TEAM INC
Form 10-Q
August 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-08604
TEAM, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	74-1765729
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
13131 Dairy Ashford, Suite 600, Sugar Land, Texas	77478
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

Large accelerated filer	¨	Accelerated filer	þ
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
The Registrant had 29,327,191 shares of common stock, par value $0.30, outstanding and 821,087 shares of treasury stock as of July 31, 2016.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
TEAM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$65,440	$44,825
Restricted cash	—	5,000
Receivables, net of allowance of $5,739 and $3,548	282,324	214,324
Inventory	54,255	27,936
Income tax receivable	9,821	3,893
Deferred income taxes	17,212	6,917
Prepaid expenses and other current assets	36,141	11,664
Current assets of discontinued operations	14,810	—
Total current assets	480,003	314,559
Property, plant and equipment, net	206,292	124,983
Intangible assets, net of accumulated amortization of $28,511 and $21,161	167,196	99,119
Goodwill	361,961	256,654
Other assets, net	3,464	2,421
Deferred income taxes	4,108	1,255
Total assets	$1,223,024	$798,991
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$20,000	$20,000
Accounts payable	51,946	22,364
Other accrued liabilities	75,112	49,796
Current liabilities of discontinued operations	2,328	—
Total current liabilities	149,386	92,160
Deferred income taxes	101,013	17,302
Long-term debt	405,731	351,383
Defined benefit pension liability	12,483	—
Other long-term liabilities	4,268	—
Total liabilities	672,881	460,845
Commitments and contingencies		
Equity:		
Preferred stock, 500,000 shares authorized, none issued	—	—
Common stock, par value $0.30 per share, 60,000,000 shares authorized; 30,148,278 and 21,836,694 shares issued	9,044	6,552
Additional paid-in capital	334,813	120,126
Retained earnings	251,902	250,980
Accumulated other comprehensive loss	(16,885)	(18,374)
Treasury stock at cost, 821,087 and 546,977 shares	(28,731)	(21,138)
Total equity	550,143	338,146

Total liabilities and equity	$1,223,024	$798,991

See accompanying notes to unaudited condensed consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$336,440	$235,399	$587,294	$427,806
Operating expenses	237,747	159,921	422,619	298,285
Gross margin	98,693	75,478	164,675	129,521
Selling, general and administrative expenses	82,501	53,444	155,863	99,788
Loss on revaluation of contingent consideration	2,184	—	2,184	—
Operating income	14,008	22,034	6,628	29,733
Interest expense, net	3,408	574	6,343	1,141
Foreign currency (gain) loss	(137)	(51)	(99)	323
Other expense (income), net	(29)	(3)	(39)	1,176
Earnings from continuing operations before income taxes	10,766	21,514	423	27,093
Less: Provision for income taxes	3,796	7,446	13	9,659
Income from continuing operations	6,970	14,068	410	17,434
Income from discontinued operations, net of income tax	386	—	512	—
Net income	7,356	14,068	922	17,434
Less: Income attributable to noncontrolling interest	—	153	—	213
Net income available to Team shareholders	$7,356	$13,915	$922	$17,221
Basic earnings per share:				
Continuing operations	$0.24	$0.69	$0.01	$0.85
Discontinued operations	0.01	—	0.02	—
Net income	$0.25	$0.69	$0.03	$0.85
Diluted earnings per share:				
Continuing operations	$0.24	$0.65	$0.01	$0.80
Discontinued operations	0.01	—	0.02	—
Net income	$0.25	$0.65	$0.03	$0.80
Amounts attributable to Team shareholders:				
Income from continuing operations, net of tax	$6,970	$13,915	$410	$17,221
Income from discontinued operations, net of tax	386	—	512	—
Net income	$7,356	$13,915	$922	$17,221

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$7,356	$14,068	$922	$17,434
Foreign currency translation adjustment	(3,176)	850	3,050	(6,899)
Foreign currency hedge	310	(302)	(243)	1,305
Tax (provision) benefit attributable to other comprehensive income (loss)	(167)	(432)	(1,318)	554
Total comprehensive income	4,323	14,184	2,411	12,394
Less: Total comprehensive income attributable to noncontrolling interest	—	136	—	179
Total comprehensive income available to Team shareholders	$4,323	$14,048	$2,411	$12,215

