneTEAM program's two cost reduction pillars generated total savings of \$22.9 million in 2019 and delivered within our targeted range of \$20 to \$25 million for the year. We remain on track to achieve the projected run-rate savings of \$35 to \$45 million by the end of 2020.
- We controlled costs through enhanced supply chain management and improved project execution to generate a 240-basis point Gross Margin expansion over the past two years, as a result of pricing discipline, workforce management, and market diversification.
- We deployed the OneTEAM program into our international operations in late 2019 using the successful and scalable North American blueprint to position TEAM for profitable global growth.
- **Most importantly, our commitment to capital management and deleveraging the Company led to a free cash flow improvement of more than \$80 million since 2017.**

#### OneTEAM DELIVERS

*The OneTEAM program's two cost reduction pillars generated total savings of \$22.9 million.*

The OneTEAM program's focus transitioned from the Operations and Center-Led pillars to the Revenue Enhancement pillar, highlighting pricing strategy, product and service mix, and integrated project management. The Revenue Enhancement pillar also includes revenue diversification, allowing us to become far less dependent on any single sector or geography.

### Investing in Innovation to Accelerate Growth

Our industry expertise, innovation, and advanced technology applications are key differentiators for TEAM and serve as strategic drivers to outpace our competitors. Our investments in innovation and technology-leading solutions include:

- 2019 represented the largest project volume since the commercialization of TEAM Digital, our proprietary platform that maximizes quality and efficiency through digitally enabled workflows. Over 450 technicians have been trained on the platform, and TEAM Digital has managed more than 75,000 successful inspections. We continue to achieve 20% to 30% productivity gains from increased time on tools, reduced standby time and automated reporting.
- Quest Integrity's smart cleaning solution, which includes decoking, inspection and condition assessment, was deployed in the Middle East and Latin America markets. TEAM remains the only company in the industry with combined process heater decoking, high-resolution ultrasonic inspection and comprehensive condition assessment. This fully integrated domain and critical asset specialized solution enables fitness for service, heater performance optimization and asset life extension, all of which are critical to our clients.
- TEAM has more than 35-years of experience in the Aerospace industry and is a single source provider for all engine certification programs. One of our Aerospace operations received Federal Aviation Administration certification in the Midwest, supporting chemical processing, advanced NDT and metallurgical services for one of the largest engine manufacturers in the world. Through our one-source solution, we are capable of expediting inspection with on-time delivery.

#### TEAM COMPETITIVE ADVANTAGE

*TEAM remains the only company in the industry with combined process heater decoking, high-resolution ultrasonic inspection and comprehensive condition assessment.*

We are committed to leveraging innovation and technology to advance our industry expertise and capabilities and maximize efficiency. Through strategic investments in innovation, we have laid a solid foundation for long-term growth, improved shareholder returns, and meeting the challenges of tomorrow.

### Forging Ahead in Uncertain Times

At present, the Coronavirus pandemic has caused some disruptions to our operations, and the recent drop in commodity prices has led to a decline in capital spending by our clients. First and foremost, the health and safety of our employees and their families is of immediate priority and we are strictly adhering to the guidelines set by our Critical Response Team and the local governing bodies. Additionally, we have implemented continuity plans for our core businesses and are managing our costs and cash in a fiscally responsible manner. Like many other companies, we have been forced to take difficult, yet proactive steps to protect our ability to quickly resume business activities after the recovery. While it is too early to forecast the ultimate impact of these events, we strongly believe we are well positioned to build on our 2019 results once the business landscape begins to stabilize.

### The Road Ahead

During these challenging times, we are identifying creative ways to leverage opportunities within the skillsets of our personnel and our advanced technologies in order to support new industries. We are focused on delivering our Inspection and Heat Treating and Mechanical Services offerings in sectors that are likely to experience less disruption, such as power, renewables, pipeline, and process-related industries. We expect Quest to continue to grow in 2020 as a result of the market-leading solutions we provide our clients. Our vast and successful nested business also allows us to expand upon our current footprint and service offerings. We are collaborating with our longstanding, diverse nested clients to develop creative solutions to drive continuity and quickly mobilize resources in the near-term. Looking ahead, we will remain focused on managing what is in our control and mitigating the evolving end-market fluctuations.

In conclusion, we remain steadfast on our priorities – free cash flow, debt paydown, expanding margins, and top line growth; in that order. Our agility and thoughtful approach in these challenging times, along with a balanced, structured, and recurring revenue diversification strategy, will drive operational efficiencies and positive results across our Company.

On behalf of my colleagues at TEAM and our board of directors, thank you for your continued support.

Sincerely,



Amerino Gatti  
Chairman and Chief Executive Officer

#### LEVERAGING OPPORTUNITIES

*During these challenging times, we are identifying creative ways to leverage opportunities within the skillsets of our personnel and our advanced technologies in order to support new industries, including healthcare, power and utilities.*

#### TEAM'S PURPOSE

*Our purpose is to ensure the energy that fuels a better tomorrow.*



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2019

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



(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

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

74-1765729

(I.R.S. Employer  
Identification No.)

77478

(Zip Code)

(281) 331-6154

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of Each Class</u>     | <u>Trading Symbol</u> | <u>Name of Each Exchange on Which Registered</u> |
|--------------------------------|-----------------------|--|
| Common Stock, \$0.30 par value | TISI                  | New York Stock Exchange                          |

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

|                         |                          |                           |                                     |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/>            |
|                         |                          | Emerging growth company   | <input type="checkbox"/>            |

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

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

The aggregate market value of the voting stock held by non-affiliates on June 28, 2019 was approximately \$316 million, determined using the closing price of shares of common stock on the New York Stock Exchange on that date of \$15.32.

For purposes for the foregoing calculation only, all directors, executive officers, the Team, Inc. Salary Deferral Plan and Trust and known 10% or greater beneficial owners have been deemed affiliates.

The Registrant had 30,518,678 shares of common stock, par value \$0.30, outstanding as of March 10, 2020.

**Documents Incorporated by Reference**

Portions of our Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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*Certain items required in Part III of this Annual Report on Form 10-K can be found in our 2020 Proxy Statement and are incorporated herein by reference. A copy of the 2020 Proxy Statement will be provided, without charge, to any person who receives a copy of this Annual Report on Form 10-K and submits a written request to Team, Inc., Attn: Corporate Secretary, 13131 Dairy Ashford, Suite 600, Sugar Land, Texas 77478.*

## PART I

### ITEM 1. BUSINESS

#### General Information

**Introduction.** Unless otherwise indicated, the terms “Team, Inc.,” “Team,” “the Company,” “we,” “our” and “us” are used in this report to refer to Team, Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. We incorporated in the State of Delaware on October 20, 2006 and our company website can be found at [www.teaminc.com](http://www.teaminc.com). Our corporate headquarters is located at 13131 Dairy Ashford, Suite 600, Sugar Land, Texas, 77478 and our telephone number is (281) 331-6154. Our stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “TISI.” On November 10, 2015, we announced a change of our fiscal year end to December 31 of each calendar year from May 31.

We are a global leading provider of integrated, digitally-enabled asset performance assurance and optimization solutions. We deploy conventional to highly specialized inspection, condition assessment, maintenance and repair services that result in greater safety, reliability and operational efficiency for our client’s most critical assets. We conduct operations in three segments: Inspection and Heat Treating (“IHT”) (formerly TeamQualspec), Mechanical Services (“MS”) (formerly TeamFurmanite) and Quest Integrity. Through the capabilities and resources in these three segments, we believe that Team is uniquely qualified to provide integrated solutions involving in their most basic form: inspection to assess condition; engineering assessment to determine fitness for purpose in the context of industry standards and regulatory codes; and mechanical services to repair, rerate or replace based upon the client’s election. In addition, the Company is capable of escalating with the client’s needs, as dictated by the severity of the damage found and the related operating conditions, from standard services to some of the most advanced services and integrated asset integrity and reliability management solutions available in the industry. We also believe that Team is unique in its ability to provide services in three distinct client demand profiles: (i) turnaround or project services, (ii) call-out services and (iii) nested or run-and-maintain services.

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

MS provides primarily call-out and turnaround services under both on-stream and off-line/shut down circumstances. On-stream services offered by MS represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control, hot tapping and line intervention to help operators manage the material opportunity costs associated with taking off line process, transportation or storage infrastructure. Turnaround services are project-related and demand is a function of the number and scope of scheduled and unscheduled facility turnarounds as well as new industrial facility construction or expansion activities. The turnaround and call-out services MS provides include field machining, technical bolting, vapor barrier plug and weld testing, field valve repair and valve product sales.

Quest Integrity provides integrity and reliability management solutions for the process, pipeline and power sectors. These solutions encompass three broadly-defined disciplines: (1) highly specialized in-line inspection services for historically unpiggable process piping and pipelines using proprietary in-line inspection tools and analytical software; (2) advanced engineering and condition assessment services through a multi-disciplined engineering team and related lab support; and (3) advanced digital imaging including remote digital video imaging, laser scanning and laser profilometry-enabled reformer care services.

We offer these services globally through approximately 200 locations in 20 countries throughout the world with approximately 6,800 employees. We market our services to companies in a diverse array of heavy industries which include:

- Energy (refining, power, renewables, nuclear, LNG, offshore oil and gas, pipelines, terminals and storage)
- Manufacturing and Process (chemical, petrochemical, pulp and paper industries, automotive and mining)
- Public Infrastructure (bridges, ports, construction and building, roads and railways)
- Aerospace and Defense

In July 2018, we announced an organizational restructuring. The organizational changes include a Product and Service Line organization and an Operations organization. The Product and Service Lines organization is responsible for standardization of best practices and the related technical training and program development, value positioning and pricing, and technology development and innovation across Team's global enterprise. The Operations organization, comprised of cross-segment divisions aligned by major geographic regions, is responsible for executing product and service delivery in accordance with established Team service line standards, safety and quality protocols. Overall company management and decision-making continues to be performed according to the structure of the three operating segments (IHT, MS and Quest Integrity). Accordingly, these changes had no effect on our reportable segments.

## **Narrative Description of Business**

### **Inspection and Heat Treating Group:**

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

***Non-Destructive Evaluation and Testing Services.*** Machined parts and industrial structures can be complex systems that experience extreme loads and fatigue during their lifetime. Our Non-Destructive Evaluation and Testing ("NDE/NDT") services enable the inspection of these components without permanently altering the equipment. It is a highly valuable technique that is often used to validate the integrity of materials, detect instabilities, discover performance outside of tolerances, identify failed components, or highlight an inadequate control system. Inspection services frequently require industry recognized training and certification. We employ training and certification programs, which are designed to meet or exceed industry standards. As assets continue to age and remain in service often beyond the original design life, and compliance regulations advance in parallel, inspection and assessment techniques are playing a critical role in safely monitoring fitness-for-service and where practical, extending the useful life of this aging infrastructure.

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

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

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

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

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

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

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

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

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

**Phased Array Ultrasonic Testing.** Phased Array Ultrasonics (“PAUT”) provides enhanced detection, characterization and sizing capability of flaws in manufactured materials like welds. PAUT applies computer-controlled excitation to individual elements in a multi-element probe. By varying the timing of the excitation, the sound beam can be swept through a range of angles to a specific area of interest.

**Tank Inspection and Management Programs.** Our above ground storage tank (“ABST”) inspection and management team, TCI Services, Inc. (“TCI”), specializes in performing inspections, condition assessment and selected repair services across the United States (“U.S.”) for ABST and related infrastructure. Backed by Team’s in-house engineering, documentation and certification services – including American Petroleum Institute 653 evaluations – TCI’s on-site tank inspections, repair and maintenance services help keep customers’ tanks fully operational and compliant with stringent industry standards.

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

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

**Pipeline Integrity Services.** We assist pipeline operators in regard to their regulatory compliance, ongoing inspection and maintenance activities that verify the safety, integrity and life expectancy of their pipeline systems. Pipeline Integrity (“PI”) services can include engineering and consulting services that review the program, prior inspection data and advise in threat planning and monitoring. Most midstream piping systems are below ground, and environmental assessments are necessary to understand the threats from topography and soil and to determine the effectiveness of the coating/cathodic protection systems. Team applies the appropriate conventional and advanced NDE methods to provide the most accurate identification, characterization and sizing of pipeline anomalies and then apply engineering service to assist with repair recommendations. Standard, accurate and timely documentation and reporting along with quality reviews with our PI services are necessary to support our clients’ regulation compliance.

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

## **Mechanical Services Group:**

MS offers standard to specialty services within on-stream, turnaround/project-related and nested environments. A description of these core MS services is as follows:

***Leak Repair Services.*** Our leak repair services consist of on-stream repairs of leaks in pipes, valves, flanges and other parts of piping systems, pipelines and related equipment. Our on-stream repairs utilize composite repair, drill and tap repair, and both standard and custom-designed clamps and enclosures for process piping and pipelines. We use specially developed techniques, sealants and equipment for repairs. Many of our repairs are furnished as interim measures which allow plant systems to continue operating until more permanent repairs can be made during plant shut downs. Our leak repair services involve inspection of the leak by our field technicians who record pertinent information about the faulty part of the system and transmit the information to our engineering department for determination of appropriate repair techniques. Repair materials such as clamps and enclosures are custom designed and manufactured at our International Organization for Standardization (“ISO”)-9001 certified manufacturing centers and then delivered to the job site for installation by our technicians. We maintain an inventory of raw materials and semi-finished clamps and enclosures to reduce the time required to manufacture the finished product. We have a diverse global supply chain with a network of alternate suppliers. We routinely perform due diligence on our suppliers and sources of raw materials and finished products and are continuing to pursue responsible sourcing of all materials used in our products, regardless of the country of origin.

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

***Hot Tapping Services.*** Our hot tapping services consist of a full range of hot tapping and Line-stop™ services. Hot tapping services involve utilizing special equipment to machine a hole in a pressurized piping system so that a new branch pipe can be connected onto the existing pipeline without interrupting operations. Line-stop™ services permit the line to be isolated and depressurized downstream so that maintenance work can be performed on the piping system. We typically perform these services by mechanically cutting into the pipeline similar to a hot tap and installing a special plugging device to stop the process flow. The Hi-stop™ is a proprietary procedure that allows stopping of process flows under typically more extreme pressures and temperatures. In some cases, we may use a line freezing procedure by injecting liquid nitrogen into installed special external chambers around the pipe to stop the process flow. Inflatable bag stops are used when a pipe is out of round or inside surface conditions of the pipe prevent a standard line stop. Inflatable stops can also be used to back up a line stop or be used independently on low pressure systems. A small hot tap is made into a pipe and an inflatable pipe plug is inserted into the pipe allowing isolation of the pipe. Additionally, we provide innovative line stop applications for bespoke service applications to meet our clients more unconventional needs.

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

***Valve Repair Services and Products.*** We perform on-site and shop-based repairs to manual and control valves and pressure and safety relief valves as well as specialty valve actuator diagnostics and repair. We are certified and authorized to perform testing and repairs to pressure and safety relief valves by The National Board of Boiler and Pressure Vessel Inspectors (the “NBBPVI”). This certification requires specific procedures, testing and documentation to maintain the safe operation of these essential plant valves. We provide special transportable trailers to the plant site which contain specialty machines to manufacture valve components without removing the valve from the piping system. In addition, we provide preventive maintenance programs for VOC specific valves and valve data management programs. We also represent selected valve manufacturers and distribute their products where complementary to our clients’ valve supply and management needs.

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

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

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

### **Quest Integrity:**

Quest Integrity offers integrity and reliability management solutions to the energy industry in the form of advanced quantitative inspection, engineering and condition assessment services and products and digital imaging services. Quest Integrity’s advanced quantitative inspection services utilize proprietary non-destructive testing and examination (NDT/NDE) instrumentation and technology to provide in-line inspections of fired heaters, pipelines, process piping systems and steam reformers, primarily to the process, pipeline and power industries. Additionally, Quest Integrity offers engineering assessment services enabled by proprietary software and other analytical tools, and complemented by lab testing resources; and advanced digital imaging services enabled by specialized local and wide area laser scanning and video equipment and land-based and aerial robotics platforms in the form of drones.

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

**InVista™-Enabled Services.** Our proprietary InVista™ in-line inspection service provides an untethered 360-degree 100% coverage ultrasonic inspection of the internal and external surfaces of pipelines and process piping that are considered “unpiggable” or too challenging to inspect by traditional in-line inspection methods, due to a number of factors. InVista™ allows us to detect and quantify pipe/tube internal/external wall loss, deformation, pitting and fouling in such pipelines and process piping. Our standard InVista™ deliverable also provides a fitness-for-service assessment on the pipe and displays the information in a highly intuitive format, providing an integrated inspection plus condition assessment solution for customers.

**Pipeline Integrity Management Services.** We offer turn-key Pipeline Integrity Management services, including project management, integrity engineering and integrity management development services, in-line inspection support such as cleaning and launching/receiving, pig tracking and materials equipment selection and procurement. We offer these resources on an integrated basis with our InVista™ in-line inspection services and engineering assessment capabilities, or individually as applicable.

**Advanced Engineering and Condition Assessment Services.** Employing a multi-disciplined engineering team, supported by proprietary software, other analytical tools and complementary lab testing capability, we offer a variety of advanced engineering assessment services to customers in the process, power, pipeline, petrochemical and alternative energy industries including fitness-for-service, computational mechanics, failure analysis, risk-based asset management and materials consulting.

**Advanced Digital Imaging Services.** Quest Integrity offers Advanced Digital Imaging (“ADI”) services utilizing a combination of proprietary and advanced third party equipment, including video, laser scanning, robotic crawlers and aerial drones, to remotely capture digital images in difficult or dangerous to access locations in and around energy industry infrastructure. We often deliver such services as part of an integrated solution where ADI may complement or further inform other inspection and condition assessment techniques.

## Acquisitions

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

In April 2016, we acquired two related businesses in Europe: Quality Inspection Services (“QIS”) and TiaT Europe (“TiaT”) for a total of approximately \$9 million. QIS is an NDT inspection company and TiaT is an NDT training school and consultancy and engineering company recognized as a specialist in aerospace inspections. Both companies are located in Roosendaal, the Netherlands. The businesses added approximately 65 employees to our organization in Europe and collectively serve clients in the on and offshore energy, steel construction, shipbuilding and repair and aerospace industries. QIS is the fourth largest NDT inspection company in the Netherlands and represents IHT’s first inspection operation outside of North America. QIS and TiaT are reported in the IHT segment.

In February 2016, we completed our acquisition of Furmanite Corporation (now Furmanite LLC, “Furmanite”) pursuant to an Agreement and Plan of Merger (the “Merger Agreement”) under which we acquired all the outstanding shares of Furmanite in a stock transaction at a value of approximately \$282.3 million which included the payoff, immediately prior to closing, of approximately \$70.8 million in Furmanite debt. Under the terms of the Merger Agreement, Furmanite shareholders received 0.215 shares of Team common stock for each share of Furmanite common stock they owned. The combination doubled the size of Team’s mechanical services capabilities and established a deeper, broader talent and resource pool that better supports customers across standard and specialty mechanical services worldwide. In addition, our expanded capability and capacity offers an enhanced single-point of accountability and flexibility in addressing some of the most critical needs of clients; whether as individual services or as part of an integrated specialty industrial services solution. The purchase price allocation included net working capital of \$143.9 million, \$63.3 million in fixed assets, \$89.0 million in intangibles, \$91.4 million of non-current deferred tax liabilities, and \$13.5 million of defined benefit pension liabilities, with \$89.6 million allocated to goodwill. Our consolidated results include the activity of Furmanite beginning on the acquisition date of February 29, 2016. Included in the Furmanite acquisition was a process management inspection services business serving contractors and operators participating primarily in the midstream oil and gas market in the U.S. Upon acquisition, we determined that this business was not a strategic fit for Team and shortly thereafter began marketing the business to prospective buyers. We completed the sale of this operation in December 2016. The operating results of this business were reported as discontinued operations in our consolidated financial statements.

In July 2015, we acquired 100% of the membership interests in Qualspec Group LLC (“Qualspec”) for total cash consideration of \$255.5 million. Qualspec is a leading provider of NDT services in the U.S., with significant operations in the West Coast, Gulf Coast and Mid-Western areas of the country. Qualspec primarily specializes in nested or run-and-maintain services and adds strength to our resident refinery inspection programs with major customer relationships across the U.S., as well as to our already strong capabilities in advanced inspection services, rope access services and the delivery of innovative inspection and condition assessment technologies to our customers. The purchase of Qualspec was financed through borrowings under our banking credit facility. The purchase price allocation included net working capital of \$16.3 million, \$15.5 million in fixed assets, \$78.1 million in intangibles, \$3.0 million of non-current deferred tax liability, with \$148.5 million allocated to goodwill. Our consolidated results include the activity of Qualspec beginning on the acquisition date of July 7, 2015 in the IHT segment.

In June 2015, we purchased DK Amans Valve, an advanced valve leader located in Long Beach, California, with a portfolio of projects from various sectors including oil and gas refining, pipelines and power generation for a total consideration of \$12.3 million, net of cash acquired of \$0.1 million. The purchase price included net working capital of \$3.0 million, \$0.6 million in fixed assets and \$8.8 million in intangibles that includes \$2.5 million allocated to goodwill. The purchase price allocation included contingent consideration initially valued at \$1.8 million, but as a result of meeting certain performance targets, ultimately resulted in the payment of additional consideration of \$4.0 million. DK Amans Valve is reported in the MS segment.

## Marketing and Customers

Our industrial services are marketed principally by personnel based at our service locations. We believe that these service locations are situated to facilitate timely responses to customer needs with on-call expertise, which is an important feature of selling and providing our services. The capacity and capability scope of our discrete and integrated services also allows us to benefit from the procurement trends of many of our customers who are seeking to reduce the number of contractors and vendors in their facilities, as well as to outsource more of such services. No single customer accounted for 10% or more of consolidated revenues during the years ended December 31, 2019, 2018 or 2017.

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

### **Seasonality**

We experience some seasonal fluctuations. Historically, the refining industry has scheduled plant shutdowns (commonly referred to as “turnarounds”) for the fall and spring seasons. The power industry follows a similar seasonal schedule for their plant maintenance. The timing of large turnarounds or outages can significantly impact our revenues. The pipeline industry follows and depends in part on weather conditions where the ability to access pipeline infrastructure for or after inspections may be impeded by more severe cold weather conditions.



## **Employees**

At December 31, 2019, we had approximately 6,800 employees in our worldwide operations. Our employees in the U.S. are non-unionized. Most of our Canadian employees and certain employees outside of North America, primarily Europe, are unionized. There have been no employee work stoppages to date and we believe our relations with our employees and their representative organizations are fair and productive.

## **Regulation**

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

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

## **Intellectual Property**

We hold various patents, trademarks, trade secrets and licenses, which have not historically been material to our consolidated business operations. However, Quest Integrity has significant trade secrets and intellectual property pertaining to its proprietary inspection and engineering assessment and software tools. This subsidiary was acquired in November 2010 and a significant amount of the purchase price was allocated to these intangible assets. As of December 31, 2019, we held patents, trademarks, trade secrets and licenses which will expire at various times between 2020 and 2030. We do not consider any single intangible asset material to our results of operations or financial position.

## **Competition**

In general, competition stems from a large number of other outside service contractors. More than 100 different competitors are currently active in our markets. We believe we have a competitive advantage over most service contractors due to the quality, training and experience of our technicians, our North America and increasingly international service capability, the breadth and depth of our services, our ability to provide such services on an integrated, more turnkey basis, and our technical engineered support coupled with our manufacturing capabilities supporting the service network.

## **Available Information**

As a public company, we are required to file periodic reports with the Securities and Exchange Commission (the “SEC”) within established deadlines. Our SEC filings are available to the public through the SEC’s website located at [www.sec.gov](http://www.sec.gov). Our internet website address is [www.teaminc.com](http://www.teaminc.com). Information contained on our website is not part of this Annual Report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, Proxy Statements and current reports on Form 8-K filed with (or

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

## ITEM 1A. RISK FACTORS

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

### **Risks Related to Market Conditions**

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

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

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

***Our ongoing investments in new customer markets involve significant risks and could disrupt our current operations and may not produce the long-term benefits that we expect.*** Our ability to compete successfully in new customer markets depends on our ability to continue to deliver innovative, relevant and useful services to our customers in a timely manner. As a result, we have invested, and expect to continue to invest resources in developing products and services to new customers. Such investments may not prioritize short-term financial results and may involve significant risks and uncertainties, including encountering new competitors. We may fail to generate sufficient revenue, operating margin or other value to justify our investments in such new customer markets, thereby harming our ability to generate revenue.

***Public health threats such as the recent outbreak of the novel coronavirus may have a negative effect on our customers and supply chain.*** On December 31, 2019, a human infection originating in China was traced to a novel strain of coronavirus or COVID-19. On January 30, 2020, the World Health Organization declared the coronavirus outbreak to be a "public health emergency of international concern" and then on March 11, 2020, declared the outbreak to be a "pandemic." Since its detection, the virus has spread to various countries, including the United States. The United States and other countries have placed restrictions on travel to and from China and other affected regions, and a number of businesses in affected regions have temporarily closed. While we have no direct operations in China, the geographic scope of the outbreak remains uncertain and changes daily. Potential effects of the outbreak include volatility in the financial markets, the effect of travel restrictions on the global economy, supply chain disruptions and the impact on certain commodity prices. Some of these factors may affect us directly, in the form of travel restrictions, disruptions to our supply chain for consumables or equipment sourced from affected areas, and more importantly, the impact to our customer base, especially in the petrochemical and refining industries. The novel coronavirus's impact on the global economy may lead to a decrease in worldwide demand for oil and refined products which may lead to diminished demand for our services.

## **Risks Related to Our Operations**

***If we are not able to implement commercially competitive services in a timely manner in response to changes in the market, customer requirements, competitive pressures and technology trends, our business and results of operations could be materially and adversely affected.*** The market for our services is characterized by continual technological developments to provide better and more cost-effective services. If we are not able to implement commercially competitive services and products in a timely manner in response to changes in the market, customer requirements, competitive pressures and technology trends, our business and results of operations could be materially and adversely affected. Likewise, if our proprietary technologies, equipment, facilities, or work processes become obsolete, we may no longer be competitive, and our business and results of operations could be materially and adversely affected.

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

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

***The loss or unavailability of any of our executive officers or other key personnel could have a material adverse effect on our business.*** We depend greatly on the efforts of our executive officers and other key employees to manage and exercise leadership over our operations. The loss or unavailability of any of our executive officers or other key employees could have a material adverse effect on our business operations.

***Unsatisfactory quality of service execution, including safety performance, can affect customer relationships, eliminate or reduce revenue streams from our largest customers, result in higher operating costs and negatively impact our ability to hire and retain a skilled technical workforce.*** The services we provide could incur quality of execution issues that may be caused by our workforce personnel and/or components we purchase from other manufacturers or suppliers. If the quality of our services does not meet our customers' expectations or satisfaction, then our sales and operating earnings, and, ultimately, our reputation, could be negatively impacted. Additionally, our workers are subject to the normal hazards associated with providing services at industrial facilities. Even with proper safety precautions, these hazards can lead to personal injury, loss of life, destruction of property, plant and equipment, lower employee morale and environmental damage. While we are intensely focused on maintaining a strong safety environment and minimizing the risk of accidents, there can be no assurance that these efforts will be effective. Poor safety performance may limit or eliminate potential revenue streams, including from many of our largest customers, and may materially increase our operating costs, including increasing our required insurance deductibles, self-insured retention and insurance premium costs.

***Additional impairments of our goodwill, impairments of our intangible and other long-lived assets, and changes in the estimated useful lives of intangible assets could have a material adverse impact on our results of operations and financial condition.*** As a result of past acquisitions, goodwill and other intangible assets comprise a substantial portion of our total assets. As of December 31, 2019, our goodwill and intangible assets totaled \$282.0 million and \$117.0 million, respectively. We assess or test goodwill for impairment at least annually in accordance with Generally Accepted Accounting Principles in the U.S. ("GAAP"), while our other long-lived assets, including our finite-lived intangible assets, are tested for impairment when circumstances indicate that the carrying amount may not be recoverable. A decrease in our market capitalization or profitability or unfavorable changes in market, economic and industry conditions all would increase the risk of impairment. In 2017, we determined that there were sufficient indicators to trigger interim goodwill impairment tests. The indicators included, among other factors, market softness and the related impacts on our financial results and our stock price. This resulted in an impairment loss of \$75.2 million in the third quarter of 2017. Our 2018 and 2019 annual goodwill impairment tests, which were completed as of December 1, 2018 and December 1, 2019, respectively, did not result in any additional impairment. However, there can be no assurance that the estimates and assumptions made for purposes of the Company's most recent goodwill impairment test will prove to be accurate predictions of the future. Accordingly, we may be required to recognize additional impairment charges in future reporting periods, which could materially and adversely impact our results of operations and financial condition.

GAAP requires that we evaluate the useful lives of our intangible assets subject to amortization each reporting period. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset is amortized prospectively over that revised remaining useful life. To the extent the revised useful life of an intangible asset is less than originally estimated, our future amortization expense will increase, which could have a material impact on our results of operations and financial condition.

***Improvements in operating results from expected savings in operating costs from workforce reductions and other cost saving and business improvement initiatives may not be realized in the estimated amounts, may take longer to be realized, or could be realized only for a limited period.*** In the fourth quarter of 2017, we engaged outside consultants to assess all aspects of our business for improvement and cost saving opportunities as part of a new cost savings and business improvement project. In the first quarter of 2018, we completed the design phase of the project, known as OneTEAM, and are now in the deployment phase. In the third quarter of 2019, we began the design phase of OneTEAM for our international operations. We expect to incur various additional expenses associated with the execution of the OneTEAM project through 2020 with funding provided by our operating cash flows and the Credit Facility. However, in order to implement this or any other future cost savings or business improvement initiatives, we expect to incur additional expenses, which could adversely impact our financial results prior to the realization of the expected benefits associated with the initiatives. Due to numerous factors or future developments, we may not achieve cost reductions or other business improvements consistent with our expectations or the benefits may be delayed. These factors or future developments could include (i) the incurrence of higher than expected costs or delays in reassigning and retraining remaining employees or outsourcing or eliminating duties and functions of eliminated employees, (ii) unanticipated delays in discharging employees in eliminated positions as a result of regulatory or legal limitations on employee terminations in certain jurisdictions, (iii) actual savings differing from anticipated cost savings, (iv) anticipated benefits from business improvement initiatives not materializing and (v) disruptions to normal operations or other unintended adverse impacts resulting from the initiatives.

We may also decide to reduce, suspend or terminate our cost saving and business improvement initiatives at any time before achieving the estimated benefits or after a limited period of time. The elimination of current employees can also result in increased future costs in hiring, training and mobilizing new employees or rehires in the event of a future increase in demand for our services resulting in a slower recovery of results from operations. Our initiatives may negatively affect our ability to retain and attract qualified personnel, who may experience uncertainty about their future roles with the Company.

