MACERICH CO
Form 11-K
June 22, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

FOR ANNUAL REPORTS OF EMPLOYEE STOCK PURCHASE, SAVINGS AND SIMILAR PLANS PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

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

For the transition period from to

Commission file number 001-12504

A. Full title of the plan and the address of the plan, if different from that of the issuer named below: The Macerich Property Management Company 401(k) Profit Sharing Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

The Macerich Company
401 Wilshire Boulevard, Suite 700
Santa Monica, California 90401

THE MACERICH
PROPERTY MANAGEMENT COMPANY
401(k) PROFIT SHARING PLAN

FINANCIAL STATEMENTS

DECEMBER 31, 2015

WITH

INDEPENDENT AUDITORS' REPORT
AND SUPPLEMENTAL INFORMATION

TABLE OF CONTENTS

Note: Other schedules required by 29 CFR 2520. 103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1914 ("ERISA") have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

To the Administrative Committee of
The Macerich Property Management Company 401(k) Profit Sharing Plan:

We have audited the accompanying statements of net assets available for benefits of The Macerich Property Management Company 401(k) Profit Sharing Plan (the Plan) as of December 31, 2015 and 2014, and the related statement of changes in net assets available for benefits for the year ended December 31, 2015. These financial statements are the responsibility of the Plan’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of The Macerich Property Management Company 401(k) Profit Sharing Plan as of December 31, 2015 and 2014, and the changes in its net assets available for benefits for the year ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

The accompanying supplemental schedules of assets (held at end of year) as of December 31, 2015 have been subjected to audit procedures performed in conjunction with the audit of The Macerich Property Management Company 401(k) Profit Sharing Plan’s financial statements. The information in the supplemental schedule is the responsibility of Plan management. Our audit procedures included determining whether the information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules. In forming our opinion on the information, we evaluated whether such information, including its form and content, is presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ Windes, Inc.

Long Beach, California
June 22, 2016

THE MACERICH PROPERTY MANAGEMENT COMPANY
401(k) PROFIT SHARING PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2015 AND 2014

	December 31,	
	2015	2014
ASSETS		
INVESTMENTS		
Investments at fair value	$108,000,796	$115,125,801
Investments at contract value	6,966,585	—
	114,967,381	115,125,801
RECEIVABLES		
Notes receivable from participants	1,378,202	1,440,464
Employer contribution	295,472	261,873
	1,673,674	1,702,337
NET ASSETS AVAILABLE FOR BENEFITS	$116,641,055	$116,828,138

The accompanying notes are an integral part of these financial statements.

THE MACERICH PROPERTY MANAGEMENT COMPANY
401(k) PROFIT SHARING PLAN
STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2015

ADDITIONS:	
Additions to net assets attributed to:	
Investment income:	
Net depreciation in fair value of investments	$(5,436,496)
Dividends	4,181,451
Interest	51,290
	(1,203,755)
Interest income on notes receivable from participants	59,492
Contributions:	
Participants	6,621,448
Employer	3,395,048
Rollovers	1,174,021
	11,190,517
Total Additions	10,046,254
DEDUCTIONS:	
Deductions from net assets attributed to:	
Benefits paid to participants	10,115,635
Administrative expenses	117,702
Total Deductions	10,233,337
NET DECREASE IN NET ASSETS	(187,083)
NET ASSETS AVAILABLE FOR BENEFITS:	
BEGINNING OF YEAR	116,828,138
END OF YEAR	$116,641,055

The accompanying notes are an integral part of these financial statements.

THE MACERICH PROPERTY MANAGEMENT COMPANY
401(k) PROFIT SHARING PLAN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1: DESCRIPTION OF THE PLAN

The following description of The Macerich Property Management Company 401(k) Profit-Sharing Plan (the “Plan”) provides only general information. Participants and other interested parties should refer to the Plan document for a more complete description of the Plan’s provisions.

General

The Plan is a defined contribution pension plan covering eligible employees of The Macerich Property Management Company LLC and participating affiliates (the “Company,” the “Employer” and the “Plan Administrator”) as defined in the Plan document. The Plan is subject to the provision of the Employee Retirement Income Security Act of 1974 (“ERISA”) and the qualification provisions of the Internal Revenue Code (the “Code”).

Effective as of January 1, 2004, the Plan adopted the “Safe Harbor” provisions under Sections 401(k)(12) and 401(m)(11) of the Code. In accordance with adopting these provisions, the Company makes matching contributions equal to 100 percent of the first three percent of compensation deferred by a participant and 50 percent of the next two percent of compensation deferred by a participant.

Administration

The Company is the Plan Administrator (as defined in ERISA). The Company has designated an Administrative Committee (the “Committee” and the “Trustees”), consisting of Genene Kruger, SVP Human Resources, Kara McNulty Hursh, AVP Assistant Controller, Scott W. Kingsmore, SVP Finance and Stephen L. Spector, SVP General Counsel. Among other duties, it is the responsibility of the Committee to select and monitor the performance of investments, the Plan custodian, and to maintain certain administrative records. The Committee has engaged a third party, MassMutual Retirement Services ("MassMutual"), to provide recordkeeping and administrative services.

Employee Participation and Eligibility

All full-time and part-time employees of the Company are eligible to participate in the Plan. Temporary employees are eligible once the employee has completed twelve consecutive months of employment during which at least 1,000 hours of service were provided, and is not covered by a collective bargaining agreement as to which retirement benefits were the subject of good faith bargaining. Effective as of September 15, 2015, an eligible employee may enter the Plan immediately following his or her satisfaction of the eligibility requirements.

Contributions

Each year, participants may defer pre-tax or after-tax Roth contributions up to 50 percent of their compensation, as defined in the Plan and subject to certain limitations set forth in the Code. The Company provides matching contributions, under the Safe Harbor arrangement described above, equal to 100 percent of the first three percent of compensation deferred by a participant and 50 percent of the next two percent of compensation deferred by a participant. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may roll over amounts representing distributions from other qualified defined benefit or defined contributions plans. Participants direct the investment of their contributions into various investment options offered by the Plan, as further discussed in Note 3.

Participant Accounts

Each participant's account is credited with the participant's contribution and allocations of a) the Company's Safe Harbor matching contribution, and b) Plan earnings, and charged with any withdrawals or distributions requested by the participant, investment losses, and an allocation of administrative expenses, if applicable. Allocations are based on participant compensation or account balances, as defined in the Plan document. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

THE MACERICH PROPERTY MANAGEMENT COMPANY
401(k) PROFIT SHARING PLAN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 1: DESCRIPTION OF PLAN (CONTINUED)

Vesting Provisions

Participant accounts, including salary deferrals and Safe Harbor matching contributions, are 100 percent vested at all times.

Notes Receivable From Participants

Active participants may borrow from their fund accounts a minimum of $1,000 up to a maximum of $50,000 or 50 percent of their vested account balances, whichever is less. The loans are secured by the balance in the participant's vested account and bear interest at the prime rate plus one percent, as defined by the Plan document. All loans issued during 2015 and 2014 bear interest at a rate of 4.25 percent. Principal and interest are paid ratably through payroll deductions over a term not to exceed five years. A participant applying for a loan through the Plan will be charged a $125 loan processing fee. The loan application fee is nonrefundable and will be used to offset the administrative expenses associated with the loan. The fee will be deducted from the participant's Plan account at the time his or her loan request is processed.

Payment of Benefits

On termination of service due to death, disability, retirement, or other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution. Upon reaching 59 ½ years of age, a participant shall be entitled to make in-service withdrawals of the participant's account in the form of a lump-sum payment.

The Plan also permits distributions for hardships, as defined in the Plan document.

Withdrawals by participants from their accounts are permitted in accordance with the Plan's provisions.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Plan Expenses

Administrative expenses that are not paid by the Plan are paid by the Company. Administrative expenses paid by the Plan for the year ended December 31, 2015, were $117,702 and are included in administrative expenses in the Statement of Changes in Net Assets Available for Benefits. Fees paid by the Plan for the investment management services are included in net depreciation in fair value of investments in the Statement of Changes in Net Assets Available for Benefits.

Basis of Accounting

The financial statements of the Plan have been prepared under the accrual method of accounting and have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07), which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured using net asset value per share as a practical expedient. The amendments in ASU 2015-07 are effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Plan's management has elected to early adopt ASU 2015-07 and the adoption of ASU 2015-07 is reflected in the fair value hierarchy table in Note 4 where the investment valued using net asset value per share as a practical expedient is excluded from categorization in the fair value hierarchy.

THE MACERICH PROPERTY MANAGEMENT COMPANY
401(k) PROFIT SHARING PLAN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

In July 2015, the FASB issued ASU 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient. Part II eliminates the requirements to disclose individual investments that represent five percent or more of net assets available for benefits and the net appreciation or depreciation in fair value of investments by general type. Part II also simplifies the level of disaggregation of investments that are measured using fair value. Plans will continue to disaggregate investments that are measured using fair value by general type; however, plans are no longer required to also disaggregate investments by nature, characteristics and risks. Further, the disclosure of information about fair value measurements shall be provided by general type of plan asset. Parts I and III are not applicable to the Plan. The ASU is effective for fiscal years beginning after December 15, 2015. ASU 2012-12 Part I and Part II was adopted by the Plan for the year ended December 31, 2015 and applied retrospectively to the Plan year ended December 31, 2014.

Investment Valuation and Income Recognition

Investments are reported at fair value (except for the guaranteed interest contract, which is valued at contract value). 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. The investments and changes therein of the trust funds have been reported to the Plan by the Custodian using fair value and contract value, as indicated.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net depreciation includes the Plan’s gains and losses on investments bought and sold as well as held during the year.

Notes Receivable from Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. Related fees are recorded as administrative expenses and are expensed when they are incurred. Delinquent participant loans are reclassified as distributions based upon the terms of the Plan document.

Benefits Payable to Former Participants

The American Institute of Certified Public Accountants (“AICPA”) has issued guidelines regarding amounts due to former Plan participants but not paid by year-end. The AICPA requires these amounts to be classified as net assets available for Plan benefits, and not as liabilities of the Plan. Included in net assets available for Plan benefits at December 31, 2015, are amounts which may become payable to participants who are not active participants of the Plan.

Payment of Benefits

Benefits are recorded when paid.

Reclassification

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 financial statement presentation.

THE MACERICH PROPERTY MANAGEMENT COMPANY
401(k) PROFIT SHARING PLAN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 3: INVESTMENTS

At December 31, 2015, the Plan allowed participants to allocate their accounts among several investment options. These options include numerous registered investment companies, a guaranteed interest contract, and the Macerich Company Common Stock Fund. Participants may change their investment elections daily for both existing account balances and future contributions.

The Macerich Company Common Stock Fund allows participants the ability to participate in the ownership of their employer's common stock. Participants are not allowed to allocate more than 25 percent of a participant's account balance and/or deferrals to this investment. For liquidity purposes, a portion of this fund is invested in a money market account classified as a registered investment company. Total funds invested in the common stock and money market account is $5,423,228 and $149,046, respectively, at December 31, 2015 and $5,591,556 and $192,759, respectively, at December 31, 2014.

NOTE 4: FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB Accounting Standards Codification ("ASC") Topic 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:
quoted prices for similar assets or liabilities in active markets;
quoted prices for identical or similar assets or liabilities in inactive markets;
inputs other than quoted prices that are observable for the asset or liability; and
inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

The registered investment companies are valued at the net asset value ("NAV") of shares held by the Plan at year-end, based upon quoted market prices. The common/collective trust is valued at the net unit value ("NUV") of units held by the Plan at year-end. The NUV is determined by the total value of fund assets divided by the total number of units of the fund owned. The overall market value yield and crediting interest rate for the common/collective trust was approximately 1.4% and 1.6%, respectively, for 2014. The Macerich Company Common Stock Fund is valued at the NAV at year-end, based upon (1) the quoted market price of the Company common stock shares held at year-end, and, (2) the NAV of the quoted market price of the money market fund shares held at year-end, which together comprise the Macerich Company Common Stock Fund.