See accompanying notes to unaudited condensed consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED 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 Loss	Total Shareholders' Equity
Balance at January 1, 2016	21,837	(547)	$ 6,552	$ (21,138)	$ 120,126	$ —	$ 250,980	$ (18,374)	$ 338,146
Net income	—	—	—	—	—	—	922	—	922
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	1,636	1,636
Foreign currency hedge, net of tax	—	—	—	—	—	—	—	(147)	(147)
Non-cash compensation	—	—	—	—	4,704	—	—	—	4,704
Vesting of stock awards	28	—	8	—	(162)	—	—	—	(154)
Tax benefit of exercise of stock options	—	—	—	—	86	—	—	—	86
Issuance of common stock in Furmanite acquisition and conversion of Furmanite share-based awards	8,208	—	2,462	—	209,068	—	—	—	211,530
Exercise of stock options	75	—	22	—	1,042	—	—	—	1,064
Purchase of treasury stock	—	(274)	—	(7,593)	—	—	—	—	(7,593)
Other	—	—	—	—	(51)	—	—	—	(51)
Balance at June 30, 2016	30,148	(821)	$ 9,044	$ (28,731)	$ 334,813	$ —	$ 251,902	$ (16,885)	$ 550,143

	Common Shares	Treasury Shares	Common Stock	Treasury Stock	Additional Paid-in Capital	Non-controlling Interest	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2015	20,700	—	$ 6,211	$ —	$ 109,700	$ 5,855	$ 225,747	$ (8,406)	$ 339,107
Net income	—	—	—	—	—	—	17,434	—	17,434
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	(5,863)	(5,863)
Foreign currency hedge, net of tax	—	—	—	—	—	—	—	823	823
Comprehensive income attributable to	—	—	—	—	—	179	(213)	34	—

noncontrolling interest									
Non-cash compensation	—	—	—	—	2,424	—	—	—	2,424
Vesting of stock awards	3	—	—	—	(41)	—	—	—	(41)
Tax benefit of exercise of stock options	—	—	—	—	1,535	—	—	—	1,535
Exercise of stock options	201	—	61	—	2,489	—	—	—	2,550
Purchase of treasury stock	—	(547)	—	(21,138)	—	—	—	—	(21,138)
Balance at June 30, 2015	20,904	(547)	$ 6,272	$ (21,138)	$ 116,107	$ 6,034	$ 242,968	$ (13,412)	$ 336,831

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$922	$17,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on investment in Venezuela	—	1,177
Depreciation and amortization	22,893	11,760
Amortization of deferred loan costs	242	112
Provision for doubtful accounts	2,496	389
Foreign currency (gain) loss	(99)	323
Deferred income taxes	(934)	(5)
Loss on asset disposal	47	503
Loss on contingent consideration revaluation	2,184	—
Non-cash compensation cost	4,704	2,424
Other, net	(525)	—
(Increase) decrease, net of the effect of acquisitions:		
Receivables	2,602	(22,331)
Inventory	156	(502)
Prepaid expenses and other current assets	(3,866)	(3,579)
Increase (decrease), net of the effect of acquisitions:		
Accounts payable	14,379	408
Other accrued liabilities	(3,900)	16,510
Income taxes	(3,238)	(2,967)
Net cash provided by operating activities	38,063	21,656
Cash flows from investing activities:		
Capital expenditures	(21,853)	(18,416)
Business acquisitions, net of cash acquired	(48,382)	(10,540)
Change in restricted cash	5,000	—
Proceeds from sale of assets	1,026	97
Decrease in other assets, net	213	120
Change related to Venezuelan operations	—	(621)
Net cash used in investing activities	(63,996)	(29,360)
Cash flows from financing activities:		
Net borrowings under revolving credit agreement	53,191	14,070
Purchase of treasury stock	(7,593)	(21,138)
Debt issuance costs	(377)	—
Corporate tax effect from share-based payment arrangements	86	1,535
Issuance of common stock from share-based payment arrangements	1,064	2,550
Payments related to withholding tax for share-based payment arrangements	(154)	(41)
Net cash provided by (used in) financing activities	46,217	(3,024)
Effect of exchange rate changes on cash	331	(1,821)
Net increase (decrease) in cash and cash equivalents	20,615	(12,549)
Cash and cash equivalents at beginning of period	44,825	44,426
Cash and cash equivalents at end of period	$65,440	$31,877

See accompanying notes to unaudited condensed consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

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

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: TeamQualspec Group (“TeamQualspec”) (formerly the Inspection and Heat Treating Services Group), TeamFurmanite Group (“TeamFurmanite”) (formerly the Mechanical Services Group) and Quest Integrity Group (“Quest Integrity”). While our services are aligned in three business groups, we believe our services broadly fall into three different classifications that have unique customer demand drivers: inspection and assessment services, turnaround services, and on-stream services.