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

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

***The price of our outstanding securities may be volatile.*** It is possible that in some future quarter (or quarters) our revenues, operating results or other measures of financial performance will not meet the expectations of public stock market analysts or investors, which could cause the price of our outstanding securities to decline or be volatile. Historically, our quarterly and annual sales and operating results have fluctuated. We expect fluctuations to continue in the future. In addition to general economic and

political conditions, and in addition to the other factors identified under this Item 1A “Risk Factors”, the following factors may affect our sales and operating results: the timing of significant customer orders, the timing of planned maintenance projects at customer facilities, changes in competitive pricing, wide variations in profitability by product line, variations in operating expenses, rapid increases in raw material and labor costs, the timing of announcements or introductions of new products or services by us, our competitors or our respective customers, the acceptance of those services, our ability to adequately meet staffing requirements with qualified personnel, relative variations in manufacturing efficiencies and costs, and the relative strength or weakness of international markets. Since our quarterly and annual revenues and operating results vary, we believe that period-to-period comparisons are not necessarily meaningful and should not be relied upon as indicators of our future performance.

***Our business may be adversely impacted by work stoppages, staffing shortages and other labor matters.*** At December 31, 2019, we had approximately 6,800 employees, approximately 1,700 of whom were located in Canada and Europe where employees predominantly are represented by unions. Although we believe that our relations with our employees are good and we have had no strikes or work stoppages, no assurances can be made that we will not experience these and other types of conflicts with labor unions, works councils, other groups representing employees, or our employees in general, or that any future negotiations with our labor unions will not result in significant increases in the cost of labor.

***We extend credit to customers for purchases of our services which subjects us to potential credit risk that could, if realized, adversely affect our financial condition, results of operations and cash flows.*** If we are unable to collect amounts owed to us, or retain amounts paid to us, our cash flows would be reduced and we could experience losses. We would also recognize losses with respect to any receivables that are impaired as a result of our customers’ financial difficulties or bankruptcies. The risk of loss may increase for capital projects where we provide services over a longer period of time. Credit losses could materially and adversely affect our financial condition, results of operations and cash flows.

***As a result of our geographically diverse and decentralized operations within the United States and other countries around the world, we are more susceptible to certain risks.*** We have offices and operations in approximately 200 locations in 20 countries throughout the world. This creates greater financial and operational risks due to the nature of our operations being conducted at various locations. The internal controls, policies and procedures, and employee training and compliance programs we have implemented to deter prohibited practices may not be effective in preventing employees, contractors or agents from violating or circumventing such internal policies or from material violations of applicable laws and regulations.

### **Risks Related to Financing Our Business**

***We are subject to risks associated with indebtedness under our banking credit facility, including the risk of failure to maintain compliance with financial covenants, the risk of being unable to make interest and principal payments when due and the risk of rising interest rates.*** The Credit Facility consists of a \$225 million revolving loan facility and a \$50 million term loan facility, and allows for an increase in total commitments of up to an additional \$100 million if certain conditions are met. The Credit Facility contains financial covenants requiring the Company to maintain certain financial ratios. As of December 31, 2019, we were required to maintain (i) a maximum ratio of senior secured debt to consolidated EBITDA (the “Senior Secured Leverage Ratio,” as defined in the Credit Facility agreement) and (ii) a minimum ratio of the sum of consolidated EBITDA less taxes and capital expenditures paid in cash to consolidated debt service (the “Debt Service Coverage Ratio,” as defined in the Credit Facility agreement). Beginning March 31, 2020, we will also be required to maintain a maximum ratio of consolidated funded indebtedness to consolidated EBITDA (the “Net Leverage Ratio”, as defined in the Credit Facility agreement).

We entered into the eighth amendment to the Credit Facility (the “Eighth Amendment”) on August 30, 2019 to amend and restate certain portions of the Third Amended and Restated Credit Agreement, dated as of July 7, 2015, including modifying certain financial covenants. The Eighth Amendment amended the financial covenants in the Credit Facility by eliminating the ratio of consolidated EBITDA to consolidated interest charges (the “Interest Coverage Ratio,” as defined in the Credit Facility agreement), adding the Net Leverage Ratio and the Debt Service Coverage Ratio, and modifying the Senior Secured Leverage Ratio. The financial covenant requirements under the Eighth Amendment are summarized in the table below.

| <u>Fiscal Quarter Ending</u>  | <u>Maximum Senior Secured Leverage Ratio</u> |
|---|--|
| December 31, 2019, March 31, 2020, June 30, 2020 and September 30, 2020 | 2.75 to 1.00                                 |
| December 31, 2020 and each Fiscal Quarter thereafter                    | 2.50 to 1.00                                 |

| <u>Fiscal Quarter Ending</u>                         | <u>Maximum Net Leverage Ratio</u> |
|--|-----------------------------------|
| March 31, 2020                                       | 5.50 to 1.00                      |
| June 30, 2020  | 5.25 to 1.00                      |
| September 30, 2020                                   | 5.00 to 1.00                      |
| December 31, 2020 and each Fiscal Quarter thereafter | 4.50 to 1.00                      |

| <u>Fiscal Quarter Ending</u>  | <u>Minimum Debt Service Coverage Ratio</u> |
|---|--|
| December 31, 2019, March 31, 2020, June 30, 2020 and September 30, 2020 | 1.25 to 1.00                               |
| December 31, 2020 and each Fiscal Quarter thereafter                    | 1.50 to 1.00                               |

As of December 31, 2019, we are in compliance with these covenants. The Senior Secured Leverage Ratio and the Debt Service Coverage Ratio stood at 1.89 to 1.00 and 2.17 to 1.00, respectively, as of December 31, 2019. We are not bound by a covenant with respect to the Net Leverage Ratio until March 31, 2020; however, as of December 31, 2019 this ratio stood at 4.97 to 1.00.

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

We rely primarily on cash flows from our operations to make required interest and principal payments on our debt under the Credit Facility. If we are unable to generate sufficient cash flows from our operations, we may be unable to pay interest and principal obligations on our debt when they become due. Failure to comply with these obligations or failure to comply with the financial covenants discussed above could result in an event of default, which would permit our lenders to accelerate the repayment of the debt. If our lenders accelerate the repayment of debt, there is no assurance that we could refinance such debt on terms favorable to us or at all.

All of the debt outstanding under the Credit Facility bears interest at variable market rates. If market interest rates increase, our interest expense and cash flows could be adversely impacted. Based on Credit Facility borrowings outstanding at December 31, 2019, an increase in market interest rates of 100 basis points would increase our interest expense and decrease our operating cash flows by approximately \$1.2 million on an annual basis.

Our Credit Facility restricts our ability to, among other items, incur additional indebtedness, engage in mergers, acquisitions and dispositions and alter the business conducted by the Company and its subsidiaries. These restrictions could adversely affect our ability to operate our businesses and may limit our ability to take advantage of potential business opportunities as they arise.

***No assurances can be made that we will be able to renew our Credit Facility, refinance the outstanding balance or otherwise repay our obligations in full prior to maturity on July 7, 2021.*** The Credit Facility matures on July 7, 2021 and under the terms of the Credit Facility, any outstanding balance is due in full on that date. As of December 31, 2019, under the Credit Facility, we had an outstanding principal balance of \$123.6 million and outstanding letters of credit totaling \$20.5 million. The ability to renew the Credit Facility, refinance the debt or otherwise repay the outstanding debt prior to maturity is dependent upon capital/credit market conditions as well as our financial condition, operating results and cash flows, all of which are subject to prevailing economic and competitive conditions in addition to financial, business, legislative, governmental, political, regulatory and other factors beyond our control. Therefore, we can give no assurance that we will be able to renew the Credit Facility or refinance the debt on terms favorable to us, or at all, or that we will otherwise be able to repay the Credit Facility obligations in full by the

maturity date. In such event, we could face substantial liquidity problems, which could cause a materially adverse impact on our business operations.

***The accounting method for our convertible debt securities may have a material effect on our reported financial results.*** On July 31, 2017 we issued \$230.0 million principal amount of 5.00% Convertible Senior Notes due 2023 (the “Notes”) in a private offering. Accordingly, the issuance of the Notes and the subsequent accounting associated with the Notes has been reflected in our consolidated financial statements beginning in the third quarter of 2017.

Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 470-20, Debt with Conversion and Other Options, (“ASC 470-20”), an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is included in the additional paid-in capital section of equity on our consolidated balance sheet, and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we are recording a greater amount of non-cash interest expense as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income (or greater net loss) in our financial results because ASC 470-20 requires interest to include both the current period’s amortization of the debt discount and the instrument’s coupon interest, which could adversely affect our reported or future financial results, the market price of our common stock and the trading price of the Notes.

In addition, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method if we have the ability and intent to settle in cash, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount and if the effect would be dilutive. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that we will be able to demonstrate the ability or intent to settle the Notes in cash in any future reporting period or that future accounting standards will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares of common stock issuable upon conversion of the Notes, then we would utilize the if-converted method, which would require us to assume the Notes would be settled entirely in shares of common stock for purposes of calculating diluted earnings per share, if the effect would be dilutive. In such case, our diluted earnings per share would be adversely affected.

***Transactions relating to our convertible debt securities may dilute the ownership interest of existing stockholders, or may otherwise depress the price of our common stock.*** The Notes are initially convertible into 10,599,067 shares of common stock, but the occurrence of certain corporate events could increase the conversion rate, which could result in the Notes becoming convertible into a maximum of 14,838,703 shares of common stock. Upon conversion, the Company may settle the Notes in cash or in shares of common stock or a combination of cash and shares of common stock, in each case, at the Company’s election. If the Notes are converted, our current intent is to settle the principal amount of the Notes in cash and settle the remainder of our conversion obligation by issuing shares of common stock; however, we cannot guarantee that we will have sufficient funds available to us at the time of any such conversions in order to effect settlement in that manner. In such case, we could elect to settle the conversion obligation in a different combination of cash and shares of common stock or entirely in shares of common stock, depending on the circumstances. To the extent we deliver shares of common stock upon conversion of the Notes, the ownership interests of existing stockholders would be diluted. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock.

### **Risks Related to Information Systems**

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

***Interruptions in the proper functioning of our information systems could disrupt operations and cause increases in costs and/or decreases in revenues.*** The proper functioning of our information systems is critical to the successful operation of our business. Although our information systems are protected through physical and software safeguards, our information systems are

still vulnerable to natural disasters, power losses, telecommunication failures and other problems. If critical information systems fail or are otherwise unavailable, our business operations could be adversely affected.

### **Risks Related to Regulations**

***Fluctuations in our effective tax rate and our tax obligations could adversely affect our financial results.*** We are subject to taxes in the U.S. and in various foreign jurisdictions. Significant judgment is required in determining our worldwide income tax provision, tax assets and accruals for other taxes, and there are many transactions and calculations where the ultimate tax determination is uncertain. Our effective income tax rate could be adversely affected by our profit levels, changes in our business, reorganization of our business and operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the elections we make, changes in applicable tax laws or interpretations of existing tax laws or changes in the valuation allowance for deferred tax assets, as well as other factors.

We are also currently subject to audit in various jurisdictions, and these jurisdictions may assess additional income tax liabilities against us. Developments in an audit, litigation, or the relevant laws, regulations, administrative practices, principles, and interpretations could have a material effect on our operating results or cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods.

***Our operations and properties are subject to extensive environmental, health and safety regulations.*** We are subject to a variety of U.S. federal, state, local and international laws and regulations relating to the environment, and worker health and safety, among other things. These laws and regulations are complex, change frequently, are becoming increasingly stringent, and can impose substantial sanctions for violations or require operational changes that may limit our services. We must conform our operations to comply with applicable regulatory requirements and adapt to changes in such requirements in all locations in which we operate. These requirements can be expected to increase the overall costs of providing our services over time. Some of our services involve handling or monitoring highly regulated materials, including VOCs or hazardous wastes. Environmental laws and regulations generally impose limitations and standards for the characterization, handling and disposal of regulated materials and require us to obtain permits and comply with various other requirements. The improper characterization, handling, or disposal of regulated materials or any other failure by us to comply with increasingly complex and strictly-enforced federal, state, local, and international environmental, health and safety laws and regulations or associated permits could subject us to the assessment of administrative, civil and criminal penalties, the imposition of investigatory or remedial obligations, or the issuance of injunctions that could restrict or prevent our ability to operate our business and complete contracted services. A defect in our services or faulty workmanship could result in an environmental liability if, as a result of the defect or faulty workmanship, a contaminant is released into the environment. In addition, the modification or interpretation of existing environmental, health and safety laws or regulations, the more vigorous enforcement of existing laws or regulations, or the adoption of new laws or regulations may also negatively impact industries in which our customers operate, which in turn could have a negative impact on us.

***Climate change legislation or regulations restricting emissions of “greenhouse gases” could result in reduced demand for our services and products.*** There has been an increased focus in the last several years on climate change in response to findings that emissions of carbon dioxide, methane and other greenhouse gases present an endangerment to public health and the environment. As a result, there have been a variety of regulatory developments, proposals or requirements and legislative initiatives that have been introduced in the U.S. and other parts of the world that are focused on restricting the emission of greenhouse gases. The adoption of new or more stringent legislation or regulatory programs limiting greenhouse gas emissions from customers for whom we provide repair and maintenance services could affect demand for our products and services. Further, some scientists have concluded that increasing greenhouse gas concentrations in the atmosphere may produce physical effects, such as increased severity and frequency of storms, droughts, floods and other climate events. Such climate events have the potential to adversely affect our operations or those of our customers, which in turn could have a negative effect on us.

***The United Kingdom’s (the “U.K.”) departure from the European Union (the “EU”) could adversely affect us.*** The U.K. held a referendum in 2016 in which a majority of voters approved an exit from the EU (“Brexit”). In March 2017, the U.K. government gave formal notice of its intention to leave the EU. The U.K. Parliament passed a withdrawal bill on January 23, 2020, which was ratified by European Parliament shortly thereafter, marking the U.K.’s departure from the EU effective January 31, 2020. The U.K. will now enter into a transition period that is scheduled to end on December 31, 2020, unless it is requested to be extended before July 1, 2020. Negotiations are ongoing to determine the future terms of the U.K.’s relationship with the EU, including, among other things, the terms of trade between the U.K. and the EU. The effects of Brexit will depend on any agreements the U.K. reaches to retain access to EU markets. The outcome of this referendum caused volatility in global stock markets and foreign currency exchange rate fluctuations and uncertainty about the terms and impact of Brexit may continue to do so in the future. Brexit could adversely affect U.K., regional European and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British Pound and Euro, which in turn could adversely affect our customers, particularly in the U.K. In addition, Brexit could lead to legal uncertainty and potentially divergent



national laws and regulations as the U.K. negotiates with the EU. In particular, depending on the terms of Brexit, we may face new regulatory costs and challenges, including additional regulatory licensing to operate in the U.K. market, adding costs and potential inconsistency to our business and we could also be required to comply with regulatory requirements in the U.K. that are in addition to, or inconsistent with, the regulatory requirements of the EU. Any of these effects of Brexit and others we cannot anticipate could adversely affect our business, results of operations, financial condition and cash flows.

***We are subject to privacy and data security/protection laws in the jurisdictions in which we operate and may be exposed to substantial costs and liabilities associated with such laws and regulations.*** The regulatory environment surrounding information security and privacy is increasingly demanding, with frequent imposition of new and changing requirements. Compliance with changes in privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes, which could have a material adverse effect on our financial condition and results of operations. In addition, the payment of potentially significant fines or penalties in the event of a breach or other privacy and information security laws, as well as the negative publicity associated with such a breach, could damage the Company's reputation and adversely impact product demand and customer relationships.

### **Risks Related to Legal Liability**

***The Company's insurance coverage will not fully indemnify us against certain claims or losses. Further, the Company's insurance has limits and exclusions and not all losses or claims are insured.*** We perform services in hazardous environments on or around high-pressure, high temperature systems and our employees are exposed to a number of hazards, including exposure to hazardous materials, explosion hazards and fire hazards. Incidents that occur at these large industrial facilities or systems, regardless of fault, may be catastrophic and adversely impact our employees and third parties by causing serious personal injury, loss of life, damage to property or the environment, and interruption of operations. Our contracts typically require us to indemnify our customers for injury, damage or loss arising out of our presence at our customers' location, regardless of fault, or the performance of our services and provide for warranties for materials and workmanship. We may also be required to name the customer as an additional insured under our insurance policies. We maintain limited insurance coverage against these and other risks associated with our business. Due to the high cost of general liability coverage, we maintain insurance with a self-insured retention of \$1.0 million and a deductible of \$2.0 million per occurrence. This insurance may not protect us against liability for certain events, including events involving pollution, product or professional liability, losses resulting from business interruption or acts of terrorism or damages from breach of contract by the Company. We cannot assure you that our insurance will be adequate in risk coverage or policy limits to cover all losses or liabilities that we may incur. Moreover, in the future, we cannot assure that we will be able to maintain insurance at levels of risk coverage or policy limits that we deem adequate. Any future damages caused by our products or services that are not covered by insurance or are in excess of policy limits could have a material adverse effect on our results of operations, financial position or cash flows.

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

### **Other Risk Factors**

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

NONE

**ITEM 2. PROPERTIES**

We provide our services globally through approximately 200 locations in 20 countries throughout the world. There are several materially important physical properties used in our operations. We own a facility in Alvin, Texas that consists of our primary training facility, equipment center and ISO-9001 certified manufacturing facility for clamps, enclosures, and sealants. Additionally, we operate three manufacturing facilities in Houston, Texas (two of which are owned and the other is leased), which are included in our MS segment. Further, we lease office space for our corporate headquarters in Sugar Land, Texas and for our Quest Integrity segment headquarters in Kent, Washington. Additional district service locations considered materially important in our IHT and MS segments are as follows. We lease facilities in Mobile, Alabama; Benicia, California; Harbor City, California; Hammond, Indiana; Columbus, Ohio; Pasadena, Texas (two locations); and Edmonton, Alberta, Canada. We own a facility in Pasadena, Texas; a facility in Vlissingen, Netherlands and three facilities in the United Kingdom in Kendal, Carlisle and Scunthorpe.

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

**ITEM 3. LEGAL PROCEEDINGS**

For information on legal proceedings, see Note 14 to the consolidated financial statements included this report.

**ITEM 4. MINE SAFETY DISCLOSURES**

NOT APPLICABLE

## PART II

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

#### Market Information

Our stock is traded on the NYSE under the symbol "TISI".

#### Holders

There were 540 holders of record of our common stock as of March 10, 2020, excluding beneficial owners of stock held in street name.

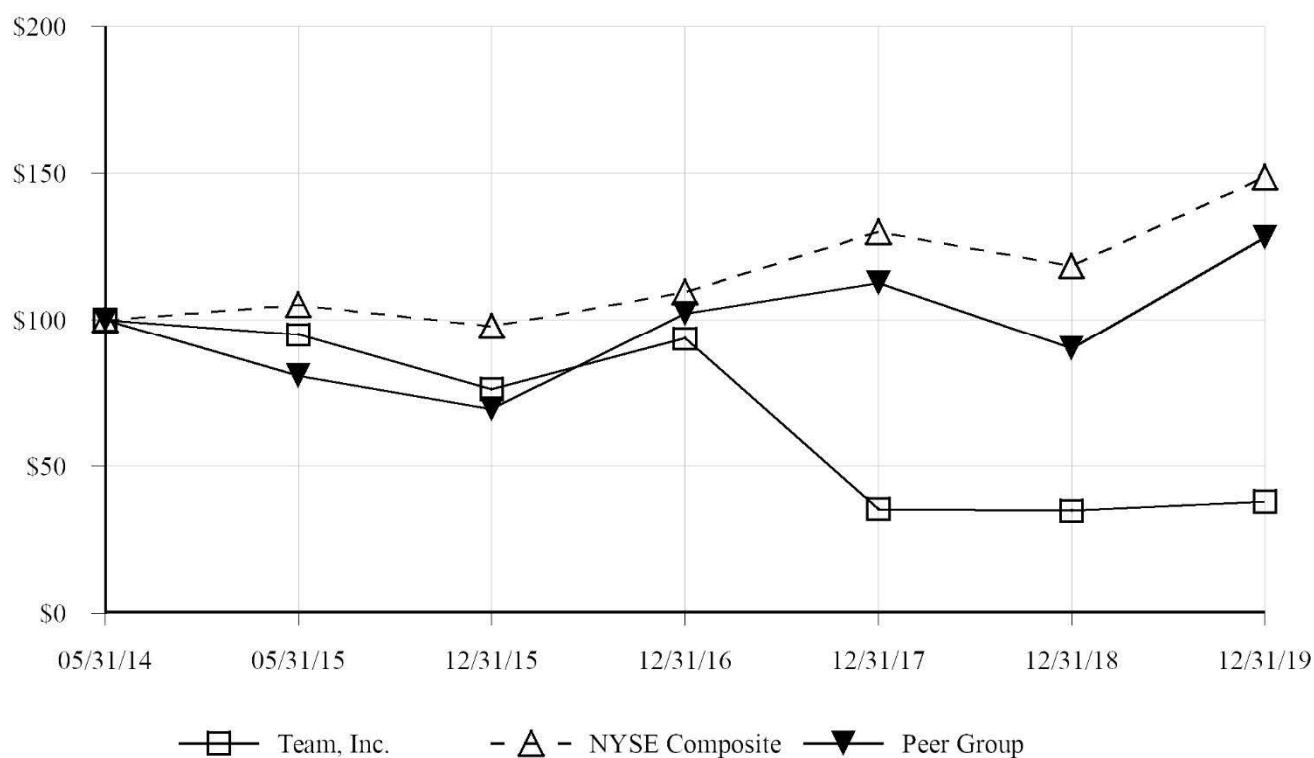
#### Dividends

No cash dividends were declared or paid during the year ended December 31, 2019 or the year ended December 31, 2018. We are limited in our ability to pay cash dividends without the consent of our bank syndicate. Accordingly, we have no present intention to pay cash dividends in the foreseeable future. Additionally, any future dividend payments will continue to depend on our financial condition, market conditions and other matters deemed relevant by the Board.

## Performance Graph

The following performance graph compares the performance of our common stock to the NYSE Composite Index and a Peer Group Index. The comparison assumes \$100 was invested on May 31, 2014 in our common stock, the NYSE Composite Index and the Peer Group Index. The values of each investment are based on share price appreciation, with reinvestment of all dividends, assuming any were paid. For each graph, the investments are assumed to have occurred at the beginning of each period presented. For the year ended December 31, 2019, the following Peer Group companies are relevant for comparison in terms of service offerings, industry and other factors: Aegion Corporation, Barnes Group, Basic Energy Services (delisted from the NYSE in December 2019), CIRCOR International, Clean Harbors, DXP Enterprises, Emcor Group, Enerpac Tool Group (formerly Actuant Corporation), EnPro Industries, ESCO Technologies, MasTec, Inc., Matrix Service Company, Mistras Group, MYR Group, Primoris Services Corporation, Quanta Services, SEACOR Holdings, Tetra Tech, Inc. and TETRA Technologies, Inc.

### COMPARISON OF 6 YEAR CUMULATIVE TOTAL RETURN\* Among Team, Inc., the NYSE Composite Index, and Peer Group



\* \$100 invested on 5/31/14 in stock or index, including reinvestment of dividends. Years ended May 31, 2015; seven-month transition period ended December 31, 2015; and years ended December 31, 2019, 2018, 2017 and 2016.

|                | 5/14   | 5/15   | 12/15 | 12/16  | 12/17  | 12/18  | 12/19  |
|----------------|--------|--------|-------|--------|--------|--------|--------|
| Team, Inc.     | 100.00 | 94.94  | 76.24 | 93.63  | 35.54  | 34.95  | 38.10  |
| NYSE Composite | 100.00 | 105.22 | 97.91 | 109.60 | 130.12 | 118.48 | 148.70 |
| Peer Group     | 100.00 | 80.88  | 69.47 | 102.22 | 112.71 | 90.27  | 128.19 |

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

The information under the caption "Performance Graph" above is not deemed to be "filed" as part of the Annual Report on Form 10-K and is not subject to the liability provisions of Section 18 of the Securities Exchange Act of 1934. Such information will not be deemed incorporated by reference into any filing we make under the Securities Act of 1933 unless we explicitly incorporate it into such filing at such time.

## **ITEM 6. SELECTED FINANCIAL DATA**

We have included selected financial data for the years ended December 31, 2019, 2018, 2017 and 2016, the seven months ended December 31, 2015 and the year ended May 31, 2015 under “Five Year Comparison,” in the financial information that is included in this report in Part II, Item 8, “Financial Statements and Supplementary Data.” This information is incorporated herein by reference.

## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

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

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

## **ITEM 9A. CONTROLS AND PROCEDURES**

***Evaluation of disclosure controls and procedures.*** Disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (“Exchange Act”), are controls and procedures that are designed to ensure that the information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is appropriately accumulated and communicated to management, including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosure.

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 CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation included consideration of the various processes carried out under the direction of our disclosure committee in an effort to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC. This evaluation also considered the work completed related to our compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Based on this evaluation, our CEO and CFO have concluded that, as of December 31, 2019, our disclosure controls and procedures were not effective due to the existence of a material weakness in our internal control over financial reporting described below. During an internal investigation that concluded in March 2020, the Company discovered that over a period of multiple years an employee at Team Industrial Services Netherlands B.V., one of its wholly-owned subsidiaries, misappropriated assets from the Company through management override of internal controls in an attempt to conceal the transactions. This circumvention of internal controls and misappropriation, which was within its Netherlands subsidiary, was discovered during management’s reviews after the end of 2019, but prior to the financial statements being available to be issued.

In response to the identification of the material weakness in our financial reporting described below, we performed additional analysis, reconciliations, and other post-closing procedures to ensure that our consolidated financial statements included in this Form 10-K were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). Following such additional

analysis and procedures, our management, including our CEO and CFO, has concluded that the consolidated financial statements for the periods covered by and included in this Form 10-K fairly present, in all material respects, our financial position, results of operations, and cash flows in conformity with GAAP.

### **Management's Annual Report on Internal Control over Financial Reporting**

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

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

We have used the framework set forth in the report entitled Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) to evaluate the effectiveness of our internal control over financial reporting. As a result of this evaluation, we have identified a material weakness in our internal control, as further described below. As a result of this material weakness, we have concluded that our internal control over financial reporting was not effective as of December 31, 2019.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

We have concluded that our monitoring controls over certain subsidiary operations were ineffective due to our risk assessment not identifying the need for monitoring controls at these subsidiaries. This resulted in management override of certain process level controls allowing an individual to submit unauthorized payments to unauthorized third parties over a period of multiple years.

The control deficiency did not result in a material misstatement of our current or prior period consolidated annual or interim financial statements. However, the control deficiency could have resulted in material misstatements to the annual or interim consolidated financial statements that would not have been prevented or detected. Accordingly, management concluded that the control deficiency was a material weakness in the Company's internal control over financial reporting. The attestation report of KPMG LLP, the Company's independent registered public accounting firm, is an adverse opinion on the Company's internal control over financial reporting and is set forth in this Annual Report on Form 10-K which appears herein.

***Changes in internal control over financial reporting.*** Except for the material weakness discussed above, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the fourth quarter of our fiscal year ended December 31, 2019.

***Remediation of Material Weakness.*** We are in process of remediating the material weakness in our internal control over financial reporting noted above. We have already undertaken a number of measures designed to directly address, or contribute to, the remediation of our material weakness and the enhancement of our internal control over financial reporting including change in personnel and centralization of certain control processes.

Management has implemented or is in the process of implementing, the following changes to the Company's internal control systems and procedures in order to remediate the above stated material weakness:

- Establishment of additional review procedures and monitoring activities at a centralized level over all subsidiary senior finance lead roles in order to verify that process level controls are present and functioning as designed
- The Company's fraud risk assessment of a location will be included as a factor in determining the scope of our SOX compliance program, in order to more fully tailor the design of internal control over financial reporting to mitigate the risk of material misstatement caused by fraud or otherwise
- Additional training of finance personnel on internal control over financial reporting, the importance of monitoring control activities, and fraud risk assessment

The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

**ITEM 9B. OTHER INFORMATION**

NONE

### **PART III**

The information for the following items of Part III has been omitted from this Annual Report on Form 10-K since we will file, not later than 120 days following the close of our fiscal year ended December 31, 2019, our Definitive Proxy Statement. The information required by Part III will be included in that proxy statement and such information is hereby incorporated by reference, with the exception of the information under the headings “Compensation Committee Report” and “Audit Committee Report.”

- ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**
- ITEM 11. EXECUTIVE COMPENSATION**
- ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**
- ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**
- ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**



## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) 1) Consolidated Financial Statements filed as part of this report are listed in the Financial Table of Contents included in this report and incorporated by reference in this report in Part II, Item 7 “ Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8, “Consolidated Financial Statements and Supplementary Data.”
- 2) All schedules for which provision is made in the applicable accounting regulations of the SEC are listed in this report in Part II, Item 8, “Consolidated Financial Statements and Supplementary Data.”
- 3) See exhibits listed under Part (b) below.