THE MACERICH PROPERTY MANAGEMENT COMPANY
401(k) PROFIT SHARING PLAN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 4: FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2015 and 2014:

	Assets at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Mutual Funds (a)	$—	$—	$—	$102,428,522
Macerich Company Common Stock Fund (a)	—	—	—	5,572,274
Total Assets	$—	$—	$—	$108,000,796

	Assets at Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Mutual Funds (a)	$—	$—	$—	$103,805,633
Macerich Company Common Stock Fund (a)	—	—	—	5,784,315
Common/Collective Trust (a)	—	—	—	5,535,853
Total Assets	$—	$—	$—	$115,125,801

(a) In accordance with ASC 820-10, certain investments that were measured at NAV (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Statement of Net Assets Available for Benefits.

Gains and losses (realized and unrealized) included in changes in net assets for the period above are reported in net depreciation in fair value of investments in the Statement of Changes in Net Assets Available for Benefits.

NOTE 5: FULLY BENEFIT-RESPONSIVE INVESTMENT CONTRACTS

In September 2015, the Plan has entered into a benefit-responsive investment contract with MassMutual Core Bond Separate Investment Account (the "SAGIC"). The SAGIC maintains the contributions in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The contract is included in the financial statements at contract value as reported to the Plan by the SAGIC. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. The guaranteed interest contract issuer is contractually obligated to repay the principal and interest earned at a specified interest rate that is guaranteed to the Plan.

The guaranteed interest contract is fully benefit-responsive, contract value is the relevant measurement attribute for that portion of the net assets available for benefits attributable to the guaranteed interest contract. There are no reserves against contract value for credit risk of the contract issuer or otherwise. At December 31, 2015 the fair value of the investment contract was $6,878,743. The average crediting interest rate is calculated by dividing the annual interest credited to the participants during the plan year by the average annual fair value of the investment. The separate account guaranteed interest contract does not allow the crediting interest rate below zero percent.

Average Yields	2015	
Based on actual earnings	2.43	%
Based on interest rate credited to participants	2.43	%

8

THE MACERICH PROPERTY MANAGEMENT COMPANY
401(k) PROFIT SHARING PLAN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 5: FULLY BENEFIT-RESPONSIVE INVESTMENT CONTRACTS (CONTINUED)

Certain events limit the ability of the Plan to transact at contract value with the issuer. Such events include the following: (1) complete or partial termination of the Plan, (2) the establishment or activation of, or material change in, any Plan investment fund, or an amendment to the Plan or a change in the administration or operation of the Plan, including the removal of a group of employees from Plan coverage as a result of the sale or liquidation of a subsidiary or division or as a result of group layoffs or early retirement programs. The guaranteed interest contract does not permit the insurance company to terminate the agreement unless the Plan is not in compliance with the investment agreement. The guaranteed interest contract does not permit the insurance company to terminate the agreement unless the Plan is not in compliance with the investment agreement. The Plan administrator does not believe that any events have occurred which would limit the Plan’s ability to transact at contract.

NOTE 6: RELATED-PARTY AND PARTY-IN-INTEREST TRANSACTIONS

The Plan invests in Company common stock through the Macerich Company Common Stock Fund. These are related-party and party-in-interest transactions. As described in Note 1, the Plan has a number of services providers. Such parties are parties-in-interest under ERISA.

Certain Plan investments are managed by MassMutual. MassMutual is the record-keeper for the Plan and, therefore, these transactions qualify as party-in-interest transactions. MassMutual provides certain administrative services to the Plan pursuant to a Master Plan Services Agreement ("MSA") between the Company and MassMutual. MassMutual receives revenue from mutual funds, guaranteed interest contract, and collective trust fund service providers for services MassMutual provides to the funds. This revenue is used to offset certain amounts owed to MassMutual for its administrative services to the Plan.

If the revenue received by MassMutual from such mutual funds, guaranteed interest contract, and collective trust fund service providers exceeds the amount owed under the MSA, MassMutual remits the excess to the Plan’s trust on a quarterly basis. Such amounts may be applied to pay Plan administrative expenses or allocated to the accounts of the participants. During 2015, there was a total of $34,785 used to pay administrative expenses and $10,158 reallocated to participant accounts.

NOTE 7: PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

NOTE 8: TAX STATUS

The Internal Revenue Service (IRS) has determined and informed the Company by a letter dated September 16, 2011 and subsequently on February 10, 2016, that the Plan and related trust are designed in accordance with applicable sections of the Code. Although the Plan has been amended since receiving the 2016 determination letter, the Plan Administrator and the Plan’s tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and related trust is tax-exempt.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2015, there are no uncertain positions taken or expected to be taken that would require the recognition of a liability or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examination for years prior to 2012.

THE MACERICH PROPERTY MANAGEMENT COMPANY
401(k) PROFIT SHARING PLAN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 9: RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements to Form 5500:

	December 31,	
	2015	2014
Net assets available for benefits per the financial statements	$116,641,055	$116,828,138
Less employer contribution receivable	(295,472)	(261,873)
Net assets available for benefits per Form 5500	$116,345,583	$116,566,265

The following is a reconciliation of contributions per the financial statements for the year ended December 31, 2015 to Form 5500:

Employer contributions per the financial statement	$3,395,048
Add employer contribution receivable as of December 31, 2014	261,873
Less employer contribution receivable as of December 31, 2015	(295,472)
Employer contribution per Form 5500	$3,361,449

NOTE 10: CONCENTRATION OF RISK AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants’ account balances and the amounts reported in the Statement of Net Assets Available for Benefits.

NOTE 11: SUBSEQUENT EVENTS

Effective January 1, 2016, the Plan was amended to automatically enroll newly hired employees that met the eligibility requirements.

The Plan has evaluated subsequent events through June 22, 2016, the date the financial statements were available to be issued.

THE MACERICH PROPERTY MANAGEMENT COMPANY
401(k) PROFIT SHARING PLAN
SCHEDULE H, ITEM 4I
SCHEDULE OF ASSETS (HELD AT YEAR-END)
EIN 95-4853294 PLAN NO. 001
DECEMBER 31, 2015

(a)	(b) Identity of Issuer	(c) Description of Investment	(d) Types of Investment	(e) Current Value
	Capital Research and Mgmt Co.	American Funds EuroPacific Growth - R6	RIC	$7,982,059
	Cohen & Steers	Cohen & Steers Real Estate Securities - A	RIC	663,210
	Columbia Mgmt Investment Advisors LLC	Columbia U.S. Government Mortgage	RIC	6,799,403
	Fidelity Investments	Fidelity Advisor Real Estate - I	RIC	4,109,843
	Fidelity Investments	Fidelity Blue Chip Growth	RIC	11,585,814
	Franklin Mutual Advisors, LLC	Franklin Mutual Quest - A	RIC	6,666,940
	Hotchkis & Wiley, LLC	Hotchkis & Wiley Mid-Cap Value	RIC	2,670,499
	Janus Capital Mgmt, LLC	Janus Enterprise - T	RIC	6,885,885
	JPMorgan Investment Mgmt, Inc.	JPMorgan Small Cap Equity - R5	RIC	4,155,136
*	Macerich	Macerich Company Common Stock Fund	MCCSF	5,423,228
*	Massachusetts Financial Services Co.	MFS Total Return Bond - R4	RIC	6,564,824
*	Massachusetts Financial Services Co.	MFS Total Return - R4	RIC	4,731,110
	Oppenheimer Funds, Inc.	Oppenheimer International Diversified - A	RIC	5,984,069
	Putnam Investment Mgmt, Inc.	Putnam Equity Income - A	RIC	11,356,943
*	State Street Bank and Trust Co.	State Street Short Term Investment	RIC	149,046
	Franklin Advisers, Inc.	Templeton Global Bond Adv	RIC	5,595,742
	The Vanguard Group, Inc.	Vanguard 500 Index	RIC	13,121,185
	The Vanguard Group, Inc.	Vanguard Target Retirement 2010	RIC	15,981
	The Vanguard Group, Inc.	Vanguard Target Retirement 2020	RIC	1,004,986
	The Vanguard Group, Inc.	Vanguard Target Retirement 2030	RIC	1,130,805
	The Vanguard Group, Inc.	Vanguard Target Retirement 2040	RIC	44,030
	The Vanguard Group, Inc.	Vanguard Target Retirement 2050	RIC	2,717
	The Vanguard Group, Inc.	Vanguard Target Retirement 2060	RIC	53,633
	The Vanguard Group, Inc.	Vanguard Target Retirement Income	RIC	8,580
	The Vanguard Group, Inc.	Vanguard Total International Index	RIC	253,759
	The Vanguard Group, Inc.	Vanguard Total Stock Market Index	RIC	693,641
	The Vanguard Group, Inc.	Vanguard Total Bond Market Index	RIC	347,728
	Total			108,000,796
*	Massachusetts Mutual Life Insurance Company	SAGIC Core Bond	GIC	6,966,585
*	Participant loans	Interest rate at 4.25%, various maturities		1,378,202

$116,345,583

*Indicates a party-in-interest

GIC — Guaranteed Interest Contract, presented at contract value
RIC — Registered Investment Companies
MCCSF — Macerich Company Common Stock Fund

11

REQUIRED INFORMATION

The Macerich Property Management Company 401(k) Profit Sharing Plan (the "Plan") is subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). Therefore, in lieu of the requirements of Items 1-3 of Form 11-K, the financial statements and schedules of the Plan for the fiscal year ended December 31, 2015, which have been prepared in accordance with the financial reporting requirements of ERISA, are filed herewith and incorporated herein by this reference.

The written consent of Windes, Inc. with respect to the annual financial statements of the Plan is filed as Exhibit 23.1 to this Annual Report.

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf on June 22, 2016, by the undersigned hereunto duly authorized.

THE MACERICH PROPERTY MANAGEMENT

COMPANY 401(K) PROFIT SHARING PLAN

By: /s/ Genene Kruger
Genene Kruger, Trustee

By: /s/ Kara McNulty Hursh
Kara McNulty Hursh, Trustee

By: /s/ Scott W. Kingsmore
Scott W. Kingsmore, Trustee

By: /s/ Stephen L. Spector
Stephen L. Spector, Trustee

Exhibit Index

Exhibit Number	Description
23.1*	Consent of Windes, Inc.

* Filed herewith

y accepted valuation techniques such as discounted cash flows. Certain estimates and judgments are required in the application of the fair value techniques, including estimates of future cash flows, selling prices, replacement costs, economic lives and the selection of a discount rate, and it involves using of Level 3 measurements as defined in FASB Accounting Standards Codification (ASC) 820 *Fair Value Measurements and Disclosu*re (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 the Company s results of operations.

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

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

Due to the changes in the underlying assumptions surrounding our goodwill testing, as a result of significant acquisitions, we performed a quantitative analysis of goodwill to test for impairment at December 1, 2015.

The fair values of the reporting units at December 1, 2015 were determined using a method based on discounted cash flow models with estimated cash flows based on internal forecasts of revenue and expenses over a four-year period plus a terminal value period (the income approach). The income approach estimated fair value by discounting each reporting unit s estimated future cash flows using a discount rate that approximated our weighted-average cost of capital. The fair value derived from the income approach, in the aggregate, approximated our market capitalization. At December 1, 2015, our market capitalization exceeded the carrying value of our consolidated net assets by approximately $482 million or 141%, and the fair value of each reporting unit significantly exceeded its respective carrying amount as of that date.

On May 31, 2015 and 2014, we completed our annual goodwill impairment test by performing a qualitative analysis that assessed relevant events and circumstances to evaluate whether it was more likely than not that the fair value of our individual reporting units was less than their respective carrying amount of goodwill. If, after assessing the totality of events and circumstances, an entity determines that it is more likely than not that the fair value of a reporting unit is greater than the carrying amount, then the first and second steps of the goodwill impairment test are not necessary. We evaluated considerations under ASC 350, such as macroeconomic effects on our business, industry and market considerations, cost factors that could have a negative effect on cash flows or earnings, overall financial performance, entity-specific events, events affecting reporting units, and any realization of a sustained decrease in the price of our stock. After consideration of the aforementioned events and circumstances, we concluded that it was more likely than not that the fair value of each reporting unit was greater than its respective carrying amount of goodwill. Accordingly, we did not perform the two-step process described above for the years ending May 31, 2015 and 2014.