Inspection and assessment services are offered in both TeamQualspec and Quest Integrity. TeamQualspec provides basic and advanced non-destructive testing (“NDT”) 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 TeamQualspec and TeamFurmanite. 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 activities. Turnaround services include the field machining, technical bolting, field valve repair, heat exchanger repair, and isolation test plugging services that are part of TeamFurmanite and the field heat treating services that are part of TeamQualspec.

On-stream services are offered by TeamFurmanite 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 220 locations in 22 countries throughout the world. Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, original equipment manufacturers (“OEMs”), distributors, and some of the world’s largest engineering and construction firms. Our services are also provided across a broad geographic reach.

Basis for presentation. These interim financial statements are unaudited, but in the opinion of our management, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results for such periods. The consolidated condensed balance sheet at December 31, 2015 is derived from the December 31, 2015 audited consolidated financial statements. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in our Transition Report on Form 10-K for the transition period from June 1, 2015 to 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.

Use of estimates. Our accounting policies conform to Generally Accepted Accounting Principles in the U.S. ("GAAP"). Our most significant accounting policies are described below. The preparation of consolidated financial statements in conformity

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with GAAP requires management to make estimates and judgments that affect our reported financial position and results of operations. We review significant estimates and judgments affecting our consolidated financial statements on a recurring basis and record the effect of any necessary adjustments prior to their publication. Estimates and judgments are based on information available at the time such estimates and judgments are made. Adjustments made with respect to the use of these estimates and judgments often relate to information not previously available. Uncertainties with respect to such estimates and judgments are inherent in the preparation of financial statements. Estimates and judgments are used in, among other things, (1) aspects of revenue recognition, (2) valuation of acquisition-related tangible and intangible assets and assessments of all long-lived assets for possible impairment, (3) estimating various factors used to accrue liabilities for workers' compensation, auto, medical and general liability, (4) establishing an allowance for uncollectible accounts receivable, (5) estimating the useful lives of our assets, (6) assessing future tax exposure and the realization of tax assets, (7) estimating the value associated with contingent consideration payment arrangements and (8) selecting assumptions used in the measurement of costs and liabilities associated with defined benefit pension plans.

Fair value of financial instruments. Our financial instruments consist primarily of cash, cash equivalents, accounts receivable, accounts payable and debt obligations. The carrying amount of cash, cash equivalents, trade accounts receivable and trade accounts payable are representative of their respective fair values due to the short-term maturity of these instruments. The 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 June 30, 2016 and December 31, 2015 is $14.9 million and $17.5 million, respectively, 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 recorded $5.0 million in restricted cash on our balance sheet at December 31, 2015 to reflect the amount held in escrow for contingent consideration as stipulated by the Qualspec Group LLC ("Qualspec") purchase agreement. Based on Qualspec's results through December 31, 2015, the contingent consideration did not become due and, accordingly, this cash became unrestricted in the second quarter of 2016.

Inventory. We use the first-in, first-out method to determine inventory cost, except that inventory cost of Furmanite Corporation ("Furmanite") and its subsidiaries, which we acquired on February 29, 2016 (see Note 2), is determined based on weighted-average cost. Inventory includes material, labor and certain fixed overhead costs. Inventory is stated at the lower of cost or market. Inventory quantities on hand are reviewed periodically and carrying cost is reduced to net realizable value for inventories for which their cost exceeds their utility. The cost of inventories consumed or products sold are included in operating expenses.

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

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

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 Financial Accounting

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Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820, Fair Value Measurements and Disclosure (“ASC 820”). Deferred taxes are recorded for any differences between the assigned values and tax bases of assets and liabilities. Estimated deferred taxes are based on available information concerning the tax bases of assets acquired and liabilities assumed and loss carryforwards at the acquisition date, although such estimates may change in the future as additional information becomes known. Any remaining excess of cost over allocated fair values is recorded as goodwill. We typically engage third-party valuation experts to assist in determining the fair values for both the identifiable tangible and intangible assets. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, could materially impact 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 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 changed to December 1, effective December 1, 2015.

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 and concluded there was no impairment.

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. There have been no events that have required an interim assessment of the carrying value of goodwill during 2016.

