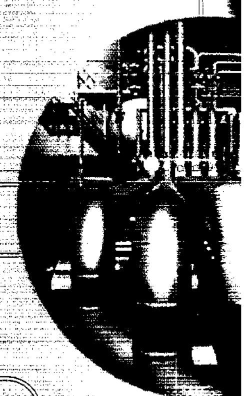
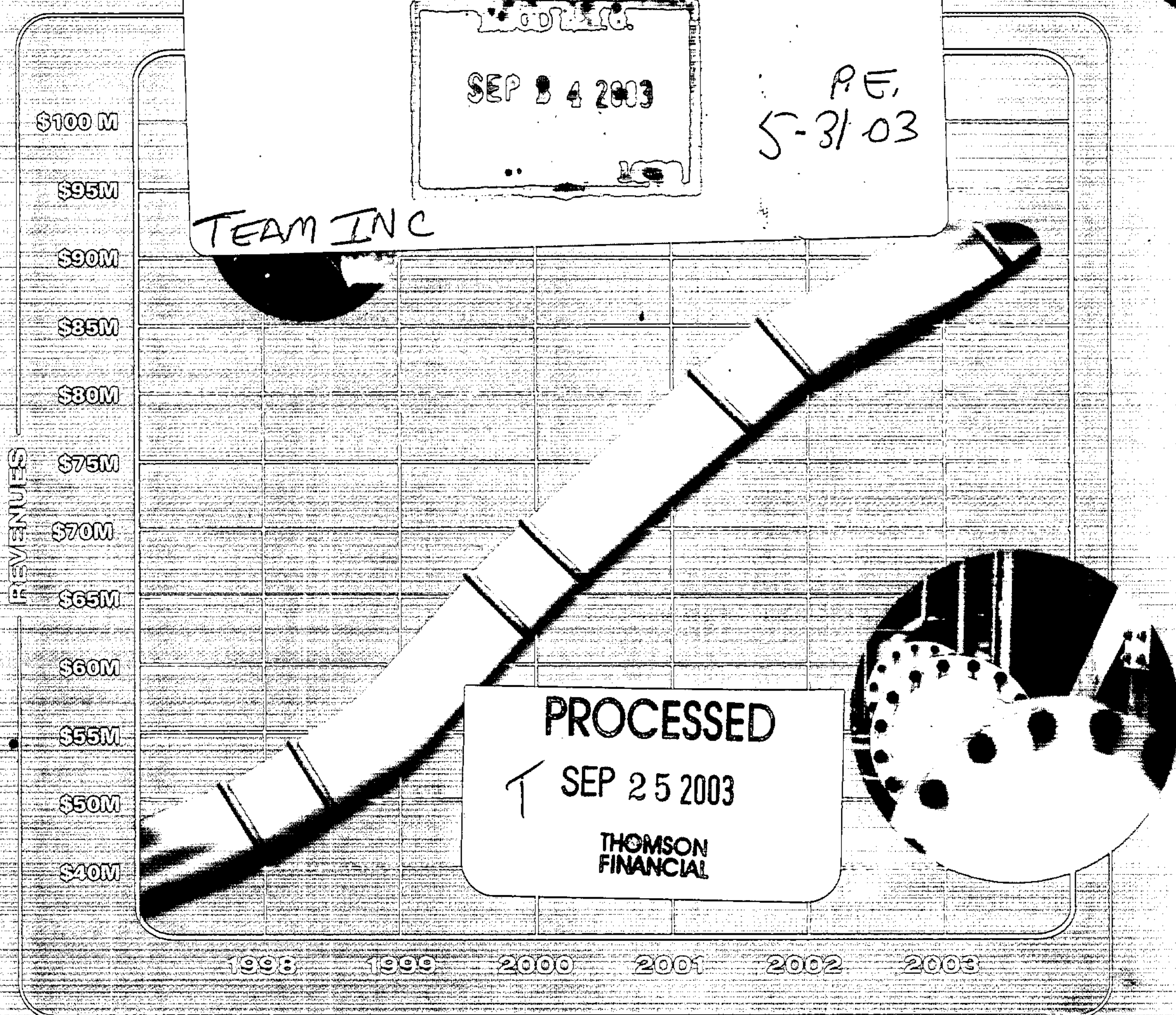
ARS

2003 ANNUAL REPORT





CLIMAX® Portable Machine Tools, Inc.

TEAM® Industrial Services, Inc.

X-R-I®

Dear Fellow Shareholders,

We are pleased with the continuing strategic and economic progress of our Company. Over the past four years, with little or no market demand growth in Team's key market segments, overall revenues have grown by more than 65%. Because of the inherent operating leverage of our business, operating earnings before interest and taxes have increased by more than 250% and net income has grown nearly eight fold.

During the recently completed Fiscal Year 2003, Team achieved the highest revenues, net income, earnings per share, and net income margins since the Company refocused on the industrial services business more than ten years ago. These results reflect continuing market share improvement for Team in the midst of a very difficult economic environment for most major customer segments including the refining, petrochemical, power, and pipeline industries. We continue to benefit from our large service network and our broad service line offering—combined with ongoing customer procurement trends—to aggregate services purchases with fewer service providers.

Reflecting this continued performance improvement, Team was named for the second consecutive year to the Fortune Small Business 100 List of America's fastest growing businesses under $200 million in revenue.

As we look forward to Fiscal Year 2004 and beyond, we remain enthusiastic about our strategic and economic prospects. Despite our significant growth over the past several years and our industry-leading market share position, our overall US market share is still only in the 10% range in this highly fragmented service industry. We have significant continued market share growth opportunities ahead of us.

Business Highlights

Our industrial services business segment revenue for the year grew 9% to $81.1 million. This composite growth resulted from 10% plus revenue growth in each of the major mechanical service lines (onstream leak repairs, hot tapping, fugitive emissions monitoring, field machining, and technical bolting) combined with a 4% revenue decline in the NDT inspection service line. Our strong revenue growth in the mechanical services were favorably impacted by our major contracts and continued rapid market share growth in the newer field machining and bolting service lines. The 4% decline in NDT inspection service revenues reflects a significant decline in pipeline and major pulp & paper projects nearly offset by continued increases in plant inspection activities. While many major pipeline companies experienced severe financial pressure in the past year, we remain quite optimistic about the long-term demand outlook in the pipeline segment and anticipate improvement in the coming year.

During the year, Team also introduced a significant new complementary industrial service line – field valve repair services. This service, which is closely related to our field machining services, increases Team's available market within the US by more than $100 million. We completed our first projects in this service line during the fourth quarter in our most recent fiscal year. We have already secured several significant projects for the coming year.

We continue to maintain a strong focus on all aspects of our service operations. We recognize that we need to earn the trust and confidence of our customers with every single service opportunity. For each service opportunity, our overall service objectives are the same: be safe, be timely, be cost-effective, and do it right the first time! We are proud of our service capabilities and reputation and, through the continuing diligence of our entire organization, we intend to keep it that way. We understand what makes a service company successful.

Our Equipment Sales and Rental business segment struggled with a very difficult market environment. Total sales of $10.8 million were about flat with the prior year as increases in international equipment sales and equipment rentals offset decreases in US equipment sales. Looking forward, Climax is pursuing a number of initiatives to expand the breadth of product line marketed and sold through the extensive Climax sales and distribution network. We expect continued improvement in the coming year due to these initiatives combined with a general strengthening in market demand and continued expansion of the rental business.

Financial Results

For the year ending May 31, 2003, our net earnings were $4.4 million ($.53 per share) on revenues of $91.9 million. Compared to the prior year, net income increased 13% on a sales increase of 8%. While our 13% net income growth compares favorably with the results of many other companies, Team's operating leverage on its revenue growth during the year was less than prior years and less than our expectations. In a few areas of our business, our costs expanded ahead of our business growth. We made good progress during the fourth quarter of last year bringing our business revenues, costs, and margins back into balance. We will continue to focus on improvements in this area in the coming year.

We are also pleased with the continuing improvement in our balance sheet. After funding all working capital growth and capital expenditure requirements, Team was able to repurchase over 300,000 shares (spending approximately $2 million) of common stock and, at the same time, reduced total debt by $2.4 million during the year. In the past three years, Team has repurchased nearly 1.2 million shares of common stock (about 15% of the outstanding stock at that time) and has reduced total debt by $6.2 million. Team's debt to EBITDA coverage ratio has declined to approximately 1.0. This strong and improving balance sheet provides significant financial flexibility to Team going forward.

Focus on Value

Our overriding business objective is to increase the value of our Company. We believe that the best way to do this is by continuing to improve our operating results. Continued market share growth as Team capitalizes on the growing market preference for multi-service, multi-location service providers combined with the inherent operating leverage of our business enables Team to sustain attractive performance growth organically without the necessity of major acquisitions.

At the same time, we also remain receptive to accretive business purchases that would enable us to accelerate our business growth rate. No specific acquisitions are currently planned and it is very difficult to predict if and when an attractive opportunity might develop. We would only consider possibilities that are consistent with our strategy and immediately accretive to earnings.

* * *

We appreciate your continuing interest and support in our Company. We are proud of our Company and our 900 fellow employees. It is our privilege to be associated with this great team. We all look forward to continued success and improvement in the coming year.