(b) Exhibits

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 3.1                   | <u>Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on December 2, 2011, incorporated by reference herein).</u>  |
| 3.2                   | <u>Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company, dated October 24, 2013 (filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on October 25, 2013, incorporated by reference herein).</u>  |
| 3.3                   | <u>Amended and Restated Bylaws of the Company (filed as Exhibit 3.3 to the Company’s Annual Report on Form 10-K for year ended December 31, 2017, incorporated by reference herein).</u>   |
| 4.1                   | <u>Description of Securities Registered under Section 12 of Exchange Act</u>   |
| 4.2                   | Certificate representing shares of common stock of Company (filed as Exhibit 4(1) to the Company’s Registration Statement on Form S-1, File No. 2-68928, incorporated by reference herein).  |
| 4.3                   | <u>Indenture, dated July 31, 2017, between Team, Inc. and Branch Banking and Trust Company, as trustee, relating to the Company’s 5.00% Convertible Senior Notes Due 2023 (filed as Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on July 31, 2017, incorporated by reference herein).</u> |
| 10.1†                 | <u>Team, Inc. 2006 Stock Incentive Plan (as Amended and Restated August 1, 2009) (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on September 30, 2009, incorporated by reference herein).</u>  |
| 10.2†                 | <u>Form of Team, Inc. Stock Unit Award Agreement (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on October 17, 2013, incorporated by reference herein).</u>  |
| 10.3†                 | <u>Furmanite Corporation 1994 Stock Incentive Plan, Amendment and Restatement effective May 9, 2013 (filed as Exhibit 4.4 to the Company’s Registration Statement on Form S-8, File No. 333-209871, filed on March 1, 2016, incorporated by reference herein).</u>   |
| 10.4†                 | <u>Team, Inc. 2016 Equity Incentive Plan (incorporated herein by reference to Appendix A of the Company’s Definitive Proxy on Schedule 14A, as filed with the SEC on April 12, 2016).</u>  |
| 10.5.1†               | <u>Team, Inc. 2018 Equity Incentive Plan (filed as Exhibit 4.5 to the Company’s Current Report on Form S-8, File No. 333-225727, filed on June 19, 2018, incorporated by reference herein).</u>  |
| 10.5.2†               | <u>Amendment to Team, Inc. 2018 Equity Incentive Plan (filed as Appendix A of the Company’s Definitive Proxy Statement on Schedule 14A filed on April 11, 2019).</u>   |
| 10.6†                 | <u>Form of Stock Unit Agreement (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on October 17, 2008, incorporated by reference herein).</u>   |
| 10.7†                 | <u>Form of Performance-Based Stock Unit Agreement (filed as Exhibit 10.3 to the Company’s Current Report on Form 8-K filed on October 17, 2008, incorporated by reference herein).</u>   |
| 10.8†                 | <u>Form of Performance Share Award Agreement (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed November 4, 2014, incorporated by reference herein).</u>   |
| 10.9†                 | <u>Form of Performance Award Agreement (filed as Exhibit 10.14 to the Company’s Annual Report on Form 10-K filed on March 16, 2017, incorporated by reference herein).</u>   |

| <b>Exhibit Number</b> | <b>Description</b>  |
|-----------------------|---|
| 10.10†                | <u>Form of Restricted Stock Unit Award Agreement for the Stock Units awarded under the Team, Inc. 2018 Equity Incentive Plan (filed as Exhibit 10.11 to the Company’s Annual Report on Form 10-K filed on March 19, 2019, incorporated by reference herein).</u>  |
| 10.11†                | <u>Form of Performance Unit Award Agreement for the Performance Units Awarded under the Team, Inc. 2018 Equity Incentive Plan (filed as Exhibit 10.12 to the Company’s Annual Report on Form 10-K filed on March 19, 2019, incorporated by reference herein).</u>   |
| 10.12                 | <u>Eighth Amendment to Third Amended and Restated Credit Agreement, dated as of August 30, 2019, among Team, Inc., certain Team, Inc. Subsidiary Guarantors, Bank of America N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and other Lenders party thereto (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed September 6, 2019, incorporated by reference herein).</u>                               |
| 10.13                 | <u>Third Amended and Restated Credit Agreement, dated as of July 7, 2015, among Team, Inc., certain Team, Inc. Subsidiary Guarantors, Bank of America N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and other Lenders party thereto, as amended through August 30, 2019 (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K, filed September 6, 2019, incorporated by reference herein).</u>                  |
| 10.14                 | <u>Purchase Agreement, dated July 25, 2017, between Team, Inc. and Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated and J.P. Morgan Securities LLC, as representatives of the several initial purchasers named in Schedule 1 thereto, relating to the Company’s 5.00% Convertible Senior Notes Due 2023 (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on July 31, 2017, incorporated by reference herein).</u> |
| 10.15†                | <u>Letter Agreement Regarding Retention Benefits between Team, Inc. and Jeffrey L. Ott, dated September 18, 2017 (incorporated by reference herein Exhibit 10.4 to the Company’s Current Report on Form 8-K, filed on September 19, 2017).</u>  |
| 10.16†                | <u>Offer Letter, dated January 15, 2018, between Team, Inc. and Amerino Gatti (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on January 16, 2018, incorporated by reference herein).</u>  |
| 10.17†                | <u>Form of Performance Unit Award Agreement between Team, Inc. and Amerino Gatti (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on January 16, 2018, incorporated by reference herein).</u>   |
| 10.18                 | <u>Settlement Agreement, by and among Team, Inc. and Engine Capital, L.P. (together with the entities listed on the signature page thereto), dated February 8, 2018 (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on February 9, 2018, incorporated by reference herein).</u>  |
| 10.19                 | <u>Confidentiality Agreement by and among Team, Inc. and Engine Capital, L.P. (together with the entities listed on the signature page thereto), dated July 2, 2018 (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on July 6, 2018, incorporated by reference herein).</u>  |
| 10.20†                | <u>Form of Indemnification Agreement (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on February 9, 2018, incorporated by reference herein).</u>   |
| 10.21†                | <u>Offer Letter, dated July 1, 2018, between TEAM, Inc. and Grant Roscoe (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K/A filed on July 11, 2018, incorporated by reference herein).</u>  |
| 10.22†                | <u>Offer Letter dated November 26, 2018, by and between Team, Inc. and Susan M. Ball (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on November 28, 2018, incorporated by reference herein).</u>  |
| 10.23†                | <u>Transition, Severance, and Release Agreement dated November 26, 2018 between Team, Inc. and Greg L. Boane (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on November 28, 2018, incorporated by reference herein).</u>  |
| 21                    | <u>Subsidiaries of the Company.</u>   |
| 23.1                  | <u>Consent of Independent Registered Public Accounting Firm—KPMG LLP.</u>   |
| 31.1                  | <u>Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>  |
| 31.2                  | <u>Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>  |
| 32.1                  | <u>Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>  |
| 32.2                  | <u>Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>  |
| 101.INS               | XBRL Instance Document.   |
| 101.SCH               | XBRL Taxonomy Schema Document.  |

| <u>Exhibit<br/>Number</u> | <u>Description</u>                   |
|---------------------------|--------------------------------------|
| 101.CAL                   | XBRL Calculation Linkbase Document.  |
| 101.DEF                   | XBRL Definition Linkbase Document.   |
| 101.LAB                   | XBRL Label Linkbase Document.        |
| 101.PRE                   | XBRL Presentation Linkbase Document. |

† Management contract or compensation plan or arrangement.

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

**ITEM 16. FORM 10-K SUMMARY**

NONE

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized March 16, 2020.

TEAM, INC.

/S/ AMERINO GATTI

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**Amerino Gatti**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

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

|   |  |                |
|---|--|----------------|
| /S/ AMERINO GATTI<br><hr/> <b>(Amerino Gatti)</b>             | Chief Executive Officer (Principal Executive Officer);<br>Chairman of the Board  | March 16, 2020 |
| /S/ SUSAN M. BALL<br><hr/> <b>(Susan M. Ball)</b>             | Executive Vice President, Chief Financial Officer and<br>Treasurer (Principal Financial Officer and Principal<br>Accounting Officer) | March 16, 2020 |
| /S/ JEFFERY G. DAVIS<br><hr/> <b>(Jeffery G. Davis)</b>       | Director   | March 16, 2020 |
| /S/ BRIAN K. FERRAIOLI<br><hr/> <b>(Brian K. Ferraioli)</b>   | Director   | March 16, 2020 |
| /S/ SYLVIA J. KERRIGAN<br><hr/> <b>(Sylvia J. Kerrigan)</b>   | Director   | March 16, 2020 |
| /S/ EMMETT J. LESCROART<br><hr/> <b>(Emmett J. Lescroart)</b> | Director   | March 16, 2020 |
| /S/ MICHAEL A. LUCAS<br><hr/> <b>(Michael A. Lucas)</b>       | Director   | March 16, 2020 |
| /S/ CRAIG L. MARTIN<br><hr/> <b>(Craig L. Martin)</b>         | Director   | March 16, 2020 |
| /S/ ROBERT SKAGGS JR.<br><hr/> <b>(Robert Skaggs Jr.)</b>     | Director   | March 16, 2020 |
| /S/ LOUIS A. WATERS<br><hr/> <b>(Louis A. Waters)</b>         | Director   | March 16, 2020 |
| /S/ GARY G. YESAVAGE<br><hr/> <b>(Gary G. Yesavage)</b>       | Director   | March 16, 2020 |

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## MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

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

We based our forward-looking statements on our reasonable beliefs and assumptions, and our current expectations, estimates and projections about ourselves and our industry. We caution that these statements are not guarantees of future performance and involve risks, uncertainties and assumptions about events and circumstances 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. 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” included in Part I, Item 1A of this Annual Report on Form 10-K. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

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

### General Information

We are a global leading provider of integrated, digitally-enabled asset performance assurance and optimization solutions. We deploy conventional to highly specialized inspection, condition assessment, maintenance and repair services that result in greater safety, reliability and operational efficiency for our client’s most critical assets. We conduct operations in three segments: Inspection and Heat Treating (“IHT”) (formerly TeamQualspec), Mechanical Services (“MS”) (formerly TeamFurmanite) and Quest Integrity. Through the capabilities and resources in these three segments, we believe that Team is uniquely qualified to provide integrated solutions involving in their most basic form: inspection to assess condition; engineering assessment to determine fitness for purpose in the context of industry standards and regulatory codes; and mechanical services to repair, rerate or replace based upon the client’s election. In addition, the Company is capable of escalating with the client’s needs, as dictated by the severity of the damage found and the related operating conditions, from standard services to some of the most advanced services and integrated asset integrity and reliability management solutions available in the industry. We also believe that Team is unique in its ability to provide services in three distinct client demand profiles: (i) turnaround or project services, (ii) call-out services and (iii) nested or run-and-maintain services.

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

MS provides primarily call-out and turnaround services under both on-stream and off-line/shut down circumstances. On-stream services offered by MS represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control, hot tapping and line intervention to help operators manage the material opportunity costs associated with taking off line process, transportation or storage infrastructure. Turnaround services are project-related and demand

is a function of the number and scope of scheduled and unscheduled facility turnarounds as well as new industrial facility construction or expansion activities. The turnaround and call-out services MS provides include field machining, technical bolting, vapor barrier plug and weld testing, field valve repair and valve product sales.

Quest Integrity provides integrity and reliability management solutions for the process, pipeline and power sectors. These solutions encompass three broadly-defined disciplines: (1) highly specialized in-line inspection services for historically unpiggable process piping and pipelines using proprietary in-line inspection tools and analytical software; (2) advanced engineering and condition assessment services through a multi-disciplined engineering team and related lab support; and (3) advanced digital imaging including remote digital video imaging, laser scanning and laser profilometry-enabled reformer care services.

We offer these services globally through approximately 200 locations in 20 countries throughout the world with approximately 6,800 employees. We market our services to companies in a diverse array of heavy industries which include:

- Energy (refining, power, renewables, nuclear, LNG, offshore oil and gas, pipelines, terminals and storage)
- Manufacturing and Process (chemical, petrochemical, pulp and paper industries, automotive and mining)
- Public Infrastructure (bridges, ports, construction and building, roads and railways)
- Aerospace and Defense

In July 2018, we announced an organizational restructuring. The organizational changes include a Product and Service Line organization and an Operations organization. The Product and Service Lines organization is responsible for standardization of best practices and the related technical training and program development, value positioning and pricing, and technology development and innovation across Team's global enterprise. The Operations organization, comprised of cross-segment divisions aligned by major geographic regions, is responsible for executing product and service delivery in accordance with established Team service line standards, safety and quality protocols. Overall company management and decision-making continues to be performed according to the structure of the three operating segments (IHT, MS and Quest Integrity). Accordingly, these changes had no effect on our reportable segments.

## Results of Operations

The following is a comparison of our results of operations for the twelve months ended December 31, 2019 compared to December 31, 2018 and for the twelve months ended December 31, 2018 compared to December 31, 2017.

### Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The following table sets forth the components of revenue and operating income (loss) from our operations for the years ended December 31, 2019 and 2018 (in thousands):

|                                       | Twelve Months Ended<br>December 31, |                     | Increase<br>(Decrease) |               |
|---------------------------------------|-------------------------------------|---------------------|------------------------|---------------|
|                                       | 2019                                | 2018                | \$                     | %             |
| <u>Revenues by business segment:</u>  |                                     |                     |                        |               |
| IHT                                   | \$ 512,950                          | \$ 617,378          | \$ (104,428)           | (16.9)%       |
| MS                                    | 535,372                             | 532,365             | 3,007                  | 0.6 %         |
| Quest Integrity                       | 114,992                             | 97,186              | 17,806                 | 18.3 %        |
| Total                                 | <u>\$ 1,163,314</u>                 | <u>\$ 1,246,929</u> | <u>\$ (83,615)</u>     | <u>(6.7)%</u> |
| <u>Operating income (loss):</u>       |                                     |                     |                        |               |
| IHT                                   | \$ 24,084                           | \$ 37,329           | \$ (13,245)            | (35.5)%       |
| MS                                    | 55,385                              | 6,323               | 49,062                 | 775.9 %       |
| Quest Integrity                       | 28,757                              | 20,138              | 8,619                  | 42.8 %        |
| Corporate and shared support services | (110,372)                           | (102,751)           | (7,621)                | (7.4)%        |
| Total                                 | <u>\$ (2,146)</u>                   | <u>\$ (38,961)</u>  | <u>\$ 36,815</u>       | <u>94.5 %</u> |

**Revenues.** Total revenues declined \$83.6 million or 6.7% from the same period in the prior year. Excluding the unfavorable impact of \$11.8 million due to foreign currency exchange rate changes, total revenues decreased by \$71.8 million, IHT revenues decreased by \$101.7 million, MS revenues increased by \$10.9 million and Quest Integrity revenues increased by \$19.0 million. The unfavorable impacts of foreign exchange rate changes are primarily due to the strengthening of the U.S. dollar relative to the Euro, the British Pound, the Canadian dollar and the Australian dollar. Decreased activity levels in IHT were associated with volume declines due to regional competitive pressures along the U.S. Gulf Coast, deliberate market share loss due to a continued focus on pricing discipline, Canadian end-market challenges and some weather related impacts. Also contributing to the decrease was the loss of revenue from certain under-performing businesses in IHT that closed down in late 2018. For MS, revenue increased primarily due to higher on-stream services. Within Quest Integrity, the increase in revenue is primarily the result of higher demand for Quest Integrity's proprietary services and tools as well as growth from certain geographic expansion.

**Operating income (loss).** Overall operating loss was \$2.1 million, compared to an operating loss of \$39.0 million in the prior year. The overall decrease in operating loss is primarily attributable to the MS segment, which experienced an increase in operating income of \$49.1 million. Additionally, operating income for Quest Integrity increased by \$8.6 million. Partially offsetting these improvements was the decrease in operating income in IHT of \$13.2 million and the increase in corporate and shared support service expenses of \$7.6 million.



Operating income (loss) for the current year includes net expenses totaling \$23.3 million that we do not believe are indicative of the Company's core operating activities, while the same period in the prior year included \$33.9 million of such items, as detailed by segment in the table below (in thousands):

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

|   | IHT             | MS              | Quest Integrity | Corporate and shared support services | Total            |
|---|-----------------|-----------------|-----------------|---------------------------------------|------------------|
| <b>Twelve Months Ended December 31, 2019</b>                  |                 |                 |                 |                                       |                  |
| Professional fees and other <sup>1</sup>                      | \$ —            | \$ —            | \$ —            | \$ 16,448                             | \$ 16,448        |
| Legal costs <sup>2</sup>                                      | —               | —               | —               | 5,167                                 | 5,167            |
| Restructuring and other related charges <sup>3</sup>          | 249             | 418             | 62              | 947                                   | 1,676            |
| Total   | <u>\$ 249</u>   | <u>\$ 418</u>   | <u>\$ 62</u>    | <u>\$ 22,562</u>                      | <u>\$ 23,291</u> |
| <b>Twelve Months Ended December 31, 2018</b>                  |                 |                 |                 |                                       |                  |
| Professional fees and other <sup>1</sup>                      | \$ 1,086        | \$ 315          | \$ —            | \$ 22,419                             | \$ 23,820        |
| Legal costs <sup>2</sup>                                      | —               | —               | —               | 2,000                                 | 2,000            |
| Restructuring and other related charges <sup>3</sup>          | 2,995           | 2,514           | 418             | 800                                   | 6,727            |
| Revaluation of contingent consideration                       | —               | —               | —               | (202)                                 | (202)            |
| Asset write-offs and disposals                                | —               | 1,429           | —               | —                                     | 1,429            |
| Implementation of the new Enterprise Resource Planning system | —               | —               | —               | 87                                    | 87               |
| Total   | <u>\$ 4,081</u> | <u>\$ 4,258</u> | <u>\$ 418</u>   | <u>\$ 25,104</u>                      | <u>\$ 33,861</u> |

1 Consists primarily of professional fees and other costs for assessment of corporate and support cost structures, acquired business integration, natural disaster costs and transition/severance costs associated with certain executive leadership changes. For the twelve months ended December 31, 2019 and 2018, includes \$12.3 million and \$15.5 million, respectively, associated with the OneTEAM program (exclusive of restructuring costs).

2 For the twelve months ended December 31, 2019, primarily relates to accrued costs due to resolutions of certain legal matters. For the twelve months ended December 31, 2018, relates to intellectual property legal defense costs associated with Quest Integrity.

3 Relates to restructuring costs incurred associated with the OneTEAM program. See Note 16 to the consolidated financial statements for additional information.

Excluding the impact of these identified items in both periods, operating loss changed favorably by \$26.2 million, consisting of increased operating income in MS and Quest Integrity of \$45.2 million and \$8.3 million, respectively, partially offset by decreased operating income in IHT of \$17.1 million and an increase in corporate and shared support services expenses of \$10.2 million. The higher operating income in MS is primarily due to improvements in project execution pricing and cost. Additionally, MS incurred \$12.4 million of amortization expense in 2018 due to the accelerated amortization of the Furmanite trade name intangible asset. Management determined that, as a result of initiatives to consolidate the Company's branding, the useful life of Furmanite trade name intangible asset was not expected to extend beyond December 31, 2018. We accounted for the change in useful life prospectively effective January 1, 2018 and amortized the remaining balance over 2018, which resulted in the incremental amortization expense in 2018. Within Quest Integrity, the higher operating income reflects both higher activity levels and a favorable project mix. The lower operating income in IHT reflects lower activity levels due to a decline in market conditions. The operating loss increase in corporate and shared support services was driven by corporate cost increases in technology expenses, labor costs and conclusion of certain legal settlements offset by lower non-cash compensation costs.

**Interest expense.** Interest expense decreased from \$30.9 million in the prior year to \$29.7 million in the current year. The decrease is primarily due to a lower overall debt balances outstanding.

**Write-off of deferred loan costs.** The write-off of deferred loan costs of \$0.3 million for the year ended December 31, 2019 was associated with a reduction in capacity of the revolving portion of the Credit Facility in July 2019.

**Loss on convertible debt embedded derivative.** For the twelve months ended December 31, 2018, we recorded a loss of \$24.8 million associated with the increase in fair value of our convertible debt embedded derivative liability. The loss recognized during this period is primarily attributable to the increase in the Company's stock price during the period. As discussed further in Note 9 to the consolidated financial statements, in accordance with ASC 815-15, we recorded a loss to adjust the embedded derivative liability to its fair value as of May 17, 2018 and then reclassified the balance of \$45.4 million to stockholders' equity in the second quarter of 2018. As a result of this reclassification, the embedded derivative liability is no longer marked to fair value each period.

**Other (income) expense, net.** Non-operating results include foreign currency transaction losses of \$0.5 million for the year ended December 31, 2019 compared to foreign currency transaction losses of \$1.7 million in the same period last year. The foreign currency transaction losses in both periods reflect the effects of fluctuations in the U.S. Dollar relative to the currencies to which we

have exposure, including but not limited to, the Brazilian Real, British Pound, Canadian Dollar, Euro, Australian Dollar, New Zealand Dollar, Norwegian Kroner, Malaysian Ringgit, Mexican Peso and Singapore Dollar. Non-operating results also include certain components of our net periodic pension cost (credit).

**Taxes.** The benefit for income tax was \$0.4 million on the pre-tax loss from continuing operations of \$32.9 million in the current year compared to the benefit for income tax of \$31.1 million on pre-tax loss from continuing operations of \$94.2 million in the prior year. The effective tax rate was a benefit of 1.3% for the year ended December 31, 2019 and a benefit of 33.0% for the year ended December 31, 2018. The lower effective rate benefit in 2019 is primarily attributable to an increase in valuation allowance on the expected realizability of the Company's deferred tax assets for federal, foreign and state tax net operating loss carryforwards.

### Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

The following table sets forth the components of revenue and operating income (loss) from our operations for the years ended December 31, 2018 and 2017 (in thousands):

|                                       | Twelve Months Ended<br>December 31, |                     | Increase<br>(Decrease) |                 |
|---------------------------------------|-------------------------------------|---------------------|------------------------|-----------------|
|                                       | 2018                                | 2017                | \$                     | %               |
| <u>Revenues by business segment:</u>  |                                     |                     |                        |                 |
| IHT                                   | \$ 617,378                          | \$ 588,441          | \$ 28,937              | 4.9%            |
| MS                                    | 532,365                             | 529,973             | 2,392                  | 0.5%            |
| Quest Integrity                       | 97,186                              | 81,797              | 15,389                 | 18.8%           |
| Total                                 | <u>\$ 1,246,929</u>                 | <u>\$ 1,200,211</u> | <u>\$ 46,718</u>       | 3.9%            |
| <u>Operating income (loss):</u>       |                                     |                     |                        |                 |
| IHT <sup>2</sup>                      | \$ 37,329                           | \$ 11,128           | \$ 26,201              | 235.5%          |
| MS <sup>2</sup>                       | 6,323                               | (33,993)            | 40,316                 | NM <sup>1</sup> |
| Quest Integrity                       | 20,138                              | 12,337              | 7,801                  | 63.2%           |
| Corporate and shared support services | (102,751)                           | (104,582)           | 1,831                  | 1.8%            |
| Total                                 | <u>\$ (38,961)</u>                  | <u>\$ (115,110)</u> | <u>\$ 76,149</u>       | 66.2%           |

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

<sup>2</sup> Includes goodwill impairment loss of \$21.1 million and \$54.1 million for IHT and MS, respectively, in 2017.

**Revenues.** Total revenues grew \$46.7 million or 3.9% in 2018 from the same period in the prior year. Excluding the favorable impact of \$4.2 million due to foreign currency exchange rate changes, total revenues increased by \$42.5 million, IHT revenues increased by \$27.1 million, MS revenues increased by \$0.5 million and Quest Integrity revenues increased by \$14.9 million. The favorable impacts of foreign exchange rate changes were primarily due to the weakening of the U.S. dollar relative to Euro, the British Pound and the Canadian dollar. The increases in IHT and Quest Integrity reflected higher activity levels due to increased demand and customer spending levels, attributable to improved market conditions, particularly within the refining and petrochemical industries. The increased activity levels within IHT reflect higher inspection services in our North American operations while the increases within Quest Integrity include additional subsea deepwater pipeline inspection work and growth from certain geographic expansion. Within MS, improvements in activity levels during the first half of 2018 were largely offset by lower activity levels experienced in the second half of the year, due to a softer fall 2018 turnaround season. The fall 2018 turnaround season was negatively impacted by significantly higher North America refinery utilization levels in order to capitalize on higher regional crack spreads driven by recent midstream pipeline capacity contracts and widened crude oil pricing differentials, resulting in the postponement of planned fall 2018 maintenance work. The adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, ("ASC 606"), as of January 1, 2018, had an overall unfavorable impact on consolidated revenues of \$4.8 million for the year ended December 31, 2018.

**Operating income (loss).** Overall operating loss was \$39.0 million, compared to an operating loss of \$115.1 million in the prior year. The decrease in the operating loss was primarily due to the effect of goodwill impairment losses of \$54.1 million and \$21.1 million for MS and IHT, respectively, incurred in 2017 which did not recur in 2018. These impairment losses were a result of our interim goodwill impairment test completed in the third quarter of 2017, which was triggered by the existence of impairment

indicators, including market softness and the related impacts on our financial results and our stock price. The results of the impairment test indicated that the carrying values of our MS and IHT operating segments exceeded their estimated fair values. The estimated fair values of these segments had been adversely impacted by the declines in operating results and the related significant decrease in our share price experienced during 2017, particularly the decrease experienced during the third quarter. While there has been no additional goodwill impairment losses in subsequent periods, there can be no assurance that we will not experience additional goodwill impairment losses in future periods. The current year period includes \$5.7 million of consolidated operating loss associated with the adoption of ASC 606.

Operating income (loss) for the year ended December 31, 2018 included net expenses totaling \$33.9 million that we do not believe are indicative of the Company's core operating activities, while the same period in the prior year included \$107.7 million of such items (including the \$75.2 million of goodwill impairment losses), as detailed by segment in the table below (in thousands):

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

|   | IHT              | MS               | Quest Integrity | Corporate and<br>shared support<br>services | Total             |
|---|------------------|------------------|-----------------|---|-------------------|
| <b>Twelve Months Ended December 31, 2018</b>                          |                  |                  |                 |   |                   |
| Professional fees, legal and other <sup>1</sup>                       | \$ 1,086         | \$ 315           | \$ —            | \$ 24,419                                   | \$ 25,820         |
| Restructuring and other related charges <sup>2</sup>                  | 2,995            | 2,514            | 418             | 800   | 6,727             |
| Revaluation of contingent consideration                               | —                | —                | —               | (202)                                       | (202)             |
| Asset write-offs and disposals  | —                | 1,429            | —               | —   | 1,429             |
| Implementation of the new Enterprise Resource Planning ("ERP") system | —                | —                | —               | 87  | 87                |
| Total   | <u>\$ 4,081</u>  | <u>\$ 4,258</u>  | <u>\$ 418</u>   | <u>\$ 25,104</u>                            | <u>\$ 33,861</u>  |
| <b>Twelve Months Ended December 31, 2017</b>                          |                  |                  |                 |   |                   |
| Implementation of the new ERP system                                  | \$ —             | \$ —             | \$ —            | \$ 13,776                                   | \$ 13,776         |
| Professional fees, legal and other <sup>1</sup>                       | 1,325            | 796              | —               | 13,837                                      | 15,958            |
| Restructuring and other related charges <sup>2</sup>                  | 966              | 393              | 429             | 863   | 2,651             |
| Goodwill impairment loss  | 21,140           | 54,101           | —               | —   | 75,241            |
| Revaluation of contingent consideration                               | (1,174)          | —                | —               | —   | (1,174)           |
| Asset write-offs and disposals  | 1,210            | —                | —               | —   | 1,210             |
| Total   | <u>\$ 23,467</u> | <u>\$ 55,290</u> | <u>\$ 429</u>   | <u>\$ 28,476</u>                            | <u>\$ 107,662</u> |

1 Consists primarily of professional fees and other costs for assessment of corporate and support cost structures, acquired business integration, natural disaster costs, transition/severance costs associated with certain executive leadership changes and intellectual property legal defense costs associated with Quest Integrity. For 2018, includes \$15.5 million (exclusive of restructuring costs) associated with the OneTEAM program.

2 For 2018, relates to restructuring costs incurred associated with the OneTEAM program. For 2017, primarily associated with the 2017 Cost Savings Initiative, net of a \$1.1 million gain in MS associated with the disposal of Furmanite operations in Belgium. See Note 16 to the consolidated financial statements for additional information.

Excluding the impact of these identified items in both periods, operating loss changed favorably by \$2.3 million in 2018 compared to 2017, consisting of increased operating income in IHT and Quest Integrity of \$6.8 million and \$7.8 million, respectively, partially offset by decreased operating income in MS of \$10.7 million and an increase in corporate and shared support services expenses of \$1.6 million. The higher operating income in IHT was attributable to higher activity levels, reflecting an improvement in market conditions, and the benefits from both the Company's cost savings initiative completed in 2017 as well as the OneTEAM program in 2018, partially offset by increases in labor costs, including overtime compensation and flexible labor cost to meet customer demand. Within Quest Integrity, the higher operating income reflects both higher activity levels and a favorable project mix. Within MS, the benefit of cost reductions were more than offset by additional amortization expense of \$12.4 million associated with the Furmanite trade name intangible asset (described above) as well as higher bad debt expense and inventory charges. As discussed above, within MS, improved operating performance in the first half of 2018 was essentially offset by the negative impacts in the second half of the year due to the postponement of planned fall and winter 2018 maintenance work, attributable to the significantly higher North America refinery utilization levels. Within corporate and shared support services, the lower operating income was primarily attributable to higher incentive and non-cash compensation cost, partially offset by labor cost savings from our cost saving initiatives.

**Interest expense.** Interest expense increased from \$21.5 million in 2017 to \$30.9 million in 2018. The increase was due to a combination of higher overall debt balances outstanding and higher interest rates. The higher interest rates were primarily due to higher interest rates on our Credit Facility borrowings compared to the same period in the prior year, as well as the effect of using the proceeds from the \$230.0 million of 5.00% convertible senior notes on July 31, 2017 (the "Notes") offering to repay a portion of the Credit Facility borrowings, which bear a higher effective interest rate than our Credit Facility borrowings.

**Write-off of deferred loan costs.** The write-off of deferred loan costs of \$1.2 million for the year ended December 31, 2017 was associated with the extinguishment of the term-loan portion of the Company's Credit Facility as well as a reduction in capacity of the revolving portion of the Credit Facility in July 2017.

**Loss (gain) on convertible debt embedded derivative.** For the twelve months ended December 31, 2018, we recorded a loss of \$24.8 million associated with the increase in fair value of our convertible debt embedded derivative liability, compared to a gain of \$0.8 million for 2017. The loss recognized during this current year period was primarily attributable to the 38.9% increase in the Company's stock price during the period through May 17, 2018, while the prior year gain was primarily a result of a decrease in our stock price from the issuance date of the Notes until December 31, 2017. On May 17, 2018, we received shareholder approval to issue shares of common stock upon conversion of the Notes. As discussed further in Note 9 to the consolidated financial statements, in accordance with ASC 815-15, we recorded a loss to adjust the embedded derivative liability to its fair value as of this date and then reclassified the balance of \$45.4 million to stockholders' equity in the second quarter of 2018. As a result of this reclassification, the embedded derivative liability is no longer marked to fair value each period.

**Other (income) expense, net.** Non-operating results include foreign currency transaction losses of \$1.7 million for the year ended December 31, 2018 compared to foreign currency transaction losses of \$0.5 million in 2017. The foreign currency transaction gains and losses in both periods reflect the effects of fluctuations in the U.S. Dollar relative to the currencies to which we have exposure, including but not limited to, the Brazilian Real, British Pound, Canadian Dollar, Euro, Australian Dollar, New Zealand Dollar, Norwegian Kroner, Malaysian Ringgit, Mexican Peso and Singapore Dollar. For the year ended December 31, 2018, non-operating results also include a gain of \$1.0 million realized on the sale of an investment. Non-operating results also include certain components of our net periodic pension cost (credit).

**Taxes.** The benefit for income tax was \$31.1 million on the pre-tax loss from continuing operations of \$94.2 million in 2018 compared to the benefit for income tax of \$53.1 million on pre-tax loss from continuing operations of \$137.5 million in the prior year. The effective tax rate was a benefit 33.0% for the year ended December 31, 2018 and a benefit of 38.6% for the year ended December 31, 2017. The lower effective rate benefit in 2018 was primarily attributable to the effect of the benefits recorded in 2017 to initially apply the 2017 Tax Act, partially offset by the effect of the non-deductible portion of the goodwill impairment loss also in 2017. The year ended December 31, 2017 included tax benefits of \$26.1 million associated with the 2017 Tax Act, comprised of a net benefit of \$17.1 million for the decrease in our deferred tax liability on unremitted foreign earnings, a benefit of \$17.4 million associated with the remeasurement of other deferred tax balances to reflect the new tax rate and an increase in tax expense of approximately \$8.4 million, net of related foreign tax credits, associated with a deemed repatriation tax. During the year ended December 31, 2018, the Company finalized the recording of the impacts of the 2017 Tax Act and recorded an income tax benefit of \$1.8 million, reflecting an adjustment to the provisional estimate of the deemed repatriation transition tax. As a result of the final calculation of the transition tax liability, the Company also recorded an adjustment to the deferred tax liability associated with investments in foreign subsidiaries. For additional information on the 2017 Tax Act, see Note 8 to the consolidated financial statements.