There was $362.0 million and $256.7 million of goodwill at June 30, 2016 and December 31, 2015, respectively. See Note 2 for additional information related to the acquisitions that increased goodwill in the period. A rollforward of goodwill for the six months ended June 30, 2016 is as follows (in thousands):

	Six Months Ended June 30, 2016 (unaudited)			
	TeamQualSpec	TeamFurmanite	Quest Integrity	Total
Balance at beginning of period	$207,497	$ 19,874	$29,283	$256,654
Acquisitions	5,955	93,903	4,137	103,995

Foreign currency adjustments	917	159	236	1,312
Balance at end of period	$214,369	$ 113,936	$33,656	$361,961

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.

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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.

For the six months ended June 30, 2016, income tax expense as a percentage of pre-tax income from continuing operations was 3.1% compared to 35.7% for the six months ended June 30, 2015. The effective tax rate for the current year was impacted by the effects of discrete items, primarily the settlement of prior years with the Internal Revenue Service, and permanent differences that had significant impacts on the effective rate due to the relatively low amount of pre-tax income from continuing operations.

During the three months ended June 30, 2016, we calculated a measurement-period adjustment associated with our acquisition of Furmanite (Note 2) that increased deferred tax liabilities and goodwill by $47.9 million. This adjustment represents the acquisition-date deferred tax liability associated with the accumulated undistributed earnings of Furmanite’s foreign subsidiaries, which we do not consider to be indefinitely reinvested outside the United States.

Workers’ compensation, auto, medical and general liability accruals. In accordance with ASC 450, Contingencies, we record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review our loss contingencies on an ongoing basis to ensure that we have appropriate reserves recorded on our balance sheet. These reserves are based on historical experience with claims incurred but not received, estimates and judgments made by management, applicable insurance coverage for litigation matters, and are adjusted as circumstances warrant. For workers’ compensation, our self-insured retention is $1.0 million and our automobile liability self-insured retention is currently $500,000 per occurrence. For general liability claims we have an effective self-insured retention of $3.0 million per occurrence. For medical claims, our self-insured retention is $175,000 per individual claimant determined on an annual basis. For environmental liability claims, our self-insured retention is $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. Furmanite was generally incorporated into our existing insurance coverage during the second quarter of 2016, but for certain items it continues to maintain separate insurance policies and accordingly has separate self-insurance retention amounts, with such self-retention amounts generally below the levels noted above. Our estimates and judgments could change based on new information, changes in laws or regulations, changes in management’s plans or intentions, or the outcome of legal proceedings, settlements or other factors. If different estimates and judgments were applied with respect to these matters, it is likely that reserves would be recorded for different amounts.

Revenue recognition. We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the FASB and the Securities and Exchange Commission (“SEC”). Most of our projects are short-term in nature and we predominantly derive revenues by providing a variety of industrial services on a time and material basis. For all of these services, our revenues are recognized when services are rendered or when product is shipped to the job site and risk of ownership passes to the customer. However, due to various contractual terms with our customers, at the end of any reporting period, there may be earned but unbilled revenue that is accrued to properly match revenues with related costs. At June 30, 2016 and December 31, 2015, the amount of earned but unbilled revenue included in accounts receivable was $73.3 million and $47.1 million, respectively.

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

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

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

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Amounts used in basic and diluted earnings per share, for the three and six months ended June 30, 2016 and 2015, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Weighted-average number of basic shares outstanding	29,452	20,296	26,738	20,366
Stock options, stock units and performance awards	76	315	70	324
Conversion of non-controlling interest	—	728	—	728
Total shares and dilutive securities	29,528	21,339	26,808	21,418

There were 0.3 million and 0.4 million stock options outstanding during the three months and six months ended June 30, 2016, respectively, 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. There were no stock options outstanding during the three and six months ended June 30, 2015 excluded from the computation of diluted earnings per share.

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 consolidated statements of income.

We utilize monthly foreign currency swap contracts to reduce exposures to changes in foreign currency exchange rates related to our largest exposures including, but not limited to, the Australian Dollar, Brazilian Real, British Pound, Euro, Malaysian Ringgit and Mexican Peso. The impact from these swap contracts was not material for the three months or six months ended June 30, 2016 nor as of the balance sheet dates of June 30, 2016 and December 31, 2015.

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

Newly Adopted Accounting Principles

ASU No. 2015-03 and ASU No. 2015-15. 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.