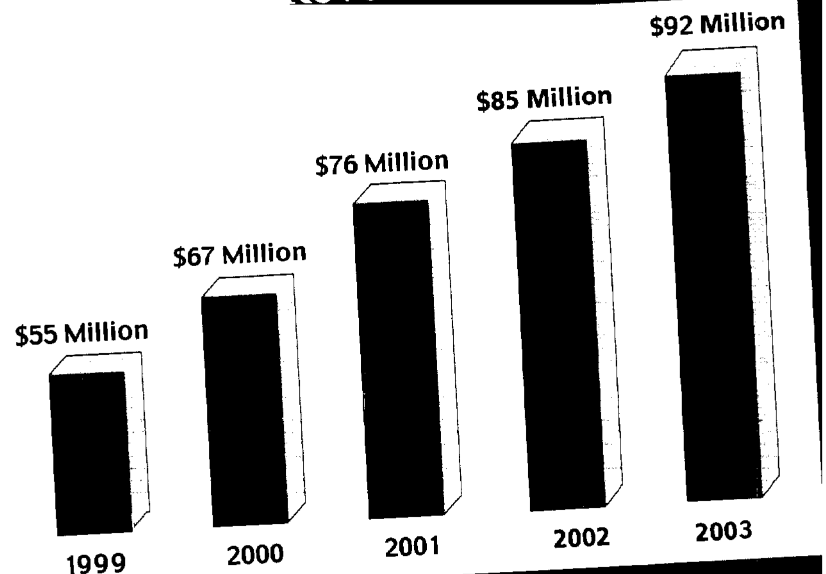
Philip J. Hawk
Chairman and CEO

Kenneth M. Tholan
President and COO

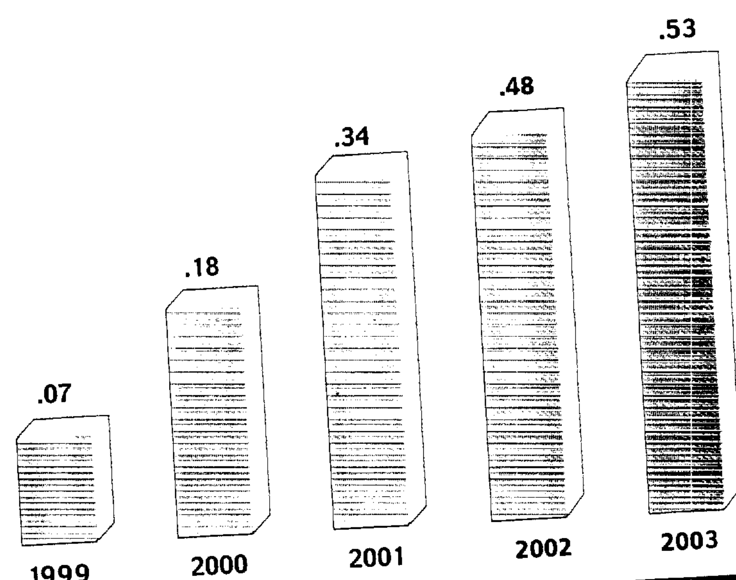
TEAM INC. 2003

Performance Highlights

Revenues



Earnings Per Share

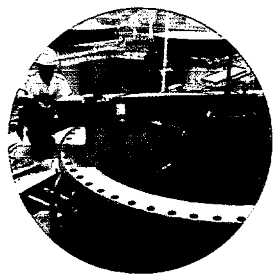


Four Year Performance Growth

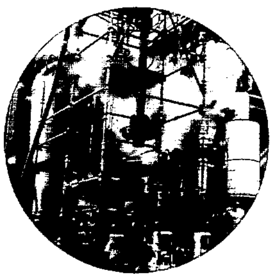
- Sales . . . . +68
- Operating Profit (EBIT) . . . . +255
- Net Income . . . . +722
- EPS. . . . . +657

Services and Products

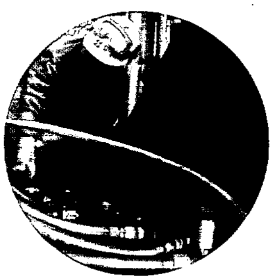
Leak Repair Services
Onsite, Onstream



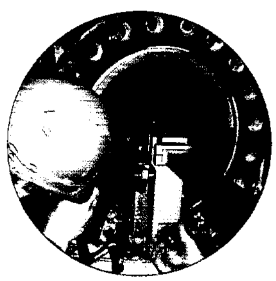
Field Machining Services
Onsite, Inplace



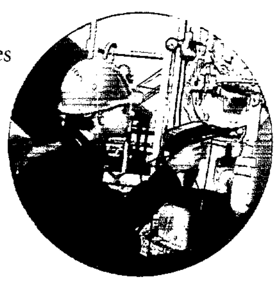
Hot Tap Services
Line Stops, Freeze Stops



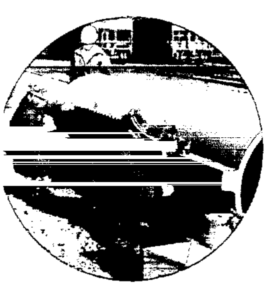
Technical Bolting Services
Tensioning, Torquing



Valve Repair Services
Onsite, Inline



Emissions Control Services
LDAR Programs



Pipe Repair Products
Hardware, Sealants

NDT-NDE Inspections
Plant, Pipeline Services

Portable Machine Tools
Service, Sales, Rentals

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Form 10-K

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

For the fiscal year ended May 31, 2003

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 0-9950

Team, Inc.

(Exact name of registrant as specified in its charter)

Texas	**74-1765729**
(State of incorporation)	(I.R.S. Employer Identification No.)
200 Hermann Drive,	
Alvin, Texas	**77511**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(281) 331-6154**

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

Title of each Class	Name of Each Exchange on which Registered
Common Stock, $.30 par value	American Stock Exchange, Inc.

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

As of August 15, 2003, 7,584,954 shares of the registrant's common stock were outstanding, of which 5,065,670 were held by non-affiliates. The aggregate market value of common stock held by non-affiliates of the registrant (based upon the closing sales price of $7.80 per share on the American Stock Exchange, Inc. on such date) was $39,512,226.

DOCUMENTS INCORPORATED BY REFERENCE

Part III. Portions of the Definitive Proxy Statement for the 2003 Annual Meeting of Shareholders of Team, Inc. to be held September 25, 2003.

FORM 10-K INDEX

PART I

PART I

ITEM 1. *Business*

(a) General Development of Business

Team, Inc. ("Team" or the "Company"), incorporated in 1973, is a full service provider of specialized industrial services including leak repair, hot tapping, emissions control monitoring, field machining, technical bolting and non destructive testing/examination ("NDT-NDE") inspection services. These services are provided throughout the United States in approximately 40 locations.

The Company conducts operations through international locations in Singapore, Aruba, Canada, Trinidad and Singapore Additionally, the Company licenses its proprietary leak repair and hot tapping techniques and materials to various companies outside the United States and receives a royalty based upon revenues earned by the licensee. To date, international operations have not been material to the overall operations of the Company.

Additionally, through its wholly-owned subsidiary, Climax Portable Machine Tools, Inc. ("Climax") of Newberg, Oregon, the Company is engaged in a separate business segment — equipment sales and rental. Climax is a leading designer-manufacturer of portable, metal cutting machine tools used for on-site industrial maintenance. The Climax acquisition provided the support for the Company's offering of on-site field machining services beginning in February of 1999.

(b) Financial Information about Segments

See Note 12 to accompanying financial statements for financial information about business segments.

(c) Narrative Description of Business

The Company operates in two reportable revenue generating segments — (1) industrial services and (2) equipment sales and rental. Industrial services consist principally of leak repair, hot tapping, emissions control monitoring, on-site field machining, technical bolting and NDT inspection. The equipment sales and rentals segment is comprised of the Climax business. The following table sets forth the revenues (in thousands) from each segment in the three years ended May 31:

Segment	2003	2002	2001
Industrial Services	$81,122	$74,513	$66,492
Equipment Sales and Rentals	10,754	10,568	9,151
Total	$91,876	$85,081	$75,643

Industrial Services

The Company provides industrial services for over 2000 customers in the petrochemical, refining, power, pipeline, pulp and paper, steel and other industries. Services include leak repair, hot tapping, emissions control, and, more recently, field machining, technical bolting , field valve repair, and NDT inspection.

Leak Repair Services. The Company is the leader in the industry in providing on-stream repairs of leaks in piping systems and related equipment. In conjunction with its leak repair services, the Company markets a line of products, which includes both standard and custom-designed clamps and enclosures for plant systems and pipelines. The Company's leak repair services consist of on-stream repairs of leaks in pipes, valves, flanges and other parts of piping systems and related equipment primarily in the chemical, refining and utility industries. The Company uses specially developed techniques, sealants and equipment for repairs. Many of the Company's repairs are furnished as interim measures which allow plant systems to continue operating until more permanent repairs can be made during scheduled plant shutdowns.

The Company's leak repair services involve inspection of the leak by the Company's field crew who records pertinent information about the faulty part of the system and transmits the information to the

Company's engineering department for determination of appropriate repair techniques. Repair materials such as clamps and enclosures are custom designed and manufactured at the Company's facility in Alvin, Texas and delivered to the job site. The Company maintains an inventory of raw materials and semi-finished clamps and enclosures to reduce the time required to manufacture the finished product. Installations of the clamps and enclosures for on-stream repair work are then performed by the field crew using, in large part, materials and sealants that are developed and produced by the Company.

The Company's manufacturing center has earned the international ISO-9001 certification for its engineering design and manufacturing operations. ISO-9001 is the most stringent of all ISO-9000 certification programs.

The Company's non-destructive repair methods do not compromise the integrity of its customer's process system and can be performed in temperatures ranging from cryogenic to 1,700 degrees Fahrenheit and with pressures from vacuum to 6,000 pounds per square inch. The Company's proprietary sealants are specifically formulated to repair leaks involving over 300 different kinds of chemicals.

Management attributes the success of its leak repair services to the quality and timely performance of its services by its highly skilled technicians, its proprietary techniques and materials and its ability to repair leaks without shutting down the customer's operating system. On-stream repairs can prevent a customer's continued loss of energy or process materials through leaks, thereby avoiding costly energy and production losses that accompany equipment shutdowns, and also lessen emissions escaping into the atmosphere.

The Company has continued to develop different types of standard and custom-designed clamps, enclosures and other repair products, which complement the Company's existing industrial market for leak repair services. The Company's leak repair services are supported by an in-house Quality Assurance/Quality Control program that monitors the design and manufacture of each product to assure material traceability on critical jobs and to ensure compliance with customers' requirements.

Hot Tapping Services. The Company's hot tapping services consist primarily of hot tapping and Line-stop® services. Hot tapping services involve utilizing special equipment to cut a hole in an on-stream, pressurized pipeline so that a new line can be connected onto the existing line without interrupting operations. Hot tapping is frequently used for making branch connections into piping systems while the production process is operative. Line-stop® services permit the line to be depressurized downstream so that maintenance work can be performed on the piping system. The Company typically performs these services by mechanically drilling and cutting into the pipeline and installing a device to stop the process flow. The Company also utilizes a line freezing procedure when applicable to stop the process flow using special equipment and techniques.

Emissions Control Services. The Company also provides leak detection services that include fugitive emissions identification, monitoring, data management and reporting services primarily for the chemical, refining and natural gas processing industries. These services are designed to monitor and record emissions from specific process equipment components as requested by the customer, typically to assist the customer in establishing an ongoing maintenance program and/or complying with present and/or future environmental regulations. The Company prepares standard reports in conjunction with EPA requirements or can custom-design these reports to its customers' specifications.

Field Machining and Technical Bolting Services. This service involves the use of portable machining equipment (manufactured by Climax, as well as third party vendors) to repair or modify in-place machinery, equipment, vessels and piping systems not easily removed from a permanent location. As opposed to the conventional machining process where the work piece rotates and the cutting tool is fixed, in field machining, the work piece remains fixed and the cutting tool rotates. Other common descriptions for this service are on-site or in-place machining. Field machining services include flange facing, pipe cutting, line boring, journal turning, drilling, and milling. Technical bolting services are often provided to our customers as an adjunct to field machining during turnaround or maintenance activities. These services involve the use of hydraulic or pneumatic equipment with bolt tightening techniques to achieve reliable and leak-free connections and also include bolt disassembly using hot bolting or nut splitting techniques.

Field machining and technical bolting services are offered to the Company's existing customer base through its extensive branch operations. In contrast to Team's other traditional industrial services which are performed while plant units are in operation (i.e., on-stream), field machining is an off-stream operation performed during piping isolations, shutdowns, or plant turnarounds.