## Liquidity and Capital Resources

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

**Credit Facility.** On August 30, 2019, we renewed our Credit Facility under the Eighth Amendment to the Third Amended and Restated Credit Agreement. The Eighth Amendment amends and restates certain portions of the Third Amended and Restated Credit Agreement, dated as of July 7, 2015. In accordance with the Eighth Amendment, the Credit Facility has a borrowing capacity of up to \$275.0 million and consists of a \$225.0 million revolving loan facility and a \$50.0 million term loan facility. The entire \$50.0 million term loan amount was used to pay the outstanding principal amount borrowed under the Credit Facility prior to the effectiveness of the Eighth Amendment. The Credit Facility allows for an increase in total commitments of up to an additional \$100 million if certain conditions are met. The swing line facility is \$35.0 million. The Credit Facility matures on July 7, 2021. Both the revolving loan facility and term loan bear interest based on a variable Eurodollar rate option (LIBOR plus 2.75% margin at December 31, 2019) and have commitment fees on unused borrowing capacity (0.50% at December 31, 2019). The Credit Facility limits our ability to pay cash dividends. The Company's obligations under the Credit Facility are guaranteed by its material direct and indirect domestic subsidiaries and are secured by a lien on substantially all of the Company's and the guarantors' tangible and

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

The Eighth Amendment amended the financial covenants in the Credit Facility by eliminating the ratio of consolidated EBITDA to consolidated interest charges (the "Interest Coverage Ratio," as defined in the Credit Facility agreement), adding the ratio of consolidated funded indebtedness to consolidated EBITDA (the "Net Leverage Ratio," as defined in the Credit Facility agreement), adding the ratio of the sum of consolidated EBITDA less taxes and capital expenditures paid in cash to consolidated debt service (the "Debt Service Coverage Ratio," as defined in the Credit Facility agreement) and modifying the ratio of senior secured debt to consolidated EBITDA (the "Senior Secured Leverage Ratio," as defined in the Credit Facility agreement). The financial covenant requirements under the Eighth Amendment are summarized in the table below.

| <u>Fiscal Quarter Ending</u>  | <u>Maximum Senior Secured Leverage Ratio</u> |
|---|--|
| December 31, 2019, March 31, 2020, June 30, 2020 and September 30, 2020 | 2.75 to 1.00                                 |
| December 31, 2020 and each Fiscal Quarter thereafter                    | 2.50 to 1.00                                 |

| <u>Fiscal Quarter Ending</u>                         | <u>Maximum Net Leverage Ratio</u> |
|--|-----------------------------------|
| March 31, 2020                                       | 5.50 to 1.00                      |
| June 30, 2020  | 5.25 to 1.00                      |
| September 30, 2020                                   | 5.00 to 1.00                      |
| December 31, 2020 and each Fiscal Quarter thereafter | 4.50 to 1.00                      |

| <u>Fiscal Quarter Ending</u>  | <u>Minimum Debt Service Coverage Ratio</u> |
|---|--|
| December 31, 2019, March 31, 2020, June 30, 2020 and September 30, 2020 | 1.25 to 1.00                               |
| December 31, 2020 and each Fiscal Quarter thereafter                    | 1.50 to 1.00                               |

As of December 31, 2019, we are in compliance with these covenants. The Senior Secured Leverage Ratio and the Debt Service Coverage Ratio stood at 1.89 to 1.00 and 2.17 to 1.00, respectively, as of December 31, 2019. We are not bound by a covenant with respect to the Net Leverage Ratio until March 31, 2020; however, as of December 31, 2019 this ratio stood at 4.97 to 1.00.

At December 31, 2019, we had \$12.2 million of cash on hand and had approximately \$66 million of available borrowing capacity through our Credit Facility. As of December 31, 2019, we had \$2.1 million of unamortized debt issuance costs and debt discount that are being amortized over the life of the Credit Facility.

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

In order to secure our casualty insurance programs, we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. We were contingently liable for outstanding stand-by letters of credit totaling \$20.5 million at December 31, 2019 and \$22.8 million at December 31, 2018. 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.

**Issuance of Convertible Senior Notes.** On July 31, 2017, we issued \$230.0 million principal amount of 5.00% Convertible Senior Notes due 2023 in a private offering to qualified institutional buyers (as defined in the Securities Act) pursuant to Rule 144A under the Securities Act. The Notes are senior unsecured obligations of the Company. The Notes bear interest at a rate of 5.0% per

year, payable semiannually in arrears on February 1 and August 1 of each year, beginning on February 1, 2018. The Notes mature on August 1, 2023 unless repurchased, redeemed or converted in accordance with their terms prior to such date. The Notes are convertible at an initial conversion rate of 46.0829 shares of our common stock per \$1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately \$21.70 per share, which represents a conversion premium of 40% to the last reported sale price of \$15.50 per share on the NYSE on July 25, 2017, the date the pricing of the Notes was completed. The conversion rate, and thus the conversion price, may be adjusted under certain circumstances as described in the indenture governing the Notes.

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

- during any calendar quarter commencing after the calendar quarter ending on December 31, 2017 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of Notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on such trading day;
- if we call any or all of the Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; or;
- upon the occurrence of specified corporate events described in the indenture governing the Notes.

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

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

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

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

Net proceeds received from the Offering were approximately \$222.3 million after deducting discounts, commissions and expenses. During 2017, we used \$160.0 million of the net proceeds to repay all outstanding borrowings under the term-loan portion of our Credit Facility and \$62.3 million of the net proceeds to repay a portion of the outstanding borrowings under the revolving portion of our Credit Facility, which may be subsequently reborrowed for general corporate purposes.

***Cost Savings and Business Improvement Initiatives.*** On July 24, 2017, we announced our commitment to a cost savings initiative to take direct actions to reduce our overall cost structure given a continuation of weak market conditions. The cost savings initiative included reductions to discretionary spending and the elimination of certain employee positions. Based upon our estimates, we believe that the actions taken reduced our annual operating expenses by approximately \$30 million, with the impact to operating results of those reduction synergies having begun in the third quarter of 2017. The resulting severance and related charges, which were recorded in the third and fourth quarters of 2017, were approximately \$3.9 million, most of which had been paid in cash as of December 31, 2017. This cost savings initiative is complete.

In the fourth quarter of 2017, we engaged outside consultants to assess all aspects of our business for improvement and cost saving opportunities as part of a new cost savings and business improvement project. In the first quarter of 2018, we completed the design phase of the project, known as OneTEAM, and are now in the deployment phase. In the third quarter of 2019, we began the design phase of OneTEAM for our international operations. We expect to incur various additional expenses associated with the execution of the OneTEAM project through 2020 with funding provided by our operating cash flows and the Credit Facility. We incurred \$12.3 million and \$15.5 million of expenses during the twelve months ended December 31, 2019 and December 31, 2018, respectively, primarily related to professional fees associated with the OneTEAM project. Additionally, we incurred \$1.7 million and \$6.7 million of severance-related costs during the twelve months ended December 31, 2019 and December 31, 2018, respectively, related to the elimination of certain employee positions in conjunction with the OneTEAM project.

Exiting 2020, the Company expects to ultimately achieve annual run-rate cost efficiencies of \$35 million to \$45 million related to the overall OneTEAM Program. OneTEAM savings realized during the twelve months ended December 31, 2019 were approximately \$22.9 million. Although management expects that cost savings and other business improvements will result from these actions, there can be no assurance that such results will be achieved.

**ERP System.** At the end of 2013, we initiated the design and implementation of a new ERP system, which was substantially installed by the end of 2017. Amortization of the ERP system development costs began in March 2017 and was computed by the straight-line method. Through December 31, 2017, we capitalized \$46.6 million associated with the project which included \$1.6 million of capitalized interest. No additional amounts were capitalized in association with this project in 2018 and 2019.

**Common Stock Repurchase Plan.** On June 23, 2014, our Board authorized an increase in the stock repurchase plan limit to repurchase Team common stock up to \$50 million (net of the \$13.3 million repurchased previously). The stock repurchase plan was canceled in 2017. No shares were repurchased during the years ended December 31, 2019, 2018, and 2017.

**Cash and cash equivalents.** Our cash and cash equivalents at December 31, 2019 totaled \$12.2 million, of which \$10.7 million was in foreign accounts, primarily in the U.K., New Zealand, Canada and Australia.

**Cash flows attributable to our operating activities.** For the year ended December 31, 2019, net cash provided by operating activities was \$58.8 million. Although we incurred a net loss of \$32.4 million, the effect of depreciation and amortization of \$49.1 million, a decrease in working capital of \$25.0 million, non-cash compensation cost of \$10.1 million, amortization of deferred loan costs and debt discount of \$7.7 million and deferred income taxes of \$3.8 million primarily due to net tax refunds, resulted in positive operating cash flow.

For the year ended December 31, 2018, net cash used in operating activities was \$41.9 million. Although we incurred a net loss of \$63.1 million, the effect of depreciation and amortization of \$64.9 million, a non-cash loss on our convertible debt embedded derivative of \$24.8 million, a decrease in working capital of \$19.0 million, non-cash compensation cost of \$12.3 million and a provision for doubtful accounts of \$11.7 million, partially offset by deferred tax benefits of \$31.7 million, resulted in positive operating cash flow.

For the year ended December 31, 2017, net cash used in operating activities was \$13.7 million. The negative operating cash flow was primarily attributable to the net loss of \$84.5 million, deferred tax benefits of \$66.2 million and an increase in working capital of \$5.0 million, largely offset by the effect of the non-cash goodwill impairment loss of \$75.2 million, depreciation and amortization of \$52.1 million, non-cash compensation cost of \$7.9 million and a provision for doubtful accounts of \$7.1 million.

**Cash flows attributable to our investing activities.** For the year ended December 31, 2019, net cash used in investing activities was \$28.1 million, consisting primarily of \$29.0 million of capital expenditures. Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly.

For the year ended December 31, 2018, net cash used in investing activities was \$25.0 million, consisting primarily of \$27.2 million of capital expenditures. Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly.

For the year ended December 31, 2017, net cash used in investing activities was \$34.0 million, consisting primarily of \$36.8 million of capital expenditures. Capital expenditures included \$1.8 million in costs related to our ERP project.

**Cash flows attributable to our financing activities.** For the year ended December 31, 2019, net cash used in financing activities was \$36.8 million, consisting primarily of \$82.4 million net debt repayments under the revolving portion of our Credit Facility, \$1.9 million in withholding tax payments related to share-based compensation, \$0.4 million in contingent consideration payments and \$1.5 million of Credit Facility debt issuance costs, partially offset by net borrowings on our Credit Facility term loan of \$49.7 million.

For the year ended December 31, 2018, net cash used in financing activities was \$23.0 million, consisting primarily of \$19.7 million net debt repayments under the revolving portion of our Credit Facility, \$1.4 million in withholding tax payments related to share-based compensation, \$1.1 million in contingent consideration payments and \$0.9 million of Credit Facility debt issuance costs.

For the year ended December 31, 2017, net cash provided by financing activities was \$25.6 million, consisting primarily of \$222.3 million of proceeds from the issuance of our convertible senior notes, partially offset by \$170 million in payments on our term loan, \$23.0 million of net debt repayments under the revolving portion of our Credit Facility and \$1.9 million of Credit Facility debt issuance costs.

**Effect of exchange rate changes on cash.** For the years ended December 31, 2019 and 2018, the effect of foreign exchange rate changes on cash was a negative impact of \$43.0 thousand and \$2.1 million, respectively. The negative impact in both periods is primarily attributable to unfavorable fluctuations in U.S. Dollar exchange rates with the Canadian Dollar, Australian Dollar, the British Pound, the Euro and the Brazilian Real.

For the year ended December 31, 2017, the effect of foreign exchange rate changes on cash was a positive impact of \$2.5 million. The positive impact in the current period is primarily attributable to favorable fluctuations in U.S. Dollar exchange rates with the Australian Dollar, Canadian Dollar, and the British Pound, partially offset by unfavorable fluctuations with the Euro and the Malaysian Ringgit.

## Contractual Obligations

A summary of contractual obligations as of December 31, 2019 is as follows (in thousands):

|  | <u>Less than 1 year</u> | <u>1-3 years</u>  | <u>3-5 years</u>  | <u>More than 5 years</u> | <u>Total</u>      |
|--|-------------------------|-------------------|-------------------|--------------------------|-------------------|
| Principal payments on Credit Facility and Convertible Senior Notes             | \$ 5,000                | \$ 118,876        | \$ 230,000        | \$ —                     | \$ 353,876        |
| Interest payments on Credit Facility and Convertible Senior Notes <sup>1</sup> | 16,895                  | 25,771            | 11,500            | —                        | 54,166            |
| Finance lease obligations <sup>2</sup>   | 593                     | 1,198             | 1,093             | 5,105                    | 7,989             |
| Operating lease obligations <sup>2</sup>                                       | 21,539                  | 29,648            | 19,431            | 20,031                   | 90,649            |
| Defined benefit pension plan contribution obligations <sup>3</sup>             | 3,955                   | 7,911             | 7,911             | 28,017                   | 47,794            |
| Total  | <u>\$ 47,982</u>        | <u>\$ 183,404</u> | <u>\$ 269,935</u> | <u>\$ 53,153</u>         | <u>\$ 554,474</u> |

1 While we cannot predict with certainty the amount of interest payments due to the expected variability of interest rates and principal amounts outstanding, we have provided estimated amounts of interest payments based on the following assumptions. With respect to our Credit Facility, the calculation includes estimated interest payments totaling \$8.2 million over the remaining contractual period based on the outstanding principal balance and interest rates in effect as of December 31, 2019. With respect to the Notes, includes total interest payments of \$46 million assuming that the Notes remain outstanding through the maturity date.

2 Includes interest of \$2.6 million and \$19.1 million for finance and operating lease obligations, respectively, as of December 31, 2019.

3 For the Company's defined benefit pension plan covering certain United Kingdom employees (the "U.K. Plan"), as of December 31, 2019, the Company has committed to fund annual contributions of \$3.9 million in 2020 and thereafter through January 2032 for a total funding commitment of up to approximately \$47.8 million (undiscounted). Further, in any year in which specified operating performance levels are exceeded, we have committed to an additional contribution for that year, of up to approximately \$1.2 million, depending on actual performance levels. Notwithstanding these commitments, the Company will make contributions to the U.K. Plan only to the extent necessary to eliminate the funding deficit. Accordingly, the aggregate amount of contributions ultimately made may be less than those noted above.



A summary of long-term liabilities and other long-term obligations as of December 31, 2019 and 2018 is as follows (in thousands):

|  | <b>December 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2019</b>         | <b>2018</b> |
| Long-term liabilities per consolidated balance sheets: |                     |             |
| Long-term debt:  |                     |             |
| Credit Facility revolver                               | \$ 73,876           | \$ 156,843  |
| Credit Facility term loan                              | 49,735              | —           |
| Total Credit Facility                                  | 123,611             | 156,843     |
| Convertible debt                                       | 201,619             | 195,184     |
| Finance lease obligations                              | 5,363               | 5,356       |
| Current maturities under Credit Facility term loan     | (5,000)             | —           |
| Current maturities under finance lease obligations     | (294)               | (569)       |
| Long-term debt, excluding current maturities           | \$ 325,299          | \$ 356,814  |
| Defined benefit pension liability                      | \$ 9,321            | \$ 10,940   |
| Other long-term liabilities                            | \$ 1,959            | \$ 6,910    |
| Other long-term obligations:                           |                     |             |
| Outstanding letters of credit                          | \$ 20,500           | \$ 22,800   |
| Operating leases                                       | \$ 71,536           | \$ 93,693   |

## Critical Accounting Policies

The process of preparing financial statements in accordance with GAAP requires our management to make estimates and judgments. It is possible that materially different amounts could be recorded if these estimates and judgments change or if actual results differ from these estimates and judgments. We believe that the following critical accounting policies comprise the more significant estimates and assumptions used in the preparation of our consolidated financial statements.

**Revenue from contracts with customers.** The majority of our revenues are derived from providing services on a time and material basis and are short-term in nature. We account for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*.

Revenue is recognized as (or when) the performance obligations are satisfied by transferring control over a service or product to the customer. As most of our contracts contain only one performance obligation, the allocation of a contract's transaction price to multiple performance obligations is generally not applicable. For our time and materials contracts, we are generally able to elect the right-to-invoice practical expedient, which permits us to recognize revenue in the amount to which we have a right to invoice the customer if that amount corresponds directly with the value to the customer of our performance completed to date. For our fixed price contracts, we typically recognize revenue using the cost-to-cost method, which measures the extent of progress towards completion based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Under this method, revenue is recognized proportionately as costs are incurred. For contracts where control is transferred at a point in time, revenue is recognized at the time control of the asset is transferred to the customer, which is typically upon delivery and acceptance by the customer.

Certain contracts may also contain a combination of fixed and variable pricing elements. Generally, in contracts where the amount of consideration is variable, the amount is determinable each period based on our right to invoice the customer for services performed to date.

**Goodwill.** Goodwill represents the excess purchase price of acquired businesses over the fair values attributed to underlying net tangible assets and identifiable intangible assets. We test goodwill each year on December 1 for impairment at a reporting unit level. Goodwill is also tested for impairment whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. An assessment can be performed by first completing a qualitative assessment on none, some, or all of our reporting units. We can also bypass the qualitative assessment for any reporting unit in any period and proceed directly to the quantitative impairment test, and then resume the qualitative assessment in any subsequent period. Qualitative indicators that may trigger the need for annual or interim quantitative impairment testing include, among other things, deterioration in macroeconomic conditions, declining financial performance, deterioration in the operational environment, or an expectation of selling or disposing of a portion of a reporting unit. Additionally, a significant change in business climate, a loss of a significant customer, increased competition, a sustained decrease in share price, or a decrease in our market capitalization below book value may trigger the need for interim impairment testing of goodwill associated with one or more of our reporting units. If we believe that, as a result of our qualitative assessment, it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. The quantitative test involves comparing the fair value of each of our reporting units with its carrying amount, including goodwill.

During the third quarter of 2017, there was a triggering event in the MS and IHT reporting units and our interim goodwill impairment test indicated an impairment as the carrying values of the MS and IHT reporting units exceeded their fair values. This resulted in an impairment loss of \$75.2 million. See Note 1 in the notes to consolidated financial statements for further details.

**Income taxes.** We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted rates in effect for the year in which the differences are expected to reverse. The effect of the change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be unable to realize our deferred tax assets, we would make an adjustment to the deferred tax asset valuation allowance.

We establish reserves for uncertain tax positions when it is not more likely than not that the position will be sustained upon challenge. When facts and circumstances change, we adjust these reserves through our provision for income taxes. To the extent interest and penalties may be assessed by taxing authorities on any related underpayment of income tax, such amounts have been accrued and are classified as a component of income tax expense.

### **New Accounting Principles**

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

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our market risk sensitive instruments and positions have been determined to be “other than trading.” We have operations in foreign countries with a functional currency that is not the U.S. Dollar. We are exposed to market risk, primarily related to foreign currency fluctuations related to these operations. Subsidiaries with asset and liability balances denominated in currencies other than their functional currency are remeasured in the preparation of their financial statements using a combination of current and historical exchange rates, with any resulting remeasurement adjustments included in net income (loss) for the period. Net foreign currency transaction losses for the year ended December 31, 2019 were \$0.5 million and relate primarily to fluctuations in the U.S. Dollar in relation to the Euro and the Brazilian Real.

In 2015, we initiated a foreign currency hedging program to mitigate the foreign currency risk in countries where we have significant assets and liabilities denominated in currencies other than the functional currency. We utilize monthly foreign currency swap contracts to reduce exposures to changes in foreign currency exchange rates related to our largest exposures including, but not limited to the Australian Dollar, Canadian Dollar, Brazilian Real, British Pound, Euro, Malaysian Ringgit and Mexican Peso. The impact from these swap contracts was not material as of December 31, 2019, 2018 and 2017 or for the years ended December 31, 2019, 2018 and 2017.

Translation adjustments for the assets and liability accounts are included as a separate component of accumulated other comprehensive loss in shareholders' equity. Foreign currency translation losses recognized in other comprehensive loss were \$3.9 million for the year ended December 31, 2019.

Based on the year ended December 31, 2019, we had foreign currency-based revenues and operating income of \$321.1 million and \$11.1 million, respectively. A hypothetical 10% adverse change in all applicable foreign currencies would result in an annual change in revenues and operating income of \$32.1 million and \$1.1 million, respectively.

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

All of the debt outstanding under the Credit Facility bears interest at variable market rates. If market interest rates increase, our interest expense and cash flows could be adversely impacted. Based on Credit Facility borrowings outstanding at December 31, 2019, an increase in market interest rates of 100 basis points would increase our interest expense and decrease our operating cash flows by approximately \$1.2 million on an annual basis.

Our convertible senior notes bear interest at a fixed rate, but the fair value of the Notes is subject to fluctuations as market interest rates change. In addition, the fair value of the Notes is affected by changes in our stock price. As of December 31, 2019, the outstanding principal balance of the Notes was \$230.0 million. The carrying value of the liability component of the Notes, net of the unamortized discount and issuance costs, was \$201.6 million as of December 31, 2019, while the estimated fair value of the Notes was \$241.7 million (inclusive of the fair value of the conversion option), which was determined based on the observed trading price of the Notes. Through May 17, 2018, a portion of the conversion feature of the Notes was accounted for as an embedded derivative liability under ASC 815, with changes in fair value reflected in our results of operations each period. As a result of obtaining shareholder approval on May 17, 2018 to issue shares of common stock upon conversion of the Notes, we reclassified the embedded derivative to stockholders' equity at its May 17, 2018 fair value of \$45.4 million during the second quarter of 2018. As a result of the reclassification to stockholders' equity, the embedded derivative is no longer marked to fair value each period. See Note 9 to the consolidated financial statements for additional information regarding the Notes.

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Team, Inc.:

### *Opinion on Internal Control Over Financial Reporting*

We have audited Team, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019 and the related notes (collectively, the consolidated financial statements), and our report dated March 16, 2020 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to monitoring controls over certain subsidiary operations being ineffective due to the Company's risk assessment not identifying the need for monitoring controls at these subsidiaries has been identified and included in management's assessment. The material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

### *Definition and Limitations of Internal Control Over Financial Reporting*

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

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

/s/ KPMG LLP

Houston, Texas  
March 16, 2020

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Team, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Team, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 16, 2020 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

### *Changes in Accounting Principles*

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Codification Topic 842 (ASC 842), *Leases*.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for revenue recognition as of January 1, 2018 due to the adoption of Accounting Standards Codification Topic 606 (ASC 606), *Revenue from Contracts with Customer*.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Houston, Texas  
March 16, 2020

**TEAM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share data)

|   | December 31, |            |
|---|--------------|------------|
|   | 2019         | 2018       |
| <b>ASSETS</b>   |              |            |
| Current assets:   |              |            |
| Cash and cash equivalents   | \$ 12,175    | \$ 18,288  |
| Receivables, net of allowance of \$9,990 and \$15,182   | 245,617      | 268,352    |
| Inventory   | 39,195       | 48,540     |
| Income tax receivable   | 316          | 331        |
| Prepaid expenses and other current assets   | 20,275       | 19,445     |
| Total current assets  | 317,578      | 354,956    |
| Property, plant and equipment, net  | 191,951      | 194,794    |
| Intangible assets, net of accumulated amortization of \$96,797 and \$82,406                                     | 117,019      | 131,372    |
| Operating lease right-of-use assets   | 67,048       | —          |
| Goodwill  | 282,006      | 281,650    |
| Other assets, net   | 4,426        | 7,397      |
| Deferred income taxes   | 5,189        | 7,652      |
| Total assets  | \$ 985,217   | \$ 977,821 |
| <b>LIABILITIES AND EQUITY</b>   |              |            |
| Current liabilities:  |              |            |
| Current portion of long-term debt and finance lease obligations   | \$ 5,294     | \$ 569     |
| Current portion of operating lease obligations  | 17,100       | —          |
| Accounts payable  | 41,636       | 44,074     |
| Other accrued liabilities   | 86,506       | 95,308     |
| Total current liabilities   | 150,536      | 139,951    |
| Deferred income taxes   | 6,996        | 6,106      |
| Long-term debt and finance lease obligations  | 325,299      | 356,814    |
| Operating lease obligations   | 54,436       | —          |
| Defined benefit pension liability   | 9,321        | 10,940     |
| Other long-term liabilities   | 1,959        | 6,910      |
| Total liabilities   | 548,547      | 520,721    |
| Commitments and contingencies   |              |            |
| Equity:   |              |            |
| Preferred stock, 500,000 shares authorized, none issued   | —            | —          |
| Common stock, par value \$0.30 per share, 60,000,000 shares authorized; 30,518,793 and 30,184,330 shares issued | 9,153        | 9,053      |
| Additional paid-in capital  | 409,034      | 400,989    |
| Retained earnings   | 48,673       | 81,450     |
| Accumulated other comprehensive loss  | (30,190)     | (34,392)   |
| Total equity  | 436,670      | 457,100    |
| Total liabilities and equity  | \$ 985,217   | \$ 977,821 |

See accompanying notes to consolidated financial statements.

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

|  | Twelve Months Ended<br>December 31, |              |              |
|--|-------------------------------------|--------------|--------------|
|  | 2019                                | 2018         | 2017         |
| Revenues   | \$ 1,163,314                        | \$ 1,246,929 | \$ 1,200,211 |
| Operating expenses   | 835,570                             | 918,673      | 890,212      |
| Gross margin   | 327,744                             | 328,256      | 309,999      |
| Selling, general and administrative expenses                     | 328,214                             | 360,692      | 348,391      |
| Restructuring and other related charges, net (see Note 16)       | 1,676                               | 6,727        | 2,651        |
| Gain on revaluation of contingent consideration                  | —                                   | (202)        | (1,174)      |
| Goodwill impairment loss (see Note 1)                            | —                                   | —            | 75,241       |
| Operating loss   | (2,146)                             | (38,961)     | (115,110)    |
| Interest expense, net  | 29,713                              | 30,875       | 21,487       |
| Write-off of deferred loan costs                                 | 279                                 | —            | 1,244        |
| Loss (gain) on convertible debt embedded derivative (see Note 9) | —                                   | 24,783       | (818)        |
| Other (income) expense, net                                      | 715                                 | (410)        | 510          |
| Loss before income taxes   | (32,853)                            | (94,209)     | (137,533)    |
| Less: Benefit for income taxes (see Note 8)                      | (436)                               | (31,063)     | (53,078)     |
| Net loss   | \$ (32,417)                         | \$ (63,146)  | \$ (84,455)  |
| Earnings (Loss) per common share:                                |                                     |              |              |
| Basic  | \$ (1.07)                           | \$ (2.10)    | \$ (2.83)    |
| Diluted  | \$ (1.07)                           | \$ (2.10)    | \$ (2.83)    |

See accompanying notes to consolidated financial statements.



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

|   | <b>Twelve Months Ended<br/>December 31,</b> |             |             |
|---|---|-------------|-------------|
|   | <b>2019</b>                                 | <b>2018</b> | <b>2017</b> |
| Net loss  | \$ (32,417)                                 | \$ (63,146) | \$ (84,455) |
| Other comprehensive income (loss) before tax:                             |   |             |             |
| Foreign currency translation adjustment                                   | 3,865                                       | (9,241)     | 10,607      |
| Foreign currency hedge  | 282   | 658         | (1,802)     |
| Defined benefit pension plans:  |   |             |             |
| Net actuarial gain (loss) arising during period                           | (421)                                       | 109         | 3,226       |
| Settlement cost during period   | 226   | —           | —           |
| Prior service cost arising during period                                  | —   | (669)       | —           |
| Amortization of prior service cost  | 33  | —           | —           |
| Amortization of net actuarial (gain) loss                                 | —   | (78)        | 71          |
| Other comprehensive income (loss), before tax                             | 3,985                                       | (9,221)     | 12,102      |
| Tax (provision) benefit attributable to other comprehensive income (loss) | 217   | (3,045)     | (2,898)     |
| Other comprehensive income (loss), net of tax                             | 4,202                                       | (12,266)    | 9,204       |
| Total comprehensive loss  | \$ (28,215)                                 | \$ (75,412) | \$ (75,251) |

See accompanying notes to consolidated financial statements.

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

|  | Common<br>Shares | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Shareholders'<br>Equity |
|--|------------------|-----------------|----------------------------------|----------------------|---|----------------------------------|
| Balance at January 1, 2017   | 29,785           | 8,934           | 336,756                          | 218,947              | (29,000)                                      | 535,637                          |
| Adoption of new accounting principle                                 | —                | —               | —                                | 994                  | —   | 994                              |
| Net loss   | —                | —               | —                                | (84,455)             | —   | (84,455)                         |
| Foreign currency translation adjustment, net of tax                  | —                | —               | —                                | —                    | 7,688   | 7,688                            |
| Foreign currency hedge, net of tax                                   | —                | —               | —                                | —                    | (1,114)                                       | (1,114)                          |
| Defined benefit pension plans, net of tax                            | —                | —               | —                                | —                    | 2,630   | 2,630                            |
| Issuance of convertible debt, net of tax                             | —                | —               | 8,415                            | —                    | —   | 8,415                            |
| Non-cash compensation  | —                | —               | 7,876                            | —                    | —   | 7,876                            |
| Vesting of stock awards  | 152              | 45              | (992)                            | —                    | —   | (947)                            |
| Exercise of stock options  | 16               | 5               | 445                              | —                    | —   | 450                              |
| Balance at December 31, 2017   | 29,953           | 8,984           | 352,500                          | 135,486              | (19,796)                                      | 477,174                          |
| Adoption of new accounting principles                                | —                | —               | —                                | 9,110                | (2,330)                                       | 6,780                            |
| Net loss   | —                | —               | —                                | (63,146)             | —   | (63,146)                         |
| Foreign currency translation adjustment, net of tax                  | —                | —               | —                                | —                    | (12,164)                                      | (12,164)                         |
| Foreign currency hedge, net of tax                                   | —                | —               | —                                | —                    | 496   | 496                              |
| Defined benefit pension plans, net of tax                            | —                | —               | —                                | —                    | (598)   | (598)                            |
| Reclassification of convertible debt embedded derivative, net of tax | —                | —               | 37,698                           | —                    | —   | 37,698                           |
| Non-cash compensation  | —                | —               | 12,256                           | —                    | —   | 12,256                           |
| Vesting of stock awards  | 231              | 69              | (1,465)                          | —                    | —   | (1,396)                          |
| Balance at December 31, 2018   | 30,184           | 9,053           | 400,989                          | 81,450               | (34,392)                                      | 457,100                          |
| Adoption of new accounting principles, net of tax                    | —                | —               | —                                | (360)                | —   | (360)                            |
| Net loss   | —                | —               | —                                | (32,417)             | —   | (32,417)                         |
| Foreign currency translation adjustment, net of tax                  | —                | —               | —                                | —                    | 4,258   | 4,258                            |
| Foreign currency hedge, net of tax                                   | —                | —               | —                                | —                    | 213   | 213                              |
| Defined benefit pension plans, net of tax                            | —                | —               | —                                | —                    | (269)   | (269)                            |
| Non-cash compensation  | —                | —               | 10,055                           | —                    | —   | 10,055                           |
| Vesting of stock awards  | 335              | 100             | (2,010)                          | —                    | —   | (1,910)                          |
| Balance at December 31, 2019   | 30,519           | \$ 9,153        | \$ 409,034                       | \$ 48,673            | \$ (30,190)                                   | \$ 436,670                       |

See accompanying notes to consolidated financial statements.