There was $256.7 million, $107.8 million and $113.8 million of goodwill at December 31, 2015, May 31, 2015 and 2014, respectively. A summary of goodwill is as follows (in thousands):

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

Twelve Months Ended May 31, 2015

	IHT	MS	Quest Integrity	Total
Balance at beginning of year	$ 63,249	$ 19,685	$ 30,829	$ 113,763
Acquisitions		103		103
Foreign currency adjustments	(2,512)	(2,322)	(1,259)	(6,093)
Balance at end of year	$ 60,737	$ 17,466	$ 29,570	$ 107,773

34

Table of Contents

	Twelve Months Ended May 31, 2014			
	IHT	MS	Quest Integrity	Total
Balance at beginning of year	$ 53,800	$ 19,131	$ 30,535	$ 103,466
Acquisitions	10,386			10,386
Foreign currency adjustments	(937)	554	294	(89)
Balance at end of year	$ 63,249	$ 19,685	$ 30,829	$ 113,763

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

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

Management believes future sources of taxable income, reversing temporary differences and other tax planning strategies will be sufficient to realize assets for which no reserve has been established. While we have considered these factors in assessing the need for a valuation allowance, there is no assurance that a valuation allowance would not need to be established in the future if information about future years change. Any change in the valuation allowance would impact our income tax provision and net income in the period in which such a determination is made. As of December 31, 2015, we believe that it is more likely than not that we will have sufficient reversals of temporary differences and future taxable income to allow us to realize the benefits of the net deferred tax assets except for those related to net operating loss carry forwards of certain foreign subsidiaries in the amount of $0.9 million. Our belief is based upon our track record of consistent earnings over the past seven years and projections of future taxable income over the periods in which the future deductible temporary differences become deductible. As of December 31, 2015, our deferred tax assets were $16.8 million, less a valuation allowance of $0.9 million. As of December 31, 2015, our deferred tax liabilities were $25.1 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 certain positions may be challenged and potentially disallowed. 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 in our consolidated statements of income. As of December 31, 2015, our unrecognized tax benefits related to uncertain tax positions were $0.5 million.

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

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

Accounting Principles Not Yet Adopted

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

ASU No. 2015-03. In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which requires that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as other assets, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. The update is effective for fiscal years beginning after December 15, 2015 on a retrospective basis. The adoption of this update is not expected to have a material impact on our results of operations, financial position or cash flows.

ASU No. 2015-11. In July 2015, the FASB issued ASU 2015-11, *Inventory Simplifying the Measurement of Inventory* (ASU 2015-11), which requires entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value to more closely align the

36

measurement of inventory in U.S. GAAP with International Financial Reporting Standards (IFRS). Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The update is effective for fiscal years beginning after December 15, 2016 on a prospective basis, with earlier application permitted. The adoption of this update is not expected to have a material impact on our results of operations, financial position or cash flows.

ASU No. 2015-15. In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* (ASU 2015-15), that adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. In April 2015, the FASB issued ASU No. 2015-03, which requires the presentation of debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, ASU 2015-15 states the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-15 is effective upon adoption of ASU 2015-03 which is effective for fiscal years beginning after December 15, 2015 on a retrospective basis. The adoption of ASU 2015-03 and ASU 2015-15 is not expected to have a material impact on our results of operations, financial position or cash flows.

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

ASU No. 2015-17. In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes* (ASU 2015-17), which simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. This update is effective for fiscal years beginning after December 15, 2016. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. The adoption of this update is not expected to have a material impact on our results of operations, financial position or cash flows.

ASU No. 2016-02. In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02), which changes the accounting for leases, including a requirement to record all leases on the consolidated balance sheets as assets and liabilities. This update is effective for fiscal years beginning after December 15, 2018. We will adopt this update effective January 1, 2019. We are currently evaluating the impact this standard will have on our ongoing financial reporting.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations in foreign countries with a functional currency that is not the U.S. Dollar. We are exposed to market risk, primarily related to foreign currency fluctuations related to these operations. Subsidiaries with asset and liability balances denominated in currencies other than their functional currency are remeasured in the preparation of their financial statements using a combination of current and historical exchange rates, with any resulting remeasurement adjustments included in net income for the period. Net foreign currency transaction losses for the seven months ended December 31, 2015 were $0.8 million. The foreign currency transaction losses realized in the seven months ended December 31, 2015 relate primarily to the strengthening of the U.S. Dollar in relation to the Euro, Canadian Dollar, Australian Dollar and Mexican Peso.

During the three months ended May 31, 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 the Euro, Australian Dollar, Brazilian Real, Malaysian Ringgit and Mexican Peso. The impact from these swap contracts were not material as of and for the seven months ended December 31, 2015 and as of and for the year ended May 31, 2015.

Translation adjustments for the assets and liability accounts are included as a separate component of accumulated other comprehensive income in shareholders equity. Foreign currency translation losses in other comprehensive income were $7.2 million for the seven months ended December 31, 2015.

For the seven months ended December 31, 2015, we had foreign currency-based revenues and operating income of $123.2 million and $7.9 million, respectively, a hypothetical 10% adverse change in all applicable foreign currencies would result in an annual change in revenues and operating income of $12.3 million and $0.8 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.

Prior to February 1, 2015, we accounted for Venezuelan operations pursuant to accounting guidance for hyperinflationary economies. Following the designation of the Venezuelan economy as hyperinflationary, we ceased recording the effects of currency fluctuations to accumulated other comprehensive income and began reflecting all effects as a component of other income in our statement of operations. At February 1, 2015, our Venezuelan subsidiary had $0.6 million of cash on hand based on the SICAD-2 rate in effect at that date. On February 1, 2015 Team management began reporting the results of our Venezuelan operations using the cost method of accounting due to the other-than-temporary lack of exchangeability in the Venezuelan currency combined with other recent Venezuelan regulations. This resulted in recognition of a pre-tax loss of $1.2 million in twelve months ended May 31, 2015. In June 2015, we disposed of our Venezuelan operations and realized no gain or loss from the transaction.

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

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Team, Inc.:

We have audited Team, Inc. and subsidiaries internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Team, Inc. acquired Qualspec Group LLC (Qualspec) in July 2015, and management excluded from its assessment of the effectiveness of Team, Inc. s internal control over financial reporting as of December 31, 2015, Qualspec s internal control over financial reporting associated with total assets of $36 million and total revenues of $79 million included in the consolidated financial statements of Team, Inc. and subsidiaries as of and for the seven months ended December 31, 2015. Our audit of internal control over financial reporting of Team, Inc. also excluded an evaluation of the internal control over financial reporting of Qualspec.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Team, Inc. and subsidiaries as of December 31, 2015, May 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders equity, and cash flows for the seven months ended December 31, 2015 and each of the years in the three-year period ended May 31, 2015, and our report dated March 15, 2016 expressed an unqualified opinion on those consolidated financial statements.

(signed) KPMG LLP

Houston, Texas

March 15, 2016

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Team, Inc.:

We have audited the accompanying consolidated balance sheets of Team, Inc. and subsidiaries as of December 31, 2015, May 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders equity, and cash flows for the seven months ended December 31, 2015 and each of the years in the three-year period ended May 31, 2015. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Team, Inc. and subsidiaries as of December 31, 2015, May 31, 2015 and 2014, and the results of their operations and their cash flows for the seven months ended December 31, 2015 and each of the years in the three-year period ended May 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Team, Inc. s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2016 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

(signed) KPMG LLP

Houston, Texas

March 15, 2016

40

Table of Contents

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2015	May 31, 2015	May 31, 2014
ASSETS			
Current assets:			
Cash and cash equivalents	$ 44,825	$ 33,211	$ 34,656
Restricted cash	5,000		
Receivables, net of allowance of $3,548, $2,775 and $4,784	214,324	212,934	175,601
Inventory	27,936	26,005	25,537
Income tax receivable	3,893		
Deferred income taxes	6,917	5,926	4,717
Prepaid expenses and other current assets	11,664	10,620	8,303
Total current assets	314,559	288,696	248,814
Property, plant and equipment, net	124,983	97,926	89,961
Assets held for sale		5,207	5,207
Intangible assets, net of accumulated amortization of $21,161, $15,957 and $12,698	99,119	20,268	23,513
Goodwill	256,654	107,773	113,763
Other assets, net	2,421	467	1,248
Deferred income taxes	1,255	3,496	2,435
Total assets	$ 798,991	$ 523,833	$ 484,941
LIABILITIES AND EQUITY			
Current liabilities:			
Current-portion of long term debt	$ 20,000	$	$
Accounts payable	22,364	32,854	21,755
Other accrued liabilities	49,796	54,185	48,391
Income taxes payable		4,185	4,997
Total current liabilities	92,160	91,224	75,143
Deferred income taxes	17,302	15,631	15,655
Long-term debt	351,383	78,484	73,721
Other long-term liabilities		3,119	3,377
Total liabilities	460,845	188,458	167,896
Commitments and contingencies			
Equity:			
Preferred stock, 500,000 shares authorized, none issued			
	6,552	6,273	6,142

Common stock, par value $0.30 per share, 60,000,000 shares authorized; 21,836,694, 20,909,402 and 20,477,938 shares issued				
Additional paid-in capital		120,126	115,642	105,872
Retained earnings		250,980	242,102	202,032
Accumulated other comprehensive loss		(18,374)	(13,538)	(2,679)
Treasury stock at cost, 546,977, 546,977 and 0 shares		(21,138)	(21,138)	
Total Team shareholders equity		338,146	329,341	311,367
Non-controlling interest			6,034	5,678
Total equity		338,146	335,375	317,045
Total liabilities and equity	$	798,991	$ 523,833	$ 484,941

See accompanying notes to consolidated financial statements.

41

Table of Contents

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014	2013
Revenues	$ 571,718	$ 842,047	$ 749,527	$ 714,311
Operating expenses	409,391	584,054	527,611	501,346
Gross margin	162,327	257,993	221,916	212,965
Selling, general and administrative expenses	142,643	189,528	171,455	158,355
Gain/(loss) on revaluation of contingent consideration	(522)		2,138	
Earnings from unconsolidated affiliates			822	992
Operating income	19,162	68,465	53,421	55,602
Interest expense, net	4,898	2,489	2,851	2,734
Loss on investment in Venezuela		1,177		
Foreign currency loss	813	1,509	4,185	943
Earnings before income taxes	13,451	63,290	46,385	51,925
Less: Provision for income taxes (see Note 9)	4,573	22,793	16,236	19,211
Net income	8,878	40,497	30,149	32,714
Less: Income attributable to non-controlling interest		427	294	278
Net income available to Team shareholders	$ 8,878	$ 40,070	$ 29,855	$ 32,436
Net income per share: Basic	$ 0.43	$ 1.95	$ 1.46	$ 1.61
Net income per share: Diluted	$ 0.41	$ 1.85	$ 1.40	$ 1.53

See accompanying notes to consolidated financial statements.

42

Table of Contents

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014	2013
Net income	$ 8,878	$ 40,497	$ 30,149	$ 32,714
Foreign currency translation adjustment	(7,228)	(15,822)	(1,613)	1,070
Foreign currency hedge	101	3,237	(775)	(674)
Tax benefit attributable to other comprehensive income	2,291	1,655	1,498	411
Total comprehensive income	4,042	29,567	29,259	33,521
Less: Total comprehensive income attributable to non-controlling interest		356	294	287
Total comprehensive income available to Team shareholders	$ 4,042	$ 29,211	$ 28,965	$ 33,234

See accompanying notes to consolidated financial statements.