Inspection Services. With the acquisition of XRI, the Company has incorporated NDT inspection as a core industrial service offering. Inspection services consist of the testing and evaluation of piping, piping components and equipment to determine the present condition and predict remaining operability. The Company's inspection services use all the common methods of non-destructive testing, including radiography, ultrasound, magnetic particle and dye penetrate, as well as, higher end robotic and newly developed ultrasonic systems. The Company provides these services as part of planned construction and maintenance programs and on demand as the situation dictates, and provides reports based on interpretation in accordance to industry and national standards. Inspection services are marketed to the same industrial customer base as other Team services and to the pipeline industry. There are a large number of companies offering mechanical inspection services, with no single company having a significant share of the overall market.

Field Valve Repair Services. In the Spring of 2003, the Company launched Field Valve Repair Services as an adjunct to its field machining services. Through this offering, the Company performs on-site repairs to process and control valves, as well as providing preventive maintenance programs and valve data management programs. The targeted customers for these services are generally the same as for our field machining and technical bolting services.

Marketing and Customers. Team's industrial repair services are marketed principally by personnel based at the Company's approximate 40 locations. Team has developed a cross-marketing program to utilize its sales personnel in offering many of the Company's services at its operating locations. Management believes that these operating and office locations are situated to facilitate timely response to customer needs, which is an important feature of its services. No customer accounted for 10% or more of consolidated Company revenues during any of the last three fiscal years.

Generally, customers are billed on a time and materials basis although some work may be performed pursuant to a fixed-price bid. Emission control services may also be billed based on the number of components monitored. Services are usually performed pursuant to purchase orders issued under written customer agreements. While some purchase orders provide for the performance of a single job, others provide for services to be performed for a term of one year or less. In addition, Team is a party to certain long-term contracts, which are enabling agreements only. Substantially all such agreements may be terminated by either party on short notice. The agreements generally specify the range of services to be performed and the hourly rates for labor. While contracts have traditionally been entered into for specific plants or locations, the Company has recently entered into multiple regional or national contracts, which cover multiple plants or locations.

The Company's industrial services are available 24 hours a day, seven days a week, 365 days a year. The Company typically provides various limited warranties for certain of its repair services. To date, there have been no significant warranty claims filed against the Company.

Business Risks. While the Company's management is optimistic about Team's future, maintaining and expanding customer relationships and service volumes are key elements of the Company's strategy. Weakness in the markets served by the Company could constrain demand. Although the Company has a diversified customer base, a substantial portion of its business is dependent upon the chemical and refining industry sectors. Competitive initiatives and/or poor service performance could also reduce the strength and breadth of current customer relationships and preference for the Company. Although management believes sufficient qualified personnel are available in most areas, no assurance can be made that such personnel will be available when needed

Competition. Competition in the Company's industrial services is primarily on the basis of service, quality, timeliness, and price. In general, competition stems from other outside service contractors and customers' in-house maintenance departments. Management believes Team has a competitive advantage over most service contractors due to the quality, training and experience of its technicians, its nationwide service capability, and due to the broad range of services provided, as well as its technical support and manufacturing capabilities supporting the service network. There are two other service contractors who provide a similar range of service and broad geographical coverage as the Company. Other principal competitors are primarily single-location or single-service companies that compete within a certain geographical area.

Equipment Sales and Rentals

The Equipment Sales and Rentals business is comprised solely of the Climax subsidiary, a leading design-manufacturer of portable machine tools located in Newburg, Oregon. Climax's standard tools offering consists of boring bars, pipe beveling tools, key mills, portable flange facers, and portable lathes. These tools are sold to end users in the utilities, refining, marine, heavy construction, and extractive industries, or to other service providers and contractors. In addition, Climax designs and manufactures customized machining tools for on-site machine repair, manufacturing, fabrication and construction applications.

Climax's design and manufacturing operations are conducted in a 30,000 square feet facility in Newberg, Oregon. Climax uses state of the art equipment in its manufacturing process and maintains an inventory of raw materials, parts and completed machines as needed to support the current level of business. Most of the Company's orders for equipment are filled within 30 days of receipt. The Company believes that there are a limited number of original equipment manufacturers that compete with Climax and that it has a market share of approximately 10%. No single customer accounted for more than 10% of Climax revenues during any of the last three fiscal years.

General

Employees. As of May 31, 2003, the Company and its subsidiaries had approximately 900 employees in its operations. The Company's employees are not unionized. There have been no employee work stoppages to date, and management believes its relations with its employees are good.

Insurance. The Company carries insurance it believes to be appropriate for the businesses in which it is engaged. Under its insurance policies, the Company has per occurrence self-insured retention limits of $50,000 for general liability, and $250,000 for automobile liability and workers' compensation in most states. The Company has obtained fully insured layers of coverage above such self-retention limits. Since its inception, the Company has not been the subject of any significant liability claims not covered by insurance arising from the furnishing of its services or products to customers. However, because of the nature of the Company's business, there exists the risk that in the future such liability claims could be asserted which might not be covered by insurance.

Regulation. Substantially all of the Company's business activities are subject to federal, state and local laws and regulations. These regulations are administered by various federal, state and local health and safety and environmental agencies and authorities, including the Occupational Safety and Health Administration ("OSHA") of the U.S. Department of Labor and the EPA. The Company's training programs are required to meet certain OSHA standards. Expenditures relating to such regulations are made in the normal course of the Company's business and are neither material nor place the Company at any competitive disadvantage. The Company does not currently expect to expend material amounts for compliance with such laws during the ensuing two fiscal years.

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

Patents. While the Company is the holder of various patents, trademarks, and licenses, the Company does not consider any individual property to be material to its consolidated business operations.

ITEM 2. *Properties*

Team and its subsidiaries own real estate and office facilities in the Alvin, Texas area totaling approximately 88,000 square feet of floor space. These facilities are comprised of a corporate office and training building and a manufacturing facility for clamps, enclosures and sealants. The Company also owns real estate and facilities in Newburg, Oregon, which is the manufacturing facility and corporate office of Climax. All of those facilities are pledged as security for the Company's credit facility. (See Note 6 of Notes to Consolidated Financial Statements.) The Company and its subsidiaries also lease 38 office and/or plant and shop facilities at separate locations in 19 states and in Singapore, Aruba, Trinidad and Canada.

The Company believes that its property and equipment, as well as that of its subsidiaries, are adequate for its current needs, although additional investments are expected to be made in additional property and equipment for expansion, replacement of assets at the end of their useful lives and in connection with corporate development activities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 10 of Notes to Consolidated Financial Statements for information regarding lease obligations on these properties.

ITEM 3. *Legal Proceedings*

In May 2002, a jury verdict was rendered against the Company in an employment related case brought in the United States District Court for the Western District of Louisiana. The case involves allegations of misconduct by personnel in one of the Company's branches during the years 1998 and 1999. In August 2002, the Court ruled on certain post-trial motions and determined that, with respect to one of the two plaintiffs, a $300,000 judgment was entered against the Company. In December 2002, the Company settled the lawsuit with respect to that plaintiff for an amount less than the judgment entered. With respect to the second plaintiff, the Court set aside the jury verdict on most points and granted the Company's motion for a new trial on a specific issue. The second plaintiff has appealed the District Court's decision, which is currently pending in the United States Court of Appeals for the Fifth Circuit. The Company is presently evaluating its legal options with respect to this case. In management's opinion, an adequate accrual was made in the financial statements as of May 31, 2003 and 2002 to provide for the probable amount of loss in this case.

In December 2001, the Company and 18 other defendants were sued in a lawsuit styled *Lyondell Chemical Company and Atlantic Richfield Company v. Ethyl Corporation et al* in the United States District Court for the Eastern District of Texas, Beaumont Division. Other defendants have subsequently been added. The suit seeks contribution for clean-up costs expended by the plaintiffs in cleaning up an EPA Superfund site at which hazardous wastes were disposed. A former subsidiary of the Company acquired in 1978 and sold back to the prior owner in 1984, had allegedly disposed of hazardous wastes at the site during the period 1969-1976, years before the Company owned it. The plaintiff's allege that the Company is a legal successor-in-interest to the former subsidiary and liable for its prior liabilities. The case is in the discovery stage and it is not possible at this time to estimate reasonably or accurately the likelihood or amount of any potential liability in this matter, if any. The Company vigorously denies that it is a successor-in-interest to the former subsidiary and that it has any liability in the matter.

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

ITEM 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2003.

PART II

ITEM 5. ***Market for Team's Common Equity and Related Stockholder Matters***

(a) Market Information

Team's common stock is traded on the American Stock Exchange, Inc. under the symbol "TMI". The table below reflects the high and low sales prices of the Company's common stock on the American Stock Exchange by fiscal quarter for the fiscal years ended May 31, 2003 and 2002, respectively.

	Sales Price	
	High	**Low**
Fiscal 2003		
Quarter Ended:		
August 31	$9.25	$7.40
November 30	8.75	7.40
February 28	8.20	7.00
May 31	7.80	5.00
Fiscal 2002		
Quarter Ended:		
August 31	$5.80	$3.00
November 30	6.50	4.70
February 28	7.49	5.73
May 31	9.29	5.96

(b) Holders

There were 285 holders of record of Team's common stock as of August 15, 2003, excluding beneficial owners of stock held in street name. Although exact information is unavailable, the Company estimates there are approximately 1,000 additional beneficial owners based upon information gathered in connection with proxy solicitation.

(c) Dividends

No dividends were declared or paid in fiscal 2003, 2002 or 2001. Pursuant to the Company's Credit Agreement, the Company may not pay dividends without the consent of its primary lender. Additionally, future dividend payments will continue to depend on Team's financial condition, market conditions and other matters deemed relevant by the Board of Directors.

(d) Stock Repurchase Plan

In fiscal 2003, the Company repurchased 310,000 shares of its outstanding common stock on the open market at a weighted average price of $6.73 per share. As of May 31, 2003, the Company is authorized by its Board of Directors and lender to expend up to an additional $1.4 million on open market repurchases.

ITEM 6. *Selected Financial Data*

The following is a summary of certain consolidated financial information regarding the Company for the five years ended May 31, 2003 (amounts in thousands, except per share data):

	Fiscal Years Ended May 31,				
	2003	2002	2001	2000	1999
Revenues	$91,876	$85,081	$75,643	$66,636	$54,632
Net income	$ 4,402	$ 3,909	$ 2,740	$ 1,471	$ 505
Net income per share: basic	$ 0.57	$ 0.51	$ 0.34	$ 0.18	$ 0.07
Net income per share: diluted	$ 0.53	$ 0.48	$ 0.34	$ 0.18	$ 0.07
Weighted average shares outstanding: basic	7,707	7,664	8,015	8,238	7,547
Weighted average shares outstanding: diluted	8,369	8,229	8,122	8,283	7,741
Cash dividend declared, per common share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Balance Sheet Data

	May 31,				
	2003	2002	2001	2000	1999
Total assets	$52,224	$51,189	$47,996	$48,384	$47,765
Long-term debt and other long-term liabilities	$10,785	$13,019	$14,845	$17,409	$20,224
Stockholders' equity	$31,735	$28,182	$24,812	$23,137	$21,526
Working capital	$19,713	$18,693	$16,801	$14,909	$15,736

ITEM 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Fiscal 2003 Compared to Fiscal 2002

Revenues in 2003 were $91.9 million compared to $85.1 million in 2002, an increase of 8.0%. Operating profits (earnings before interest and taxes, or "EBIT") were $7.7 million in 2003 versus $7.2 million in 2002, an increase of 7%. With respect to industrial services, newer services comprise those services whose offerings began since fiscal year 1999 — NDT inspection, field machining and technical bolting, and more recently, field valve repair. Traditional services include leak repair, hot tapping and fugitive emissions monitoring.