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. 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. Team adopted ASU 2015-15 effective upon adoption of ASU 2015-03 on January 1, 2016. Because essentially all of Team's deferred debt issuance costs relate to line-of-credit arrangements, we have elected to continue presenting such costs as an asset. Therefore, adoption of ASU 2015-03 and ASU 2015-15 did not have any 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. Team adopted the update effective January 1, 2016. The adoption of ASU 2015-16 did not have a material impact on our results of operations, financial position or cash flows. We have included the required disclosures with respect to measurement-period adjustments in Note 2.

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. 2015-11. 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 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. ASU 2015-11 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. 2015-17. 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. ASU 2015-17 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 ASU 2016-02 effective January 1, 2019. We are currently evaluating the impact this standard will have on our ongoing financial reporting.

ASU No. 2016-09. In March 2016, the FASB issued ASU No. 2016-09, Compensation–Stock Compensation: Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which makes several modifications to GAAP related to share-based payments including the accounting for forfeitures, employee taxes and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. The adoption of ASU 2016-09 is not expected to have a material impact on our financial position or cash flows. Upon adoption, on a prospective basis, our income tax expense will be impacted by future excess tax benefits or deficiencies that under previous GAAP were recognized within stockholders' equity rather than through the statement of income.

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

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2. ACQUISITIONS

Furmanite

In November 2015, Team and Furmanite entered into an Agreement and Plan of Merger (the "Merger Agreement"). The merger was completed on February 29, 2016. Pursuant to the terms of the Merger Agreement, we acquired all the outstanding shares of Furmanite in a stock transaction whereby Furmanite shareholders received 0.215 shares of Team common stock for each share of Furmanite common stock they owned. Outstanding Furmanite share-based payment awards were generally converted into comparable share-based awards of Team, with certain awards vesting upon the closing of the merger, pursuant to the Merger Agreement. The combined company is a premier NDT inspection and specialty mechanical services company with a strong presence in North America and comprises more than 8,300 employees and 220 locations in 22 countries. The combination doubled the size of Team's mechanical services capabilities and established a deeper, broader talent and resource pool that better supports customers across standard and specialty mechanical services. In addition, our expanded capability and capacity offers an enhanced single-point of accountability and flexibility in addressing some of the most critical needs of clients; whether as individual services or as part of an integrated specialty industrial services solution.

The acquisition-date fair value of the consideration transferred totaled $282.3 million, which consisted of the following (in thousands, except shares):

	February 29, 2016 (unaudited)
Common stock (8,208,006 shares)	$ 209,529
Converted share-based payment awards	2,001
Cash	70,811
Total consideration	$ 282,341

The fair value of the 8,208,006 common shares issued was determined based on the closing market price of our common shares on the acquisition date of February 29, 2016. The issuance of common shares in the acquisition is a non-cash financing activity that has been excluded from the consolidated statement of cash flows. The fair value of the converted share-based payment awards reflects an apportionment of the fair value of the awards, based on the closing market price of our common shares and other assumptions as of the acquisition date, that is attributable to employee service completed prior to the acquisition date. The fair value of the awards attributable to service after the acquisition date is recognized as share-based compensation expense over the applicable vesting periods. The cash consideration represents amounts Team paid, immediately prior to the closing of the acquisition, to settle Furmanite's outstanding debt and certain related liabilities, which were not assumed by Team. The cash portion of the consideration was financed through additional borrowings under our banking credit facility.

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

	February 29, 2016 (unaudited)
Cash and cash equivalents	$ 37,734
Accounts receivable	69,603
Inventory	27,800
Current deferred tax assets	11,563
Prepaid expenses and other current assets	24,026
Current assets of discontinued operations	14,760
Plant, property and equipment	70,526
Intangible assets	70,800
Goodwill	93,903
Other non-current assets	3,709
Total assets acquired	$ 424,424
Accounts payable	$ 12,360
Other accrued liabilities	26,894
Income taxes payable	229
Current liabilities of discontinued operations	1,434
Non-current deferred tax liabilities	84,963
Defined benefit pension liability	13,509
Other long-term liabilities	2,694
Total liabilities assumed	142,083
Net assets acquired	$ 282,341

The preliminary purchase price allocation above reflects adjustments as a result of new information obtained during the three months ended June 30, 2016. The significant adjustments were an increase in deferred tax liabilities of $47.9 million, a decrease in inventory of $5.4 million, a decrease in accounts receivable of $2.1 million, an increase in other accrued liabilities of $1.4 million and a decrease in prepaid expenses and other current assets of $0.5 million. These adjustments resulted in an offsetting increase to goodwill of $57.3 million. Additionally, the allocation above reflects a reclassification adjustment of $5.7 million from inventory to prepaid expenses and other current assets as well as reclassification adjustments to segregate the preliminary fair values of assets and liabilities of acquired discontinued operations (see Note 15). These measurement period adjustments did not result in any material impacts to the consolidated statements of income.