43

Table of Contents

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands)

	Common Shares	Treasury Shares	Common Stock	Treasury Stock	Additional Paid in Capital	Non Controlling Interest	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at May 31, 2012	19,955	(90)	$ 5,985	$ (1,344)	$ 85,801	$ 5,097	$ 152,049	$ (2,587)	$ 245,001
Net income							32,714		32,714
Foreign currency translation adjustment, net of tax								1,200	1,200
Foreign currency hedge, net of tax								(393)	(393)
Comprehensive income attributable to non-controlling interest						287	(278)	(9)	
Non-cash compensation					3,931				3,931
Vesting of stock awards	124		38		(1,572)				(1,534)
Exercise of stock options	509		153		8,122				8,275
Tax benefit of exercise of stock options					2,996				2,996
Balance at May 31, 2013	20,588	(90)	6,176	(1,344)	99,278	5,384	184,485	(1,789)	292,190
Net income							30,149		30,149
Foreign currency translation adjustment, net of tax								(400)	(400)
Foreign currency hedge, net of tax								(490)	(490)
Comprehensive income						294	(294)		

attributable to non-controlling interest									
Non-cash compensation					4,239				4,239
Vesting of stock awards	117		34		(1,744)				(1,710)
Tax benefit of exercise of stock options					1,131				1,131
Exercise of stock options	232		70		5,200				5,270
Purchase of treasury stock		(369)		(13,334)					(13,334)
Retirement of common stock	(459)	459	(138)	14,678	(2,232)		(12,308)		
Balance at May 31, 2014	20,478		6,142		105,872	5,678	202,032	(2,679)	317,045
Net income							40,497		40,497
Foreign currency translation adjustment, net of tax								(13,263)	(13,263)
Foreign currency hedge, net of tax								2,333	2,333
Comprehensive income attributable to non-controlling interest						356	(427)	71	
Non-cash compensation					4,838				4,838
Vesting of stock awards	106		33		(1,808)				(1,775)
Tax benefit of exercise of stock options					3,034				3,034
Exercise of stock options	325		98		3,706				3,804
Purchase of treasury stock		(547)		(21,138)					(21,138)
Balance at May 31, 2015	20,909	(547)	6,273	(21,138)	115,642	6,034	242,102	(13,538)	335,375
Net income							8,878		8,878
Foreign currency translation adjustment, net of tax								(4,898)	(4,898)
								62	62

Foreign currency hedge, net of tax									
Purchase of non-controlling interest	728		218		(118)	(6,034)			(5,934)
Non-cash compensation					3,522				3,522
Vesting of stock awards	89		27		(1,402)				(1,375)
Tax benefit of exercise of stock options					374				374
Exercise of stock options	111		34		2,108				2,142
Balance at December 31, 2015	21,837	(547)	$ 6,552	$ (21,138)	$ 120,126	$	$ 250,980	$ (18,374)	$ 338,146

See accompanying notes to consolidated financial statements.

44

Table of Contents

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014	2013
Cash flows from operating activities:				
Net income	$ 8,878	$ 40,497	$ 30,149	$ 32,714
Adjustments to reconcile net income to net cash provided by operating activities:				
Earnings from unconsolidated affiliates			(822)	(992)
Depreciation and amortization	19,426	22,787	21,468	19,664
Loss on asset impairment and disposals	51	617	78	193
Amortization of deferred loan costs	256	223	223	222
Loss on investment in Venezuela		1,177		
Venezuela devaluation			3,962	
Foreign currency loss	813	1,509	223	943
Deferred income taxes	2,411	(729)	(1,040)	5,089
Loss (gain) on contingent consideration revaluation	522		(2,138)	
Non-cash compensation cost	3,469	4,838	4,239	3,931
(Increase) decrease, net of the effects of acquisitions:				
Receivables	17,050	(43,192)	(6,812)	(10,964)
Inventory	372	(925)	822	(1,405)
Prepaid expenses and other current assets	(111)	(2,525)	(17)	443
Increase (decrease), net of the effects of acquisitions:				
Accounts payable	(13,365)	10,789	(295)	3,210
Other accrued liabilities	(14,426)	9,377	(1,208)	7,779
Income taxes	(8,085)	(972)	4,029	(2,184)
Net cash provided by operating activities	17,261	43,471	52,861	58,643
Cash flows from investing activities:				
Capital expenditures	(25,802)	(28,769)	(33,016)	(26,068)
Proceeds from sale of assets	5,227	133	357	758
Business acquisitions, net of cash acquired	(262,100)	(3,075)	(10,175)	(18,589)
Change in restricted cash	(5,000)			
Change related to Venezuelan operations		(620)		
Distributions from joint venture			2,223	1,000
(Increase) decrease in other assets, net	(105)	550	2	
Net cash used in investing activities	(287,780)	(31,781)	(40,609)	(42,899)

Cash flows from financing activities:				
Net borrowings (payments) under revolving credit agreement	103,000	8,000		(13,600)
Net borrowings under term loan	190,000			
Deferred consideration payments	(2,307)	(1,000)	(1,000)	
Contingent consideration payments	(230)	(1,000)		
Purchase of non-controlling interest	(5,934)			
Debt issuance costs	(1,950)			
Payments related to withholding tax for share-based payment arrangements	(1,375)	(1,775)	(1,710)	(1,534)
Corporate tax effect from share-based payment arrangements	374	3,034	1,131	2,996
Issuance of common stock from share-based payment arrangements	2,142	3,804	5,270	8,275
Purchase of treasury stock		(21,138)	(13,334)	
Net cash provided by (used in) financing activities	283,720	(10,075)	(9,643)	(3,863)
Effect of exchange rate changes on cash	(1,587)	(3,060)	(2,154)	(157)
Net increase (decrease) in cash and cash equivalents	11,614	(1,445)	455	11,724
Cash and cash equivalents at beginning of period	33,211	34,656	34,201	22,477
Cash and cash equivalents at end of period	$ 44,825	$ 33,211	$ 34,656	$ 34,201
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Interest	$ 3,907	$ 2,028	$ 2,728	$ 2,615
Income taxes	$ 10,252	$ 21,491	$ 12,111	$ 12,926

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

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

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

On-stream services are offered by MS and represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control and hot tapping.

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

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

On November 10, 2015, we announced we would change our fiscal year end to December 31 of each calendar year from May 31. This transition report is for the seven-month transition period of June 1, 2015 through December 31, 2015.

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

Venezuelan operations using the cost method of accounting (see Note 17).

Use of estimates. Our accounting policies conform to GAAP. Our most significant accounting policies are described below. The preparation of consolidated financial statements in conformity with GAAP requires

46

management to make estimates and judgments that affect our reported financial position and results of operations. We review significant estimates and judgments affecting our consolidated financial statements on a recurring basis and record the effect of any necessary adjustments prior to their publication. Estimates and judgments are based on information available at the time such estimates and judgments are made. Adjustments made with respect to the use of these estimates and judgments often relate to information not previously available. Uncertainties with respect to such estimates and judgments are inherent in the preparation of financial statements. Estimates and judgments are used in, among other things, (1) aspects of revenue recognition, (2) valuation of acquisition related tangible and intangible assets and assessments of all long lived assets for possible impairment, (3) estimating various factors used to accrue liabilities for workers compensation, auto, medical and general liability, (4) establishing an allowance for uncollectible accounts receivable, (5) estimating the useful lives of our assets, (6) assessing future tax exposure and the realization of tax assets and (7) estimating the value associated with contingent consideration payment arrangements.

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

Cash and cash equivalents. Cash and cash equivalents consist of all demand deposits and funds invested in highly liquid short-term investments with original maturities of three months or less. Included in our cash and cash equivalents at December 31, 2015 is $17.5 million of cash in certain foreign subsidiaries (located primarily in Europe and Canada) where earnings are considered by the Company to be permanently reinvested. In the event that some or all of this cash were to be repatriated, we would be required to accrue and pay additional taxes. While not legally restricted from repatriating this cash, we consider all undistributed earnings of these foreign subsidiaries to be indefinitely reinvested and access to cash to be limited.

Restricted cash. We have recorded $5.0 million in restricted cash on our balance sheet to reflect the amount held in escrow for contingent consideration as stipulated by the Qualspec purchase agreement. Based on Qualspec s results through December 31, 2015, we do not believe the contingent consideration will be paid and, accordingly, this cash is expected to become unrestricted in the second calendar quarter of 2016.

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

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

Classification	Useful Life
Buildings	20-40 years
Leasehold improvements	2-15 years
Machinery and equipment	2-12 years
Furniture and fixtures	2-10 years

Computers and computer software	2-5 years
Automobiles	2-5 years

Revenue recognition. We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the FASB and the SEC. Most of our projects are short-term in nature and we predominantly derive revenues by providing a variety of industrial

47

services on a time and material basis. For all of these services our revenues are recognized when services are rendered or when product is shipped to the job site and risk of ownership passes to the customer. However, due to various contractual terms with our customers, at the end of any reporting period, there may be earned but unbilled revenue that is accrued to properly match revenues with related costs. At December 31, 2015, May 31, 2015 and May 31, 2014, the amount of earned but unbilled revenue included in accounts receivable was $47.1 million, $18.4 million and $14.9 million, respectively.

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. The Company uses all available information to estimate fair values including quoted market prices, the carrying value of acquired assets, and widely accepted valuation techniques such as discounted cash flows. Certain estimates and judgments are required in the application of the fair value techniques, including estimates of future cash flows, selling prices, replacement costs, economic lives and the selection of a discount rate, and it involves using of Level 3 measurements as defined in FASB Accounting Standards Codification (ASC) 820 *Fair Value Measurements and Disclosur*e (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 the Company s results of operations.

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

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

Due to the changes in the underlying assumptions surrounding our goodwill testing, as a result of significant acquisitions (see Note 2), we performed a quantitative analysis of goodwill to test for impairment at December 1, 2015.

The fair values of the reporting units at December 1, 2015 were determined using a method based on discounted cash flow models with estimated cash flows based on internal forecasts of revenue and expenses over a four-year period plus a terminal value period (the income approach). The income approach estimated fair value by discounting each reporting unit s estimated future cash flows using a discount rate that approximated our weighted-average cost of capital. The fair value derived from the income approach, in the aggregate, approximated our market capitalization. At December 1, 2015, our market capitalization exceeded the carrying value of our consolidated net assets by approximately $482 million or 141%, and the fair value of each reporting unit significantly exceeded its respective carrying amount as of that date.

On May 31, 2015 and 2014, we completed our annual goodwill impairment test by performing a qualitative analysis that assessed relevant events and circumstances to evaluate whether it was more likely than not that the fair value of our individual reporting units was less than their respective carrying amount of goodwill. If, after assessing the totality of events and circumstances, an entity determines that it is more likely than not that the fair value of a reporting unit is greater than the carrying amount, then the first and second steps of the goodwill impairment test are not necessary. We evaluated considerations under ASC 350, such as macroeconomic effects on our business, industry and market considerations, cost factors that could have a negative effect on cash flows or earnings, overall financial performance, entity-specific events, events affecting reporting units, and any realization of a sustained decrease in the price of our stock. After consideration of the aforementioned events and circumstances, we concluded that it was more likely than not that the fair value of each reporting unit was greater than its respective carrying amount of goodwill. Accordingly, we did not perform the two-step process described above for the years ended May 31, 2015 and 2014.

There was $256.7 million, $107.8 million and $113.8 million of goodwill at December 31, 2015, May 31, 2015 and 2014, respectively. A summary of goodwill is as follows (in thousands):

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

	Twelve Months Ended May 31, 2015			
	IHT	**MS**	**Quest Integrity**	**Total**
Balance at beginning of year	$ 63,249	$ 19,685	$ 30,829	$ 113,763
Acquisitions		103		103
Foreign currency adjustments	(2,512)	(2,322)	(1,259)	(6,093)
Balance at end of year	$ 60,737	$ 17,466	$ 29,570	$ 107,773

	Twelve Months Ended May 31, 2014			
	IHT	**MS**	**Quest Integrity**	**Total**
Balance at beginning of year	$ 53,800	$ 19,131	$ 30,535	$ 103,466

Acquisitions	10,386			10,386
Foreign currency adjustments	(937)	554	294	(89)
Balance at end of year	$ 63,249	$ 19,685	$ 30,829	$ 113,763

Income taxes. We follow the guidance of ASC 740 *Income Taxes* (ASC 740), which requires that we use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant temporary differences. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax payable and related tax expense together with assessing temporary differences

Table of Contents

resulting from differing treatment of certain items, such as depreciation, for tax and accounting purposes. These differences can result in deferred tax assets and liabilities, which are included within our consolidated balance sheets.