The following sets forth the components of revenue and operating profits for fiscal 2003 and 2002:

	2003	2002	Increase $	Increase %
Revenues:				
Industrial Services:				
Traditional services	$56,933,000	$51,036,000	$5,897,000	11.6%
Newer services	24,189,000	23,477,000	712,000	3.0%
Total Industrial Services	$81,122,000	$74,513,000	$6,609,000	8.9%
Equipment Sales & Rentals	10,754,000	10,568,000	186,000	1.8%
Total Revenues	$91,876,000	$85,081,000	$6,795,000	8.0%
Operating Profit:				
Industrial Services	$12,012,000	$11,470,000	$ 542,000	4.7%
Equipment Sales & Rentals	603,000	547,000	56,000	10.2%
Corporate	(4,871,000)	(4,779,000)	(92,000)	1.9%
Total Operating Profit (EBIT)	$ 7,744,000	$ 7,238,000	$ 506,000	7.0%

For the year, the Industrial Services Business Segment revenues increased 8.9% to $81.1 million. Segment operating profit increased 4.7% to $12.0 million. All major service lines except NDT inspection services experienced growth during the year. NDT inspection revenues were down slightly due to significantly reduced pipeline and pulp & paper projects, which were nearly offset by continued growth in plant inspection services. A significant contributor to the growth in traditional service lines came from new multi-service, multi-location contracts that commenced in the fourth quarter of fiscal 2002.

Management believes that demand for the Company's traditional services is, generally, a function of the population of high-temperature, high-pressure piping systems. Demand is also somewhat related, especially for leak repair and hot tapping, to the operating performance of our customers — particularly in the refining, pipeline, and petrochemical industries. Generally, as those customers' margins improve, more funds are expended for the specialized industrial services offered by the Company.

The Equipment Sales and Rental Business segment (encompassing Climax Portable Machine Tool Company) grew revenues about 2% for the year to $10.8 million. The market for capital equipment continues to be depressed in most of the world markets. Revenue growth in Asia offset flat to slightly depressed sales in the U.S. and Europe. Operating profit increased 10% to $603,000 versus $547,000 in 2002. In 2003, Climax provided a $150,000 charge to other expense for estimated losses pertaining to a sales tax matter. Climax is domiciled in the state of Oregon, which is a state that imposes no tax on sales originating there. In fiscal 2003, management determined that Climax does have an obligation to collect and remit sales taxes in certain other jurisdictions, which it has not previously done. Climax is in the process of entering into agreements with several states with respect to sales tax obligations and is in the process of collecting amounts due from its customers. The $150,000 charge represents management's estimate of the probable loss that Climax will incur with respect to this matter. The ultimate outcome is subject to a great deal of variables and cannot be determined with a certainty. Management expects that this issue will be fully resolved over the course of the next year and that the ultimate outcome, even if different than the amount provided, will not have a significant impact on the future operating results of Climax.

With regard to consolidated operating results, overall gross margins were 40.5% of revenues in fiscal 2003 as compared to 41.7% in fiscal 2002. The decline primarily reflects the downturn in NDT Inspection revenues associated with pipeline and pulp & paper customer segments as well as lower product margins at Climax due to an increase in lower margin international sales coupled with a strong margin comparison in fiscal 2002 due to a $700 thousand special order in the fourth quarter of fiscal 2002.

Selling, general and administrative expenses ("SG&A") increased $1.8 million in 2003 versus 2002, an increase of 6.5%. The overall increase in SGA reflects a ramp-up of business development personnel in the industrial service segment ahead of related revenue growth and an increasing level of insurance and legal costs in fiscal 2003. In spite of these elements of cost increase, as a percentage of revenue, SG&A was down — 31.8% of revenues in fiscal 2003 versus 32.5% of revenues in fiscal 2002.

Fiscal 2002 Compared to Fiscal 2001

Revenues in 2002 were $85.1 million compared to $75.6 million in 2001, an increase of 12.5%. This double-digit revenue growth resulted in significant operating leverage for the Company with operating profits (earnings before interest and taxes, or "EBIT") increasing by 24.1% to $7.2 million in 2002 as compared to $5.8 million in 2001. Operating profits in fiscal 2002 were impacted by a $368 thousand non-cash charge related to management stock options and by a severance charge in the Climax business of $173 thousand. In contrast, operating profits in fiscal 2001 benefited from other income (primarily gains on asset sales) of $278 thousand. Without regard to those elements of other income and expense, the operating profit improvement would have been 40.2% year over year.

The improvement in operating results in 2002 was attributable both to the continued growth in newer services offered by the industrial services segment, as well as a rebound in profitability of the equipment sales and rental segment. With respect to industrial services, newer services comprise those services whose offerings began during fiscal year 1999 — NDT inspection, field machining and technical bolting. Traditional services include leak repair, hot tapping and fugitive emissions monitoring.

The following sets forth the components of revenue and operating profits for fiscal 2002 and 2001:

	2002	2001	Increase $	Increase %
Revenues:				
Industrial Services:				
Traditional services	$51,036,000	$50,130,000	$ 906,000	1.8%
New services	23,477,000	16,362,000	7,115,000	43.5%
Total Industrial Services	$74,513,000	$66,492,000	$8,021,000	12.1%
Equipment Sales & Rentals	10,568,000	9,151,000	1,417,000	15.5%
Total Revenues	$85,081,000	$75,643,000	$9,438,000	12.5%
Operating Profit:				
Industrial Services	$11,470,000	$ 9,831,000	$1,639,000	16.7%
Equipment Sales & Rentals	547,000	(189,000)	736,000	—
Corporate	(4,779,000)	(3,809,000)	(970,000)	25.5%
Total Operating Profit (EBIT)	$ 7,238,000	$ 5,833,000	$1,405,000	24.1%

As the table illustrates, year over year revenue growth in the industrial services segment came primarily from the newer service lines, which grew at a 43.5% rate. This growth has come primarily as a result of market share gains earned by improving the penetration of new service offerings to the Company's traditional customer base as well as an increase in the demand for our inspection services to the pipeline industry due to new pipeline construction and increased regulatory activities in the pipeline industry.

Through the third quarter which ended February 28, 2002, traditional service revenues were 1% behind year over year amounts due to a significant softening in third quarter demand. In the fourth quarter ended May 31, 2002, revenues from traditional services grew at a 9% rate in comparison to the fourth quarter of fiscal 2001, resulting in the nearly 2% increase for the year overall. The fourth quarter strengthening was impacted by two new multi-location, multi-service contracts that came on-stream during the quarter.

The equipment sales and rental segment also achieved a strong rebound during the fourth quarter of the year. Through the third quarter, the segment had operated at a small loss year to date, partially due to the recognition of $173 thousand of costs associated with a reduction in work force implemented in December 2001. In the fourth quarter, revenues increased 34.5% compared to the same quarter of fiscal 2001 due principally to a $700 thousand shipment to the U.S. Navy. As a result of the strong revenue growth, operating profits for the segment were nearly $600 thousand in the fourth quarter. This strong performance in the quarter resulted in an operating profit for the year of $547 thousand, a $736 thousand improvement over the loss reported last year of $189 thousand.

Overall, gross margins were 41.7% of revenues in fiscal 2002 as compared to 40.4% in fiscal 2001. The improvement reflects better margins in both the industrial services segment and the equipment sales and rental segment. Industrial services margins improved primarily in the NDT inspection line due to better performance in Texas locations. Climax margins improved due to cost reductions efforts and due to the business rebound experienced in the fourth quarter.

Selling, general and administrative expenses were 32.5% of revenues in fiscal 2002 versus 33.1% of revenues in fiscal 2001. This reduction in SG&A expenses as a percentage of revenues illustrates the operating leverage that management believes exists in the business — double-digit revenue growth will result in a faster rate of increase in profits since revenue growth can be supported without a proportionate increase in selling, general and administrative costs.

The non-cash G&A compensation expense of $368 thousand in fiscal 2002 was related to the vesting of performance stock options previously awarded to the Company's Chief Executive Officer. When the CEO joined the Company in 1998, he was awarded 200,000 performance-based stock options at the market price on the date of award of $3.625 per share. One third of these options vest upon the sustained achievement of average stock prices of $7.00, $10.50, and $14.00 per share. The first standard was met near the end of May

2002, when the price of Team's stock was $9.15 per share. Consequently, at that time, the Company was required to recognize a non-cash G&A compensation charge associated with one third of the options (approximately $0.03 effect on earnings per share, net of tax benefit).

Income tax expense as a percent of pre-tax income was 38.4% in fiscal 2002 as compared to 35.0% in fiscal 2001. The 2001 tax rate reflects a $400,000 tax benefit associated with the liquidation of a small subsidiary in the United Kingdom in that year.

Liquidity and Capital Resources

At May 31, 2003, the Company's liquid working capital (cash and accounts receivable, less current liabilities) totaled $8.9 million, an increase of $200 thousand since May 31, 2002. The Company utilizes excess operating funds to automatically reduce the amount outstanding under the revolving credit facility. At May 31, 2003, the outstanding balance under the revolving credit facility was $5.0 million and approximately $5.4 million was available to borrow under the facility.

During fiscal 2003, the Company reduced its total outstanding debt by $2.4 million as a result of cash flow from operations. In fiscal 2003, the Company also expended $2.1 million to reacquire an additional 310,000 shares of its common stock on the open market pursuant to a stock repurchase plan.

In the opinion of management, the Company currently has sufficient funds and adequate financial sources available to meet its anticipated liquidity needs. Management believes that cash flows from operations, cash balances and available borrowings will be sufficient for the foreseeable future to finance anticipated working capital requirements, capital expenditures and debt service requirements.

The Company has a $24 million bank credit facility that consists of: (i) a $12,500,000 revolving loan, which matures September 30, 2005, (ii) $9,500,000 in term loans for business acquisitions and (iii) a $2,000,000 mortgage loan. Amounts borrowed against the term loans are due in quarterly installments in the amount of $339,000 until the loans mature on September 30, 2005. Amounts borrowed against the mortgage loan are repaid in quarterly installments of $31,000 until its maturity date of September 30, 2008. Amounts outstanding under the credit facility bear interest at a marginal rate over either the LIBOR rate or the prime rate. At May 31, 2003, the Company's marginal rate was 1.5% over the LIBOR rate. The weighted average rate on outstanding borrowings at May 31, 2003 is approximately 4.4%. The Company also pays a commitment fee of .25% per annum on the average amount of the unused availability under the revolving loan.