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

|   | Twelve Months Ended<br>December 31, |                  |                  |
|---|-------------------------------------|------------------|------------------|
|   | 2019                                | 2018             | 2017             |
| Cash flows from operating activities:   |                                     |                  |                  |
| Net loss  | \$ (32,417)                         | \$ (63,146)      | \$ (84,455)      |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                     |                  |                  |
| Depreciation and amortization   | 49,059                              | 64,862           | 52,143           |
| Write-off of deferred loan costs  | 279                                 | —                | 1,244            |
| Amortization of deferred loan costs and debt discount                                     | 7,695                               | 7,022            | 3,085            |
| Provision for doubtful accounts   | (2,573)                             | 11,662           | 7,097            |
| Foreign currency loss (gain)  | 494                                 | 1,712            | 499              |
| Deferred income taxes   | 3,795                               | (31,734)         | (66,246)         |
| (Gain) loss on revaluation of contingent consideration                                    | —                                   | (202)            | (1,174)          |
| (Gain) loss on asset disposal   | (187)                               | (552)            | 553              |
| Loss (gain) on convertible debt embedded derivative                                       | —                                   | 24,783           | (818)            |
| Goodwill impairment loss  | —                                   | —                | 75,241           |
| Non-cash compensation cost  | 10,055                              | 12,256           | 7,876            |
| Other, net  | (2,409)                             | (3,762)          | (3,789)          |
| (Increase) decrease (net of the effects of acquisitions):                                 |                                     |                  |                  |
| Receivables   | 27,194                              | 15,386           | (39,820)         |
| Inventory   | 9,551                               | (21)             | 614              |
| Prepaid expenses and other current assets   | 494                                 | 6,933            | 6,642            |
| Increase (decrease) (net of the effects of acquisitions):                                 |                                     |                  |                  |
| Accounts payable  | (5,356)                             | (8,994)          | 6,424            |
| Other accrued liabilities   | (8,378)                             | 9,168            | 14,896           |
| Income taxes  | 1,540                               | (3,514)          | 6,260            |
| Net cash provided by (used) in operating activities                                       | <u>58,836</u>                       | <u>41,859</u>    | <u>(13,728)</u>  |
| Cash flows from investing activities:   |                                     |                  |                  |
| Capital expenditures <sup>1</sup>   | (29,035)                            | (27,164)         | (36,798)         |
| Proceeds from disposal of assets  | 934                                 | 2,580            | 3,259            |
| Other   | —                                   | (443)            | (457)            |
| Net cash used in investing activities   | <u>(28,101)</u>                     | <u>(25,027)</u>  | <u>(33,996)</u>  |
| Cash flows from financing activities:   |                                     |                  |                  |
| Net (payments) borrowings under revolving credit agreement                                | (82,396)                            | (19,690)         | (23,006)         |
| Borrowings (payments) under term loan, net of debt discount                               | 49,745                              | —                | (170,000)        |
| Issuance of convertible debt, net of issuance costs                                       | —                                   | —                | 222,311          |
| Contingent consideration payments   | (428)                               | (1,106)          | (1,278)          |
| Debt issuance costs on Credit Facility  | (1,524)                             | (855)            | (1,938)          |
| Exercise of stock options   | —                                   | —                | 450              |
| Payments related to withholding tax for share-based payment arrangements                  | (1,911)                             | (1,390)          | (947)            |
| Other   | (291)                               | —                | —                |
| Net cash (used in) provided by financing activities                                       | <u>(36,805)</u>                     | <u>(23,041)</u>  | <u>25,592</u>    |
| Effect of exchange rate changes on cash   | (43)                                | (2,055)          | 2,468            |
| Net decrease in cash and cash equivalents   | (6,113)                             | (8,264)          | (19,664)         |
| Cash and cash equivalents at beginning of period  | 18,288                              | 26,552           | 46,216           |
| Cash and cash equivalents at end of period  | <u>\$ 12,175</u>                    | <u>\$ 18,288</u> | <u>\$ 26,552</u> |
| Supplemental disclosure of cash flow information:   |                                     |                  |                  |
| Cash paid (refunded) during the year for:   |                                     |                  |                  |
| Interest  | \$ 22,697                           | \$ 24,924        | \$ 13,176        |
| Income taxes  | \$ (3,536)                          | \$ 2,720         | \$ 5,719         |

<sup>1</sup> Excludes accrued capital expenditures for the twelve months ended December 31, 2019 and 2018 only.

See accompanying notes to consolidated financial statements.

**TEAM, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Description of Business.** Unless otherwise indicated, the terms “Team, Inc.,” “Team,” “the Company,” “we,” “our” and “us” are used in this report to refer to Team, Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. We are a global leading provider of integrated, digitally-enabled asset performance assurance and optimization solutions. We deploy conventional to highly specialized inspection, condition assessment, maintenance and repair services that result in greater safety, reliability and operational efficiency for our client’s most critical assets. We conduct operations in three segments: Inspection and Heat Treating (“IHT”) (formerly TeamQualspec), Mechanical Services (“MS”) (formerly TeamFurmanite) and Quest Integrity. Through the capabilities and resources in these three segments, we believe that Team is uniquely qualified to provide integrated solutions involving in their most basic form: inspection to assess condition; engineering assessment to determine fitness for purpose in the context of industry standards and regulatory codes; and mechanical services to repair, rerate or replace based upon the client’s election. In addition, the Company is capable of escalating with the client’s needs, as dictated by the severity of the damage found and the related operating conditions, from standard services to some of the most advanced services and integrated asset integrity and reliability management solutions available in the industry. We also believe that Team is unique in its ability to provide services in three distinct client demand profiles: (i) turnaround or project services, (ii) call-out services and (iii) nested or run-and-maintain services.

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

MS provides primarily call-out and turnaround services under both on-stream and off-line/shut down circumstances. On-stream services offered by MS represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control, hot tapping and line intervention to help operators manage the material opportunity costs associated with taking off line process, transportation or storage infrastructure. Turnaround services are project-related and demand is a function of the number and scope of scheduled and unscheduled facility turnarounds as well as new industrial facility construction or expansion activities. The turnaround and call-out services MS provides include field machining, technical bolting, vapor barrier plug and weld testing, field valve repair and valve product sales.

Quest Integrity provides integrity and reliability management solutions for the process, pipeline and power sectors. These solutions encompass three broadly-defined disciplines: (1) highly specialized in-line inspection services for historically unpiggable process piping and pipelines using proprietary in-line inspection tools and analytical software; (2) advanced engineering and condition assessment services through a multi-disciplined engineering team and related lab support; and (3) advanced digital imaging including remote digital video imaging, laser scanning and laser profilometry-enabled reformer care services.

We offer these services globally through approximately 200 locations in 20 countries throughout the world with approximately 6,800 employees. We market our services to companies in a diverse array of heavy industries which include:

- Energy (refining, power, renewables, nuclear, LNG, offshore oil and gas, pipelines, terminals and storage)
- Manufacturing and Process (chemical, petrochemical, pulp and paper industries, automotive and mining)
- Public Infrastructure (bridges, ports, construction and building, roads and railways)
- Aerospace and Defense

Our stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “TISI”.

**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. All material intercompany accounts and transactions have been eliminated in consolidation.

**Use of estimates.** Our accounting policies conform to Generally Accepted Accounting Principles in the United States (“GAAP”). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect our reported financial position and results of operations. We review significant estimates and judgments affecting our consolidated financial statements on a recurring basis and record the effect of any necessary adjustments prior to their publication. Estimates and judgments are based on information available at the time such estimates and judgments are made.

Adjustments made with respect to the use of these estimates and judgments often relate to information not previously available. Uncertainties with respect to such estimates and judgments are inherent in the preparation of financial statements. Estimates and judgments are used in, among other things, (1) aspects of revenue recognition, (2) valuation of acquisition related tangible and intangible assets and assessments of all long-lived assets for possible impairment, (3) estimating various factors used to accrue liabilities for workers' compensation, auto, medical and general liability, (4) establishing an allowance for uncollectible accounts receivable, (5) estimating the useful lives of our assets, (6) assessing future tax exposure and the realization of tax assets, (7) the valuation of the embedded derivative liability in our convertible debt, (8) selecting assumptions used in the measurement of costs and liabilities associated with defined benefit pension plans and (9) net investment in foreign operations. Our most significant accounting policies are described below.

**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. The fair value of our convertible senior notes as of December 31, 2019 and 2018 was \$241.7 million and \$231.5 million, respectively, (inclusive of the fair value of the conversion option) and are a "Level 2" (as defined in Note 11) measurements, determined based on the observed trading price of these instruments.

**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.** Except for certain inventories that are valued based on weighted-average cost, we use the first-in, first-out method to value our inventory. Inventory includes material, labor and certain fixed overhead costs. Inventory is stated at the lower of cost and net realizable value. Inventory quantities on hand are reviewed periodically and carrying cost is reduced to net realizable value for inventories for which their cost exceeds their utility. The cost of inventories consumed or products sold are included in operating expenses.

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

| <u>Classification</u>                       | <u>Useful Life</u> |
|---|--------------------|
| Buildings                                   | 20-40 years        |
| Enterprise Resource Planning ("ERP") System | 15 years           |
| Leasehold improvements                      | 2-15 years         |
| Machinery and equipment                     | 2-12 years         |
| Furniture and fixtures                      | 2-10 years         |
| Computers and computer software             | 2-5 years          |
| Automobiles                                 | 2-5 years          |

**Goodwill and intangible assets.** We allocate the purchase price of acquired businesses to their identifiable tangible assets and liabilities, such as accounts receivable, inventory, property, plant and equipment, accounts payable and accrued liabilities. We also allocate a portion of the purchase price to identifiable intangible assets, such as non-compete agreements, trademarks, trade names, patents, technology and customer relationships. Allocations are based on estimated fair values of assets and liabilities. We use all available information to estimate fair values including quoted market prices, the carrying value of acquired assets, and widely accepted valuation techniques such as discounted cash flows. Certain estimates and judgments are required in the application of the fair value techniques, including estimates of future cash flows, selling prices, replacement costs, economic lives and the selection of a discount rate, as well as the use of "Level 3" measurements as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820 *Fair Value Measurements and Disclosure* ("ASC 820"). Deferred taxes are recorded for any differences between the assigned values and tax bases of assets and liabilities. Estimated deferred taxes are based on available information concerning the tax bases of assets acquired and liabilities assumed and loss carryforwards at the acquisition date, although such estimates may change in the future as additional information becomes known. Any remaining excess of cost over allocated fair values is recorded as goodwill. We typically engage third-party valuation experts to assist in determining the fair values for both the identifiable tangible and intangible assets. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, could materially impact our results of operations.

Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but are instead tested for impairment at least annually in accordance with the provisions of the ASC 350 *Intangibles—Goodwill and Other* (“ASC 350”). Intangible assets with estimated useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with ASC 350. We assess goodwill for impairment at the reporting unit level, which we have determined to be the same as our operating segments. Each reporting unit has goodwill relating to past acquisitions.

Prior to January 1, 2017, the test for impairment was a two-step process that involved comparing the estimated fair value of each reporting unit to the reporting unit’s carrying value, including goodwill. If the fair value of a reporting unit exceeded its carrying amount, the goodwill of the reporting unit was not considered impaired; therefore, the second step of the impairment test would not be deemed necessary. If the carrying amount of the reporting unit exceeded its fair value, we would then perform the second step to the goodwill impairment test, which involved the determination of the fair value of a reporting unit’s assets and liabilities as if those assets and liabilities had been acquired/assumed in a business combination at the impairment testing date, to measure the amount of goodwill impairment loss to be recorded. However, effective January 1, 2017 we prospectively adopted a new accounting principle that eliminated the second step of the goodwill impairment test. Therefore, for goodwill impairment tests occurring after January 1, 2017, if the carrying value of a reporting unit exceeds its fair value, we measure any goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit. Our goodwill annual test date is December 1 of each year.

In the third quarter of the year ended December 31, 2017, we determined that there were sufficient indicators to trigger an interim goodwill impairment analysis, primarily due to a 43% decrease in the Company’s stock price during the quarter, market softness and our financial results. This interim goodwill impairment test was prepared as of July 31, 2017. The fair values of the reporting units were determined using a combination of income and market approaches. The income approach was based on discounted cash flow models with estimated cash flows based on internal forecasts of revenue and expenses over a five-year period plus a terminal value period. The income approach estimated fair value by discounting each reporting unit’s estimated future cash flows using a discount rate that approximated our weighted-average cost of capital. Major assumptions applied in an income approach include forecasted growth rates as well as forecasted profitability by reporting unit. Additionally, we considered two market approaches that used multiples, based on observable market data, of a combination of historical and projected financial metrics of our reporting units, to arrive at fair value. We applied weightings to each of the income and the two market approaches. The fair value derived from these approaches, in the aggregate, approximated our market capitalization.

The July 31, 2017 interim goodwill impairment test indicated impairment as the carrying values of the MS and IHT reporting units exceeded their fair values. The carrying value of the MS reporting unit exceeded its fair value by \$54.1 million and the carrying value of the IHT reporting unit exceeded its fair value by \$21.1 million, resulting in a total impairment loss of \$75.2 million. The fair values of the reporting units are “Level 3” measurements as defined in Note 11. The fair value of the Quest Integrity reporting unit significantly exceeded its carrying value.

For our annual goodwill impairment tests as of December 1, 2018 and December 1, 2019, we elected to perform qualitative assessments to determine if it was more likely than not (that is, a likelihood of more than 50 percent) that the fair values of our reporting units were less than their respective carrying values as of the test dates. Our qualitative assessments for the December 1, 2018 and December 1, 2019 tests considered relevant events and circumstances occurring since the December 1, 2017 and December 1, 2018 qualitative impairment test dates, respectively. Specifically, we considered changes in the Company’s stock price, industry and market conditions, our internal forecasts of future revenue and expenses, any significant events affecting the Company and actual changes in the carrying value of our net assets. After considering all positive and negative evidence for the assessments as of both of these dates, we concluded that it was not more likely than not that our carrying values exceeded fair values and, as such, no additional impairment was indicated.

There was \$282.0 million and \$281.7 million of goodwill at December 31, 2019 and 2018, respectively. A summary of goodwill is as follows (in thousands):

|                                | <b>Twelve Months Ended<br/>December 31, 2019</b> |                  |                        |                   |
|--------------------------------|--|------------------|------------------------|-------------------|
|                                | <b>IHT</b>                                       | <b>MS</b>        | <b>Quest Integrity</b> | <b>Total</b>      |
| Balance at beginning of period | \$ 192,608                                       | \$ 55,627        | \$ 33,415              | \$ 281,650        |
| Foreign currency adjustments   | 608  | (218)            | (34)                   | 356               |
| Balance at end of period       | <u>\$ 193,216</u>                                | <u>\$ 55,409</u> | <u>\$ 33,381</u>       | <u>\$ 282,006</u> |

|                              | Twelve Months Ended<br>December 31, 2018 |                  |                  |                   |
|------------------------------|--|------------------|------------------|-------------------|
|                              | IHT                                      | MS               | Quest Integrity  | Total             |
| Balance at beginning of year | \$ 194,211                               | \$ 56,600        | \$ 33,993        | \$ 284,804        |
| Foreign currency adjustments | (1,603)                                  | (712)            | (578)            | (2,893)           |
| Disposal                     | —  | (261)            | —                | (261)             |
| Balance at end of year       | <u>\$ 192,608</u>                        | <u>\$ 55,627</u> | <u>\$ 33,415</u> | <u>\$ 281,650</u> |

There was \$75.2 million of accumulated impairment losses at December 31, 2019 and 2018, comprised of the impairment losses recognized in the third quarter of 2017 described above.

Subsequent to December 31, 2019, our stock price saw declines beginning late January 2020 and continuing through early March 2020. We have determined that goodwill at our IHT reporting unit is at risk for impairment should events or circumstances indicate that a decline in fair value is other than temporary. As such, we are currently estimating the projected timing of a recovery and whether or not a triggering event has occurred during the first quarter of 2020 on this reporting unit. The value of this business is dependent upon the timing and extent of the market recovery and our conclusions could result in an impairment of goodwill. The total carrying value of the net assets for the IHT reporting unit was approximately \$217 million as of December 31, 2019, including goodwill of \$193 million.

**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 or receivable and related tax expense or benefit together with assessing temporary differences resulting from differing treatment of certain items, such as depreciation, for tax and accounting purposes. These differences can result in deferred tax assets and liabilities, which are included within our consolidated balance sheets.

In accordance with ASC 740, we are required to assess the likelihood that our deferred tax assets will be realized and, to the extent we believe 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 the reversal of existing taxable temporary differences, taxable income in prior carryback years if carryback is permitted by tax law, 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 and tax planning strategies.

We regularly assess whether it is more likely than not that we will realize the deferred tax assets in the jurisdictions we operate in. Management believes future sources of taxable income, reversing temporary differences and other tax planning strategies will be sufficient to realize the deferred tax assets for which no valuation allowance has been established. Our valuation allowance primarily relates to net operating loss carryforwards. While we have considered these factors in assessing the need for additional valuation allowance, there is no assurance that additional valuation allowance would not need to be established in the future if information about future years change. Any changes in valuation allowance would impact our income tax provision and net income (loss) in the period in which such a determination is made. As of December 31, 2019, our deferred tax assets were \$73.2 million, less a valuation allowance of \$14.9 million. As of December 31, 2019, our deferred tax liabilities were \$60.1 million.

Significant judgment is required in assessing the timing and amounts of deductible and taxable items for tax purposes. In accordance with ASC 740-10, we establish reserves for uncertain tax positions when, despite our belief that our tax return positions are supportable, we believe that it is not more likely than not that the position will be sustained upon challenge. When facts and circumstances change, we adjust these reserves through our provision for income taxes. To the extent interest and penalties may be assessed by taxing authorities on any related underpayment of income tax, such amounts have been accrued and are classified as a component of income tax expense (benefit) in our consolidated statements of operations. As of December 31, 2019, our gross unrecognized tax benefits, excluding penalties and interest related to uncertain tax positions, were \$1.5 million.

Due to the complexities involved in accounting for the 2017 Tax Act, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (“SAB 118”), which required companies include in their financial statements estimates of the impacts of the 2017 Tax Act to the extent such estimates have been determined. Under SAB 118, companies were allowed a measurement period of up to one year after the enactment date of the 2017 Tax Act to finalize the recording of the related tax

impacts. Accordingly, the Company previously recorded certain estimates of the tax impact in its consolidated statement of operations for the fourth quarter of 2017. During the year ended December 31, 2018, the Company finalized the recording of the impacts of the 2017 Tax Act and recorded an income tax benefit of \$1.8 million, reflecting an adjustment to the provisional estimate of the deemed repatriation transition tax. As a result of the final calculation of the transition tax liability, the Company also recorded an adjustment to the deferred tax liability associated with investments in foreign subsidiaries.

**Workers' compensation, auto, medical and general liability accruals.** In accordance with ASC 450 *Contingencies* ("ASC 450"), we record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review our loss contingencies on an ongoing basis to ensure that we have appropriate reserves recorded on our balance sheet. These reserves are based on historical experience with claims incurred but not received, estimates and judgments made by management, applicable insurance coverage for litigation matters, and are adjusted as circumstances warrant. For workers' compensation, our self-insured retention is \$1.0 million and our automobile liability self-insured retention is currently \$500,000 per occurrence. For general liability claims, we have an effective self-insured retention of \$1.0 million and a deductible of \$2.0 million per occurrence. For medical claims, our self-insured retention is \$350,000 per individual claimant determined on an annual basis. For environmental liability claims, our self-insured retention is \$1.0 million per occurrence. We maintain insurance for claims that exceed such self-retention limits. The insurance is subject to terms, conditions, limitations and exclusions that may not fully compensate us for all losses. Our estimates and judgments could change based on new information, changes in laws or regulations, changes in management's plans or intentions, or the outcome of legal proceedings, settlements or other factors. If different estimates and judgments were applied with respect to these matters, it is likely that reserves would be recorded for different amounts.

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

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

**Earnings (loss) per share.** Basic earnings (loss) per share is computed by dividing income (loss) from continuing operations, income (loss) from discontinued operations or net income (loss) by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings (loss) per share is computed by dividing income (loss) from continuing operations, income (loss) from discontinued operations or net income (loss) by the sum of (1) the weighted-average number of shares of common stock outstanding during the period, (2) the dilutive effect of the assumed exercise of share-based compensation using the treasury stock method and (3) the dilutive effect of the assumed conversion of our convertible senior notes under the treasury stock method. The Company's current intent is to settle the principal amount of the convertible senior notes in cash upon conversion. If the conversion value exceeds the principal amount, the Company may elect to deliver shares of its common stock with respect to the remainder of its conversion obligation in excess of the aggregate principal amount (the "conversion spread"). Accordingly, the conversion spread is included in the denominator for the computation of diluted earnings per common share using the treasury stock method and the numerator is adjusted for any recorded gain or loss, net of tax, on the embedded derivative associated with the conversion feature.

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

|   | Twelve Months Ended<br>December 31, |        |        |
|---|-------------------------------------|--------|--------|
|   | 2019                                | 2018   | 2017   |
| Weighted-average number of basic shares outstanding | 30,310                              | 30,031 | 29,849 |
| Stock options, stock units and performance awards   | —                                   | —      | —      |
| Convertible senior notes                            | —                                   | —      | —      |
| Total shares and dilutive securities                | 30,310                              | 30,031 | 29,849 |

For the years ended December 31, 2019, 2018 and 2017, all outstanding share-based compensation awards were excluded from the calculation of diluted loss per share because their inclusion would be antidilutive due to the loss from continuing operations in those periods. Also, the effect of our convertible senior notes was excluded from the calculation of diluted earnings (loss) per share since the conversion price exceeded the average price of our common stock during the applicable periods. For information on our convertible senior notes and our share-based compensation awards, refer to Note 9 and Note 12, respectively.



**Non-cash investing and financing activities.** Non-cash investing and financing activities are excluded from the consolidated statements of cash flows and are as follows (in thousands):

|                                     | Twelve Months Ended<br>December 31, |          |      |
|-------------------------------------|-------------------------------------|----------|------|
|                                     | 2019                                | 2018     | 2017 |
| Assets acquired under finance lease | \$ 326                              | \$ 5,302 | \$ — |

Also, we had \$4.0 million, \$1.4 million, and \$2.6 million of accrued capital expenditures as of December 31, 2019, 2018 and 2017, respectively, which are excluded from the consolidated statements of cash flows until paid.

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

We utilize monthly foreign currency swap contracts to reduce exposures to changes in foreign currency exchange rates including, but not limited to, the Australian Dollar, Canadian Dollar, Brazilian Real, British Pound, Euro, Malaysian Ringgit and Mexican Peso. The impact from these swap contracts was not material as of December 31, 2019 or 2018 or for the years ended December 31, 2019, 2018 and 2017.

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

**Revision to prior period consolidated financial statements.** As noted in the previously issued Annual Report for the year ended December 31, 2018 (the "2018 Form 10-K"), the Company identified errors in its previously issued 2017 consolidated financial statements. These prior period errors are related to the measurement of valuation allowances on deferred tax assets. The prior period consolidated financial statements and other affected prior period financial information have been revised to correct these errors. The effect of correcting the errors increased our income tax benefit and favorably impacted our net loss by \$19.7 million in the twelve months ended December 31, 2017. The correction also resulted in an increase of \$19.7 million to previously reported stockholders' equity as of December 31, 2017. Based on an analysis of quantitative and qualitative factors, the Company determined the related impacts were not material to its previously filed annual or interim consolidated financial statements, and therefore, amendments of previously filed reports are not required.

The table below provides a summary of the financial statement line items which were impacted by these error corrections (in thousands, except per share data):

|   | December 31, 2017                     |             |             |
|---|---------------------------------------|-------------|-------------|
|   | As Previously Reported                | Adjustments | As Revised  |
| <u>Effect on consolidated balance sheet</u>           |                                       |             |             |
| Liabilities and Equity                                |                                       |             |             |
| Deferred income taxes                                 | \$ 38,100                             | \$ (19,706) | \$ 18,394   |
| Total Liabilities                                     | \$ 598,367                            | \$ (19,706) | \$ 578,661  |
| Retained earnings                                     | \$ 115,780                            | \$ 19,706   | \$ 135,486  |
| Total Equity  | \$ 457,468                            | \$ 19,706   | \$ 477,174  |
| <br>  |                                       |             |             |
|   | Twelve Months Ended December 31, 2017 |             |             |
|   | As Previously Reported                | Adjustments | As Revised  |
| <u>Effect on consolidated statement of operations</u> |                                       |             |             |
| Benefit for income taxes                              | \$ (33,372)                           | \$ (19,706) | \$ (53,078) |
| Loss from continuing operations                       | \$ (104,161)                          | \$ 19,706   | \$ (84,455) |
| Net loss  | \$ (104,161)                          | \$ 19,706   | \$ (84,455) |
| <br>  |                                       |             |             |
| Basic loss per common share:                          |                                       |             |             |
| Continuing operations                                 | \$ (3.49)                             | 0.66        | \$ (2.83)   |
| Net loss  | \$ (3.49)                             | 0.66        | \$ (2.83)   |
| <br>  |                                       |             |             |
| Diluted loss per common share:                        |                                       |             |             |
| Continuing operations                                 | \$ (3.49)                             | 0.66        | \$ (2.83)   |
| Net loss  | \$ (3.49)                             | 0.66        | \$ (2.83)   |

## Newly Adopted Accounting Principles

**Topic 842 - Leases.** In February 2016, the FASB issued Accounting Standard Update No. 2016-02, *Leases* (“ASU 2016-02”), which establishes ASC Topic 842, *Leases* (“ASC 842”), replaced previous lease accounting guidance along with subsequent ASUs issued in 2018 to clarify certain provisions of ASU 2016-02. ASC 842 changes the accounting for leases, including a requirement to record leases with terms of greater than twelve months on the balance sheet as assets and liabilities. ASC 842 also requires us to expand our financial statement disclosures on leasing activities.

We adopted ASC 842 effective January 1, 2019 and elected the modified retrospective transition method, which specified the comparative financial information will not be restated and will continue to be reported under the lease standard in effect during those periods. We elected the “package of practical expedients,” which permits us not to reassess under the new standard our prior conclusions on lease identification, lease classification and initial direct costs. We also elected the short-term lease recognition practical expedient in which leases with a term of 12 months or less will not be recognized on the balance sheet and the practical expedient to not separate lease and non-lease components for the majority of our leases. We did not elect the hindsight practical expedient.

The impact of ASC 842 on our consolidated balance sheet beginning January 1, 2019 was the recognition of right-of-use assets and lease liabilities for operating leases, while our accounting for finance leases remained substantially unchanged. The cumulative effect of adoption on January 1, 2019 resulted in a \$0.4 million decrease, net of tax, to beginning retained earnings. The adoption of ASC 842 did not result in any material impacts to our statements of operations or statements of cash flows. Amounts recognized at January 1, 2019 for operating leases were as follows (in thousands):

|  | January 1, 2019 |
|--|-----------------|
| Operating lease right-of-use assets            | \$ 66,555       |
| Current portion of operating lease obligations | 17,770          |
| Operating lease obligations (non-current)      | 54,477          |

## Accounting Principles Not Yet Adopted

**ASU No. 2016-13.** In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which amends GAAP by introducing a new impairment model for financial instruments that is based on expected credit losses rather than incurred credit losses. The new impairment model applies to most financial assets, including trade accounts receivable. ASU 2016-13 is effective for us as of January 1, 2020 and requires a modified retrospective transition approach. We are currently evaluating the impact this ASU will have on our financial statements, but we do not expect such adoption to have a material impact on our results of operations or financial position.

**ASU No. 2018-15.** In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Topic 350): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (“ASU 2018-15”), that requires implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if those costs would be capitalized by the customer in a software licensing arrangement under the internal-use software guidance in Topic 350. ASU 2018-15 requires a customer to disclose the nature of its hosting arrangements that are service contracts and provide disclosures as if the deferred implementation costs were a separate, major depreciable asset class. ASU 2018-15 is effective for us as of January 1, 2020. We are currently evaluating the impact this ASU will have on our financial statements, but we do not expect such adoption to have a material impact on our results of operations, financial position or cash flows.

## 2. REVENUE

In accordance with ASC Topic 606, *Revenue from Contracts with Customers*, (“ASC 606”), which was adopted as of January 1, 2018, we follow a five-step process to recognize revenue: 1) identify the contract with the customer, 2) identify the performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations and 5) recognize revenue when the performance obligations are satisfied.

Most of our contracts with customers are short-term in nature and billed on a time and materials basis, while certain other contracts are at a fixed price. Certain contracts may contain a combination of fixed and variable elements. We act as a principal and have performance obligations to provide the service itself or oversee the services provided by any subcontractors. Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties, such as taxes assessed by governmental authorities. Generally, in contracts where the amount of consideration is variable, the amount is determinable each period based on our right to invoice (as discussed further below) the customer for services performed

to date. As most of our contracts contain only one performance obligation, the allocation of a contracts transaction price to multiple performance obligations is generally not applicable. Customers are generally billed as we satisfy our performance obligations and payment terms typically range from 30 to 90 days from the invoice date. Billings under certain fixed-price contracts may be based upon the achievement of specified milestones, while some arrangements may require advance customer payment. Our contracts do not include significant financing components since the contracts typically span less than one year. Contracts generally include an assurance type warranty clause to guarantee that the services comply with agreed specifications. The warranty period typically is 12 months or less from the date of service. Warranty expenses were not material for the twelve months ended December 31, 2019, 2018 and 2017.

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

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

|                 | Twelve Months Ended December 31, 2019 |                 |              |
|-----------------|---------------------------------------|-----------------|--------------|
|                 | United States and Canada              | Other Countries | Total        |
| Revenue:        |                                       |                 |              |
| IHT             | \$ 496,789                            | \$ 16,161       | \$ 512,950   |
| MS              | 393,120                               | 142,252         | 535,372      |
| Quest Integrity | 76,050                                | 38,942          | 114,992      |
| Total           | \$ 965,959                            | \$ 197,355      | \$ 1,163,314 |

|                 | Twelve Months Ended December 31, 2018 |                 |              |
|-----------------|---------------------------------------|-----------------|--------------|
|                 | United States and Canada              | Other Countries | Total        |
| Revenue:        |                                       |                 |              |
| IHT             | \$ 602,615                            | \$ 14,763       | \$ 617,378   |
| MS              | 383,405                               | 148,960         | 532,365      |
| Quest Integrity | 62,262                                | 34,924          | 97,186       |
| Total           | \$ 1,048,282                          | \$ 198,647      | \$ 1,246,929 |

|                 | Twelve Months Ended December 31, 2019           |                                 |               |           |              |
|-----------------|---|---------------------------------|---------------|-----------|--------------|
|                 | Non-Destructive Evaluation and Testing Services | Repair and Maintenance Services | Heat Treating | Other     | Total        |
| Revenue:        |   |                                 |               |           |              |
| IHT             | \$ 409,413                                      | \$ 755                          | \$ 71,689     | \$ 31,093 | \$ 512,950   |
| MS              | —   | 527,020                         | 2,773         | 5,579     | 535,372      |
| Quest Integrity | 114,992   | —                               | —             | —         | 114,992      |
| Total           | \$ 524,405                                      | \$ 527,775                      | \$ 74,462     | \$ 36,672 | \$ 1,163,314 |

Twelve Months Ended December 31, 2018

|                 | Non-Destructive<br>Evaluation and<br>Testing Services <sup>1</sup> | Repair and<br>Maintenance<br>Services | Heat Treating    | Other            | Total               |
|-----------------|--|---------------------------------------|------------------|------------------|---------------------|
| Revenue:        |  |                                       |                  |                  |                     |
| IHT             | \$ 493,806   | \$ 27,420                             | \$ 80,840        | \$ 15,312        | \$ 617,378          |
| MS              | 402  | 523,701                               | 2,753            | 5,509            | 532,365             |
| Quest Integrity | 97,186   | —                                     | —                | —                | 97,186              |
| Total           | <u>\$ 591,394</u>  | <u>\$ 551,121</u>                     | <u>\$ 83,593</u> | <u>\$ 20,821</u> | <u>\$ 1,246,929</u> |

<sup>1</sup> This service type comprises the “Asset Integrity Management” and “Non-Destructive Evaluation” service types as disclosed in the 2018 Form 10-K.