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

Management believes future sources of taxable income, reversing temporary differences and other tax planning strategies will be sufficient to realize assets for which no reserve has been established. While we have considered these factors in assessing the need for a valuation allowance, there is no assurance that a valuation allowance would not need to be established in the future if information about future years change. Any change in the valuation allowance would impact our income tax provision and net income in the period in which such a determination is made. As of December 31, 2015, we believe that it is more likely than not that we will have sufficient reversals of temporary differences and future taxable income to allow us to realize the benefits of the net deferred tax assets except for those related to net operating loss carry forwards of certain foreign subsidiaries in the amount $0.9 million. Our belief is based upon our track record of consistent earnings over the past seven years and projections of future taxable income over the periods in which the future deductible temporary differences become deductible. As of December 31, 2015, our deferred tax assets were $16.8 million, less a valuation allowance of $0.9 million. As of December 31, 2015, our deferred tax liabilities were $25.1 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 certain positions may be challenged and potentially disallowed. 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 in our consolidated statements of income. As of December 31, 2015, our unrecognized tax benefits related to uncertain tax positions were $0.5 million.

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

50

Table of Contents

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

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

	Seven Months Ended December 31, 2015	**Twelve Months Ended May 31,**		
		2015	**2014**	**2013**
Weighted-average number of basic shares outstanding	20,852	20,500	20,439	20,203
Stock options, stock units and performance awards	260	419	633	759
Conversion of non-controlling interest	313	732	213	204
Total shares and dilutive securities	21,425	21,651	21,285	21,166

There were no share-based awards outstanding during the seven months ended December 31, 2015 and the twelve months ended May 31, 2015, 2014 and 2013, that were excluded from the computation of diluted earnings per share because the options exercise prices were greater than the average market price of common shares during the periods.

Foreign currency. For subsidiaries whose functional currency is not the U.S. Dollar, assets and liabilities are translated at period ending rates of exchange and revenues and expenses are translated at period average exchange rates. Translation adjustments for the asset and liability accounts are included as a separate component of accumulated other comprehensive loss in shareholders equity. Foreign currency transaction gains and losses are included in our statement of income. Effective December 1, 2009, we began to account for Venezuela as a highly-inflationary economy and the effect of all subsequent currency fluctuations between the Bolivar and the U.S. Dollar are recorded in our statement of income. Subsequently, effective February 1, 2015, we began reporting the results of our Venezuelan operations using the cost method of accounting (see Note 17).

We utilize monthly foreign currency swap contracts to reduce exposures to changes in foreign currency exchange rates related to the Euro, Australian Dollar and Mexican Peso. The impact from these swap contracts was not material as of and for the seven months ended December 31, 2015 and as of and for the year ended May 31, 2015.

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

Accounting Principles Not Yet Adopted

ASU No. 2014-09. In May 2014, the FASB issued Accounting Standards Update (ASU) ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to

51

customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for us on January 1, 2018, with early application permitted as of January 1, 2017. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method or determined the effect ASU 2014-09 will have on our ongoing financial reporting.

ASU No. 2015-03. In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which requires that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as other assets, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. The update is effective for fiscal years beginning after December 15, 2015 on a retrospective basis. The adoption of this update is not expected to have a material impact on our results of operations, financial position or cash flows.

ASU No. 2015-11. In July 2015, the FASB issued ASU 2015-11, *Inventory Simplifying the Measurement of Inventory* (ASU 2015-11), which requires entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value to more closely align the measurement of inventory in U.S. GAAP with International Financial Reporting Standards (IFRS). Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The update is effective for fiscal years beginning after December 15, 2016 on a prospective basis, with earlier application permitted. The adoption of this update is not expected to have a material impact on our results of operations, financial position or cash flows.

ASU No. 2015-15. In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* (ASU 2015-15), that adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015, Emerging Issues Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. In April 2015, the FASB issued ASU No. 2015-03, which requires the presentation of debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, ASU 2015-15 states the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-15 is effective upon adoption of ASU 2015-03 which is effective for fiscal years beginning after December 15, 2015 on a retrospective basis. The adoption of ASU 2015-03 and ASU 2015-15 is not expected to have a material impact on our results of operations, financial position or cash flows.

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

ASU No. 2015-17. In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes* (ASU 2015-17), which simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. This update is effective for fiscal years beginning after December 15, 2016. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. The adoption of this update is not expected to have a material impact on our results of operations, financial position or cash flows.

ASU No. 2016-02. In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02), which changes the accounting for leases, including a requirement to record all leases on the consolidated balance sheets as assets and liabilities. This update is effective for fiscal years beginning after December 15, 2018. We will adopt this update effective January 1, 2019. We are currently evaluating the impact this standard will have on our ongoing financial reporting.

2. ACQUISITIONS

In July 2015, we acquired 100% of Qualspec for total cash consideration of $255.5 million. Qualspec is a leading provider of NDT services in the United States, with significant operations in the West Coast, Gulf Coast and Mid-Western areas of the country. The acquisition is expected to add about $170 million of annual revenue to our operations. Qualspec acquisition is expected to add strength to our resident refinery inspection programs with major customer relationships across the U.S., and to add to our already strong capabilities in advanced inspection services, rope access services and the delivery of innovative technologies to our customers. The purchase of Qualspec was financed through borrowings under our new banking credit facility. The initial purchase price could have been increased by $10.0 million depending upon the operating results of Qualspec through the end of calendar year 2015. The fair value of the contingent consideration arrangement at the acquisition date was initially estimated at $5.8 million. However, based on Qualspec results through December 31, 2015, there was no additional amount payable and, accordingly, we have reversed our initial contingent consideration obligation of $5.8 million to zero with a corresponding decrease to goodwill.

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

Cash and cash equivalents	$ 3,981
Accounts receivable	21,495
Current deferred tax assets	279
Prepaid expenses	1,049
Plant, property and equipment	15,472
Intangible assets	78,100
Goodwill	148,482
Other assets	138
Total assets acquired	$ 268,996
Accounts payable	$ 2,892
Other accrued liabilities	7,581
Non-current deferred tax liability	2,982
Total liabilities assumed	13,455

Net assets acquired	$ 255,541

The purchase price allocation shown above is based upon the fair values at acquisition date. The fair values recorded are Level 3 measurements as defined in ASC 820.

Of the $78.1 million of acquired intangible assets, $75.2 million was assigned to customer relationships with an estimated useful life of 15 years, $1.6 million was assigned to non-compete agreements with an estimated useful life of 5 years and $1.3 million was assigned to trade names with an estimated useful life of 1 year.

The $148.5 million of goodwill was assigned to the IHT segment. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Qualspec. About $109.6 million of the goodwill is expected to be deductible for income tax purposes.

The fair value of accounts receivables acquired was $21.5 million, with the gross contractual amount being $22.5 million. We expect $1.0 million to be uncollectible.

For the seven months ended December 31, 2015, we recognized $3.6 million of acquisition-related costs, which were included in selling, general and administrative expenses in the consolidated statement of income.

Our consolidated results include the activity of Qualspec beginning on the acquisition date of July 7, 2015. The amounts of revenue and earnings of Qualspec included in the consolidated statement of income (in the IHT segment) from the acquisition date to the period ending December 31, 2015 are as follows:

Revenues	$ 79,323
Net income	$ 2,748

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

	Pro forma data Seven Months Ended December 31, 2015 (unaudited)	Pro forma data Year Ended May 31, 2015 (unaudited)
Revenues	$ 589,553	$ 1,011,829
Net income	$ 9,215	$ 41,597
Earnings per share:		
Basic	$ 0.44	$ 2.03
Diluted	$ 0.43	$ 1.92

These amounts have been calculated after applying Team s accounting policies, reflecting additional interest expense and adjusting the results of Qualspec to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on June 1, 2014, together with the consequential tax effects.

In June 2015, we purchased an advanced valve leader located in Long Beach, California, with a portfolio of projects from various sectors including oil and gas refining, pipelines and power generation for a total consideration of $12.3 million, net of cash acquired of $0.1 million. The purchase price included net working capital of $3.0 million, $0.6 million in fixed assets and $8.8 million in intangibles that includes $2.5 million allocated to goodwill. The purchase price also included $1.8 million of contingent consideration. The contingent consideration is based upon the achievement of certain performance targets over a three-year period for an additional amount of up to $4.0 million.

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

Table of Contents

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

In November 2010, we purchased 95% of Quest Integrity Group, LLC, a leading provider of proprietary in-line inspection and advanced engineering and assessment services. Pursuant to a Put/Call Agreement that was executed at the time of the Quest Integrity acquisition, on August 31, 2015, we issued 728,266 shares of restricted common stock and paid $5.9 million in cash to acquire the non-controlling interest. Prior to August 31, 2015, these shares were included as dilutive securities in the earnings per share calculation as set forth herein.

3. RECEIVABLES

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

	December 31, 2015	May 31, 2015	May 31, 2014
Trade accounts receivable	$ 170,774	$ 197,322	$ 165,484
Unbilled revenues	47,098	18,387	14,901
Allowance for doubtful accounts	(3,548)	(2,775)	(4,784)
Total	$ 214,324	$ 212,934	$ 175,601

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote. The following summarizes the activity in the allowance for doubtful accounts as of December 31, 2015, May 31, 2015, 2014 and 2013 (in thousands):

	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	Twelve Months Ended May 31, 2014	Twelve Months Ended May 31, 2013
Balance at beginning of period	$ 2,775	$ 4,784	$ 5,438	$ 4,405
Provision for doubtful accounts	1,819	233	2,140	2,922
Write-off of bad debts	(1,046)	(2,242)	(2,794)	(1,889)
Balance at end of period	$ 3,548	$ 2,775	$ 4,784	$ 5,438

4. INVENTORY

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

	December 31, 2015	May 31, 2015	May 31, 2014
Raw materials	$ 3,167	$ 3,168	$ 2,924
Work in progress	1,018	924	894
Finished goods	23,751	21,913	21,719
Total	$ 27,936	$ 26,005	$ 25,537

55

Table of Contents

5. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2015	May 31, 2015	May 31, 2014
Land	$ 3,124	$ 3,025	$ 3,078
Buildings and leasehold improvements	29,690	27,390	26,793
Machinery and equipment	174,222	154,891	150,050
Furniture and fixtures	6,561	5,939	5,530
Capitalized ERP system development costs	25,606	14,524	4,655
Computers and computer software	8,062	7,252	6,842
Automobiles	5,280	3,095	3,550
Construction in progress	5,177	2,934	3,123
Total	257,722	219,050	203,621
Accumulated depreciation and amortization	(132,739)	(121,124)	(113,660)
Property, plant, and equipment, net	$ 124,983	$ 97,926	$ 89,961

At the end of 2013, we initiated the design and implementation of a new ERP system, which is expected to be installed by the end of calendar year 2017. Amortization of the ERP system development costs will be computed by the straight-line method, commencing in the period when substantial testing is completed and the asset is ready for its intended use. Through December 31, 2015, we have capitalized $25.8 million associated with the project which includes $0.5 million of capitalized interest.

6. ASSETS HELD FOR SALE

Assets held for sale as of May 31, 2015 and 2014 consisted of $5.2 million related to approximately 50 acres of undeveloped land purchased in October 2007 in Pearland, Texas. The property was sold on July 29, 2015 for $5.3 million.

Table of Contents

7. INTANGIBLE ASSETS

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

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

	May 31, 2015			May 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 22,612	$ (9,111)	$ 13,501	$ 22,424	$ (6,739)	$ 15,685
Non-compete agreements	3,417	(3,363)	54	3,667	(3,430)	237
Trade names	4,401	(1,074)	3,327	4,325	(717)	3,608
Technology	5,112	(2,230)	2,882	5,112	(1,698)	3,414
Licenses	683	(179)	504	683	(114)	569
Total	$ 36,225	$ (15,957)	$ 20,268	$ 36,211	$ (12,698)	$ 23,513

Amortization expense for the seven months ended December 31, 2015 and the twelve months ended May 31, 2015, 2014 and 2013 was $5.5 million, $3.8 million, $3.7 million, and $3.4 million, respectively. Amortization expense for current intangible assets is forecasted to be approximately $9 million in 2016 and approximately $8 million per year in 2017, 2018, 2019 and 2020. The weighted average amortization period for intangible assets subject to amortization is 14.4 years. The weighted average amortization period is 14.7 years for customer relationships, 5.0 years for non-compete agreements, 14.4 years for trade names, 10.0 years for technology, and 10.5 years for licenses.