The Company entered into an interest rate swap agreement that expires in September, 2003 and which qualifies as a cash flow hedge under SFAS No. 133. The agreement was entered into in 1998 to hedge the exposure of an increase in interest rates. Pursuant to this agreement, which covers approximately $2.3 million of outstanding debt, the Company exchanged a variable LIBOR rate for a fixed LIBOR rate of approximately 5.2%. Two other swap agreements, covering approximately $3.5 million, expired on December 31, 2001.

As the interest rates on the credit facility are based on market rates, the fair value of amounts outstanding under the facility approximate the carrying value. The interest rate swap agreements had a negative mark-to-market value of approximately $43,000 and $92,000 at May 31, 2003 and 2002, respectively. The fair value of interest rate swaps is estimated by discounting expected cash flows using quoted market interest rates.

Loans under the credit facility are secured by substantially all of the assets of the Company. The terms of the agreement require the maintenance of certain financial ratios and limit investments, liens, leases and indebtedness, and dividends, among other things. At May 31, 2003 and 2002, the Company was in compliance with all credit facility covenants.

At May 31, 2003, the Company was contingently liable for $2.1 million in outstanding stand-by letters of credit and, at that date, approximately $5.4 million was available to borrow under the credit facility.

Critical Accounting Policies

Goodwill — The Company has $10.0 million of recorded goodwill associated with business acquisitions made in fiscal year 1999. Of that amount, approximately $7.1 million is associated with the industrial services segment and $2.9 million is associated with the equipment sales and rental business. Effective June 1, 2002, we have adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets", which requires that goodwill no longer be amortized but be reviewed for impairment at least annually. The Company has evaluated the carrying value of Goodwill using a cash-flow multiple calculation methodology and has determined that no adjustment is needed to the carrying value of goodwill as a result of the implementation adoption of SFAS No. 142.

Revenue Recognition — The Company derives its revenues by providing a variety of industrial services including leak repair, hot tapping, emissions control services, field machining and inspection services. In addition, the Company sells and rents portable machine tools through one of its subsidiaries. For all of these services, revenues are recognized when services are rendered or when product is shipped and risk of ownership passes to the customer.

Deferred Income Taxes — The Company records deferred income tax assets and liabilities related to temporary differences between the book and tax bases of assets and liabilities. The Company computes its deferred tax balances by multiplying these temporary differences by the current tax rates. If deferred tax assets exceed deferred tax liabilities, the Company must estimate whether those net deferred asset amounts will be realized in the future. A valuation allowance is then provided for the net deferred asset amounts that are not likely to be realized. As of May 31, 2003 management believes that it is more likely than not that the Company will have sufficient future taxable income to allow it to realize the benefits of the net deferred tax assets. Accordingly, no valuation allowance has been recorded.

Loss Contingencies — The Company is involved in various lawsuits and claims encountered in the normal course of business. When such a matter arises and periodically thereafter, management consults with its legal counsel and evaluates the merits of the claim based on the facts available at that time. Currently, the Company is involved with two significant matters, which are summarized in Legal Proceedings above. In management's opinion, an adequate accrual has been made as of May 31, 2003 to provide for any losses that may arise from these contingencies.

Other Contractual Obligations and Commercial Commitments

The Company enters into capital leases related to certain computer and equipment and software, as well as operating leases related to facilities and transportation and other equipment. These operating leases are over terms ranging from one to five years with typical renewal options and escalation clauses.

The Company is occasionally required to post letters of credit generally issued by a bank as collateral under certain agreements. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that the Company has failed to meet its obligations under the letter of credit. If this were to occur, the Company would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. To date, the Company has not had any claims made against a letter of credit that resulted in a payment made be the issuer or the Company to the holder. The Company believes that it is unlikely that it will have to fund claims made under letters of credit in the foreseeable future.

At May 31, 2003, the Company's contractual obligations are summarized as follows:

Year ending May 31,	Operating Leases	Debt Obligations	Total
2004	$3,036,000	$ 1,482,000	$ 4,518,000
2005	2,146,000	8,517,000	10,663,000
2006	1,199,000	125,000	1,324,000
2007	369,000	125,000	494,000
2008	108,000	125,000	233,000
Thereafter	—	685,000	685,000
Total	$6,858,000	$11,059,000	$17,917,000

New Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The statement applies to legal obligations associated with the retirement of long-lived assets, except for certain obligations of lessees. SFAS 143 is effective for the Company in June 2003. Management is in the process of evaluating the impact of the adoption of Statement 143.

SFAS No. 146, "Accounting for Exit or Disposal Activities" was issued in June 2002. SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS No. 146 is effective for disposal activities occurring after December 31, 2002. The adoption of SFAS No. 146 has not impacted the Company's financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure, an Amendment of FASB Statement No. 123." This Statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to the consolidated financial statements.

The company has reviewed other new accounting standards not identified above and does not believe any other new standards will have a material impact on the Company's financial position or operating results.

Disclosure Regarding Forward-Looking Statements

Any forward-looking information contained herein is being provided in accordance with the provisions of the Private Securities Litigation Reform Act. Such information is subject to certain assumptions and beliefs based on current information known to the Company and is subject to factors that could result in actual results differing materially from those anticipated in any forward-looking statements contained herein. Such factors include domestic and international economic activity, interest rates, market conditions for the Company's customers, regulatory changes and legal proceedings, and the Company's successful implementation of its internal operating plans. Accordingly, there can be no assurance that any forward-looking statements contained herein will occur or that objectives will be achieved.

ITEM 7A. *Quantitative and Qualitative Disclosures about Market Risk*

The Company has a credit facility and interest rate swap agreements, which subject the Company to the risk of loss associated with movements in market interest rates. At May 31, 2003, the Company has floating-rate obligations totaling $11.1 million outstanding under its credit facility (see Note 6 to the Company's Consolidated Financial Statements). The exposure of these obligations to increases in short-term interest rates is limited in part by an interest rate swap agreement entered into by the Company. This swap agreement effectively fixes the interest rate on approximately $2.3 million of the Company's variable rate debt. Under these swap agreements, payments are made based on a fixed rate of 5.19% and received on a LIBOR based variable rate. Any change in the value of the swap agreements, real or hypothetical, would be offset by an inverse change in the value of the underlying hedged item. With respect to the remaining $8.8 million of floating-rate debt not covered by swap agreements, a 1% increase in interest rates could result in an annual increase in interest expense of $90 thousand.

ITEM 8. ***Consolidated Financial Statements and Supplementary Data***

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders of Team, Inc.
Alvin, Texas

We have audited the accompanying consolidated balance sheets of Team, Inc. and subsidiaries as of May 31, 2003 and 2002, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Team, Inc. and subsidiaries as of May 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in 2003.

KPMG LLP

Houston, Texas
July 16, 2003

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders of Team, Inc.
Alvin, Texas

We have audited the accompanying consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows of Team, Inc. and subsidiaries for the year ended May 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of Team, Inc. and subsidiaries for the year ended May 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Houston, Texas
July 12, 2001

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	May 31, 2003	May 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 854,000	$ 823,000
Receivables	17,707,000	17,250,000
Inventories	9,498,000	8,802,000
Income tax receivable	16,000	—
Deferred income taxes	783,000	685,000
Prepaid expenses and other current assets	559,000	513,000
Total Current Assets	29,417,000	28,073,000
Property, Plant and Equipment:		
Land and buildings	7,293,000	7,173,000
Machinery and equipment	22,517,000	20,483,000
	29,810,000	27,656,000
Less accumulated depreciation and amortization	17,542,000	15,719,000
	12,268,000	11,937,000
Goodwill, net of accumulated amortization of $922,000	10,049,000	10,049,000
Other assets, net	490,000	712,000
Restricted cash	—	418,000
Total Assets	$52,224,000	$51,189,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 1,482,000	$ 1,512,000
Accounts payable	3,195,000	2,953,000
Other accrued liabilities	5,027,000	4,294,000
Current income taxes payable	—	621,000
Total Current Liabilities	9,704,000	9,380,000
Deferred income taxes	606,000	435,000
Long-term debt	9,577,000	11,978,000
Other long term liabilities	384,000	1,041,000
Minority Interest	218,000	173,000
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, 500,000 shares authorized, none issued	—	—
Common stock, par value $.30 per share, 30,000,000 shares authorized; 8,587,512 and 8,331,132 shares issued	2,576,000	2,499,000
Additional paid-in capital	34,065,000	32,961,000
Accumulated deficit	(268,000)	(4,670,000)
Accumulated other comprehensive loss	(1,000)	(57,000)
Treasury stock at cost, 968,308 and 658,520 shares	(4,637,000)	(2,551,000)
Total Stockholders' Equity	31,735,000	28,182,000
Total Liabilities and Stockholders' Equity	$52,224,000	$51,189,000

See notes to consolidated financial statements.

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended May 31,		
	2003	2002	2001
Revenues	$91,876,000	$85,081,000	$75,643,000
Operating expenses	54,684,000	49,616,000	45,053,000
Gross margin	37,192,000	35,465,000	30,590,000
Selling, general and administrative expenses	29,183,000	27,411,000	24,760,000
Goodwill amortization	—	275,000	275,000
Non cash G & A compensation cost	115,000	368,000	—
Other expense (income)	150,000	173,000	(278,000)
Earnings before interest and taxes	7,744,000	7,238,000	5,833,000
Interest	601,000	892,000	1,616,000
Earnings before income taxes	7,143,000	6,346,000	4,217,000
Provision for income taxes	2,741,000	2,437,000	1,477,000
Net income	$ 4,402,000	$ 3,909,000	$ 2,740,000
Net income per common share			
— Basic	$ 0.57	$ 0.51	$ 0.34
— Diluted	$ 0.53	$ 0.48	$ 0.34
Weighted average number of shares outstanding			
— Basic	7,707,000	7,664,000	8,015,000
— Diluted	8,369,000	8,229,000	8,122,000

See notes to consolidated financial statements.

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fiscal Years Ended May 31,		
	2003	2002	2001
Net income	$4,402,000	$3,909,000	$2,740,000
Cumulative effect of an accounting change	—	(56,000)	—
Net income (loss) on interest rate swaps	49,000	(149,000)	—
Reclassification adjustments related to interest rate swaps	—	113,000	—
Foreign currency translation adjustment	26,000	—	—
Tax (provision) benefit	(19,000)	35,000	—
Comprehensive income	$4,458,000	$3,852,000	$2,740,000

See notes to consolidated financial statements.