For additional information on our reportable operating segments and geographic information, refer to Note 15.

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

The following table provides information about trade accounts receivable, contract assets and contract liabilities as of December 31, 2019 and December 31, 2018 (in thousands):

|   | December 31, 2019 | December 31, 2018 |
|---|-------------------|-------------------|
| Trade accounts receivable, net <sup>1</sup> | \$ 245,617        | \$ 268,352        |
| Contract assets <sup>2</sup>                | \$ 4,671          | \$ 5,745          |
| Contract liabilities <sup>3</sup>           | \$ 1,224          | \$ 1,784          |

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

<sup>2</sup> Included in the “Prepaid expenses and other current assets” line on the consolidated balance sheet.

<sup>3</sup> Included in the “Other accrued liabilities” line of the consolidated balance sheet.

The \$1.1 million decrease in our contract assets from December 31, 2018 to December 31, 2019 is due to fewer fixed price contracts in progress at December 31, 2019 as compared to December 31, 2018, consistent with lower activity levels in the fourth quarter of 2019 compared to the same quarter in 2018. The \$0.6 million decrease in contract liabilities is due to our completion of performance obligations during the year ended December 31, 2018 associated with contracts under which customers had paid for all or a portion of the consideration in advance of the work being performed. Due to the short-term nature of our contracts, contract liability balances as of the end of any period are generally recognized as revenue in the following quarter. Accordingly, essentially all of the contract liability balance at December 31, 2018 was recognized as revenue during the year ended December 31, 2019.

**Contract costs.** The Company recognizes the incremental costs of obtaining contracts as selling, general and administrative expenses when incurred if the amortization period of the asset that otherwise would have been recognized is one year or less. Costs to fulfill a contract are recorded as assets if they relate directly to a contract or a specific anticipated contract, the costs generate or enhance resources that will be used in satisfying performance obligations in the future and the costs are expected to be recovered. Costs to fulfill recognized as assets primarily consist of labor and materials costs and generally relate to engineering and set-up costs incurred prior to the satisfaction of performance obligations begins. Assets recognized for costs to fulfill a contract are included in the “Prepaid expenses and other current assets” line of the consolidated balance sheets and were not material as of December 31, 2019 and December 31, 2018. Such assets are recognized as expenses as we transfer the related goods or services to the customer. All other costs to fulfill a contract are expensed as incurred.

**Remaining performance obligations.** As of December 31, 2019 and December 31, 2018, there were no material amounts of remaining performance obligations that are required to be disclosed. As permitted by ASC 606, we have elected not to disclose information about remaining performance obligations where i) the performance obligation is part of a contract that has an original expected duration of one year or less or ii) when we recognize revenue from the satisfaction of the performance obligation in accordance with the right-to-invoice practical expedient.

### 3. RECEIVABLES

A summary of accounts receivable as of December 31, 2019 and 2018 is as follows (in thousands):

|                                 | December 31, |            |
|---------------------------------|--------------|------------|
|                                 | 2019         | 2018       |
| Trade accounts receivable       | \$ 192,743   | \$ 207,266 |
| Unbilled revenues               | 62,864       | 76,268     |
| Allowance for doubtful accounts | (9,990)      | (15,182)   |
| Total                           | \$ 245,617   | \$ 268,352 |

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

|                                 | Twelve Months Ended<br>December 31, |           |           |
|---------------------------------|-------------------------------------|-----------|-----------|
|                                 | 2019                                | 2018      | 2017      |
| Balance at beginning of period  | \$ 15,182                           | \$ 11,308 | \$ 7,835  |
| Provision for doubtful accounts | (2,573)                             | 11,662    | 7,097     |
| Write-off of bad debts          | (2,619)                             | (7,788)   | (3,624)   |
| Balance at end of period        | \$ 9,990                            | \$ 15,182 | \$ 11,308 |

### 4. INVENTORY

A summary of inventory as of December 31, 2019 and 2018 is as follows (in thousands):

|                  | December 31, |           |
|------------------|--------------|-----------|
|                  | 2019         | 2018      |
| Raw materials    | \$ 7,555     | \$ 8,448  |
| Work in progress | 2,851        | 3,900     |
| Finished goods   | 28,789       | 36,192    |
| Total            | \$ 39,195    | \$ 48,540 |

## 5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of December 31, 2019 and 2018 is as follows (in thousands):

|   | December 31, |            |
|---|--------------|------------|
|   | 2019         | 2018       |
| Land                                      | \$ 6,380     | \$ 6,376   |
| Buildings and leasehold improvements      | 59,177       | 57,006     |
| Machinery and equipment                   | 284,020      | 269,084    |
| Furniture and fixtures                    | 10,946       | 10,253     |
| Capitalized ERP system development costs  | 46,637       | 46,637     |
| Computers and computer software           | 22,906       | 15,826     |
| Automobiles                               | 4,642        | 4,879      |
| Construction in progress                  | 13,088       | 6,550      |
| Total                                     | 447,796      | 416,611    |
| Accumulated depreciation and amortization | (255,845)    | (221,817)  |
| Property, plant, and equipment, net       | \$ 191,951   | \$ 194,794 |

Included in the table above are assets under finance leases of \$5.6 million and \$5.3 million and accumulated amortization of \$0.5 million and \$0.1 million as of December 31, 2019 and December 31, 2018, respectively. Depreciation expense for the years ended December 31, 2019, 2018 and 2017 was \$34.4 million, \$36.2 million and \$35.7 million, respectively.

## 6. INTANGIBLE ASSETS

A summary of intangible assets as of December 31, 2019 and 2018 is as follows (in thousands):

|                        | December 31, 2019           |                             |                           |
|------------------------|-----------------------------|-----------------------------|---------------------------|
|                        | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Customer relationships | \$ 174,940                  | \$ (63,727)                 | \$ 111,213                |
| Non-compete agreements | 5,466                       | (5,306)                     | 160                       |
| Trade names            | 24,724                      | (21,146)                    | 3,578                     |
| Technology             | 7,838                       | (5,976)                     | 1,862                     |
| Licenses               | 848                         | (642)                       | 206                       |
| Total                  | \$ 213,816                  | \$ (96,797)                 | \$ 117,019                |

|                        | December 31, 2018           |                             |                           |
|------------------------|-----------------------------|-----------------------------|---------------------------|
|                        | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Customer relationships | \$ 174,894                  | \$ (51,160)                 | \$ 123,734                |
| Non-compete agreements | 5,433                       | (4,882)                     | 551                       |
| Trade names            | 24,753                      | (20,594)                    | 4,159                     |
| Technology             | 7,847                       | (5,187)                     | 2,660                     |
| Licenses               | 851                         | (583)                       | 268                       |
| Total                  | \$ 213,778                  | \$ (82,406)                 | \$ 131,372                |

Amortization expense on intangible assets for the years ended December 31, 2019, 2018 and 2017 was \$14.3 million, \$28.7 million and \$16.5 million, respectively. Amortization expense for current intangible assets is forecast to be approximately \$14 million in 2020 and approximately \$13 million per year from 2021 through 2024.

The lower amortization expense in 2019 is primarily due to a change in the estimated useful life of an intangible asset associated with the Furmanite trade name in 2018. Management determined that, as a result of initiatives to consolidate the Company's branding, the useful life of this intangible asset was not expected to extend beyond December 31, 2018. In accordance with ASC 350, we accounted for the change in useful life prospectively effective January 1, 2018 and amortized the remaining balance over 2018, which resulted in incremental amortization expense in 2018 of \$12 million which did not recur in 2019.

The weighted-average amortization period for intangible assets subject to amortization was 13.6 years as of December 31, 2019. The weighted-average amortization period as of December 31, 2019 is 13.6 years for customer relationships, 5.0 years for non-compete agreements, 14.7 years for trade names, 10.0 years for technology and 10.5 years for licenses.

## 7. OTHER ACCRUED LIABILITIES

A summary of other accrued liabilities as of December 31, 2019 and 2018 is as follows (in thousands):

|  | December 31, |           |
|--|--------------|-----------|
|  | 2019         | 2018      |
| Payroll and other compensation expenses            | \$ 45,934    | \$ 47,988 |
| Insurance accruals                                 | 14,289       | 16,001    |
| Property, sales and other non-income related taxes | 8,593        | 7,271     |
| Lease commitments                                  | —            | 1,145     |
| Contract liabilities                               | 1,224        | 1,784     |
| Accrued commission                                 | 3,299        | 2,290     |
| Accrued interest                                   | 5,015        | 5,261     |
| Volume discount                                    | 2,077        | 4,322     |
| Contingent consideration                           | —            | 429       |
| Professional fees                                  | 563          | 1,219     |
| Other  | 5,512        | 7,598     |
| Total  | \$ 86,506    | \$ 95,308 |



## 8. INCOME TAXES

For the years ended December 31, 2019, 2018 and 2017, our income tax benefit on the loss from continuing operations resulted in an effective tax rate of 1%, 33% and 39%, respectively. Our income tax benefit on continuing operations for the years ended December 31, 2019, 2018 and 2017 was \$0.4 million, \$31.1 million and \$53.1 million, respectively, and includes federal, state and foreign taxes. The components of our tax benefit on continuing operations were as follows (in thousands):

|  | <u>Current</u>   | <u>Deferred</u>    | <u>Total</u>       |
|--|------------------|--------------------|--------------------|
| Twelve months ended December 31, 2019: |                  |                    |                    |
| U.S. Federal                           | \$ (105)         | \$ (4,349)         | \$ (4,454)         |
| State & local                          | 519              | (1,230)            | (711)              |
| Foreign jurisdictions                  | 2,340            | 2,389              | 4,729              |
|  | <u>\$ 2,754</u>  | <u>\$ (3,190)</u>  | <u>\$ (436)</u>    |
| Twelve months ended December 31, 2018: |                  |                    |                    |
| U.S. Federal                           | \$ (3,295)       | \$ (27,670)        | \$ (30,965)        |
| State & local                          | 509              | (2,360)            | (1,851)            |
| Foreign jurisdictions                  | 3,457            | (1,704)            | 1,753              |
|  | <u>\$ 671</u>    | <u>\$ (31,734)</u> | <u>\$ (31,063)</u> |
| Twelve months ended December 31, 2017: |                  |                    |                    |
| U.S. Federal                           | \$ 6,177         | \$ (62,222)        | \$ (56,045)        |
| State & local                          | 170              | (4,819)            | (4,649)            |
| Foreign jurisdictions                  | 6,821            | 795                | 7,616              |
|  | <u>\$ 13,168</u> | <u>\$ (66,246)</u> | <u>\$ (53,078)</u> |

The components of pre-tax income (loss) from continuing operations for the years ended December 31, 2019, 2018 and 2017 were as follows (in thousands):

|          | <u>Twelve Months Ended<br/>December 31,</u> |                    |                     |
|----------|---|--------------------|---------------------|
|          | <u>2019</u>                                 | <u>2018</u>        | <u>2017</u>         |
| Domestic | \$ (34,720)                                 | \$ (90,822)        | \$ (149,045)        |
| Foreign  | 1,867                                       | (3,387)            | 11,512              |
|          | <u>\$ (32,853)</u>                          | <u>\$ (94,209)</u> | <u>\$ (137,533)</u> |

The income tax benefit attributable to the loss from continuing operations differed from the amounts computed by applying the U.S. Federal income tax rate (21% in 2019 and 2018, and 35% in 2017) to pre-tax loss from continuing operations as a result of the following (in thousands):

|   | Twelve Months Ended<br>December 31, |             |              |
|---|-------------------------------------|-------------|--------------|
|   | 2019                                | 2018        | 2017         |
| Pre-tax loss from continuing operations                 | \$ (32,853)                         | \$ (94,209) | \$ (137,533) |
| Computed income taxes at statutory rate                 | (6,899)                             | (19,784)    | (48,136)     |
| State income taxes, net of federal benefit <sup>1</sup> | (820)                               | (974)       | (4,709)      |
| Foreign tax rate differential                           | (300)                               | (52)        | (642)        |
| Deferred taxes on investment in foreign subsidiaries    | 18                                  | (7,284)     | (17,079)     |
| Non-deductible expenses                                 | 658                                 | 686         | 1,030        |
| Non-deductible compensation <sup>1</sup>                | 559                                 | 829         | —            |
| Foreign withholding <sup>1</sup>                        | 670                                 | 1,615       | 1,407        |
| Foreign tax credits                                     | —                                   | —           | (17,445)     |
| Other tax credits                                       | —                                   | (1,995)     | (631)        |
| Deemed repatriation tax                                 | —                                   | (1,751)     | 24,374       |
| Goodwill impairment                                     | —                                   | —           | 19,442       |
| Valuation allowance                                     | 3,682                               | 2,923       | 1,249        |
| Rate change   | 684                                 | 81          | (17,360)     |
| Other <sup>1</sup>                                      | 1,312                               | (5,357)     | 5,422        |
| Total benefit for income tax on continuing operations   | \$ (436)                            | \$ (31,063) | \$ (53,078)  |

<sup>1</sup> Compared to our previously filed 2018 Annual Report on Form 10-K, \$1.4 million was reclassified from “Other” to “State income taxes, net of federal benefit” for the twelve months ended December 31, 2018. Additionally, “Non-deductible compensation” and “Foreign withholding tax” were moved from “Other” to separate line disclosures.

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

|   | December 31,      |                 |
|---|-------------------|-----------------|
|   | 2019              | 2018            |
| Deferred tax assets:                        |                   |                 |
| Accrued compensation and benefits           | \$ 8,909          | \$ 10,463       |
| Receivables                                 | 1,644             | 3,096           |
| Inventory                                   | 397               | 422             |
| Stock options                               | 768               | 1,101           |
| Other accrued liabilities                   | 1,247             | 2,058           |
| Tax credit carry forward                    | 312               | 1,920           |
| Net operating loss carry forwards           | 50,447            | 48,732          |
| Other                                       | 9,517             | 5,925           |
| Deferred tax assets                         | <u>73,241</u>     | <u>73,717</u>   |
| Less: Valuation allowance                   | (14,912)          | (10,549)        |
| Deferred tax assets, net                    | <u>58,329</u>     | <u>63,168</u>   |
| Deferred tax liabilities:                   |                   |                 |
| Property, plant and equipment               | (17,921)          | (22,429)        |
| Goodwill and intangible costs               | (28,655)          | (23,210)        |
| Unremitted earnings of foreign subsidiaries | (5,393)           | (5,375)         |
| Convertible debt                            | (5,767)           | (7,055)         |
| Other                                       | (2,400)           | (3,553)         |
| Deferred tax liabilities                    | <u>(60,136)</u>   | <u>(61,622)</u> |
| Net deferred tax asset (liability)          | <u>\$ (1,807)</u> | <u>\$ 1,546</u> |

Management evaluates all available evidence, both positive and negative, to determine whether sufficient future taxable income will be generated to allow for the realization of the existing deferred tax assets. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. A significant factor of negative evidence evaluated was the cumulative pre-tax loss incurred over the three-year period ended December 31, 2019. This objective evidence limits the ability to consider other subjective positive evidence, such as the Company's projections for future pre-tax income.

On the basis of this evaluation, as of December 31, 2019, a valuation allowance of \$14.9 million has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. This valuation allowance relates primarily to the deferred tax assets for federal, foreign and state tax net operating loss carryforwards. The amount of deferred tax asset considered realizable could be adjusted if there are changes to net operating loss carryforward periods or there is a change to the weight assessed on various sources of positive and negative evidence.

The deferred tax asset presented for net operating loss carryforwards is net of any unrecognized tax benefits that has been established related to income tax returns filed.

At December 31, 2019, we had net operating loss carry forwards for U.S. federal income tax purposes of \$151.3 million. Of this amount, \$93.5 million expires in various dates through 2037 and \$57.8 million has an indefinite carry forward period. These carryforwards are available, subject to certain limitations, to offset future taxable income. Further, we have state net operating loss carryforwards of \$122.0 million with \$114.3 million expiring on various dates through 2039 and \$7.7 million with an indefinite carryforward period.

In addition, as of December 31, 2019, we have alternative minimum tax credits of approximately \$2.1 million which can be used to offset regular income tax or is refundable in 2019, 2020, and 2021.

As of December 31, 2019, we had foreign net operating loss carry forwards totaling \$9.2 million that are expected to be utilized in the future periods. A total of \$8.4 million has an unlimited carry forward period and will not expire.

At December 31, 2019, none of our undistributed earnings of foreign operations were considered to be permanently reinvested overseas. As of December 31, 2019, the deferred tax liability related to undistributed earnings of foreign subsidiaries was \$5.4 million.

At December 31, 2019, we have established liabilities for uncertain tax positions of \$1.9 million, inclusive of interest and penalties. To the extent these unrecognized tax benefits are recognized, they would affect our effective tax rate. Our policy is to recognize interest and penalties related to unrecognized tax benefits in income tax expense.

We file income tax returns in the U.S. with federal and state jurisdictions as well as various foreign jurisdictions. With few exceptions, we are no longer subject to U.S. Federal, state and local or non-U.S. income tax examinations by tax authorities for years prior to 2015. We are currently under federal audit for the tax year ended December 31, 2017. We do not anticipate any material adjustments related to this examination.

Periodic examinations of our tax filings occur by the taxing authorities for the jurisdictions in which we conduct business. These examinations review the significant positions taken on our returns, including the timing and amount of income and deductions reported, as well as the allocation of income among multiple taxing jurisdictions. The Company does not expect any material adjustments to result from positions taken on its income tax returns.

The following table summarizes the Company's reconciliation of gross unrecognized tax benefits, excluding penalties and interest, for the year ended December 31, 2019, 2018 and 2017 (in thousands):

|  | Twelve Months Ended<br>December 31, |                   |                   |
|--|-------------------------------------|-------------------|-------------------|
|  | 2019                                | 2018 <sup>1</sup> | 2017 <sup>1</sup> |
| Unrecognized tax benefits - January 1                                      | \$ 1,749                            | \$ 991            | \$ 716            |
| Additions based on tax positions related to prior years                    | 227                                 | 1,004             | 275               |
| Reductions based on tax positions related to prior years                   | (415)                               | —                 | —                 |
| Settlements  | —                                   | —                 | —                 |
| Reductions resulting from a lapse of the applicable statute of limitations | (14)                                | (246)             | —                 |
| Unrecognized tax benefits - December 31                                    | <u>\$ 1,547</u>                     | <u>\$ 1,749</u>   | <u>\$ 991</u>     |

<sup>1</sup> 2018 and 2017 revised figures were not considered material. Penalties and interest were excluded in 2019, therefore 2018 and 2017 amounts were revised for consistency.

The Company has recorded the unrecognized tax benefits in other long-term liabilities in the consolidated balance sheets. As of December 31, 2019 and December 31, 2018, there were approximately \$0.3 million and \$0.5 million, respectively, of interest and penalties related to unrecognized tax benefits that are recorded in income tax expense. The estimated amount of liabilities recorded for uncertain tax positions that we believe will be effectively settled within the next twelve months is immaterial.

### ***The 2017 Tax Act and SAB 118 Provisional Estimates***

Due to the complexities involved in accounting for the 2017 Tax Act, the SEC issued SAB 118, which requires that companies include in their financial statements estimates of the impact of the 2017 Tax Act to the extent such estimates have been determined.

Pursuant to the SAB 118, the company was allowed a measurement period of up to one year after the enactment date of the 2017 Tax Act to finalize the recording of the related tax impacts. During the year ended December 31, 2018, the Company finalized the recording of the impacts of the 2017 Tax Act and recorded an income tax benefit of \$1.8 million, reflecting an adjustment to the provisional estimate of the deemed repatriation transition tax. As a result of the final calculation of the transition tax liability, the Company also recorded an adjustment to the deferred tax liability associated with investments in foreign subsidiaries.

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

As of December 31, 2019 and 2018, our long-term debt and finance lease obligations are summarized as follows (in thousands):

|  | December 31, |            |
|--|--------------|------------|
|  | 2019         | 2018       |
| Credit Facility revolver   | \$ 73,876    | \$ 156,843 |
| Credit Facility term loan <sup>1</sup>                                   | 49,735       | —          |
| Total Credit Facility  | 123,611      | 156,843    |
| Convertible debt <sup>2</sup>  | 201,619      | 195,184    |
| Finance lease obligations  | 5,363        | 5,356      |
| Total long-term debt and finance lease obligations                       | 330,593      | 357,383    |
| Less: current portion of long-term debt and finance lease obligations    | 5,294        | 569        |
| Total long-term debt and finance lease obligations, less current portion | \$ 325,299   | \$ 356,814 |

<sup>1</sup> Comprised of principal amount outstanding, less unamortized discount and issuance costs.

<sup>2</sup> Comprised of principal amount outstanding plus embedded derivative liability (if any), less unamortized discount and issuance costs. See *Convertible Debt* section below for additional information.

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

| <u>December 31</u> |            |
|--------------------|------------|
| 2020               | \$ 5,000   |
| 2021               | 118,876    |
| 2022               | —          |
| 2023               | 230,000    |
| 2024               | —          |
| Thereafter         | —          |
| Total              | \$ 353,876 |

For information on our finance lease obligations, see footnote 10.

### ***Credit Facility***

On August 30, 2019, we renewed our Credit Facility under the Eighth Amendment to the Third Amended and Restated Credit Agreement. The Eighth Amendment amends and restates certain portions of the Third Amended and Restated Credit Agreement, dated as of July 7, 2015. In accordance with the Eighth Amendment, the Credit Facility has a borrowing capacity of up to \$275.0 million and consists of a \$225.0 million revolving loan facility and a \$50.0 million term loan facility. The entire \$50.0 million term loan amount was used to pay the outstanding principal amount borrowed under the Credit Facility prior to the effectiveness of the Eighth Amendment. The Credit Facility allows for an increase in total commitments of up to an additional \$100 million if certain conditions are met. The swing line facility is \$35.0 million. The Credit Facility matures on July 7, 2021. Both the revolving loan facility and term loan bear interest based on a variable Eurodollar rate option (LIBOR plus 2.75% margin at December 31, 2019) and have commitment fees on unused borrowing capacity (0.50% at December 31, 2019). The Credit Facility limits our ability to pay cash dividends. The Company's obligations under the Credit Facility are guaranteed by its material direct and indirect domestic subsidiaries and are secured by a lien on substantially all of the Company's and the guarantors' tangible and intangible property (subject to certain specified exclusions) and by a pledge of all of the equity interests in the Company's material direct and indirect domestic subsidiaries and 65% of the equity interests in the Company's material first-tier foreign subsidiaries.

The Eighth Amendment amended the financial covenants in the Credit Facility by eliminating the ratio of consolidated EBITDA to consolidated interest charges (the "Interest Coverage Ratio," as defined in the Credit Facility agreement), adding the ratio of consolidated funded indebtedness to consolidated EBITDA (the "Net Leverage Ratio," as defined in the Credit Facility agreement), adding the ratio of the sum of consolidated EBITDA less taxes and capital expenditures paid in cash to consolidated debt service (the "Debt Service Coverage Ratio," as defined in the Credit Facility agreement) and modifying the ratio of senior secured debt to consolidated EBITDA (the "Senior Secured Leverage Ratio," as defined in the Credit Facility agreement). The financial covenant requirements under the Eighth Amendment are summarized in the table below.

| <u>Fiscal Quarter Ending</u>  | <u>Maximum Senior Secured Leverage Ratio</u> |
|---|--|
| December 31, 2019, March 31, 2020, June 30, 2020 and September 30, 2020 | 2.75 to 1.00                                 |
| December 31, 2020 and each Fiscal Quarter thereafter                    | 2.50 to 1.00                                 |

| <u>Fiscal Quarter Ending</u>                         | <u>Maximum Net Leverage Ratio</u> |
|--|-----------------------------------|
| March 31, 2020                                       | 5.50 to 1.00                      |
| June 30, 2020  | 5.25 to 1.00                      |
| September 30, 2020                                   | 5.00 to 1.00                      |
| December 31, 2020 and each Fiscal Quarter thereafter | 4.50 to 1.00                      |

| <u>Fiscal Quarter Ending</u>  | <u>Minimum Debt Service Coverage Ratio</u> |
|---|--|
| December 31, 2019, March 31, 2020, June 30, 2020 and September 30, 2020 | 1.25 to 1.00                               |
| December 31, 2020 and each Fiscal Quarter thereafter                    | 1.50 to 1.00                               |

As of December 31, 2019, we are in compliance with these covenants. The Senior Secured Leverage Ratio and the Debt Service Coverage Ratio stood at 1.89 to 1.00 and 2.17 to 1.00, respectively, as of December 31, 2019. We are not bound by a covenant with respect to the Net Leverage Ratio until March 31, 2020; however, as of December 31, 2019 this ratio stood at 4.97 to 1.00.

At December 31, 2019, we had \$12.2 million of cash on hand and approximately \$66 million of available borrowing capacity through our Credit Facility. As of December 31, 2019, we had \$2.1 million of unamortized debt issuance costs and debt discount that are being amortized over the life of the Credit Facility.

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

In order to secure our casualty insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. We were contingently liable for outstanding stand-by letters of credit totaling \$20.5 million at December 31, 2019 and \$22.8 million at December 31, 2018. Outstanding letters of credit reduce amounts available under our Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the Credit Facility.

### ***Convertible Debt***

#### *Description of the Notes*

On July 31, 2017, we issued \$230.0 million principal amount of 5.00% Convertible Senior Notes due 2023 (the “Notes”) in a private offering to qualified institutional buyers (as defined in the Securities Act of 1933) pursuant to Rule 144A under the Securities Act (the “Offering”). The Notes are senior unsecured obligations of the Company. The Notes bear interest at rate of 5.0% per year, payable semiannually in arrears on February 1 and August 1 of each year, beginning on February 1, 2018. The Notes mature on August 1, 2023 unless repurchased, redeemed or converted in accordance with their terms prior to such date. The Notes are convertible at an initial conversion rate of 46.0829 shares of our common stock per \$1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately \$21.70 per share, which represents a conversion premium of 40% to the last reported sale price of \$15.50 per share on the NYSE on July 25, 2017, the date the pricing of the Notes was completed. The conversion rate, and thus the conversion price, may be adjusted under certain circumstances as described in the indenture governing the Notes.

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

- during any calendar quarter commencing after the calendar quarter ending on December 31, 2017 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of Notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on such trading day;
- if we call any or all of the Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; or;
- upon the occurrence of specified corporate events described in the indenture governing the Notes.

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

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

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

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

Net proceeds received from the Offering were approximately \$222.3 million after deducting discounts, commissions and expenses. During 2017, we used \$160.0 million of the net proceeds to repay all outstanding borrowings under the term-loan portion of our Credit Facility and \$62.3 million of the net proceeds to repay a portion of the outstanding borrowings under the revolving portion of our Credit Facility, which may be subsequently reborrowed for general corporate purposes.

## Accounting Treatment of the Notes

As of December 31, 2019 and 2018, the Notes were recorded in our consolidated balance sheet as follows (in thousands):

|   | December 31, |            |
|---|--------------|------------|
|   | 2019         | 2018       |
| Liability component:  |              |            |
| Principal   | \$ 230,000   | \$ 230,000 |
| Unamortized issuance costs  | (4,756)      | (5,834)    |
| Unamortized discount  | (23,625)     | (28,982)   |
| Net carrying amount of the liability component <sup>1</sup>                 | 201,619      | 195,184    |
| Equity component:   |              |            |
| Carrying amount of the equity component, net of issuance costs <sup>2</sup> | \$ 13,912    | \$ 13,912  |

1 Included in the “Long-term debt and finance lease obligations” line of the consolidated balance sheets.

2 Relates to the portion of the Notes accounted for under ASC 470-20 (defined below) and is included in the “Additional paid-in capital” line of the consolidated balance sheets.

Under ASC 470-20, *Debt with Conversion and Other Options*, (“ASC 470-20”), an entity must separately account for the liability and equity components of convertible debt instruments that may be settled entirely or partially in cash upon conversion (such as the Notes) in a manner that reflects the issuer’s economic interest cost. However, entities must first consider the guidance in ASC 815-15, *Embedded Derivatives* (“ASC 815-15”), to determine if an instrument contains an embedded feature that should be separately accounted for as a derivative. Unless an exception under ASC 815-15 applies, such accounting requires that an embedded feature that is not “clearly and closely related” to the host contract be accounted for separately as a derivative and marked to fair value in the statement of operations each period. The Company concluded that the conversion feature is not “clearly and closely related” to the debt host contract. However, ASC 815-15 provides an exception for embedded features that are considered both indexed to our common stock and classified in stockholders’ equity. Because the Notes permit the Company to settle the conversion feature in cash, stock or any combination thereof at its election, ordinarily the conversion feature would be considered both indexed to our common stock and classified in stockholders’ equity and therefore exempt from the requirements of ASC 815-15. However, because the Notes could be convertible into more than 19.99% of our outstanding common stock and shareholder approval in accordance with the NYSE rules (as described above) to issue more than 19.99% of our outstanding common stock had not yet been obtained at the time the Notes were issued, the Company could have been required to settle the conversion feature for a portion of the Notes in cash instead of shares. Therefore, the conversion feature for a portion of the Notes could not be classified in stockholders’ equity and the exception under ASC 815-15 did not apply. As such, the Company concluded that for a portion of the Notes, it must recognize as an embedded derivative under ASC 815-15 while the remainder of the Notes were subject to ASC 470-20.

The Company determined the portions of the Notes subject to ASC 815-15 and ASC 470-20 as follows. First, while the Notes are initially convertible into 10,599,067 shares of common stock, the occurrence of certain corporate events could increase the conversion rate, which could result in the Notes becoming convertible into a maximum of 14,838,703 shares. As noted above, we were required to obtain stockholder approval to issue more than 5,964,858 shares of stock to settle the Notes upon conversion. Therefore, approximately 40% of the maximum number of shares were authorized for issuance without shareholder approval, while 8,873,845 shares, or approximately 60% would be required to be settled in cash. The Company thus concluded that embedded derivative accounting under ASC 815-15 was applicable to approximately 60% of the Notes, while the remaining 40% of the Notes were subject to ASC 470-20.

As a result of obtaining shareholder approval for the issuance of shares of common stock upon conversion of the Notes, the embedded derivative met the criteria to be classified in stockholders’ equity, effective on the date of shareholder approval. Accordingly, we recorded the change in fair value of the embedded derivative liability in our results of operations through the shareholder approval date of May 17, 2018 and then reclassified the embedded derivative liability to stockholders’ equity at its May 17, 2018 fair value of \$45.4 million during the second quarter of 2018. The related income tax effects of the reclassification charged directly to stockholders’ equity were \$7.8 million. As a result of the reclassification to stockholders’ equity, the embedded derivative will no longer be marked to fair value each period. Losses on the embedded derivative liability recognized in the consolidated statements of operations were \$24.8 million for the twelve months ended December 31, 2018 (incurred in the first and second quarters of 2018). Gains on the embedded derivative liability recognized in the consolidated statements of operations were \$0.8 million for the twelve months ended December 31, 2017.