8. OTHER ACCRUED LIABILITIES

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

	December 31,	May 31,	
	2015	2015	2014

Payroll and other compensation expenses	$ 21,878	$ 35,858	$ 28,737
Insurance accruals	7,008	5,712	5,897
Property, sales and other non-income related taxes	3,058	2,840	2,381
Lease commitments	1,721	1,703	1,881
Deferred revenue	1,355	1,116	1,198
Accrued commission	1,159	1,053	858
Volume discount	1,280	650	501
Contingent consideration	3,638	229	
Other	8,699	5,024	6,938
Total	$ 49,796	$ 54,185	$ 48,391

Table of Contents

9. INCOME TAXES

For the seven months ended December 31, 2015 and the years ended May 31, 2015, 2014 and 2013, we were taxed on income from continuing operations at an effective tax rate of 34%, 36%, 35% and 37%, respectively. Our income tax provision for seven months ended December 31, 2015 and years ended May 31, 2015, 2014 and 2013 was $4.6 million, $22.8 million, $16.2 million and $19.2 million, respectively, and includes federal, state and foreign taxes. The components of our tax provision were as follows (in thousands):

	Current	Deferred	Total
Seven months ended December 31, 2015:			
U.S. Federal	$ (4)	$ 1,667	$ 1,663
State & local	90	187	277
Foreign jurisdictions	2,128	505	2,633
	$ 2,214	$ 2,359	$ 4,573
Year ended May 31, 2015:			
U.S. Federal	$ 17,183	$ 606	$ 17,789
State & local	2,634	(141)	2,493
Foreign jurisdictions	3,598	(1,087)	2,511
	$ 23,415	$ (622)	$ 22,793
Year ended May 31, 2014:			
U.S. Federal	$ 11,933	$ 358	$ 12,291
State & local	1,759	319	2,078
Foreign jurisdictions	3,573	(1,706)	1,867
	$ 17,265	$ (1,029)	$ 16,236
Year ended May 31, 2013:			
U.S. Federal	$ 7,947	$ 4,873	$ 12,820
State & local	1,847	236	2,083
Foreign jurisdictions	4,328	(20)	4,308
	$ 14,122	$ 5,089	$ 19,211

The components of pre-tax income for the seven months ended December 31, 2015 and the years ended May 31, 2015, 2014 and 2013 were as follows (in thousands):

	Seven Months Ended December 31,	Twelve Months Ended May 31,		
	2015	2015	2014	2013

Domestic	$ 6,627	$ 51,784	$ 38,214	$ 37,445
Foreign	6,824	11,506	8,171	14,480
	$ 13,451	$ 63,290	$ 46,385	$ 51,925

Table of Contents

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

	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014	2013
Pre-tax income	$ 13,451	$ 63,290	$ 46,385	$ 51,925
Computed income taxes at statutory rate	4,710	$ 22,153	$ 16,235	$ 18,174
State income taxes, net of federal benefit	258	1,670	1,505	1,570
Foreign tax rate differential	(648)	(1,318)	(1,004)	(1,261)
Production activity deduction	(10)	(136)	(174)	(113)
Deferred taxes on investment in foreign subsidiaries	(335)	819	(1,133)	712
Non-deductible expenses	335	513	510	473
Foreign tax credits	(19)	(11)	(1,942)	(3)
Other tax credits	(446)	(223)	(244)	(337)
Dividend from foreign subsidiaries			2,062	
Valuation allowance	771	(394)	414	65
Other	(43)	(280)	7	(69)
Total provision for income tax	$ 4,573	$ 22,793	$ 16,236	$ 19,211

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, 2015	May 31, 2015	2014
Deferred tax assets:			
Accrued compensation and benefits	$ 4,023	$ 5,752	$ 3,625
Receivables	739	513	1,180
Inventory	552	553	560
Stock options	2,241	3,110	3,299
Foreign currency translation and other equity adjustments	5,189	2,897	1,242
Net operating loss carry forwards	1,420	1,198	352
Other	2,647	3,474	2,675
Deferred tax assets	16,811	17,497	12,933
Less: Valuation allowance	(857)	(85)	(479)
Deferred tax assets, net	15,954	17,412	12,454
Deferred tax liabilities:			
Property, plant and equipment	(11,840)	(11,679)	(11,248)

Goodwill and intangible costs	(10,496)	(7,775)	(6,619)
Unremitted earnings of foreign subsidiaries	(1,669)	(2,004)	(1,185)
Prepaids	(580)	(1,610)	(1,318)
Other	(499)	(552)	(588)
Deferred tax liabilities	(25,084)	(23,620)	(20,958)
Net deferred tax liability	$ (9,130)	$ (6,208)	$ (8,504)

As of December 31, 2015, we had a valuation allowance of $0.9 million to reduce our deferred tax assets to an amount more likely than not to be recovered. This valuation allowance relates to net operating loss carry forwards related to various foreign subsidiaries in the amount of $3.0 million. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider factors including the reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

As of December 31, 2015, we had net operating loss carry forwards totaling $1.9 million that were expected to be realized in the future periods. A total of $4.1 million has an unlimited carry forward period and will therefore not expire.

At December 31, 2015, undistributed earnings of foreign operations totaling $15.3 million were considered to be permanently reinvested. We have recognized no deferred tax liability for the remittance of such earnings to the U.S. since it is our intention to utilize those earnings in the foreign operations. Generally, such earnings become subject to U.S. tax upon the remittance of dividends and under certain other circumstances. Determination of the unrecognized deferred U.S. income tax liability is not practicable due to uncertainties related to the timing and source of any potential distribution of such funds, along with other important factors such as the amount of associated foreign tax credits.

At December 31, 2015, we have established liabilities for uncertain tax positions of $0.5 million, inclusive of interest and penalties. To the extent these uncertainties are ultimately resolved favorably, the resulting reduction of recorded liabilities would have an effect on our effective tax rate. In accordance with ASC 740-10, our policy is to recognize interest and penalties related to unrecognized tax benefits through the tax provision.

We file income tax returns in the U.S. with federal and state jurisdictions as well as various foreign jurisdictions. With few exceptions, we are no longer subject to U.S. Federal, state and local or non-U.S. income tax examinations by tax authorities for fiscal years prior to fiscal year 2011. We are currently in the examination phase of IRS audits for the tax years ended May 31, 2011 and May 31, 2012 and expect these audits to be completed within the second quarter of 2016. The income tax laws and regulations are voluminous and are often ambiguous. As such, we are required to make certain subjective assumptions and judgments regarding our tax positions that may have a material effect on our results of operations, financial position or cash flows. We believe, however, that there is appropriate support for the income tax positions taken, and to be taken, on our returns, and that our accruals for tax liabilities are adequate for all open tax years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

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

	Seven Months Ended December 31, 2015	**Year Ended May 31, 2015**	**2014**	**2013**
Balance at beginning of year	$ 477	$ 715	$ 697	$ 624
Additions based on tax positions related to prior years	62	68	110	191
Reductions based on tax positions related to prior years		(306)		

Reductions resulting from a lapse of the applicable statute of limitations			(92)	(118)
Balance at end of year	$ 539	$ 477	$ 715	$ 697

We believe that in the next twelve months it is reasonably possible that $0.1 million of liabilities recorded for tax uncertainties will be effectively settled.

Table of Contents

Recent Legislation

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

10. LONG-TERM DEBT, DERIVATIVES AND LETTERS OF CREDIT

In July 2015, we renewed our banking credit facility. The New Credit Facility has borrowing capacity of up to $500 million and consists of a $300 million, five-year revolving loan facility and a $200 million five-year term loan facility, the proceeds of which were used to fund, in part, the Company s acquisition of Qualspec. The New Credit Facility matures in July 2020. The New Credit Facility bears interest based on a variable Eurodollar rate option (LIBOR plus 2.0% margin at December 31, 2015) and has commitment fees on unused borrowing capacity (0.35% at December 31, 2015). The New Credit Facility also contains financial covenants requiring the Company to maintain as of the end of each fiscal quarter (i) a maximum ratio of consolidated funded debt to consolidated EBITDA of not more than 4.00 to 1.00 (until August 31, 2016, at which point the ratio will decrease by 0.25 to 1.00 every other quarter until it reaches 3.00 to 1.00), (ii) a maximum ratio of senior secured debt to consolidated EBITDA of not more than 3.00 to 1.00 and (iii) an interest coverage ratio of less than 3.00 to 1.00. As of December 31, 2015, we are in compliance with these covenants. With the change in our fiscal year end to December 31 of each calendar year, the amended test dates to determine compliance with the financial covenants will be the calendar year quarters subsequent to December 31, 2015. At December 31, 2015, we had $44.8 million of cash on hand and approximately $36 million of available borrowing capacity through our New Credit Facility. In connection with the renewal of our credit facility, we are amortizing $2.0 million of associated debt issuance costs over the life of the New Credit Facility. Our prior banking credit facility had borrowing capacity of up to $150 million in revolving loans and the same interest rate and commitment fee terms.

In February 2016, we entered into the Second Amendment to the New Credit Facility. The Second Amendment amended and restated certain portions of the New Credit Facility and updated certain terms and definitions. Among other things, the Second Amendment increased existing revolving credit facility by $100 million, with the resulting senior, secured credit facility being comprised of a $400 million revolving credit facility and a $200 million term loan facility. Second Amendment also increased the swing line facility from $25 million to $35 million.

Table of Contents

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

December 31	
2016	$ 20,000
2017	20,000
2018	20,000
2019	20,000
2020	291,383
Thereafter	
Total	$ 371,383

In order to secure our casualty insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. We were contingently liable for outstanding stand-by letters of credit totaling $13.2 million at December 31, 2015, $12.1 million at May 31, 2015 and $13.6 million at May 31, 2014. Outstanding letters of credit reduce amounts available under our New Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the New Credit Facility.

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

Our borrowing of 12.3 million under the New Credit Facility serves as an economic hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate will offset translation gains or losses attributable to our investment in our European operations. At December 31, 2015 the 12.3 million borrowing had a U.S. Dollar value of $13.4 million.

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

	Gain (Loss) Recognized in Other Comprehensive Income	Gain (Loss) Reclassified from Other Comprehensive

			Income to Earnings			
	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014
Net investment hedge	$ 101	$ (3,237)	$ (775)	$	$	$

62

Table of Contents

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

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

	May 31, 2015 Classification	Balance Sheet Location	Fair Value	May 31, 2014 Classification	Balance Sheet Location	Fair Value
Net investment hedge	Liability	Long-term debt	$ (4,466)	Liability	Long-term debt	$ (1,229)

We enter into operating leases to rent facilities and obtain vehicles and equipment for our field operations. Our obligations under non-cancellable operating leases, primarily consisting of facility and auto leases, were approximately $81.4 million at December 31, 2015 and are as follows (in thousands):

Twelve Months Ended December 31,	Operating Leases
2016	$ 22,127
2017	18,212
2018	13,635
2019	8,560
2020	4,865
Thereafter	14,038
Total	$ 81,437

Total rent expense resulting from operating leases for the seven months ended December 31, 2015 and the twelve months ended May 31, 2015, 2014 and 2013 was $18.8 million, $29.5 million, $26.2 million and $23.5 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.

Table of Contents

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of December 31, 2015, May 31, 2015 and 2014. As required by ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	December 31, 2015			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Liabilities:				
Contingent consideration	$	$	$ 3,638	$ 3,638
Net investment hedge	$	$ (4,567)	$	$ (4,567)

	May 31, 2015			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Liabilities:				
Contingent consideration	$	$	$ 1,407	$ 1,407
Net investment hedge	$	$ (4,466)	$	$ (4,466)

	May 31, 2014			
	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	$	$	$ 2,015	$ 2,015
Net investment hedge	$	$ (1,229)	$	$ (1,229)

There were no transfers in and out of Level 1 & Level 2 during the seven months ended December 31, 2015 and during the years ended May 31, 2015 and 2014. There was a transfer in and out of Level 3 of $5.8 million relating to a revaluation of contingent consideration during the seven months ended December 31, 2015 and no transfers in and out of Level 3 during the year ended May 31, 2015 and 2014.