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	May 31, 2003	2002	2001
COMMON STOCK:			
Balance at beginning of year	$ 2,499,000	$ 2,503,000	$ 2,477,000
Shares issued for directors fees	2,000	5,000	8,000
Shares retired	—	(71,000)	—
Exercise of stock options	75,000	62,000	18,000
Balance at end of year	$ 2,576,000	$ 2,499,000	$ 2,503,000
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	$32,961,000	$32,257,000	$ 32,103,000
Shares issued for directors fees	58,000	46,000	43,000
Shares retired	—	(741,000)	—
Exercise of stock options	931,000	748,000	111,000
Value of options issued in exchange for earn-out	—	283,000	—
Non cash compensation cost	115,000	368,000	—
Balance at end of year	$34,065,000	$32,961,000	$ 32,257,000
ACCUMULATED DEFICIT:			
Balance at beginning of year	$(4,670,000)	$(8,579,000)	$(11,319,000)
Net income	4,402,000	3,909,000	2,740,000
Balance at end of year	$ (268,000)	$(4,670,000)	$ (8,579,000)
UNEARNED STOCK COMPENSATION:			
Balance at beginning of year	$ —	$ —	$ (27,000)
Compensation expense	—	—	27,000
Balance at end of year	$ —	$ —	$ —
ACCUMULATED OTHER COMPREHENSIVE LOSS:			
Balance at beginning of year	$ (57,000)	$ —	$ —
Unrealized gain (loss) on derivative instruments	30,000	(57,000)	—
Foreign currency translation adjustment	26,000	—	—
Balance at end of year	$ (1,000)	$ (57,000)	$ —
TREASURY STOCK:			
Balance at beginning of year	$(2,551,000)	$(1,369,000)	$ (97,000)
Repurchase of common stock	(2,086,000)	(1,994,000)	(1,272,000)
Shares retired	—	812,000	—
Balance at end of year	$(4,637,000)	$(2,551,000)	$ (1,369,000)
TOTAL STOCKHOLDERS' EQUITY	$31,735,000	$28,182,000	$ 24,812,000

See notes to consolidated financial statements.

TEAM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended May 31,		
	2003	2002	2001
Cash Flows From Operating Activities:			
Net income	$ 4,402,000	$ 3,909,000	$ 2,740,000
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	2,555,000	2,693,000	2,773,000
Provision for doubtful accounts	263,000	119,000	141,000
Other income	—	—	(278,000)
Equity in (earnings) losses of unconsolidated subsidiary and other	(56,000)	(17,000)	73,000
Deferred income taxes	312,000	(47,000)	138,000
Non cash G&A compensation cost	115,000	368,000	—
Changes in assets and liabilities, net of effects from business acquisitions:			
(Increase) decrease:			
Accounts receivable	(720,000)	(2,761,000)	(1,169,000)
Inventories	(696,000)	(557,000)	(424,000)
Prepaid expenses and other current assets	(41,000)	(215,000)	253,000
Income tax receivable	(16,000)	—	—
Increase (decrease):			
Accounts payable	242,000	996,000	(22,000)
Other accrued liabilities	827,000	882,000	453,000
Income taxes payable	(621,000)	(89,000)	(92,000)
Net cash provided by operating activities	$ 6,566,000	$ 5,281,000	$ 4,586,000
Cash Flows From Investing Activities:			
Capital expenditures	(2,037,000)	(2,043,000)	(1,563,000)
Rental and demonstration equipment	(560,000)	(369,000)	(524,000)
Proceeds from disposal of property and equipment	37,000	122,000	1,571,000
Increase in other assets, net	30,000	(102,000)	—
Other		—	260,000
Net cash used in investing activities	$(2,530,000)	$(2,392,000)	$ (256,000)
Cash Flows From Financing Activities:			
Payments under debt agreements and other long-term obligations	$(2,670,000)	$(1,852,000)	$(2,597,000)
Issuance of common stock	751,000	812,000	180,000
Repurchase of common stock	(2,086,000)	(1,994,000)	(1,272,000)
Net cash used in financing activities	$(4,005,000)	$(3,034,000)	$(3,689,000)
Net increase (decrease) in cash and cash equivalents	31,000	(145,000)	641,000
Cash and cash equivalents at beginning of year	823,000	968,000	327,000
Cash and cash equivalents at end of year	$ 854,000	$ 823,000	$ 968,000
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 626,000	$ 981,000	$ 1,641,000
Income taxes	$ 2,936,000	$ 2,200,000	$ 1,426,000

See notes to consolidated financial statements.

TEAM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of Team, Inc. (the "Company") include the financial statements of the Company and its subsidiaries. All significant intercompany transactions have been eliminated.

Use of Estimates in Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of assets are computed by the straight-line method over the following estimated useful lives:

Classification	Life
Buildings	20-30 years
Machinery and equipment	2-10 years

Machinery and equipment includes rental and demonstration machining tools used in the equipment sales and rental business segment totaling $2,324,000 and $1,859,000 (before accumulated depreciation of $283,000 and $208,000) at May 31, 2003 and 2002, respectively. These self-constructed assets are periodically transferred to inventory and sold as used equipment.

Goodwill

SFAS No. 142 *Accounting for Goodwill and Other Intangible Assets* became effective for the Company as of June 1, 2002. According to SFAS No. 142, goodwill that arises from purchases after June 30, 2001 cannot be amortized. In addition, SFAS No. 142 requires that amortization of existing goodwill will cease on the first day of the adoption year. Accordingly, the Company stopped recording the amortization of goodwill as a charge to earnings effective as of the beginning of fiscal 2003.

The following table sets forth the pro-forma impact on the prior years had the provisions of the new standard been applied as of June 1, 2000:

	Fiscal Years Ended May 31,		
	2003	2002	2001
Reported net income	$4,402,000	$3,909,000	$2,740,000
Add back: Goodwill amortization	—	275,000	275,000
Adjusted net income	$4,402,000	$4,184,000	$3,015,000
Basic earnings per share:			
Reported net income	$ 0.57	$ 0.51	$ 0.34
Goodwill amortization	—	0.04	0.03
Adjusted net income	$ 0.57	$ 0.55	$ 0.38
Diluted earnings per share:			
Reported net income	$ 0.53	$ 0.48	$ 0.34
Goodwill amortization	—	0.03	0.03
Adjusted net income	$ 0.53	$ 0.51	$ 0.37

The Company had six months from the date it initially applied SFAS No. 142 to test goodwill for impairment. Thereafter, goodwill must be tested for impairment at least annually and impairment losses, if any, will be presented in the operating section of the income statement. The Company has completed the required annual impairment test and has determined that there is no impairment of goodwill as of May 31, 2003.

Revenue Recognition

Revenue is recognized when services are rendered or when product is shipped and risk of ownership passes to the customer.

Income Taxes

The Company accounts for taxes on income using the asset and liability method wherein deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities using enacted rates.

Concentration of Credit Risk

The Company provides services to the chemical, petrochemical, refining, pulp and paper, power and steel industries throughout the United States. No single customer accounts for more than 10% of consolidated revenues.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2003 presentation.

Earnings Per Share

The Company has adopted Statement of Financial Accounting Standard ("SFAS") No. 128, "Earnings per Share," which specifies the computation, presentation and disclosure requirements for earnings per share ("EPS"). There is no difference, for any of the years presented, in the amount of net income (numerator) used in the computation of basic and diluted earnings per share. With respect to the number of weighted average shares outstanding (denominator), diluted shares reflects only the pro forma exercise of options to acquire common stock to the extent that the options' exercise prices are less than the average market price of common shares during the period.

Options to purchase 112,000 and 655,000 shares of common stock were outstanding during the years ended May 31, 2003 and 2001, respectively, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of common shares during the period. In 2002, all outstanding options were "in the money" and therefore, no options were excluded from the computation of diluted EPS in that year.

Statement of Cash Flows

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Dividends

No dividends were paid during the current or prior two fiscal years. Pursuant to the Company's Credit Agreement, the Company may not pay quarterly dividends without the consent of its senior lender. Future dividend payments will depend upon the Company's financial condition and other relevant matters.

Interest Rate Swap Agreements

The differential to be paid or received on interest rate swap agreements is accrued as interest rates change and is recognized over the life of the agreements as an increase or decrease in interest expense. The Company does not use these instruments for trading purposes. Instead, it uses them to hedge the impact of interest rate fluctuations on floating rate debt. See Note 6 regarding the fair value of the Company's interest rate swap agreements.

Fair Value of Financial Instruments

The Company's 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 values of the Company's credit facility are representative of their carrying values based upon the variable rate terms and management's opinion that the current rates offered to the Company with the same maturity and security structure are equivalent to that of the credit facility.

New Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The statement applies to legal obligations associated with the retirement of long-lived assets, except for certain obligations of lessees. SFAS 143 is effective for the Company in June 2003. Management is in the process of evaluating the impact of the adoption of Statement 143.

SFAS No. 146, "Accounting for Exit or Disposal Activities" was issued in June 2002. SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS No. 146 is effective for disposal activities occurring after December 31, 2002. The adoption of SFAS No. 146 has not impacted the Company's financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure, an Amendment of FASB Statement No. 123." This Statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in these notes to the consolidated financial statements.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for the options granted after this date was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2003, 2002, and 2001, respectively: risk-free interest rate of 1.8%, 3.8%, and 4.5%; volatility factor of the expected market price of the Company's common stock of 35.6%, 42.8%, and 73.8%; expected dividend yield percentage of 0.0% for each period; and a weighted average expected life of the option of three years for each period.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The Company's pro forma information, as if the fair value method described above had been adopted, is as follows:

	Fiscal Years Ended May 31,		
	2003	2002	2001
Net income — as reported	$4,402,000	$3,909,000	$2,740,000
Stock based employee compensation expense included in reported net income	115,000	368,000	—
Total stock-based employee compensation expense determined under fair value based method for all awards	(165,000)	(163,000)	(204,000)
Pro forma net income	$4,352,000	$4,114,000	$2,536,000
Earnings per share — basic	$ 0.57	$ 0.51	$ 0.34
Pro forma earnings per share — basic	$ 0.56	$ 0.54	$ 0.32
Earnings per share — diluted	$ 0.53	$ 0.48	$ 0.34
Pro forma earnings per share — diluted	$ 0.52	$ 0.46	$ 0.31

The Company has reviewed other new accounting standards not identified above and does not believe any other new standard will have a material impact on the Company's financial position or operating results.