The preliminary purchase price allocation shown above and the disclosures below are based upon the fair values at the acquisition date and are subject to additional changes within the measurement period as additional information is obtained. The final valuation of assets acquired and liabilities assumed is expected to be completed as soon as possible, but no later than one year from the acquisition date. To the extent that our estimates require adjustment, we will modify the provisional amounts. Given the size, complexity and timing of the acquisition, the valuation of certain assets and liabilities is still being finalized. The fair value of the acquired working capital, which includes accounts receivable, inventory, prepaid expenses, accounts payable and accrued liabilities is provisional subject to the completion of our detailed review of the underlying accounts. The fair value of the acquired property, plant and equipment and identifiable intangible assets is provisional pending the completion of and our review of the valuation reports for those assets from a third-party valuation firm. The valuation of Furmanite’s tax accounts is provisional pending the completion of Furmanite’s tax returns to be filed for periods up to the acquisition date. The fair values recorded are “Level 3” measurements as defined in Note 10.

Of the $70.8 million of acquired intangible assets, $51.6 million was assigned to customer relationships with an estimated useful life of 12 years, $16.9 million was assigned to trade names with a weighted-average estimated useful life of 12 years and $2.3 million was assigned to developed technology with an estimated useful life of 10 years.

The $93.9 million of goodwill was assigned to the TeamFurmanite segment. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Furmanite. None of the goodwill recognized is expected to be deductible for income tax purposes.

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The fair value of accounts receivable acquired was $69.6 million with the gross contractual amount being $73.8 million. We expect $4.2 million to be uncollectible. Additionally, we acquired accounts receivable with a fair value of $14.0 million associated with discontinued operations, which is included in the current assets of discontinued operations line above, with the gross contractual amount of these receivables being $14.1 million. We expect $0.1 million to be uncollectible.

For the three and six months ended June 30, 2016, we recognized a total of $0.5 million and $6.6 million, respectively, of acquisition costs related to the Furmanite acquisition, which were included in selling, general and administrative expenses in the consolidated statements of income.

Our condensed consolidated statements of income (unaudited) include the activity of Furmanite beginning on the acquisition date of February 29, 2016. Subsequent to the acquisition date, we commenced integration activities relative to Furmanite. As a result, certain business operations have been consolidated and/or transferred from legacy Furmanite operations to legacy Team operations to facilitate the new operating structure. Revenues of $97.4 million and a net loss of $1.6 million are included in the six month period ended June 30, 2016 and only include operating results that are directly attributable to legacy Furmanite operations. These amounts do not reflect any attempt to account for the effects of integration activities, which are not practicable to determine.

Certain transactions related to the Furmanite acquisition were recognized separately from the acquisition of assets and assumption of liabilities in accordance with GAAP. These transactions, which were attributable to certain compensation (both cash and share-based) that was paid or became payable in conjunction with the closing of the acquisition, totaled $4.7 million and were recognized as selling, general and administrative expenses during the six months ended June 30, 2016. There were no such amounts recognized during the three months ended June 30, 2016.

Qualspec

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. Qualspec 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 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.

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

	July 7, 2015 (unaudited)
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 the acquisition date. The fair values recorded are "Level 3" measurements as defined in Note 10.

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 TeamQualspec 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.

Our consolidated results include the activity of Qualspec beginning on the acquisition date of July 7, 2015.

Pro Forma Information - Furmanite and Qualspec

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

	Pro forma data Three Months Ended June 30,	Pro forma data Six Months Ended June 30,	
	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)
Revenues	$ 370,616	$ 631,064	$ 693,167
Income from continuing operations attributable to Team shareholders	$ 14,087	$ 2,620	$ 18,300
Earnings per share from continuing operations:			
Basic	$ 0.49	$ 0.09	$ 0.64
Diluted	$ 0.48	$ 0.09	$ 0.62

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These amounts have been calculated after applying Team's accounting policies and adjusting the results of Furmanite and 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 January 1, 2015, together with the related tax effects. Additionally, these pro forma results exclude discontinued operations as well as the impact of costs related to the Furmanite and Qualspec acquisitions included in the historical results.