We estimated the fair value of similar notes without the conversion feature to be \$194.2 million, with the resulting conversion feature having an estimated fair value of \$35.8 million at the issuance date. For the portion of the Notes subject to ASC 815-15, we recorded an embedded derivative liability at fair value of \$21.4 million and for the portion of the Notes subject to ASC 470-20, we recorded \$14.4 million as additional paid-in capital in stockholders' equity. The fair values recorded are "Level 2" measurements as defined in Note 11. The difference between the principal amount of the Notes and the amounts allocated to the embedded derivative liability and additional paid-in capital resulted in a debt discount of \$35.8 million that is amortized as interest expense over 72 months (the six-year period from issuance to maturity of the Notes).

The Company incurred approximately \$7.7 million in issuance costs associated with the Notes. Issuance costs of \$7.2 million were allocated as a reduction of the carrying amount of the debt while the remaining \$0.5 million were allocated as a reduction to additional paid-in capital in stockholders' equity. The portion allocated to the debt component is being amortized over the life of the debt. As of December 31, 2019, the remaining amortization period is 43 months.

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

|  | Twelve Months Ended<br>December 31, |                  |
|--|-------------------------------------|------------------|
|  | 2019                                | 2018             |
| Coupon interest                                    | \$ 11,500                           | \$ 11,500        |
| Amortization of debt discount and issuance costs   | 6,435                               | 5,886            |
| Total interest expense on convertible senior notes | <u>\$ 17,935</u>                    | <u>\$ 17,386</u> |
| Effective interest rate                            | 9.12%                               | 9.12%            |

### ***Derivatives and Hedging***

ASC 815, *Derivatives and Hedging* ("ASC 815"), requires that derivative instruments be recorded at fair value and included in the balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception date of a derivative. Special accounting for derivatives qualifying as fair value hedges allows derivatives' gains and losses to offset related results on the hedged item in the statement of operations. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. Hedge effectiveness is measured at least quarterly based on the relative cumulative changes in fair value between the derivative contract and the hedged item over time. Credit risks related to derivatives include the possibility that the counter-party will not fulfill the terms of the contract. We consider counterparty credit risk to our derivative contracts when valuing our derivative instruments.

Our borrowing of €12.3 million under the Credit Facility serves as an economic hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate will offset translation gains or losses attributable to our investment in our European operations. At December 31, 2019 the €12.3 million borrowing had a U.S. Dollar value of \$13.8 million.

As discussed above, we previously recorded an embedded derivative liability for a portion of the Notes. In accordance with ASC 815-15, the embedded derivative instrument was recorded at fair value each period with changes in fair value reflected in our results of operations. No hedge accounting was applied. As a result of obtaining shareholder approval for the issuance of shares upon conversion of the Notes, we recorded the change in fair value of the embedded derivative liability in our results of operations through the shareholder approval date of May 17, 2018 and then reclassified the embedded derivative liability to stockholders' equity at its May 17, 2018 fair value of \$45.4 million during the second quarter of 2018. As a result of the reclassification to stockholders' equity, the embedded derivative is no longer marked to fair value each period. See Note 11 for more information on the fair value measurement of the embedded derivative liability.

The amounts recognized in other comprehensive income (loss), reclassified into income (loss) and the amounts recognized in income (loss) for the years ended December 31, 2019, 2018 and 2017 are as follows (in thousands):

|  | <b>Gain (Loss) Recognized in Other Comprehensive Income (Loss)</b> |             |             | <b>Gain (Loss) Reclassified from Other Comprehensive Income (Loss) to Earnings</b> |             |             |
|--|--|-------------|-------------|--|-------------|-------------|
|  | <b>Twelve Months Ended December 31,</b>                            |             |             | <b>Twelve Months Ended December 31,</b>  |             |             |
|  | <b>2019</b>  | <b>2018</b> | <b>2017</b> | <b>2019</b>  | <b>2018</b> | <b>2017</b> |
| <b>Derivatives Classified as Hedging Instruments</b>       |  |             |             |  |             |             |
| Net investment hedge                                       | \$ 282   | \$ 658      | (1,802)     | \$ —   | \$ —        | \$ —        |
| <b>Gain (Loss) Recognized in Income (Loss)<sup>1</sup></b> |  |             |             |  |             |             |
| <b>Twelve Months Ended December 31,</b>                    |  |             |             |  |             |             |
|  | <b>2019</b>  | <b>2018</b> | <b>2017</b> |  |             |             |
| <b>Derivatives Not Classified as Hedging Instruments</b>   |  |             |             |  |             |             |
| Embedded derivative in convertible debt                    | \$ —   | \$ (24,783) | \$ 818      |  |             |             |

<sup>1</sup> Reflected as “Loss (gain) on convertible debt embedded derivative” in the consolidated statements of operations.

The following table presents the fair value totals and balance sheet classification for derivatives designated as hedges and derivatives not designated as hedges under ASC 815 (in thousands):

|  | <b>December 31, 2019</b> |                               |                   | <b>December 31, 2018</b> |                               |                   |
|--|--------------------------|-------------------------------|-------------------|--------------------------|-------------------------------|-------------------|
|  | <b>Classification</b>    | <b>Balance Sheet Location</b> | <b>Fair Value</b> | <b>Classification</b>    | <b>Balance Sheet Location</b> | <b>Fair Value</b> |
| <b>Derivatives Classified as Hedging Instruments</b> |                          |                               |                   |                          |                               |                   |
| Net investment hedge                                 | Liability                | Long-term debt                | \$ (4,186)        | Liability                | Long-term debt                | \$ (3,904)        |

## 10. LEASES

We determine if an arrangement is a lease at inception. Operating leases are included in “Operating lease right-of-use (‘ROU’) assets”, “operating lease liabilities” and “current portion of operating lease obligations” on our consolidated balance sheets. Finance leases are included in “property, plant and equipment, net”, “current portion of long-term debt and finance lease obligations” and “long-term debt and finance lease obligations” on our consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Variable lease payments and short-term lease payments (leases with initial terms less than 12 months) are expensed as incurred.

We have lease agreements with lease and non-lease components for certain equipment, office, and vehicle leases. We have elected the practical expedient to not separate lease and non-lease components and account for both as a single lease component.

We have operating and finance leases primarily for equipment, real estate, and vehicles. Our leases have remaining lease terms of 1 year to 15 years, some of which may include options to extend the leases for up to 10 years, and some of which may include options to terminate the leases within 1 year.

The components of lease expense are as follows (in thousands):

|                                     | <b>Twelve Months Ended<br/>December 31, 2019</b> |
|-------------------------------------|--|
| Operating lease costs               | \$ 30,331  |
| Variable lease costs                | 6,195  |
| Finance lease costs:                |  |
| Amortization of right-of-use assets | 322  |
| Interest on lease liabilities       | 333  |
| Total lease cost                    | <u>\$ 37,181</u>                                 |

Other information related to leases are as follows (in thousands):

|  | <b>Twelve Months Ended<br/>December 31, 2019</b> |
|--|--|
| Supplemental cash flow information:                                    |  |
| Cash paid for amounts included in the measurement of lease liabilities |  |
| Operating cash flows from operating leases                             | \$ 24,263  |
| Operating cash flows from finance leases                               | 389  |
| Financing cash flows from finance leases                               | 291  |
| Right-of-use assets obtained in exchange for lease obligations         |  |
| Operating leases   | 16,242   |
| Finance leases   | 326  |

Amounts recognized in the condensed consolidated balance sheet are as follows (in thousands):

|   | <b>December 31, 2019</b> |
|---|--------------------------|
| <b>Operating Leases:</b>  |                          |
| Operating lease right-of-use assets                             | \$ 67,048                |
| Current portion of operating lease obligations                  | 17,100                   |
| Operating lease obligations (non-current)                       | 54,436                   |
| <b>Finance Leases:</b>  |                          |
| Property, plant and equipment, net                              | \$ 5,156                 |
| Current portion of long-term debt and finance lease obligations | 294                      |
| Long-term debt and finance lease obligations                    | 5,069                    |
| <b>Weighted average remaining lease term</b>                    |                          |
| Operating leases  | 6 years                  |
| Finance leases  | 13 years                 |
| <b>Weighted average discount rate</b>                           |                          |
| Operating leases  | 8.3%                     |
| Finance lease   | 6.3%                     |

As of December 31, 2019, we have no material additional operating and finance leases that have not yet commenced.

As of December 31, 2019, future minimum lease payments under non-cancellable (excluding short-term leases) are as follows (in thousands):

| <b>Twelve Months Ended December 31,</b> | <u>Operating Leases</u> | <u>Finance Lease</u> |
|---|-------------------------|----------------------|
| 2020                                    | 21,539                  | 593                  |
| 2021                                    | 16,399                  | 597                  |
| 2022                                    | 13,249                  | 601                  |
| 2023                                    | 10,834                  | 551                  |
| 2024                                    | 8,597                   | 542                  |
| Thereafter                              | 20,031                  | 5,105                |
| Total future minimum lease payments     | <u>90,649</u>           | <u>7,989</u>         |
| Less: Interest                          | 19,113                  | 2,626                |
| Present value of lease liabilities      | <u>\$ 71,536</u>        | <u>\$ 5,363</u>      |

#### ***Commitment Obligations Prior to January 1, 2019 Under ASC 840***

Under the transition guidance of Topic 842, we elected the effective date transition method. The following is the transition disclosure for undiscounted future gross minimum lease payments for non-cancellable leases as of December 31, 2018 under ASC 840 (in thousands):

| <b>Twelve Months Ended December 31,</b>   | <u>Operating Leases</u> | <u>Capital Lease</u> |
|---|-------------------------|----------------------|
| 2019                                      | \$ 23,315               | \$ 583               |
| 2020                                      | 16,858                  | 500                  |
| 2021                                      | 12,577                  | 504                  |
| 2022                                      | 9,873                   | 524                  |
| 2023                                      | 7,846                   | 525                  |
| Thereafter                                | 23,224                  | 5,631                |
| Total minimum lease payments              | <u>\$ 93,693</u>        | <u>\$ 8,267</u>      |
| Less: Interest on finance leases          |                         | <u>(2,911)</u>       |
| Total principal payable on finance leases |                         | <u>\$ 5,356</u>      |

Total rent expense resulting from operating leases, including short-term leases, for the years ended December 31, 2019, 2018 and 2017 were \$43.0 million, \$44.9 million and \$47.7 million, respectively.

## **11. FAIR VALUE MEASUREMENTS**

We apply the provisions of ASC 820, which among other things, requires enhanced disclosures about assets and liabilities carried at fair value.

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

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of December 31, 2019 and 2018. As required by ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

|                                       | December 31, 2019   |   |   |            |
|---------------------------------------|---|---|---|------------|
|                                       | Quoted Prices in Active Markets for Identical Items (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total      |
| Liabilities:                          |   |   |   |            |
| Contingent consideration <sup>1</sup> | \$ —  | \$ —  | \$ —                                      | \$ —       |
| Net investment hedge                  | \$ —  | \$ (4,186)                                    | \$ —                                      | \$ (4,186) |

|  | December 31, 2018   |   |   |            |
|--|---|---|---|------------|
|  | Quoted Prices in Active Markets for Identical Items (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total      |
| Liabilities:   |   |   |   |            |
| Contingent consideration <sup>1</sup>                | \$ —  | \$ —  | \$ 429                                    | \$ 429     |
| Net investment hedge                                 | \$ —  | \$ (3,904)                                    | \$ —                                      | \$ (3,904) |
| Embedded derivative in convertible debt <sup>2</sup> | \$ —  | \$ —  | \$ —                                      | \$ —       |

<sup>1</sup> The contingent consideration liability balance was fully paid in 2019, thus no balance exists as of December 31, 2019.

<sup>2</sup> The embedded derivative liability was reclassified to stockholders' equity as of May 17, 2018 and is no longer marked to fair value each period, as discussed in Note 9.

There were no transfers in and out of Level 3 during the years ended December 31, 2019 and 2018.

The fair value of the convertible debt embedded derivative liability was estimated using a lattice model with inputs including our stock price, our stock price volatility and interest rates. As the assumptions used in the valuation are primarily derived from observable market data, the fair value measurement is classified as Level 2 in the fair value hierarchy. See Note 9 for more information on the embedded derivative liability.

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

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

|                          | Twelve Months Ended December 31, |          |
|--------------------------|----------------------------------|----------|
|                          | 2019                             | 2018     |
| Beginning balance        | \$ 429                           | \$ 1,712 |
| Accretion of liability   | —                                | 39       |
| Foreign currency effects | (1)                              | (14)     |
| Payment                  | (428)                            | (1,106)  |
| Revaluation              | —                                | (202)    |
| Ending balance           | \$ —                             | \$ 429   |

## 12. 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 December 31, 2019, there were approximately 1.5 million restricted stock units, performance awards and stock options outstanding to officers, directors and key employees. The exercise price, terms and other conditions

applicable to each form of share-based compensation under our plans are generally determined by the Compensation Committee of our Board at the time of grant and may vary.

Our share-based payments consist primarily of stock units, performance awards, common stock and stock options. In May 2018, our shareholders approved the 2018 Team, Inc. Equity Incentive Plan (the “2018 Plan”), which replaced the 2016 Team, Inc. Equity Incentive Plan (the “2016 Plan”) and subsequently amended in May 2019. The 2018 Plan authorizes the issuance of share-based awards representing up to 1.2 million shares of common stock, plus the number of shares remaining available for issuance under the 2016 Plan, plus the number of shares subject to outstanding awards under specified prior plans that may become available for reissuance in certain circumstances. Shares issued in connection with our share-based compensation are issued out of authorized but unissued common stock.

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

Compensation expense related to share-based compensation totaled \$10.1 million, \$12.3 million and \$7.9 million for the years ended December 31, 2019, 2018 and 2017, respectively. Share-based compensation expense reflects an estimate of expected forfeitures. At December 31, 2019, \$14.9 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 2.6 years. The recognized income tax benefit totaled \$2.0 million, \$2.5 million and \$0.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Stock units are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each stock unit based on the market price on the date of grant. Stock units generally vest in annual installments over four years and the expense associated with the units is recognized over the same vesting period. We also grant common stock to our directors which typically vests immediately. Compensation expense related to stock units and director stock grants totaled \$5.8 million, \$7.9 million, \$7.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Transactions involving our stock units and director stock grants for the twelve months ended December 31, 2019 are summarized below:

|  | Twelve Months Ended<br>December 31, 2019 |                                   |
|--|--|-----------------------------------|
|  | No. of Stock<br>Units                    | Weighted<br>Average<br>Fair Value |
|  | (in thousands)                           |                                   |
| Stock and stock units, beginning of year | 856                                      | \$ 18.79                          |
| Changes during the year:                 |  |                                   |
| Granted                                  | 374                                      | \$ 16.57                          |
| Vested and settled                       | (378)                                    | \$ 19.59                          |
| Cancelled                                | (68)                                     | \$ 18.64                          |
| Stock and stock units, end of year       | 784                                      | \$ 17.35                          |

The weighted-average grant date fair value related to stock units and director stock grants during the years ended December 31, 2018 and 2017 was \$18.79 and \$13.64, respectively. The intrinsic value of stock units and director stock grants vested during the years ended December 31, 2019, 2018 and 2017 was \$5.7 million, \$4.8 million and \$3.0 million, respectively.

We have a performance stock unit award program whereby we grant Long-Term Performance Stock Unit (“LTPSU”) awards to our executive officers. Under this program, the Company communicates “target awards” to the executive officers at the beginning of a performance period. LTPSU awards cliff vest with the achievement of the performance goals and completion of the required service period. Settlement occurs with common stock as soon as practicable following the vesting date. LTPSU awards granted in

2018 (the “2018 Awards”) and in 2019 (the “2019 Awards”) are subject to a two-year performance period and a concurrent two-year service period. For the 2018 and 2019 Awards, the performance goal is separated into two independent performance factors based on (i) relative shareholder return (“RTSR”) as measured against a designated peer group and (ii) results of operations over the two-year performance period, with possible payouts ranging from 0% to 200% of the target awards for each of the two performance factors.

On January 24, 2018, we granted 350,000 performance units to our Chief Executive Officer that vest in 20% increments upon the achievement of five specified Company stock price milestones, subject to a minimum vesting period of one year and the provision of service through each of the vesting dates. Settlement occurs with common stock within 30 days of the respective vesting dates. Any outstanding unvested performance units are forfeited on the fifth anniversary of the grant date. The performance, time and employment criteria for the first stock price milestone were met on January 24, 2019 resulting in the vesting of 70,000 shares of common stock. No additional stock price milestones have been met.

The RTSR and the stock price milestone factors are considered to be market conditions under GAAP. For performance units subject to market conditions, we determine the fair value of the performance units based on the results of a Monte Carlo simulation, which uses market-based inputs as of the date of grant to simulate future stock returns. Compensation expense for awards with market conditions is recognized on a straight-line basis over the longer of (i) the minimum required service period and (ii) the service period derived from the Monte Carlo simulation, separately for each vesting tranche. For performance units subject to market conditions, because the expected outcome is incorporated into the grant date fair value through the Monte Carlo simulation, compensation expense is not subsequently adjusted for changes in the expected or actual performance outcome. For performance units not subject to market conditions, we determine the fair value of each performance unit based on the market price of our common stock on the date of grant. For these awards, we recognize compensation expense over the vesting term on a straight-line basis based upon the performance target that is probable of being met, subject to adjustment for changes in the expected or actual performance outcome. Compensation expense related to performance awards totaled \$4.3 million, \$4.3 million and \$0.8 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Transactions involving our performance awards during the twelve months ended December 31, 2019 are summarized below:

|  | Twelve Months Ended<br>December 31, 2019             |                                   |   |                                   |
|--|--|-----------------------------------|---|-----------------------------------|
|  | Performance Units Subject to Market<br>Conditions    |                                   | Performance Units Not Subject to<br>Market Conditions |                                   |
|  | No. of Stock<br>Units <sup>1</sup><br>(in thousands) | Weighted<br>Average<br>Fair Value | No. of Stock<br>Units <sup>1</sup><br>(in thousands)  | Weighted<br>Average<br>Fair Value |
| Performance stock units, beginning of period | 495  | \$ 14.47                          | 145   | \$ 17.88                          |
| Changes during the period:                   |  |                                   |   |                                   |
| Granted                                      | 127  | \$ 25.24                          | 127   | \$ 18.42                          |
| Vested and settled                           | (70)   | \$ 16.51                          | —   | \$ —                              |
| Cancelled                                    | (63)   | \$ 18.29                          | (63)  | \$ 21.68                          |
| Performance stock units, end of period       | <u>489</u>   | <u>\$ 16.49</u>                   | <u>209</u>  | <u>\$ 17.06</u>                   |

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

The weighted-average grant date fair value related to performance stock units during the year ended December 31, 2018 was \$15.25 and during the year ended December 31, 2017 was \$19.68. The intrinsic value of performance stock unit awards vested during the years ended December 31, 2019, 2018 and 2017 were \$1.0 million, \$0.3 million and zero, 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 years ended December 31, 2019 and 2018 and less than \$0.1 million for the year ended December 31, 2017. 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 for the twelve months ended December 31, 2019 are summarized below:

|  | Twelve Months Ended<br>December 31, 2019 |                                       |
|--|--|---------------------------------------|
|  | No. of<br>Options                        | Weighted<br>Average<br>Exercise Price |
|  | (in thousands)                           |                                       |
| Shares under option, beginning of year | 52                                       | \$ 32.56                              |
| Shares under option, end of year       | 52                                       | \$ 32.56                              |
| Exercisable at end of year             | 52                                       | \$ 32.56                              |

No stock options were granted during the years ended December 31, 2019, 2018 and 2017. There were no changes during the twelve months ended December 31, 2019. Options exercisable at December 31, 2019 had a weighted-average remaining contractual life of 1.7 years, and exercise prices ranging from \$21.12 to \$50.47. The intrinsic value of stock option awards exercised was insignificant for the years ended December 31, 2019, 2018 and 2017.

### 13. EMPLOYEE BENEFIT PLANS

**Defined contribution plan.** Under the Team, Inc. Salary Deferral Plan (the “Plan”), contributions are made to the Plan by qualified employees at their election and our matching contributions to the Plan are made at specified rates. Our contributions to the Plan in the years ended December 31, 2019, 2018, and 2017 were approximately \$9.8 million, \$11.0 million, \$10.4 million, respectively.

**Defined benefit plans.** In connection with our acquisition of Furmanite, we assumed liabilities associated with the defined benefit pension plans of two foreign subsidiaries, one plan covering certain United Kingdom employees (the “U.K. Plan”) and the other covering certain of its Norwegian employees (the “Norwegian Plan”). As the Norwegian Plan represented approximately 1.0% of both the Company’s total pension plan liabilities and total pension plan assets, only the schedules of net periodic pension cost (credit) and changes in benefit obligation and plan assets include combined amounts from the two plans in 2018, while assumption and narrative information relates solely to the U.K. Plan. In connection with the sale of the Company’s Norwegian operations in 2018, all assets and liabilities associated with the Norwegian Plan were transferred to the buyer.

Benefits for the U.K. Plan are based on the average of the employee’s salary for the last three years of employment. The U.K. Plan has had no new participants added since the plan was frozen in 1994 and accruals for future benefits ceased in connection with a plan curtailment in 2013. Plan assets are primarily invested in unitized pension funds managed by U.K. registered fund managers. The most recent valuation of the U.K. Plan was performed as of December 31, 2019. Estimated defined benefit pension plan contributions for 2020 are expected to be approximately \$4.0 million.

Pension benefit costs and liabilities are dependent on assumptions used in calculating such amounts. The primary assumptions include factors such as discount rates, expected investment return on plan assets, mortality rates and retirement rates. The discount rate assumption used to determine end of year benefit obligations was 2.0% as of December 31, 2019. These rates are reviewed annually and adjusted to reflect current conditions. These rates are determined appropriate based on reference to yields. The expected return on plan assets of 2.9% for 2020 is derived from detailed periodic studies, which include a review of asset allocation strategies, anticipated future long-term performance of individual asset classes, risks (standard deviations) and correlations of returns among the asset classes that comprise the plans’ asset mix. While the studies give appropriate consideration to recent plan performance and historical returns, the assumptions are primarily long-term, prospective rates of return. Mortality and retirement rates are based on actual and anticipated plan experience. In accordance with GAAP, actual results that differ from the assumptions are accumulated and are subject to amortization over future periods and, therefore, generally affect recognized expense in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the pension obligation and future expense.



Net pension cost (credit) included the following components (in thousands):

|   | Twelve Months Ended<br>December 31, |                   |              |
|---|-------------------------------------|-------------------|--------------|
|   | 2019                                | 2018              | 2017         |
| Service cost                              | \$ —                                | \$ 77             | \$ 90        |
| Interest cost                             | 2,323                               | 2,303             | 2,438        |
| Settlement cost                           | 221                                 | —                 | —            |
| Expected return on plan assets            | (2,378)                             | (3,720)           | (3,110)      |
| Amortization of prior service cost        | 32                                  | —                 | —            |
| Amortization of net actuarial (gain) loss | —                                   | (78)              | 71           |
| Net pension cost (credit)                 | <u>\$ 198</u>                       | <u>\$ (1,418)</u> | <u>(511)</u> |

The weighted-average assumptions used to determine benefit obligations at December 31, 2019 and 2018 are as follows:

|  | December 31,   |                |
|--|----------------|----------------|
|  | 2019           | 2018           |
| Discount rate                              | 2.0%           | 2.8%           |
| Rate of compensation increase <sup>1</sup> | Not applicable | Not applicable |
| Inflation                                  | 3.0%           | 3.2%           |

<sup>1</sup> Not applicable due to plan curtailment.

The weighted-average assumptions used to determine net periodic benefit cost (credit) for the years ended December 31, 2019 and 2018 are as follows:

|  | Twelve Months Ended<br>December 31, |                |
|--|-------------------------------------|----------------|
|  | 2019                                | 2018           |
| Discount rate                              | 2.8%                                | 2.5%           |
| Expected long-term return on plan assets   | 3.3%                                | 4.7%           |
| Rate of compensation increase <sup>1</sup> | Not applicable                      | Not applicable |
| Inflation                                  | 3.2%                                | 3.1%           |

<sup>1</sup> Not applicable due to plan curtailment.

The plan actuary determines the expected return on plan assets based on a combination of expected yields on equity securities and corporate bonds and considering historical returns.

The expected long-term rate of return on invested assets for 2020 is determined based on the weighted average of expected returns on asset investment categories as follows: 2.9% overall, 5.3% for equities and 2.1% for debt securities.

The following table sets forth the changes in the benefit obligation and plan assets for the years ended December 31, 2019 and 2018 (in thousands):

|   | Twelve Months Ended December 31, |             |
|---|----------------------------------|-------------|
|   | 2019                             | 2018        |
| Projected benefit obligation:   |                                  |             |
| Beginning of year   | \$ 84,559                        | \$ 96,875   |
| Service cost  | —                                | 77          |
| Interest cost   | 2,323                            | 2,303       |
| Actuarial (gain) loss   | 8,425                            | (4,347)     |
| Benefits paid   | (6,050)                          | (4,539)     |
| Prior service cost  | —                                | 669         |
| Disposal of Norwegian Plan  | —                                | (1,075)     |
| Foreign currency translation adjustment and other                                 | 3,150                            | (5,404)     |
| End of year   | 92,407                           | 84,559      |
| Fair value of plan assets:  |                                  |             |
| Beginning of year   | 73,619                           | 81,899      |
| Actual gain (loss) on plan assets   | 10,393                           | (462)       |
| Employer contributions  | 2,295                            | 2,404       |
| Benefits paid   | (6,050)                          | (4,539)     |
| Disposal of Norwegian Plan  | —                                | (983)       |
| Foreign currency translation adjustment and other                                 | 2,829                            | (4,700)     |
| End of year   | 83,086                           | 73,619      |
| Excess projected obligation under (over) fair value of plan assets at end of year | \$ (9,321)                       | \$ (10,940) |
| Amounts recognized in accumulated other comprehensive loss:                       |                                  |             |
| Net actuarial loss  | \$ (7,365)                       | \$ (7,190)  |
| Prior service cost  | (656)                            | (669)       |
| Total   | \$ (8,021)                       | \$ (7,859)  |

Significant changes affecting pension benefit obligations in 2019 compared to 2018 primarily include actuarial losses in 2019 versus actuarial gains in 2018 due to changes in market conditions that affect the financial assumptions used to value liabilities as well as foreign currency translation adjustments due to the weakening of the U.S. Dollar versus the British Pound in 2019. The accumulated benefit obligation for the U.K. Plan was \$92.4 million and \$84.6 million at December 31, 2019 and 2018, respectively.

At December 31, 2019, expected future benefit payments are as follows for the years ended December 31, (in thousands):

|           |           |
|-----------|-----------|
| 2020      | \$ 3,661  |
| 2021      | 3,884     |
| 2022      | 4,065     |
| 2023      | 3,946     |
| 2024      | 4,335     |
| 2025-2029 | 23,636    |
| Total     | \$ 43,527 |

The following tables summarize the plan assets of the U.K. Plan measured at fair value on a recurring basis (at least annually) as of December 31, 2019 and 2018 (in thousands):

December 31, 2019

| Asset Category                              | Total     | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) (a) | Significant Unobservable Inputs (Level 3) |
|---|-----------|--|---|---|
| Cash  | \$ 10,579 | \$ 10,579  | \$ —  | \$ —                                      |
| Equity securities:                          |           |  |   |   |
| Diversified growth fund (b)                 | 20,102    | —  | 20,102                                      | —   |
| Global equity fund (c)                      | 3,207     | —  | 3,207                                       | —   |
| Fixed income securities:                    |           |  |   |   |
| U.K. government fixed income securities (d) | 16,166    | —  | 16,166                                      | —   |
| U.K. government index-linked securities (e) | 13,012    | —  | 13,012                                      | —   |
| Global absolute return bond fund (f)        | 11,871    | —  | 11,871                                      | —   |
| Corporate bonds (g)                         | 8,149     | —  | 8,149                                       | —   |
| Total                                       | \$ 83,086 | \$ 10,579  | \$ 72,507                                   | \$ —                                      |

December 31, 2018

| Asset Category                              | Total     | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) (a) | Significant Unobservable Inputs (Level 3) |
|---|-----------|--|---|---|
| Cash  | \$ 1,119  | \$ 1,119   | \$ —  | \$ —                                      |
| Equity securities:                          |           |  |   |   |
| Diversified growth fund (b)                 | 12,330    | —  | 12,330                                      | —   |
| Global equity fund (c)                      | 1,835     | —  | 1,835                                       | —   |
| Fixed income securities:                    |           |  |   |   |
| U.K. government fixed income securities (d) | 18,048    | —  | 18,048                                      | —   |
| U.K. government index-linked securities (e) | 14,245    | —  | 14,245                                      | —   |
| Global absolute return bond fund (f)        | 18,570    | —  | 18,570                                      | —   |
| Corporate bonds (g)                         | 7,472     | —  | 7,472                                       | —   |
| Total                                       | \$ 73,619 | \$ 1,119   | \$ 72,500                                   | \$ —                                      |

- a) The net asset value of the commingled equity and fixed income funds are determined by prices of the underlying securities, less the funds' liabilities, and then divided by the number of shares outstanding. As the funds are not traded in active markets, the commingled funds are classified as Level 2 assets. The net asset value is corroborated by observable market data (e.g., purchase or sale activities).
- b) This category includes investments in a diversified portfolio of equity, bonds, alternatives and cash markets that aims to achieve capital growth returns.
- c) This category includes investments in a diversified portfolio of equity, bonds, money markets, alternatives and credit markets to achieve a return with downside protection through monthly put options.
- d) This category includes investments in funds with the objective to provide a leveraged return to U.K. government fixed income securities (gilts) that have maturity periods ranging from 2030 to 2060.
- e) This category includes investments in funds with the objective to provide a leveraged return to various U.K. government indexed-linked securities (gilts), with maturity periods ranging from 2022 to 2062. The funds invest in U.K. government bonds and derivatives.
- f) This category includes investments in funds predominantly in a wide range of fixed and floating rate investment grade and below investment grade debt instruments traded on regulated markets worldwide with the objective to achieve a return of 3% above 1 month LIBOR over a 3-year basis.
- g) This category includes investments in a diversified pool of debt and debt like assets to generate capital and income returns.

Investment objectives for the U.K. Plan, as of December 31, 2019, are to:

- optimize the long-term return on plan assets at an acceptable level of risk
- maintain a broad diversification across asset classes
- maintain careful control of the risk level within each asset class

The trustees of the U.K. Plan have established a long-term investment strategy comprising global investment weightings targeted at 27.5% (range of 25% to 30%) for equity securities/diversified growth funds and 72.5% (range of 70% to 75%) for debt securities. Diversified growth funds are actively managed absolute return funds that hold a combination of debt and equity securities. Selection of the targeted asset allocation was based upon a review of the expected return and risk characteristics of each asset class, as well as the correlation of returns among asset classes. Actual allocations to each asset class vary from target allocations due to periodic investment strategy changes, market value fluctuations and the timing of benefit payments and contributions.