2. Receivables

Receivables consist of:

	May 31, 2003	May 31, 2002
Trade accounts receivable	$18,180,000	$17,649,000
Other receivables	60,000	112,000
Allowance for doubtful accounts	(533,000)	(511,000)
Total	$17,707,000	$17,250,000

The following summarizes the activity in the allowance for doubtful accounts:

	May 31, 2003	May 31, 2002
Balance at beginning of year	$511,000	$392,000
Provision for doubtful accounts	263,000	119,000
Write off of bad debt	(241,000)	—
Balance at end of year	$533,000	$511,000

3. Inventories

Inventories consist of:

	May 31, 2003	May 31, 2002
Raw materials	$1,084,000	$ 953,000
Finished goods and work in progress	8,414,000	7,849,000
Total	$9,498,000	$8,802,000

4. Other Accrued Liabilities

Other accrued liabilities consist of:

	May 31, 2003	May 31, 2002
Payroll and other compensation expenses	$2,771,000	$1,736,000
Insurance accruals	1,261,000	1,334,000
Accrued interest	77,000	104,000
Current payments due to former officers	238,000	264,000
Other	680,000	856,000
Total	$5,027,000	$4,294,000

5. Income Taxes

The provision for income taxes attributable to pre-tax earnings are as follows:

	Fiscal Years Ended May 31,		
	2003	2002	2001
Federal income taxes:			
Current	$2,093,000	$2,013,000	$1,179,000
Deferred	279,000	(37,000)	177,000
State income taxes:			
Current	336,000	468,000	159,000
Deferred	33,000	(7,000)	(38,000)
Total	$2,741,000	$2,437,000	$1,477,000

A reconciliation between income taxes related to earnings before income taxes and income taxes computed by applying the statutory Federal income tax rate to such earnings follows:

	Fiscal Years Ended May 31,		
	2003	2002	2001
Earnings before income taxes	$7,143,000	$6,346,000	$4,217,000
Computed income taxes at statutory rate	$2,429,000	$2,158,000	$1,434,000
Liquidation of foreign subsidiary	—	—	(400,000)
Goodwill amortization	—	93,000	93,000
State income taxes	325,000	309,000	160,000
Foreign (gain) losses	(32,000)	(2,000)	104,000
Other	19,000	(121,000)	86,000
Total	$2,741,000	$2,437,000	$1,477,000

During fiscal 2001, a United Kingdom subsidiary was liquidated (see note 8). The subsidiary had incurred operating losses since the early 1990's; however, no tax benefit had been recognized or realized since the utilization of such benefits could not be assured prior to the liquidation of the subsidiary. With the liquidation of the subsidiary, the Company recognized the tax benefit of the losses in its fiscal year 2001 Federal income tax return.

A summary of the significant components of the Company's deferred tax assets and liabilities follows:

	May 31,	
	2003	2002
Receivables	$ 201,000	$ 207,000
Accrued expenses and other liabilities	777,000	850,000
Inventory	222,000	133,000
Gross deferred assets	1,200,000	1,190,000
Property, plant and equipment	(800,000)	(761,000)
Other	(223,000)	(179,000)
Gross deferred liabilities	(1,023,000)	(940,000)
Net deferred taxes	$ 177,000	$ 250,000

No valuation account is required for the deferred tax assets as management believes it is more likely than not that the Company will have sufficient taxable income in the future that will allow it to realize the benefits of the net deferred tax assets. Most of the assets represent temporary differences on certain accruals that will reverse over a period of less than 10 years.

6. Long-Term Debt

Long-term debt consists of:

	May 31, 2003	May 31, 2002
Revolving loan	$ 5,000,000	$ 5,919,000
Term and mortgage notes	6,059,000	7,540,000
Capital lease obligations	—	31,000
	11,059,000	13,490,000
Less current portion	1,482,000	1,512,000
Total	$ 9,577,000	$11,978,000

Maturities of long-term debt are as follows:

FY2004	$ 1,482,000
2005	8,517,000
2006	125,000
2007	125,000
2008	125,000
Thereafter	685,000
	$11,059,000

The Company has a $24 million bank credit facility that consists of: (i) a $12,500,000 revolving loan, which matures September 30, 2005, (ii) $9,500,000 in term loans for business acquisitions and (iii) a $2,000,000 mortgage loan. Amounts borrowed against the term loans are due in quarterly installments in the amount of $339,000 until the loans mature on September 30, 2005. Amounts borrowed against the mortgage loan are repaid in quarterly installments of $31,000 until its maturity date of September 30, 2008. Amounts outstanding under the credit facility bear interest at a marginal rate over either the LIBOR rate or the prime rate. At May 31, 2003, the Company's marginal rate was 1.5% over the LIBOR rate. The weighted average rate on outstanding borrowings at May 31, 2003 is approximately 4.4%. The Company also pays a commitment fee of .25% per annum on the average amount of the unused availability under the revolving loan.

The Company entered into an interest rate swap agreement that expires in September, 2003 and which qualifies as a cash flow hedge under SFAS No. 133. The agreement was entered into in 1998 to hedge the exposure of an increase in interest rates. Pursuant to this agreement, which covers approximately $2.3 million of outstanding debt, the Company exchanged a variable LIBOR rate for a fixed LIBOR rate of approximately 5.2%. Two other swap agreements, covering approximately $3.5 million, expired on December 31, 2001.

As the interest rates on the credit facility are based on market rates, the fair value of amounts outstanding under the facility approximate the carrying value. The interest rate swap agreements had a negative mark-to-market value of approximately $43,000 and $92,000 at May 31, 2003 and 2002, respectively. The fair value of interest rate swaps is estimated by discounting expected cash flows using quoted market interest rates.

Loans under the credit facility are secured by substantially all of the assets of the Company. The terms of the agreement require the maintenance of certain financial ratios and limit investments, liens, leases and indebtedness, and dividends, among other things. At May 31, 2003 and 2002, the Company was in compliance with all credit facility covenants.

At May 31, 2003, the Company was contingently liable for $2.1 million in outstanding stand-by letters of credit and, at that date, approximately $5.4 million was available to borrow under the credit facility.

7. Other Long-Term Liabilities

Other liabilities consisted of:

	May 31, 2003	May 31, 2002
Post retirement payments	$ 622,000	$ 886,000
Deferred compensation due former officer	—	419,000
Less amounts due in one year	(238,000)	(264,000)
	$ 384,000	$1,041,000

Amounts due within one year of $238,000 and $264,000, respectively, are included in other accrued liabilities in the accompanying consolidated balance sheet.

Post Retirement Benefits:

The Company is obligated for post-retirement benefits to three former officers with payments due through 2007. Future maturities of amounts due under post retirement benefit agreements are as follows:

2004	$238,000
2005	245,000
2006	100,000
2007	39,000
	$622,000

Deferred Compensation Arrangement:

Under a nonqualified deferred compensation agreement, a former officer of the Company (the "Participant") elected to defer a portion of his compensation into a trust established by the Company. The trust assets, consisting of cash and cash equivalents, were subject to the claims of the Company's creditors in the event of the Company's insolvency, until paid to the Participant and his beneficiaries. In accordance with EITF 97-14, "Accounting for Deferred Compensation Arrangements where amounts earned are held in a Rabbi Trust and Invested," the accounts of the trust were consolidated into the Company's financial statements until liquidated and paid out to the Participant in fiscal 2003.

8. Other Expense (Income)

In 2003, other expense consists of a $150,000 charge for estimated losses pertaining to a sales tax matter involving the wholly owned subsidiary, Climax Portable Machine Tools, Inc., which is domiciled in the state of Oregon, a state that imposes no tax on sales originating there. In fiscal 2003, management determined that Climax does have an obligation to collect and remit sales taxes in certain other jurisdictions, which it has not previously done. Climax is in the process of entering into agreements with several states with respect to sales tax obligations and is in the process of collecting amounts due from its customers. The $150,000 charge represents management's estimate of the probable loss that Climax will incur with respect to this matter. The ultimate outcome is subject to a great deal of variables and cannot be determined with a certainty. Management expects that this issue will be fully resolved over the course of the next year and that the ultimate outcome, even if different than the amount provided, will not have a significant impact on the future operating results of Climax.

In 2002, other expense of $173,000 consists of severance and related costs associated with a reduction in work force at Climax. All such amounts were paid during the year ended May 31, 2002. In fiscal 2001, the Company sold rental property for $1.575 million in cash (net). The property was carried as a corporate asset unrelated to either of the Company's operating segments. The transaction, net of other charges, resulted in a gain of $360,000.

Also in 2001, the Company completed the sale of substantially all of the assets and operations of a small operating subsidiary located in the United Kingdom resulting in a loss on disposal of the business of $82,000. The operations of the UK subsidiary were not material to the Company's business.

9. Stock Options and Employee Benefit Plans

Stock Options:

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is, generally, recognized. Pursuant to various option plans, the Company has granted options to purchase common stock to officers, directors and employees at prices equal to or greater than the market value of the common stock on the date of grant. The exercise price, terms and other conditions applicable to each option granted under the Company's plans are generally determined by the Compensation Committee at the time of grant of each option and may vary.

In addition to the options granted under the option plans discussed above, the Company's chief executive officer was granted options to purchase 200,000 shares of common stock at a price of $3.625 per share upon joining the Company in 1998. Such grant was subject to a vesting schedule based on stock performance measures which provided that one third of the options vest upon the sustained achievement of average stock prices of $7.00, $10.50, and $14.00 per share. The first standard was met near the end of May 2002, when the price of Team's stock was $9.15 per share. Consequently, at that time, the Company was required to recognize a non-cash G&A compensation charge associated with one third of the options totaling $368,000 (approximately $0.03 per share, net of tax).

In July 2002, the Board of Directors modified the vesting requirements of the remaining 133,333 performance based options held by the chief executive officer as well as 20,000 performance based options held by an officer of one of the Company's subsidiaries. The modification causes the remaining options to vest on May 31, 2008 unless earlier vesting occurs, in the case of the chief executive officer, as a result of the achievement of the $10.50 and $14.00 stock-price hurdles described above. The modification allows the Company to fix the amount of the future non-cash G&A compensation expense associated with the remaining options ($750,000) and to recognize the charge against earnings ratably over a six-year period of time ($125,000 per year), unless otherwise accelerated by the achievement of the performance hurdles.

Transactions under all plans are summarized below: (For purposes of the summary, the chief executive officer's performance options that vested in fiscal 2002 (67,000) and that were modified in 2003 (133,000) are included as fiscal 2002 and 2003 grants, respectively).

	Fiscal Years Ended May 31,					
	2003		2002		2001	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
Shares under option, beginning of year	1,277,000	$3.41	1,114,800	$3.00	1,111,000	$3.11
Changes during the year:						
Granted	134,000	$8.96	324,200	$4.25	142,000	$2.04
CEO Performance Options	133,000	$3.63	67,000	$3.63	—	$ —
Exercised	(250,000)	$3.00	(209,000)	$3.88	(60,700)	$2.13
Canceled	(10,000)	$7.44	(20,000)	$3.63	(77,500)	$3.43
Shares under option, end of year	1,284,000	$4.04	1,277,000	$3.41	1,114,800	$3.00
Exercisable at end of year	1,074,000	$3.77	980,000	$3.27	824,000	$3.06
Available for future grant	440,000		174,000		410,000	
Weighted average grant-date fair value of options granted during year	$ 2.36		$ 1.29		$ 0.99	

For options outstanding at May 31, 2003, the range of exercise prices and remaining contractual lives are as follows:

Range of Prices	Number of Options	Weighted Average Price	Weighted Average Life (in years)
$1.94 to $2.75	225,000	$2.24	5.6
$3.06 to $3.50	310,000	$3.44	5.5
$3.56 to $4.00	518,000	$3.72	6.0
$5.15 to $9.00	231,000	$7.30	8.8
	1,284,000	$4.04	5.5

Employee Benefit Plans:

Under the Team, Inc. Salary Deferral Plan, contributions are made by qualified employees at their election and matching Company contributions are made at specified rates. Company contributions in fiscal 2003, 2002 and 2001, were $363,000, $319,000, and $302,000, respectively.