Quest Integrity

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.

Other

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

In April 2016, we acquired two related businesses in Europe: Quality Inspection Services ("QIS") and TiaT Europe ("TiaT") for a total of approximately $9 million. QIS is an NDT inspection company and TiaT is an NDT training school and consultancy and engineering company recognized as a specialist in aerospace inspections. Both companies are located in Roosendaal, the Netherlands. The businesses add about 65 employees to our organization in Europe and serve steel construction, ship repair, off-shore and storage tank customers, as well as the aerospace industry. QIS is the fourth largest NDT inspection company in the Netherlands and represents Team's first inspection operation outside of North America. QIS and TiaT are reported in the TeamQualspec segment.

In June 2015, we purchased DK Amans Valve, an advanced valve leader located in Long Beach, California, with a portfolio of projects from various sectors including oil and gas refining, pipelines and power generation for a total consideration of $12.3 million, net of cash acquired of $0.1 million. The purchase price included net working capital of $3.0 million, $0.6 million in fixed assets and $8.8 million in intangibles that includes $2.5 million allocated to goodwill, included in the TeamFurmanite segment. 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. During the three and six months ended June 30, 2016, we recorded a loss of $2.2 million associated with the revaluation of the contingent consideration based on actual performance to date.

3. RECEIVABLES

A summary of accounts receivable as of June 30, 2016 and December 31, 2015 is as follows (in thousands):

	June 30, 2016 (unaudited)	December 31, 2015
Trade accounts receivable	$214,779	$170,774
Unbilled revenues	73,284	47,098
Allowance for doubtful accounts	(5,739)	(3,548)
Total	$282,324	$214,324

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4. INVENTORY

A summary of inventory as of June 30, 2016 and December 31, 2015 is as follows (in thousands):

	June 30, 2016 (unaudited)	December 31, 2015
Raw materials	$ 8,163	$ 3,167
Work in progress	5,037	1,018
Finished goods	41,055	23,751
Total	$ 54,255	$ 27,936

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of June 30, 2016 and December 31, 2015 is as follows (in thousands):

	June 30, 2016 (unaudited)	December 31, 2015
Land	$ 7,445	$ 3,124
Buildings and leasehold improvements	41,533	29,690
Machinery and equipment	236,122	174,222
Furniture and fixtures	8,172	6,561
Capitalized ERP system development costs	35,207	25,606
Computers and computer software	11,641	8,062
Automobiles	5,763	5,280
Construction in progress	9,480	5,177
Total	355,363	257,722
Accumulated depreciation and amortization	(149,071)	(132,739)
Property, plant and equipment, net	$ 206,292	$ 124,983

At the end of 2013, we initiated the design and implementation of a new enterprise resource planning (“ERP”) system, which is expected to be installed by the end of calendar year 2017. Amortization of the ERP system development costs will be computed by the straight-line method, commencing in the period when substantial testing is completed and the asset is ready for its intended use. Through June 30, 2016, we have capitalized $35.2 million associated with the project that includes $0.9 million of capitalized interest.

6. INTANGIBLE ASSETS

A summary of intangible assets as of June 30, 2016 and December 31, 2015 is as follows (in thousands):

	June 30, 2016 (unaudited)			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 156,840	$ (18,368)	$ 138,472	$ 103,288	$ (12,995)	$ 90,293
Non-compete agreements	5,477	(3,711)	1,766	4,898	(3,468)	1,430
Trade names	24,710	(3,249)	21,461	6,299	(1,940)	4,359
Technology	7,834	(2,918)	4,916	5,112	(2,541)	2,571
Licenses	846	(265)	581	683	(217)	466
Total	$ 195,707	$ (28,511)	$ 167,196	$ 120,280	$ (21,161)	$ 99,119

Amortization expense for the three months ended June 30, 2016 and 2015 was $4.1 million and $0.9 million, respectively. Amortization expense for the six months ended June 30, 2016 and 2015 was $7.2 million and $1.9

million, respectively.