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

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

	Seven Months Ended December 31, 2015	**Twelve Months Ended May 31, 2015**	**Twelve Months Ended May 31, 2014**
Beginning balance	$ 1,407	$ 2,015	$ 2,047
Accretion of liability	139	163	206
Foreign currency effects		(21)	
Payment	(230)	(1,000)	
Revaluation	(5,256)		(2,138)
Acquisitions	7,578	250	1,900
Ending balance	$ 3,638	$ 1,407	$ 2,015

64

Table of Contents

12. SHARE-BASED COMPENSATION

We have adopted stock incentive plans and other arrangements pursuant to which our Board of Directors may grant stock options, restricted stock, stock units, stock appreciation rights, common stock or performance awards to officers, directors and key employees. At December 31, 2015, there were approximately 0.8 million stock options, restricted stock units and performance awards outstanding to officers, directors and key employees. The exercise price, terms and other conditions applicable to each form of share-based compensation under our plans are generally determined by the Compensation Committee of our Board at the time of grant and may vary.

Our share-based payments consist primarily of stock options, stock units, common stock and performance awards. The governance of our share-based compensation does not directly limit the number of future awards. However, the total number of shares ultimately issued may not exceed the total number of shares cumulatively authorized, which is 7,120,000 at December 31, 2015. Shares issued in connection with our share-based compensation are issued out of authorized but unissued common stock. Compensation expense related to share-based compensation totaled $3.5 million, $4.8 million, $4.2 million, and $3.9 million for the seven months ended December 31, 2015 and the years ended May 31, 2015, 2014, and 2013, respectively. At December 31, 2015, $14.4 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 2.9 years. The tax benefit derived when share-based awards result in a tax deduction for the company was $0.4 million, $3.0 million, $1.1 million, and $3.0 million for the seven months ended December 31, 2015 and the years ended May 31, 2015, 2014, and 2013, 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 $3.0 million, $4.1 million, $3.7 million and $3.3 million for the seven months ended December 31, 2015 and the years ended May 31, 2015, 2014 and 2013, respectively. Transactions involving our stock units and director stock grants during the seven months ended December 31, 2015 and the years ended May 31, 2015, 2014 and 2013 are summarized below:

	Seven Months Ended December 31, 2015		Year Ended May 31, 2015	
	No. of Stock Units (in thousands)	Weighted Average Fair Value	No. of Stock Units (in thousands)	Weighted Average Fair Value
Stock and stock units, beginning of year	304	$ 36.23	310	$ 31.42
Changes during the year:				
Granted	197	$ 35.14	156	$ 39.51
Vested and settled	(126)	$ 34.43	(133)	$ 29.23
Cancelled	(4)	$ 39.27	(29)	$ 34.12
Stock and stock units, end of year	371	$ 36.26	304	$ 36.23

	Year Ended May 31, 2014			Year Ended May 31, 2013		
	No. of Stock Units (in thousands)	Weighted Average Fair Value		No. of Stock Units (in thousands)	Weighted Average Fair Value	
Stock and stock units, beginning of year	329	$	26.07	342	$	21.73
Changes during the year:						
Granted	136	$	36.70	141	$	32.81
Vested and settled	(139)	$	24.32	(143)	$	22.53
Cancelled	(16)	$	28.01	(11)	$	23.58
Stock and stock units, end of year	310	$	31.42	329	$	26.07

65

Table of Contents

Under a new performance stock unit award program adopted on November 4, 2014, Long-Term Performance Stock Unit (LTPSU) awards granted to our Executive Officers are subject to a three year performance period and a concurrent three year service period. Under this program, the Company communicates target awards to the Executive Officers at the beginning of a performance period. The performance target is based on results of operations over the three year performance period with possible payouts ranging from 0% to 300% of the target awards . LTPSU awards cliff vest with achievement of the performance goals and completion of the three year service period. Settlement occurs with common stock within 20 business days of vesting. We determine the fair value of each LTPSU award based on the market price on the date of grant. Compensation expense is recognized on a straight-line basis over the vesting term of three years based upon the probable performance target that will be met. Compensation expense of $0.3 million and $0.2 million related to performance awards was recognized for the seven months ended December 31, 2015 and the year ended May 31, 2015, respectively. Transactions involving our performance awards during the seven months ended December 31, 2015 and the year ended May 31, 2015, are summarized below:

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

Performance awards are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each performance award based on the market price on the date of grant. Performance awards granted to our Chairman of our Board vest over the longer of four years or the achievement of performance goals based upon our future results of operations. Compensation expense related to performance awards totaled $0.2 million for the seven months ended December 31, 2015, $0.5 million for the year ended May 31, 2015 and $0.6 million for the years ended May 31, 2014 and 2013. Transactions involving our performance awards during the seven months ended December 31, 2015 and the years ended May 31, 2015, 2014 and 2013 are summarized below:

	Seven Months Ended December 31, 2015	Year Ended May 31, 2015

	No. of Performance Awards (in thousands)	Weighted Average Fair Value	No. of Performance Awards (in thousands)	Weighted Average Fair Value
Performance awards, beginning of year	28	$ 32.86	50	$ 30.63
Changes during the year:				
Granted		$		$
Vested and settled	(15)	$ 30.82	(22)	$ 27.66
Cancelled		$		$
Performance awards, end of year	13	$ 35.15	28	$ 32.86

Table of Contents

	Year Ended May 31, 2014		Year Ended May 31, 2013	
	No. of Performance Awards (in thousands)	Weighted Average Fair Value	No. of Performance Awards (in thousands)	Weighted Average Fair Value
Performance awards, beginning of year	57	$ 25.47	64	$ 21.86
Changes during the year:				
Granted	17	$ 36.40	19	$ 32.89
Vested and settled	(24)	$ 22.65	(26)	$ 22.04
Cancelled		$		$
Performance awards, end of year	50	$ 30.63	57	$ 25.47

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 seven months ended December 31, 2015 and the years ended May 31, 2015, 2014 and 2013, as all stock option awards were fully vested. Our options typically vest in equal annual installments over a four year service period. Expense related to an option grant is recognized on a straight line basis over the specified vesting period for those options. Stock options generally have a ten year term. Transactions involving our stock options during the seven months ended December 31, 2015 and the years ended May 31, 2015, 2014, and 2013 are summarized below:

	Seven Months Ended December 31, 2015		Year Ended May 31, 2015	
	No. of Options (in thousands)	Weighted Average Exercise Price	No. of Options (in thousands)	Weighted Average Exercise Price
Shares under option, beginning of year	490	$ 24.80	816	$ 19.61
Changes during the year:				
Granted		$		$
Exercised	(109)	$ 21.41	(326)	$ 11.79
Cancelled		$		$
Expired	(5)	$ 30.33		$
Shares under option, end of year	376	$ 25.71	490	$ 24.80
Exercisable at end of year	376	$ 25.71	490	$ 24.80

	Year Ended May 31, 2014		Year Ended May 31, 2013	
	No. of Options	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price

	(in thousands)			(in thousands)		
Shares under option, beginning of year	1,052	$	20.24	1,562	$	18.95
Changes during the year:						
Granted		$			$	
Exercised	(232)	$	22.69	(509)	$	16.25
Cancelled		$		(1)	$	30.33
Expired	(4)	$	6.96		$	
Shares under option, end of year	816	$	19.61	1,052	$	20.24
Exercisable at end of year	816	$	19.61	1,052	$	20.24

67

Options exercisable at December 31, 2015 had a weighted-average remaining contractual life of 1.5 years. For total options outstanding at December 31, 2015, the range of exercise prices and remaining contractual lives are as follows:

Range of Prices	No. of Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
$9.63 to $12.82	30	$ 12.63	0.7
$12.83 to $16.03	69	$ 15.15	0.8
$16.04 to $32.05	277	$ 29.78	1.8
	376	$ 25.71	1.5

13. EMPLOYEE BENEFIT PLANS

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 seven months ended December 31 2015 and the years ended May 31, 2015, 2014 and 2013, were approximately $3.0 million, $4.8 million, $4.4 million and $3.7 million, respectively, and are included in selling, general and administrative expenses.

14. COMMITMENTS AND CONTINGENCIES

Con Ed Matter We have, from time to time, provided temporary leak repair services for the steam operations of Con Ed located in New York City. In July 2007, a Con Ed steam main located in midtown Manhattan ruptured causing one death and other injuries and property damage. As of December 31, 2015, ninety-two lawsuits are currently pending against Con Ed, the City of New York and Team in the Supreme Courts of New York located in Kings, New York and Bronx County, alleging that our temporary leak repair services may have contributed to the cause of the rupture. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, on March 31, 2008, we received a letter from Con Ed alleging that our contract with Con Ed requires us to indemnify and defend Con Ed for additional claims filed against Con Ed as a result of the rupture. Con Ed filed an action to join Team and the City of New York as defendants in all lawsuits filed against Con Ed that did not include Team and the City of New York as direct defendants. We are vigorously defending the lawsuits and Con Ed s claim for indemnification. We are unable to estimate the amount of liability to us, if any, associated with these lawsuits and the claim for indemnification. We maintain insurance coverage, subject to a deductible limit of $250,000, which we believe should cover these claims. We have not accrued any liability in excess of the deductible limit for the lawsuits. We do not believe the ultimate outcome of these matters will have a material adverse effect on our financial position, results of operations, or cash flows. We anticipate trial on the merits during the first half of 2017.

Patent Infringement Matters In December 2014, our subsidiary, Quest Integrity, filed three patent infringement lawsuits against three different defendants, two in the U.S. District of Delaware (Delaware Cases) and one in the U.S. District of Western Washington (Washington Case). Quest Integrity alleges that the three defendants infringed Quest Integrity s patent, entitled 2D and 3D Display System and Method for Furnace Tube 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 a specific type of visual display of the collected data and does not relate to Quest Integrity s underlying advanced inspection technology. In these lawsuits Quest Integrity is seeking temporary and permanent injunctive relief, as well as monetary damages. Defendants have denied they infringe any valid claim of Quest Integrity s patent, and have asserted declaratory judgment counterclaims that the patent at issue is invalid and/or unenforceable, and not infringed. In June 2015, the U.S. District of Delaware denied our motions for preliminary injunctive relief in the Delaware Cases (that is, our request that the defendants stop using our patented systems and methods during the pendency of the actions). The Delaware Cases are expected to proceed to trial in the first calendar quarter of 2017. The Washington Case does not have a trial date scheduled.

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

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. ENTITY WIDE DISCLOSURES

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

	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014	2013
Revenues:				
IHT	$ 351,949	$ 467,099	$ 408,259	$ 380,518
MS	178,238	300,456	275,322	276,360
Quest Integrity	41,531	74,492	65,946	57,433
Total	$ 571,718	$ 842,047	$ 749,527	$ 714,311

	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014	2013
Operating income:				
IHT	$ 31,175	$ 60,198	$ 47,787	$ 45,307
MS	14,335	28,713	26,177	29,228
Quest Integrity	5,491	13,196	9,260	9,400
Corporate and shared support services	(31,839)	(33,642)	(29,803)	(28,333)
Total	$ 19,162	$ 68,465	$ 53,421	$ 55,602

	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014	2013
Capital expenditures:				
IHT	$ 6,557	$ 10,276	$ 8,104	$ 8,042
MS	5,656	4,916	6,114	8,401
Quest Integrity	1,993	2,961	4,366	5,384
Corporate and shared support services	11,596	10,616	14,432	4,241
Total	$ 25,802	$ 28,769	$ 33,016	$ 26,068

69

	Seven Months Ended December 31, 2015	Twelve Months Ended May 31, 2015	2014	2013
Depreciation and amortization:				
IHT	$ 10,568	$ 8,413	$ 7,953	$ 7,673
MS	4,779	7,583	7,208	7,007
Quest Integrity	3,403	5,704	5,475	4,417
Corporate and shared support services	676	1,087	832	567
Total	$ 19,426	$ 22,787	$ 21,468	$ 19,664

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

A geographic breakdown of our revenues and total assets are as follows for the seven months ended December 31, 2015 and the years ended May 31, 2015, 2014 and 2013 (in thousands):

	Total Revenues	Total Assets
Seven months ended December 31, 2015		
United States	$ 448,508	$ 682,124
Canada	71,325	59,626
Europe	27,718	33,271
Other foreign countries	24,167	23,970
Total	$ 571,718	$ 798,991
Year ended May 31, 2015		
United States	$ 625,044	$ 399,173
Canada	132,573	68,043
Europe	47,524	34,612
Other foreign countries	36,906	22,005
Total	$ 842,047	$ 523,833
Year ended May 31, 2014		
United States	$ 540,967	$ 353,624
Canada	126,874	68,515
Europe	42,248	38,870
Other foreign countries	39,438	23,932
Total	$ 749,527	$ 484,941
Year ended May 31, 2013		
United States	$ 508,928	$ 334,579
Canada	135,527	68,164

Europe	37,787	35,734
Other foreign countries	32,069	21,726
Total	$ 714,311	$ 460,203

16. UNCONSOLIDATED SUBSIDIARIES

Our earnings from unconsolidated affiliates consisted entirely of our joint venture (50% ownership) to perform non-destructive testing and inspection services in Alaska. At December 31, 2013, the joint venture was dissolved and the net assets were liquidated resulting in no material gain or loss. However, the operations of the

70

Table of Contents

joint venture have been continued by our IHT division. Revenues from the joint venture not reflected in our consolidated revenues were zero for the seven months ended December 31, 2015 and the year ended May 31, 2015 and $8.5 million for the year ended May 31, 2014.