The following table sets forth the weighted-average asset allocation and target asset allocations as of December 31, 2019 and 2018 by asset category:

|   | Asset Allocations |       | Target Asset Allocations |       |
|---|-------------------|-------|--------------------------|-------|
|   | 2019              | 2018  | 2019                     | 2018  |
| Equity securities and diversified growth funds <sup>1</sup> | 28.1%             | 19.2% | 27.5%                    | 27.5% |
| Debt securities <sup>2</sup>                                | 59.2%             | 79.2% | 72.5%                    | 72.5% |
| Other   | 12.7%             | 1.5%  | —%                       | —%    |
| Total   | 100%              | 100%  | 100%                     | 100%  |

1 Diversified growth funds refer to actively managed absolute return funds that hold a combination of equity and debt securities.

2 Includes investments in funds with the objective to provide leveraged returns to U.K. government fixed income securities, U.K. government indexed-linked securities, global bonds, and corporate bonds.

## 14. COMMITMENTS AND CONTINGENCIES

**Patent Infringement Matters.** On December 15, 2014, our subsidiary, Quest Integrity Group, LLC (“Quest Integrity”), filed three patent infringement lawsuits against three different defendants, two of the lawsuits were filed in the U.S. District of Delaware (the “Delaware Cases”) and one in the U.S. District of Western Washington (the “Washington Case”). Quest Integrity alleges that the three defendants infringe Quest Integrity’s patent, entitled “2D and 3D Display System and Method for Furnace Tube Inspection.” This Quest Integrity patent generally teaches a system and method for displaying inspection data collected during the inspection of furnace tubes in petroleum and petro-chemical refineries. The subject patent litigation is specific to the visual display of the collected data and does not relate to the underlying advanced inspection technology. In these lawsuits Quest Integrity is seeking injunctive relief, as well as monetary damages. Defendants denied they infringe any valid claim of Quest Integrity’s patent, and asserted declaratory judgment counterclaims that the patent at issue is invalid and/or unenforceable, and not infringed. In June 2015, the U.S. District of Delaware denied Quest Integrity’s motions for preliminary injunctive relief in the Delaware Cases (that is, our request that the defendants stop using Quest Integrity’s patented systems and methods during the pendency of the actions). In March 2017, the judge in the Delaware Cases granted summary judgment against Quest Integrity, finding certain patent claims of the asserted patent invalid. In late 2018 and early 2019, Quest Integrity settled with the defendant in the Washington Case and settled with one of the two defendants in the Delaware Cases. Quest Integrity also appealed the ruling in the Delaware Case with the remaining defendant. In May 2019, the Court of Appeals for the Federal Circuit issued an opinion reversing and remanding the decisions of invalidity on certain claims and reversing other material aspects of the U.S. District Court of Delaware’s findings. The U.S. District Court ordered mediation between Quest Integrity and the remaining defendant on February 28, 2020, and scheduled the remanded trial for the fourth quarter of 2020. In mediation, Quest Integrity and the remaining defendant agreed on the framework for a full and final settlement of all claims. As a result of the mediation in February 2020, we recorded a loss of \$1.3 million and have adjusted our 2019 consolidated financial statements to reflect the impact of this event. Execution of a final settlement agreement and entry of an order of dismissal of the case is expected in the second quarter of 2020.

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

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

## 15. SEGMENT AND GEOGRAPHIC 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.

In July 2018, we announced an organizational restructuring. The organizational changes include a Product and Service Line organization and an Operations organization. The Product and Service Lines organization is responsible for standardization of best practices and the related technical training and program development, value positioning and pricing, and technology development and innovation across Team’s global enterprise. The Operations organization, comprised of cross-segment divisions aligned by major geographic regions, is responsible for executing product and service delivery in accordance with established Team service line standards, safety and quality protocols. Overall company management and decision-making continues to be performed according to the structure of the three operating segments (IHT, MS and Quest Integrity). Accordingly, these changes had no effect on our reportable segments.

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

|                 | Twelve Months Ended<br>December 31, |                     |                     |
|-----------------|-------------------------------------|---------------------|---------------------|
|                 | 2019                                | 2018                | 2017                |
| Revenues:       |                                     |                     |                     |
| IHT             | \$ 512,950                          | \$ 617,378          | \$ 588,441          |
| MS              | 535,372                             | 532,365             | 529,973             |
| Quest Integrity | 114,992                             | 97,186              | 81,797              |
| Total           | <u>\$ 1,163,314</u>                 | <u>\$ 1,246,929</u> | <u>\$ 1,200,211</u> |

|                                       | Twelve Months Ended<br>December 31, |                    |                     |
|---------------------------------------|-------------------------------------|--------------------|---------------------|
|                                       | 2019                                | 2018               | 2017                |
| Operating income (loss):              |                                     |                    |                     |
| IHT <sup>1</sup>                      | \$ 24,084                           | \$ 37,329          | \$ 11,128           |
| MS <sup>1</sup>                       | 55,385                              | 6,323              | (33,993)            |
| Quest Integrity                       | 28,757                              | 20,138             | 12,337              |
| Corporate and shared support services | (110,372)                           | (102,751)          | (104,582)           |
| Total                                 | <u>\$ (2,146)</u>                   | <u>\$ (38,961)</u> | <u>\$ (115,110)</u> |

<sup>1</sup> Includes goodwill impairment loss of \$21.1 million and \$54.1 million for IHT and MS, respectively, for the year ended December 31, 2017.

|                                       | Twelve Months Ended<br>December 31, |                  |                  |
|---------------------------------------|-------------------------------------|------------------|------------------|
|                                       | 2019                                | 2018             | 2017             |
| Capital expenditures <sup>1</sup> :   |                                     |                  |                  |
| IHT                                   | \$ 7,983                            | \$ 7,643         | \$ 10,505        |
| MS                                    | 10,755                              | 11,141           | 17,791           |
| Quest Integrity                       | 4,550                               | 3,526            | 3,316            |
| Corporate and shared support services | 8,446                               | 3,621            | 5,186            |
| Total                                 | <u>\$ 31,734</u>                    | <u>\$ 25,931</u> | <u>\$ 36,798</u> |

<sup>1</sup> Excludes finance leases. Totals may vary from amounts presented in the consolidated statements of cash flows due to the timing of cash payments.

|                                       | Twelve Months Ended<br>December 31, |                  |                  |
|---------------------------------------|-------------------------------------|------------------|------------------|
|                                       | 2019                                | 2018             | 2017             |
| Depreciation and amortization:        |                                     |                  |                  |
| IHT                                   | \$ 17,616                           | \$ 18,810        | \$ 19,279        |
| MS                                    | 21,835                              | 36,177           | 23,412           |
| Quest Integrity                       | 3,557                               | 4,285            | 4,423            |
| Corporate and shared support services | 6,051                               | 5,590            | 5,029            |
| Total                                 | <u>\$ 49,059</u>                    | <u>\$ 64,862</u> | <u>\$ 52,143</u> |

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

A geographic breakdown of our revenues for the years ended December 31, 2019, 2018 and 2017 and our total long-lived assets as of December 31, 2019, 2018 and 2017 are as follows (in thousands):

|  | Total<br>Revenues <sup>1</sup> | Total<br>Long-lived<br>Assets <sup>2</sup> |
|--|--------------------------------|--|
| <b>Twelve months ended December 31, 2019</b> |                                |  |
| United States                                | \$ 838,385                     | \$ 328,832                                 |
| Canada                                       | 127,574                        | 8,625                                      |
| Europe                                       | 126,794                        | 32,517                                     |
| Other foreign countries                      | 70,561                         | 6,044                                      |
| Total  | <u>\$ 1,163,314</u>            | <u>\$ 376,018</u>                          |
| <b>Twelve months ended December 31, 2018</b> |                                |  |
| United States                                | \$ 908,382                     | \$ 298,567                                 |
| Canada                                       | 139,900                        | 4,165                                      |
| Europe                                       | 126,142                        | 20,224                                     |
| Other foreign countries                      | 72,505                         | 3,210                                      |
| Total  | <u>\$ 1,246,929</u>            | <u>\$ 326,166</u>                          |
| <b>Twelve months ended December 31, 2017</b> |                                |  |
| United States                                | \$ 871,367                     | \$ 330,909                                 |
| Canada                                       | 134,256                        | 5,377                                      |
| Europe                                       | 119,603                        | 22,480                                     |
| Other foreign countries                      | 74,985                         | 4,614                                      |
| Total  | <u>\$ 1,200,211</u>            | <u>\$ 363,380</u>                          |

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

2 Excludes goodwill, intangible assets not being amortized that are to be held and used, financial instruments and deferred tax assets.

## 16. RESTRUCTURING AND OTHER RELATED CHARGES

Our restructuring and other related charges, net for the years ended December 31, 2019, 2018 and 2017 are summarized by segment as follows (in thousands):

|  | Twelve Months Ended December 31, |                 |                 |
|--|----------------------------------|-----------------|-----------------|
|  | 2019                             | 2018            | 2017            |
| <b><i>OneTEAM Program</i></b>                        |                                  |                 |                 |
| Severance and related costs                          |                                  |                 |                 |
| IHT  | \$ 249                           | \$ 2,995        | \$ —            |
| MS   | 418                              | 2,514           | —               |
| Quest Integrity                                      | 62                               | 418             | —               |
| Corporate and shared support services                | 947                              | 800             | —               |
| Subtotal   | <u>1,676</u>                     | <u>6,727</u>    | <u>—</u>        |
| <b><i>2017 Cost Savings Initiative</i></b>           |                                  |                 |                 |
| Severance and related costs                          |                                  |                 |                 |
| IHT  | —                                | —               | 966             |
| MS   | —                                | —               | 1,622           |
| Quest Integrity                                      | —                                | —               | 428             |
| Corporate and shared support services                | —                                | —               | 864             |
| Subtotal   | <u>—</u>                         | <u>—</u>        | <u>3,880</u>    |
| <b><i>Furmanite Belgium and Netherlands Exit</i></b> |                                  |                 |                 |
| Severance and related costs (credits)                |                                  |                 |                 |
| MS   | —                                | —               | (173)           |
| Disposal (gain)/impairment loss                      |                                  |                 |                 |
| MS   | —                                | —               | (1,056)         |
| Subtotal   | <u>—</u>                         | <u>—</u>        | <u>(1,229)</u>  |
| Grand total  | <u>\$ 1,676</u>                  | <u>\$ 6,727</u> | <u>\$ 2,651</u> |

***OneTEAM Program.*** In the fourth quarter of 2017, we engaged outside consultants to assess all aspects of our business for improvement and cost saving opportunities. In the first quarter of 2018, we completed the design phase of the project, known as OneTEAM, for our domestic operations, and entered in the deployment phase starting in the second quarter of 2018. In the third quarter of 2019, we began the design phase of OneTEAM for our international operations. As part of the OneTEAM Program, we decided to eliminate certain employee positions. For the twelve months ended December 31, 2019 and 2018, we have incurred severance charges of \$1.7 million and \$6.7 million, respectively and the amount we have incurred cumulatively to date is \$8.4 million. As the OneTEAM Program continues, we expect some additional employee positions may be identified and impacted, resulting in additional severance costs. In addition to the impacted employee positions, certain locations may be shut down or consolidated during this process. We are currently in the second year of this three-year program and expect the program-related expenses to continue through the end of 2020.

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

|                              | Twelve Months<br>Ended<br>December 31, 2019 |
|------------------------------|---|
| Balance, beginning of period | \$ 2,283                                    |
| Charges                      | 1,676                                       |
| Payments                     | (2,988)                                     |
| Balance, end of period       | <u>\$ 971</u>                               |



For the twelve months ended December 31, 2019 and 2018, we also incurred professional fees of \$12.3 million and \$15.5 million, respectively, associated with OneTEAM.

**2017 Cost Savings Initiative.** On July 24, 2017, we announced our commitment to a cost savings initiative to take direct actions to reduce our overall cost structure due to a continuation of weak market conditions. This initiative was completed in the latter part of 2017. No costs or expenses were recognized in the consolidated statements of operations for this initiative during the twelve months ended December 31, 2019 and 2018. The resulting severance and related charges of this initiative, which were generally recorded in the third and fourth quarters of 2017, amounted to \$3.9 million during the year ended December 31, 2017. This is also the amount we have incurred cumulatively to date. Most of these expenses were paid in cash in 2017.

**Furmanite Belgium and Netherlands Exit.** Due to continued economic softness and unfavorable costs structures, we committed to a plan to exit the acquired Furmanite operations in Belgium and the Netherlands in the fourth quarter of 2016 and communicated the plan to the affected employees. The closures are now complete. During the year ended December 31, 2017, we recorded a reduction to severance costs of \$0.2 million and a disposal gain of \$1.1 million. The disposal gain resulted from an asset sale of the Furmanite operations in Belgium, which was completed during the first quarter of 2017, whereby we conveyed the business operations, \$0.3 million of cash and approximately \$0.2 million of other assets to the purchaser in exchange for the assumption by the purchaser of certain liabilities, primarily severance-related liabilities of \$1.6 million associated with the employees who transferred to the purchaser in connection with the transaction.

A rollforward of our accrued severance liability associated with the Belgium and Netherlands exit is presented below (in thousands):

|                              | <b>Twelve Months<br/>Ended<br/>December 31, 2017</b> |
|------------------------------|--|
| Balance, beginning of period | \$ 4,846   |
| Charges (credits), net       | (173)  |
| Payments                     | (3,144)  |
| Disposal                     | (1,601)  |
| Foreign currency adjustments | 72   |
| Balance, end of period       | <u>\$ —</u>  |

With respect to these exit activities, to date we have incurred cumulatively \$4.7 million of severance-related costs and an impairment loss on property, plant and equipment of \$0.7 million, partially offset by a disposal gain of \$1.1 million.

## 17. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

|                                      | <b>Twelve Months Ended<br/>December 31, 2019</b>            |                                       |  |                          |                    | <b>Twelve Months Ended<br/>December 31, 2018</b>            |                                       |  |                          |                    |
|--------------------------------------|---|---------------------------------------|--|--------------------------|--------------------|---|---------------------------------------|--|--------------------------|--------------------|
|                                      | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustments</b> | <b>Foreign<br/>Currency<br/>Hedge</b> | <b>Defined<br/>benefit<br/>pension<br/>plans</b> | <b>Tax<br/>Provision</b> | <b>Total</b>       | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustments</b> | <b>Foreign<br/>Currency<br/>Hedge</b> | <b>Defined<br/>benefit<br/>pension<br/>plans</b> | <b>Tax<br/>Provision</b> | <b>Total</b>       |
| Balance at beginning of year         | \$ (30,607)   | \$ 3,904                              | \$ (7,859)                                       | \$ 170                   | \$ (34,392)        | \$ (21,366)   | \$ 3,246                              | \$ (7,221)                                       | \$ 5,545                 | \$ (19,796)        |
| Other comprehensive income (loss)    | 3,865   | 282                                   | (162)  | 217                      | 4,202              | (9,241)   | 658                                   | (638)  | (3,045)                  | (12,266)           |
| Adoption of new accounting principle | —   | —                                     | —  | —                        | —                  | —   | —                                     | —  | (2,330)                  | (2,330)            |
| Balance at end of year               | <u>\$ (26,742)</u>  | <u>\$ 4,186</u>                       | <u>\$ (8,021)</u>                                | <u>\$ 387</u>            | <u>\$ (30,190)</u> | <u>\$ (30,607)</u>  | <u>\$ 3,904</u>                       | <u>\$ (7,859)</u>                                | <u>\$ 170</u>            | <u>\$ (34,392)</u> |

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

|  | Twelve Months Ended December 31, |            |            |              |            |             |              |            |            |
|--|----------------------------------|------------|------------|--------------|------------|-------------|--------------|------------|------------|
|  | 2019                             |            |            | 2018         |            |             | 2017         |            |            |
|  | Gross Amount                     | Tax Effect | Net Amount | Gross Amount | Tax Effect | Net Amount  | Gross Amount | Tax Effect | Net Amount |
| Foreign currency translation adjustments | \$ 3,865                         | \$ 393     | \$ 4,258   | \$ (9,241)   | \$ (2,923) | \$ (12,164) | \$ 10,607    | \$ (2,919) | \$ 7,688   |
| Foreign currency hedge                   | 282                              | (69)       | 213        | 658          | (162)      | 496         | (1,802)      | 688        | (1,114)    |
| Defined benefit pension plans            | (162)                            | (107)      | (269)      | (638)        | 40         | (598)       | 3,297        | (667)      | 2,630      |
| Total                                    | \$ 3,985                         | \$ 217     | \$ 4,202   | \$ (9,221)   | \$ (3,045) | \$ (12,266) | \$ 12,102    | \$ (2,898) | \$ 9,204   |

## 18. ISSUANCE AND REPURCHASE OF COMMON STOCK

**At-the-Market Equity Issuance Program.** On November 28, 2016, we filed with the SEC a prospectus supplement to our October 2016 shelf registration statement on Form S-3 (the “Shelf Registration Statement”), under which we could have sold up to \$150.0 million of our common stock through an “at-the-market” equity offering program (the “ATM Program”). The ATM Program was implemented through a related sales agreement (the “Sales Agreement”) with the agents named therein. Through December 31, 2016, we sold 167,931 shares of common stock under the ATM Program. The net proceeds from such sales were \$6.0 million after deducting the aggregate commissions paid of approximately \$0.1 million and were used to reduce outstanding indebtedness. No shares of common stock were sold under the ATM Program during 2017.

On July 31, 2017, we terminated the ATM Program, without penalty, by delivering notice to the agents under the Sales Agreement.

In connection with the filing of the Shelf Registration Statement and the commencement of the ATM Program, we capitalized costs totaling \$0.7 million, substantially all of which was written off to selling, general and administrative expense in 2017 after the cancellation of the ATM Program.

**Common Stock Repurchase Plan.** On June 23, 2014, our Board authorized an increase in the stock repurchase plan limit to \$50.0 million (less \$13.3 million repurchased previously). During year ended May 31, 2015, we repurchased 546,977 shares for a total cost of \$21.1 million. During the year ended December 31, 2016, we repurchased 274,110 shares for a total cost of \$7.6 million. In the fourth quarter of 2016, these 821,087 shares were retired and are not included in common stock issued and outstanding as of December 31, 2016. The retirement of the shares resulted in a reduction in common stock of \$0.2 million, a reduction of \$9.1 million to additional paid-in capital, and a \$19.4 million reduction to retained earnings. The stock repurchase plan was canceled in 2017. No shares were repurchased during the years ended December 31, 2019, 2018 and 2017.

## 19. QUARTERLY FINANCIAL DATA (Unaudited)

The following is a summary of selected unaudited quarterly financial data for the years ended December 31, 2019 and 2018 (in thousands, except per share data):

|  | Year Ended December 31, 2019 |                |               |                |              |
|--|------------------------------|----------------|---------------|----------------|--------------|
|  | First Quarter                | Second Quarter | Third Quarter | Fourth Quarter | Total Year   |
| Revenues                                 | \$ 269,599                   | \$ 315,829     | \$ 290,079    | \$ 287,807     | \$ 1,163,314 |
| Gross margin                             | \$ 65,947                    | \$ 94,597      | \$ 83,035     | \$ 84,165      | \$ 327,744   |
| Operating income (loss)                  | \$ (16,528)                  | \$ 13,004      | \$ (1,840)    | \$ 3,218       | \$ (2,146)   |
| Income (loss) from continuing operations | \$ (24,228)                  | \$ 6,102       | \$ (7,057)    | \$ (7,234)     | \$ (32,417)  |
| Net income (loss)                        | \$ (24,228)                  | \$ 6,102       | \$ (7,057)    | \$ (7,234)     | \$ (32,417)  |
| Basic earnings (loss) per share:         |                              |                |               |                |              |
| Continuing operations                    | \$ (0.80)                    | \$ 0.20        | \$ (0.23)     | \$ (0.24)      | \$ (1.07)    |
| Net income (loss)                        | \$ (0.80)                    | \$ 0.20        | \$ (0.23)     | \$ (0.24)      | \$ (1.07)    |
| Diluted earnings (loss) per share:       |                              |                |               |                |              |
| Continuing operations                    | \$ (0.80)                    | \$ 0.20        | \$ (0.23)     | \$ (0.24)      | \$ (1.07)    |
| Net income (loss)                        | \$ (0.80)                    | \$ 0.20        | \$ (0.23)     | \$ (0.24)      | \$ (1.07)    |

|   | Year Ended December 31, 2018 |                |               |                |              |
|---|------------------------------|----------------|---------------|----------------|--------------|
|   | First Quarter                | Second Quarter | Third Quarter | Fourth Quarter | Total Year   |
| Revenues  | \$ 302,385                   | \$ 343,889     | \$ 290,856    | \$ 309,799     | \$ 1,246,929 |
| Gross margin  | \$ 75,534                    | \$ 97,182      | \$ 70,139     | \$ 85,401      | \$ 328,256   |
| Operating income (loss)                               | \$ (14,125)                  | \$ 1,799       | \$ (19,694)   | \$ (6,941)     | \$ (38,961)  |
| Income (loss) from continuing operations <sup>1</sup> | \$ (12,264)                  | \$ (31,341)    | \$ (23,526)   | \$ 3,985       | \$ (63,146)  |
| Net income (loss) <sup>1</sup>                        | \$ (12,264)                  | \$ (31,341)    | \$ (23,526)   | \$ 3,985       | \$ (63,146)  |
| Basic earnings (loss) per share:                      |                              |                |               |                |              |
| Continuing operations <sup>1</sup>                    | \$ (0.41)                    | \$ (1.04)      | \$ (0.78)     | \$ 0.13        | \$ (2.10)    |
| Net income (loss) <sup>1</sup>                        | \$ (0.41)                    | \$ (1.04)      | \$ (0.78)     | \$ 0.13        | \$ (2.10)    |
| Diluted earnings (loss) per share:                    |                              |                |               |                |              |
| Continuing operations <sup>1</sup>                    | \$ (0.41)                    | \$ (1.04)      | \$ (0.78)     | \$ 0.13        | \$ (2.10)    |
| Net income (loss) <sup>1</sup>                        | \$ (0.41)                    | \$ (1.04)      | \$ (0.78)     | \$ 0.13        | \$ (2.10)    |

<sup>1</sup> Income (loss) from continuing operations, net income (loss) and the related earnings (loss) per share amounts for each of the quarters in 2018 are revised from those originally reported to correct errors in income tax expense (benefit) associated with the measurement of valuation allowances on deferred tax assets. Based on an analysis of quantitative and qualitative factors, the Company determined the related impacts were not material to its previously filed interim consolidated financial statements, and therefore, amendments of previously filed reports are not required.

## FIVE YEAR COMPARISON

In November 2015, we announced we would change our fiscal year end to December 31 of each calendar year from May 31. In connection with this change, we previously filed a Transition Report on Form 10-K to report the results of the seven-month transition period from June 1, 2015 to December 31, 2015.

The following table presents our selected financial data. This information has been derived from our audited consolidated financial statements. This historical data should be read in conjunction with the Consolidated Financial Statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” (in thousands, except per share data).

|   | Years Ended December 31, |              |                     |                     | Seven Months<br>Ended<br>December 31, | Year Ended<br>May 31, |
|---|--------------------------|--------------|---------------------|---------------------|---------------------------------------|-----------------------|
|   | 2019                     | 2018         | 2017 <sup>(1)</sup> | 2016 <sup>(2)</sup> | 2015 <sup>(3)</sup>                   | 2015                  |
| <b>Statements of operations data:</b>               |                          |              |                     |                     |                                       |                       |
| Revenues  | \$ 1,163,314             | \$ 1,246,929 | \$ 1,200,211        | \$ 1,196,696        | \$ 571,718                            | \$ 842,047            |
| Operating income (loss)                             | \$ (2,146)               | \$ (38,961)  | \$ (115,110)        | \$ (3,118)          | \$ 19,162                             | \$ 68,465             |
| Income (loss) from continuing operations            | \$ (32,417)              | \$ (63,146)  | \$ (84,455)         | \$ (12,565)         | \$ 8,878                              | \$ 40,497             |
| Net income (loss) attributable to Team shareholders | \$ (32,417)              | \$ (63,146)  | \$ (84,455)         | \$ (12,676)         | \$ 8,878                              | \$ 40,070             |
| Basic earnings (loss) per share:                    |                          |              |                     |                     |                                       |                       |
| Continuing operations                               | \$ (1.07)                | \$ (2.10)    | \$ (2.83)           | \$ (0.45)           | \$ 0.43                               | \$ 1.95               |
| Net income (loss)                                   | \$ (1.07)                | \$ (2.10)    | \$ (2.83)           | \$ (0.45)           | \$ 0.43                               | \$ 1.95               |
| Diluted earnings (loss) per share:                  |                          |              |                     |                     |                                       |                       |
| Continuing operations                               | \$ (1.07)                | \$ (2.10)    | \$ (2.83)           | \$ (0.45)           | \$ 0.41                               | \$ 1.85               |
| Net income (loss)                                   | \$ (1.07)                | \$ (2.10)    | \$ (2.83)           | \$ (0.45)           | \$ 0.41                               | \$ 1.85               |
| Weighted-average shares outstanding                 |                          |              |                     |                     |                                       |                       |
| Basic   | 30,310                   | 30,031       | 29,849              | 28,095              | 20,852                                | 20,500                |
| Diluted   | 30,310                   | 30,031       | 29,849              | 28,095              | 21,425                                | 21,651                |
| <b>Balance sheet data:</b>                          |                          |              |                     |                     |                                       |                       |
| Total assets  | \$ 985,217               | \$ 977,821   | \$ 1,055,835        | \$ 1,147,418        | \$ 798,991                            | \$ 523,833            |
| Long-term debt and other long-term liabilities      | \$ 398,011               | \$ 380,770   | \$ 430,877          | \$ 464,060          | \$ 368,685                            | \$ 97,234             |
| Stockholders’ equity                                | \$ 436,670               | \$ 457,100   | \$ 477,174          | \$ 535,637          | \$ 338,146                            | \$ 335,375            |
| Working capital                                     | \$ 167,042               | \$ 215,005   | \$ 249,276          | \$ 253,636          | \$ 222,399                            | \$ 197,472            |
| Noncontrolling interest                             | \$ —                     | \$ —         | \$ —                | \$ —                | \$ —                                  | \$ 6,034              |
| <b>Other financial data:</b>                        |                          |              |                     |                     |                                       |                       |
| Depreciation and amortization                       | \$ 49,059                | \$ 64,862    | \$ 52,143           | \$ 48,673           | \$ 19,426                             | \$ 22,787             |
| Goodwill impairment loss                            | \$ —                     | \$ —         | \$ 75,241           | \$ —                | \$ —                                  | \$ —                  |
| Share-based compensation                            | \$ 10,055                | \$ 12,256    | \$ 7,876            | \$ 7,313            | \$ 3,469                              | \$ 4,838              |
| Capital expenditures <sup>4</sup>                   | \$ 31,734                | \$ 25,931    | \$ 36,798           | \$ 45,843           | \$ 25,802                             | \$ 28,769             |

1 As revised. See Note 1 to the consolidated financial statements for additional information.

2 Effective February 29, 2016, the Company acquired Furmanite Corporation for a purchase price of \$282.3 million, consisting of \$209.5 million of common stock, \$2.0 million of converted share-based payment awards and \$70.8 million of cash.

3 Effective July 7, 2015, the Company acquired Qualspec Group LLC for a purchase price of \$255.5 million, consisting of \$4.0 million cash, \$265.0 million of other assets and \$13.5 million in current and long-term liabilities.

4 Excludes finance leases. Totals may vary from amounts presented in the consolidated statements of cash flows due to the timing of cash payments.

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## CORPORATE INFORMATION

### DIRECTORS

**Amerino Gatti**

Chairman and Chief Executive Officer  
TEAM, Inc.

**Louis A. Waters**

Lead Independent Director  
Investor, Retired Chairman of Browning-Ferris  
Industries, Inc.

**Jeffery G. Davis**

Retired Chairman and Chief Executive Officer,  
Furmanite Corporation

**Brian K. Ferraioli**

Retired Executive Vice President  
and Chief Financial Officer,  
KBR, Inc.

**Sylvia J. Kerrigan**

Retired Executive Vice President,  
General Counsel and Secretary,  
Marathon Oil Corporation

**Emmett J. Lescroart**

Managing Director,  
EJL Capital, LLC

**Michael A. Lucas**

President and Chief Executive Officer,  
RegO Products

**Craig L. Martin**

Retired President and Chief Executive Officer,  
Jacobs Engineering Group, Inc.

**Robert C. Skaggs, Jr.**

Retired Chairman and Chief Executive Officer  
Columbia Pipeline Group, Inc. and NiSource, Inc.

**Gary G. Yesavage**

Retired President Manufacturing,  
Chevron Corporation, Downstream  
and Chemicals

### CORPORATE OFFICERS

**Amerino Gatti**

Chairman and Chief Executive Officer

**Susan M. Ball**

Executive Vice President,  
Chief Financial Officer

**Jeffrey L. Ott**

President, Product and Service Lines  
& Quest Integrity

**Grant D. Roscoe**

President, Global Operations

**André C. Bouchard**

Executive Vice President,  
Chief Legal Officer and Secretary

**Jerry D. Kurinsky**

Senior Vice President,  
Strategy and Corporate Development

**James P. McCloskey**

Senior Vice President, Commercial

**Sherri A. Sides**

Senior Vice President,  
Chief Human Resources Officer

**Michael R. Wood**

Senior Vice President,  
Health, Safety and Environment

### INVESTOR RELATIONS

**Susan M. Ball**

Executive Vice President, Chief Financial Officer  
Phone: 1-800-662-8326  
E-mail: [ir@TeamInc.com](mailto:ir@TeamInc.com)

### REGISTRAR AND TRANSFER AGENT

Communications regarding change of address,  
transfer of stock ownership, lost stock certificates  
or consolidation of multiple listings should be  
directed to:

**Computershare Investor Services**

462 South 4th Street, Suite 1600  
Louisville, KY 40202  
1-800-368-5948  
Shareholder Website –  
[www.computershare.com/investor](http://www.computershare.com/investor)  
Shareholder Online Inquires –  
[www-us.computershare.com/investor/Contact](http://www-us.computershare.com/investor/Contact)

### CORPORATE HEADQUARTERS

Stockholders or other interested persons wishing  
to be placed on the corporate mailing list should  
write to the corporate headquarters.

**TEAM, Inc.**

Attn: Corporate Secretary  
André C. Bouchard  
13131 Dairy Ashford Rd., Suite 600  
Sugar Land, Texas 77478

### INDEPENDENT AUDITORS

**KPMG LLP**

811 Main St.  
Houston, TX 77002

## OPERATING LOCATIONS

### NORTH AMERICA

**United States**

Alabama  
Alaska  
Arizona  
California  
Colorado  
Connecticut  
Florida  
Illinois  
Indiana  
Kansas  
Louisiana  
Michigan  
Minnesota  
Missouri  
Montana  
New Mexico  
New York  
North Dakota  
Ohio  
Oklahoma  
Pennsylvania  
South Carolina  
Tennessee  
Texas  
Utah  
Virginia  
Washington  
West Virginia  
Wisconsin

**Canada**

Alberta  
New Brunswick  
Newfoundland  
Nova Scotia  
Ontario  
Saskatchewan

### INTERNATIONAL

Australia  
Azerbaijan  
Bahrain  
Belgium  
Brazil  
Colombia  
Denmark  
France  
Germany  
Malaysia  
Mexico  
Netherlands  
New Zealand  
Oman  
Qatar  
Saudi Arabia  
Singapore  
Trinidad  
United Arab Emirates  
United Kingdom



# INNOVATION

I N A C T I O N

**TEAM**<sup>®</sup>

**CORPORATE HEADQUARTERS**

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