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7. OTHER ACCRUED LIABILITIES

A summary of other accrued liabilities as of June 30, 2016 and December 31, 2015 is as follows (in thousands):

	June 30, 2016 (unaudited)	December 31, 2015
Payroll and other compensation expenses	$ 34,476	$ 21,878
Insurance accruals	10,102	7,008
Property, sales and other non-income related taxes	6,009	3,058
Contingent consideration	5,966	3,638
Deferred revenue	3,136	1,355
Lease commitments	2,411	1,721
Accrued commission	1,854	1,159
Volume discount	626	1,280
Accrued interest	591	984
Acquisition-related costs	229	370
Other	9,712	7,345
Total	$ 75,112	$ 49,796

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

In July 2015, we renewed our banking credit facility (the "Credit Facility"). In accordance with the second amendment to the Credit Facility, which was signed in February 2016, the Credit Facility has borrowing capacity of up to $600 million and consists of a $400 million, five-year revolving loan facility and a $200 million five-year term loan facility. The swing line facility is $35 million. The Credit Facility matures in July 2020, bears interest based on a variable Eurodollar rate option (LIBOR plus 2.25% margin at June 30, 2016) and has commitment fees on unused borrowing capacity (0.40% at June 30, 2016). The 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 (as defined in the Credit Facility agreement) of not more than 4.00 to 1.00 (until June 30, 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 June 30, 2016, we are in compliance with these covenants. At June 30, 2016, we had $65.4 million of cash on hand and approximately $29 million of available borrowing capacity through our Credit Facility. In connection with the renewal of our Credit Facility, we are amortizing $2.6 million of associated debt issuance costs over the life of the Credit Facility.

In order to secure our casualty insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. We were contingently liable for outstanding stand-by letters of credit totaling $22.5 million at June 30, 2016 and $13.2 million at December 31, 2015. Outstanding letters of credit reduce amounts available under our Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the Credit Facility.

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

Our borrowing of €12.3 million under the Credit Facility serves as an economic hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate will offset translation

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gains or losses attributable to our investment in our European operations. At June 30, 2016, the €12.3 million borrowing had a U.S. Dollar value of $13.7 million.
The amounts recognized in other comprehensive income (loss), and reclassified into income, for the three and six months ended June 30, 2016 and 2015, are as follows (in thousands):

	Gain (Loss) Recognized in Other Comprehensive Income (Loss)		Gain Reclassified from Other Comprehensive Income (Loss) to Earnings		Gain (Loss) Recognized in Other Comprehensive Income (Loss)		Gain (Loss) Reclassified from Other Comprehensive Income (Loss) to Earnings	
	Three Months Ended June 30, (unaudited)		Three Months Ended June 30, (unaudited)		Six Months Ended June 30, (unaudited)		Six Months Ended June 30, (unaudited)	
	2016	2015	2016	2015	2016	2015	2016	2015
Net investment hedge	$ 310	$ (302)	$ —	$ —	$ (243)	$ 1,305	$ —	$ —

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

	June 30, 2016 (unaudited)			December 31, 2015		
	Classification	Balance Sheet Location	Fair Value	Classification	Balance Sheet Location	Fair Value
Net investment hedge	Liability	Long-term debt	$ (4,324)	Liability	Long-term debt	$ (4,567)

In connection with our acquisition of Furmanite in February 2016, we assumed additional obligations under various non-cancellable operating leases, primarily consisting of facility and auto leases. Future payments under these additional operating leases, which expire at various dates, were estimated at approximately $33 million as of the acquisition date.

9. RETIREMENT PLANS

In connection with our acquisition of Furmanite, we assumed liabilities associated with the defined benefit pension plans of two foreign subsidiaries, one plan covering certain United Kingdom employees (the “U.K. Plan”) and the other covering certain Norwegian employees (the “Norwegian Plan”). As the Norwegian Plan represents approximately three percent of both the Company’s total pension plan liabilities and total pension plan assets, only the schedule of net periodic pension cost includes combined amounts from the two plans, while assumption and narrative information relates solely to the U.K. Plan.
Net periodic pension cost, from the date of the Furmanite acquisition, for the U.K. and Norwegian Plans includes the following components (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Service cost	$ 22	$ —	$ 29	$ —
Interest cost	801	—	1,068	—
Expected return on plan assets	(820)	—	(1,093)	—
Net periodic pension cost	$ 3	$ —	$ 4	$ —

The expected long-term rate of return on invested assets is determined based on the weighted average of expected returns on asset investment categories as follows: 4.9% overall, 6.2% for equities and 2.2% for bonds. We expect to contribute $1.3 million to the pension plan for 2016, of which $0.5 million has been contributed through June 30, 2016.

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10. FAIR VALUE MEASUREMENTS

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

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

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of June 30, 2016 and December 31, 2015. As required by ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	June 30, 2016 (unaudited)			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Liabilities:				
Contingent consideration[1]	$ —	$ —	$	