17. VENEZUELAN OPERATIONS

In June 2015, we disposed of our Venezuelan operations and realized no gain or loss from the transaction. Our annual revenues have historically been less than one percent of our consolidated revenues for all periods presented. Because of the uncertain political environment in Venezuela, starting in the quarter ended February 28, 2010, we began to account for Venezuelan operations pursuant to accounting guidance for hyperinflationary economies. Following the designation of the Venezuelan economy as hyperinflationary, we ceased taking the effects of currency fluctuations to accumulated other comprehensive income and began reflecting all effects as a component of other income in our statement of operations.

Prior to February 1, 2015, we included the results of our Venezuelan operations in our consolidated financial statements using the consolidation method of accounting. Venezuelan exchange control regulations have resulted in an other-than-temporary lack of exchangeability between the Venezuelan Bolivar and U.S. Dollar, and have restricted our Venezuelan operations ability to pay dividends and obligations denominated in U.S. Dollars. These exchange regulations, combined with other recent Venezuelan regulations, have constrained equipment availability and are now significantly limiting our Venezuelan operations ability to maintain normal operations. As a result of these conditions, and in accordance with ASC 810, *Consolidation*, we began reporting the results of our Venezuelan operations using the cost method of accounting. The change, which we made effective February 1, 2015, resulted in a pre-tax charge of $1.2 million for twelve months ended May 31, 2015.

During the year ended May 31, 2014, we began using an alternative Venezuelan, state-run exchange rate, commonly referred to as SICAD-1, to translate local currency financial statements. As a result of the revaluation, we recognized a $1.9 million foreign currency loss in the quarter ended February 28, 2014. In March 2014, a market-based, state-run exchange, commonly referred to as SICAD-2, was initiated by the Central Bank of Venezuela. From March 2014, Team began using the nascent market-based, state-run exchange rate, commonly referred to as SICAD-2 (approximately 50 Bolivars to the U.S. Dollar) to translate local currency financial statements, changing from the SICAD-1 rate (which fluctuated between 10 and 11.8 Bolivars per U.S. Dollar). As a result, Team incurred an additional $2.1 million currency exchange loss associated with a further revaluation of our Venezuelan business in the quarter ended May 31, 2014.

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Seven Months Ended December 31, 2015			
	Foreign Currency Translation Adjustments	Foreign Currency Hedge	Tax Provision	Total
Balance at beginning of year	$ (20,896)	$ 4,466	$ 2,892	$ (13,538)

Other comprehensive income before tax	(7,228)	101	2,291	(4,836)
Balance at end of year	$ (28,124)	$ 4,567	$ 5,183	$ (18,374)

Table of Contents

	Twelve Months Ended May 31, 2015				Twelve Months Ended May 31, 2014			
	Foreign Currency Translation Adjustments	Foreign Currency Hedge	Tax Provision	Total	Foreign Currency Translation Adjustments	Foreign Currency Hedge	Tax Provision	Total
Balance at beginning of year	$ (5,145)	$ 1,229	$ 1,237	$ (2,679)	$ (3,532)	$ 2,004	$ (261)	$ (1,789)
Other comprehensive income before tax	(15,822)	3,237	1,655	(10,930)	(1,613)	(775)	1,498	(890)
Non-controlling interest	71			71				
Balance at end of year	$ (20,896)	$ 4,466	$ 2,892	$ (13,538)	$ (5,145)	$ 1,229	$ 1,237	$ (2,679)

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

	Seven Months Ended December 31, 2015			Twelve Months Ended May 31, 2015		
	Gross Amount	Tax Effect	Net Amount	Gross Amount	Tax Effect	Net Amount
Foreign currency translation adjustments	$ (7,228)	$ 2,330	$ (4,898)	$ (15,822)	$ 2,559	$ (13,263)
Foreign currency hedge	101	(39)	62	3,237	(904)	2,333
Total	$ (7,127)	$ 2,291	$ (4,836)	$ (12,585)	$ 1,655	$ (10,930)

	Twelve Months Ended May 31, 2014			Twelve Months Ended May 31, 2013		
	Gross Amount	Tax Effect	Net Amount	Gross Amount	Tax Effect	Net Amount
Foreign currency translation adjustments	$ (1,613)	$ 1,213	$ (400)	$ 1,070	$ 130	$ 1,200
Foreign currency hedge	(775)	285	(490)	(674)	281	(393)
Total	$ (2,388)	$ 1,498	$ (890)	$ 396	$ 411	$ 807

19. REPURCHASE OF COMMON STOCK

On October 1, 2013, our Board approved an initial $25 million stock repurchase plan, superseding and replacing our previous stock repurchase plan. During the quarter ended November 30, 2013, we repurchased 369,900 shares for a total cost of $13.3 million. These shares, along with 89,569 shares purchased under a previous plan in a prior period at a cost of $1.3 million, were retired and are not included in common stock issued and outstanding as of May 31, 2014. The retirement of the shares purchased resulted in a reduction in common stock of $0.1 million, a reduction of $2.2 million to additional paid-in capital, and a $12.3 million reduction in retained earnings.

On June 23, 2014, our Board authorized an increase in the stock repurchase plan limit to $50 million (net of the $13.3 million repurchased in the quarter ended November 30, 2013). During twelve months ended May 31, 2015, we repurchased 546,977 shares for a total cost of $21.1 million. At December 31, 2015, $15.5 million remained available to repurchase shares under the stock repurchase plan.

20. SUBSEQUENT EVENTS

In November 2015, Team and Furmanite entered into the Merger Agreement under which we would acquire all the outstanding shares of Furmanite in a stock transaction. Under the terms of the Merger Agreement, Furmanite shareholders will receive 0.215 shares of Team common stock for each share of Furmanite common stock they own. Furmanite stock options and restricted shares, restricted and performance stock units were

Table of Contents

estimated based on the terms of the merger agreement. The merger was completed on February 29, 2016 at a value of approximately $282.0 million which included the assumption of $69.0 million in debt. We expect the transaction to contribute approximately $400 million in annual revenue. The combined company will comprise more than 8,300 employees and 220 locations in 22 countries. The combination will approximately double the size of Team s mechanical services capabilities and establish a deeper, broader talent and resource pool that better supports customers across standard and specialty mechanical services. In addition, the capability and capacity of the combined entity will offer 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. Team expects to realize certain cost synergies within a two year period of closing primarily associated with the elimination of duplicative public company costs and back office support functions.

The accounting for our merger with Furmanite has not been completed because we have not finalized the valuation of acquired tangible and intangible assets, as well as related tax impacts.

In the seven months ended December 31, 2015, we recognized $3.0 million of acquisition costs related to the Furmanite merger, which were included in selling, general and administrative expenses in the consolidated statement of income.

Additional funds from the increased New Credit Facility (See Note 10) will be utilized to settle Furmanite debt.

21. SEVEN MONTHS ENDING DECEMBER 31, 2014 COMPARATIVE DATA (Unaudited)

The condensed consolidated statement of income for the seven months ended December 31, 2014 is as follows: *(In thousands, except per share data*)

	Seven Months Ended December 31, 2014
Revenues	$ 487,408
Operating expenses	337,977
Gross margin	149,431
Selling, general and administrative expenses	109,348
Operating income	40,083
Interest expense, net	1,332
Foreign currency loss	1,197
Earnings before income taxes	37,554
Less: Provision for income taxes	13,622
Net income	23,932
Less: loss attributable to non-controlling interest	214
Net income available to Team shareholders	$ 23,718

Net income per share: Basic	$	1.15
Net income per share: Diluted	$	1.08
Weighted average shares outstanding:		
Basic		20,593
Diluted		21,907

Table of Contents

22. QUARTERLY FINANCIAL DATA (Unaudited)

The following is a summary of selected unaudited quarterly financial data for the years ended May 31, 2015 and 2014 (in thousands, except per share data):

	Year Ended May 31, 2015				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	$ 188,121	$ 240,619	$ 174,589	$ 238,718	$ 842,047
Operating income	$ 11,825	$ 28,674	$ 2,926	$ 25,040	$ 68,465
Net income available to Team shareholders	$ 7,031	$ 17,366	$ 304	$ 15,369	$ 40,070
Net income per share: Basic	$ 0.34	$ 0.84	$ 0.01	$ 0.76	$ 1.95
Net income per share: Diluted	$ 0.33	$ 0.80	$ 0.01	$ 0.72	$ 1.85

	Year Ended May 31, 2014				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	$ 174,311	$ 200,493	$ 163,236	$ 211,487	$ 749,527
Operating income	$ 8,105	$ 23,881	$ 1,000	$ 20,435	$ 53,421
Net income (loss) available to Team shareholders	$ 4,510	$ 14,425	$ (1,010)	$ 11,930	$ 29,855
Net income (loss) per share: Basic	$ 0.22	$ 0.71	$ (0.05)	$ 0.58	$ 1.46
Net income (loss) per share: Diluted	$ 0.21	$ 0.68	$ (0.05)	$ 0.56	$ 1.40

Table of Contents

FIVE YEAR COMPARISON

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)*

	Seven Months Ended December 31, 2015	Year Ended May 31, 2015	2014	2013	2012	2011
Statements of income data:						
Revenues	$ 571,718	$ 842,047	$ 749,527	$ 714,311	$ 623,740	$ 508,020
Operating income	$ 19,162	$ 68,465	$ 53,421	$ 55,602	$ 56,497	$ 42,475
Net income available to Team shareholders	$ 8,878	$ 40,070	$ 29,855	$ 32,436	$ 32,911	$ 26,585
Net income per share						
Basic	$ 0.43	$ 1.95	$ 1.46	$ 1.61	$ 1.67	$ 1.38
Diluted	$ 0.41	$ 1.85	$ 1.40	$ 1.53	$ 1.59	$ 1.32
Weighted-average shares outstanding						
Basic	20,852	20,500	20,439	20,203	19,667	19,206
Diluted	21,425	21,651	21,285	21,166	20,660	20,083
Balance sheet data:						
Total assets	$ 798,991	$ 523,833	$ 484,941	$ 460,203	$ 403,788	$ 355,486
Long-term debt and other long-term liabilities	$ 368,685	$ 97,234	$ 92,753	$ 95,209	$ 97,131	$ 86,299
Stockholders equity	$ 338,146	$ 335,375	$ 317,045	$ 292,190	$ 245,001	$ 209,446
Working capital	$ 222,399	$ 197,472	$ 173,671	$ 174,114	$ 157,019	$ 130,533
Non-controlling interest	$	$ 6,034	$ 5,678	$ 5,384	$ 5,097	$ 4,983
Other financial data:						
Depreciation and amortization	$ 19,426	$ 22,787	$ 21,468	$ 19,664	$ 17,469	$ 14,584
Share-based compensation	$ 3,469	$ 4,838	$ 4,239	$ 3,931	$ 4,386	$ 4,993
Capital expenditures	$ 25,802	$ 28,769	$ 33,016	$ 26,068	$ 23,924	$ 13,158