10. Commitments and Contingencies

Loss Contingencies

In May 2002, a jury verdict was rendered against the Company in an employment related case brought in the United States District Court for the Western District of Louisiana. The case involves allegations of misconduct by personnel in one of the Company's branches during the years 1998 and 1999. In August 2002, the Court ruled on certain post-trial motions and determined that, with respect to one of the two plaintiffs, a $300,000 judgment was entered against the Company. In December 2002, the Company settled the lawsuit with respect to that plaintiff for an amount less than the judgment entered. With respect to the second plaintiff, the Court set aside the jury verdict on most points and granted the Company's motion for a new trial on a specific issue. The second plaintiff has appealed the District Court's decision, which is currently pending in the United States Court of Appeals for the Fifth Circuit. The Company is presently evaluating its legal options with respect to this case. In management's opinion, an adequate accrual was made in the financial statements as of May 31, 2003 and 2002 to provide for the probable amount of loss in this case.

In December 2001, the Company and 18 other defendants were sued in a lawsuit styled *Lyondell Chemical Company and Atlantic Richfield Company v. Ethyl Corporation et al* in the United States District Court for the Eastern District of Texas, Beaumont Division. Other defendants have subsequently been added. The suit seeks contribution for clean-up costs expended by the plaintiffs in cleaning up an EPA Superfund site at which hazardous wastes were disposed. A former subsidiary of the Company acquired in 1978 and sold back to the prior owner in 1984, had allegedly disposed of hazardous wastes at the site during the period 1969-1976, years before the Company owned it. The plaintiff's allege that the Company is a legal successor-in-interest to the former subsidiary and liable for its prior liabilities. The case is in the discovery stage and it is not possible at this time to estimate reasonably or accurately the likelihood or amount of any potential liability in this matter, if any. The Company vigorously denies that it is a successor-in-interest to the former subsidiary and that it has any liability in the matter.

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

See also Note 8 for a discussion of sales tax contingencies.

Lease Commitments

The Company's operating leases relate to facilities and transportation and other equipment which are leased over terms ranging from one to five years with typical renewal options and escalation clauses. Rental payments on operating leases charged against earnings were $3,294,000, $2,848,000 and $2,151,000 in 2003, 2002 and 2001, respectively. Minimum rental commitments for future periods are as follows:

Year ending May 31,	Operating Leases
2004	$3,036,000
2005	2,146,000
2006	1,199,000
2007	369,000
2008	108,000
Total minimum payments	$6,858,000

11. Common Stock

During fiscal 2003, 2002, and 2001, the Company reacquired 309,788, 200,000, and 449,720 shares, respectively, pursuant to an approved, open market repurchase plan at an average price of $6.73, $5.93, and $2.83 per share, in 2003, 2002, and 2001, respectively. The shares acquired through open market purchases have not been formally retired and, accordingly, are carried as treasury stock. Additionally, in June 2001, the Company completed the reacquisition of 235,647 shares of its common stock for $812,000, including expenses, pursuant to a self-tender offer announced in April 2001. These shares were retired and, accordingly, the cost was charged to Common Stock (at par value of $.30 per share) and to Additional Paid-in Capital The Following summarizes the activity of shares outstanding for the years 2003, 2002 and 2001:

	Common Stock Issued	Treasury Stock	Shares Outstanding
Number of shares, May 31, 2000	8,256,954	(9,700)	8,247,254
Shares issued for director fees	25,700	—	25,700
Exercise of stock options	60,000	—	60,000
Shares repurchased	—	(449,720)	(449,720)
Number of shares, May 31, 2001	8,342,654	(459,420)	7,883,234
Shares issued for director fees	15,150	—	15,150
Exercise of stock options	208,975	—	208,975
Shares repurchased	—	(434,747)	(434,747)
Shares retired	(235,647)	235,647	—
Number of shares, May 31, 2002	8,331,132	(658,520)	7,672,612
Shares issued for director fees	6,630	—	6,630
Exercise of stock options	249,750	—	249,750
Shares repurchased	—	(309,788)	(309,788)
Number of shares, May 31, 2003	8,587,512	(968,308)	7,619,204

As of May 31, 2003, the Company is authorized by its Board of Directors and lender to expend up to an additional $1.4 million on open market repurchases.

12. Industry Segment Information

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," requires that the Company disclose certain information about its 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." Generally, financial information is required to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments.

Pursuant to SFAS No. 131, the Company has two reportable segments: industrial services and equipment sales and rentals. The industrial services segment includes services consisting of leak repair, hot tapping, emissions control monitoring, field machining, and mechanical inspection. The equipment sales and rental segment consists of the Climax business.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on earnings before interest and income taxes. Inter-segment sales are eliminated in the operating measure used by the Company to evaluate segment performance, and this has been eliminated in the following schedule. Interest is not allocated to the segments.

Information about business segments for the fiscal years 2003, 2002 and 2001 is set forth below:

Fiscal Year ended May 31, 2003

	Industrial Services	Equipment Sales and Rentals	Corporate and Other	Total
Revenues	$81,122,000	$10,754,000	$ —	$91,876,000
Earnings before interest and taxes	12,012,000	603,000	(4,871,000)	7,744,000
Interest	—	—	601,000	601,000
Earnings before income taxes	$12,012,000	$ 603,000	$(5,472,000)	$ 7,143,000
Depreciation and amortization	$ 1,539,000	$ 605,000	$ 411,000	$ 2,555,000
Capital expenditures	$ 1,619,000	$ 303,000	$ 115,000	$ 2,037,000
Identifiable assets	$36,560,000	$11,386,000	$ 4,278,000	$52,224,000

Fiscal Year ended May 31, 2002

	Industrial Services	Equipment Sales and Rentals	Corporate and Other	Total
Revenues	$74,513,000	$10,568,000	$ —	$85,081,000
Earnings before interest and taxes	11,470,000	547,000	(4,779,000)	7,238,000
Interest	—	—	892,000	892,000
Earnings before income taxes	$11,470,000	$ 547,000	$(5,671,000)	$ 6,346,000
Depreciation and amortization	$ 1,644,000	$ 684,000	$ 365,000	$ 2,693,000
Capital expenditures	$ 1,829,000	$ 120,000	$ 94,000	$ 2,043,000
Identifiable assets	$35,430,000	$12,247,000	$ 3,512,000	$51,189,000

Fiscal Year ended May 31, 2001

	Industrial Services	Equipment Sales and Rentals	Corporate and Other	Total
Revenues	$66,492,000	$ 9,151,000	$ —	$75,643,000
Earnings before interest and taxes	9,831,000	(189,000)	(3,809,000)	5,833,000
Interest	—	—	1,616,000	1,616,000
Earnings before income taxes	$ 9,831,000	$ (189,000)	$(5,425,000)	$ 4,217,000
Depreciation and amortization	$ 1,635,000	$ 716,000	$ 422,000	$ 2,773,000
Capital expenditures	$ 1,351,000	$ 153,000	$ 59,000	$ 1,563,000
Identifiable assets	$32,563,000	$12,011,000	$ 3,422,000	$47,996,000

13. Acquisitions

In July 2001, the Company entered into an exchange agreement with the former owners of X-Ray Inspection, Inc. which was acquired by the Company in April 1999. Pursuant to the agreement, the Company's obligation for contingent future consideration (up to $2.5 million depending on future earnings of X-Ray) was cancelled in exchange for the issuance of options to acquire 100,000 shares of the Company's common stock (at $3.50 per share) and the nomination of the principal former owner of X-Ray to the

Company's Board of Directors. The value of the options issued in exchange for the cancellation of the contingent future consideration ($283,000) was recorded as additional goodwill with an offsetting credit to additional paid-in capital.

14. Quarterly Results of Operations (Unaudited)

The Company's consolidated results of operations by quarter for the fiscal years ended May 31, 2003, and 2002 are shown below.

	Fiscal 2003			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$22,008,000	$23,160,000	$21,777,000	$24,931,000
Gross margin	$ 9,031,000	$ 9,607,000	$ 8,451,000	$10,103,000
Earnings before interest and taxes	$ 2,017,000	$ 2,367,000	$ 1,018,000	$ 2,342,000
Net income	$ 1,148,000	$ 1,364,000	$ 538,000	$ 1,352,000
Net income per share:				
Basic	$ 0.15	$ 0.18	$ 0.07	$ 0.18
Diluted	$ 0.14	$ 0.16	$ 0.06	$ 0.17

	Fiscal 2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$19,828,000	$21,594,000	$19,047,000	$24,612,000
Gross margin	$ 8,183,000	$ 9,043,000	$ 7,879,000	$10,360,000
Earnings before interest and taxes	$ 1,537,000	$ 2,267,000	$ 1,072,000	$ 2,362,000
Net income	$ 802,000	$ 1,244,000	$ 526,000	$ 1,337,000
Net income per share:				
Basic	$ 0.10	$ 0.16	$ 0.07	$ 0.17
Diluted	$ 0.10	$ 0.15	$ 0.06	$ 0.16

ITEM 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

There have been no disagreements concerning accounting and financial disclosures with the Company's independent accountants within the past two years.

ITEM 9A. *Controls and Procedures*

The Company's chief executive officer and its chief financial officer have evaluated the Company's disclosure controls and procedures (as defined in Exchange Act rules 13a-14(c) and 15d-14(c)) as of a date within 90 days of the filing date of this annual report and have concluded that such controls are effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.

PART III

The information contained in Items 10, 11, 12, 13 and 14 of Part III has been omitted from this Report on Form 10-K since the Company will file, not later than 120 days following the close of its fiscal year ended May 31, 2003, its definitive proxy statement. The information required by Part III will be included in that proxy statement and such information is hereby incorporated by reference, with the exception of the information under the headings "Compensation Committee Report" and "Comparison of Total Shareholders' Return."

PART IV

ITEM 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

(a) *1. Financial Statements*

The following consolidated financial statements of Team, Inc. and its subsidiaries are included in Part II, Item 8.

	Page
Independent Auditors' Reports	14 & 15
Consolidated Balance Sheets — May 31, 2003 and 2002	16
Consolidated Statements of Operations — Years ended May 31, 2003, 2002 and 2001	17
Consolidated Statements of Comprehensive Income — Years ended May 31, 2003, 2002, 2001	18
Consolidated Statements of Stockholders' Equity — Years ended May 31, 2003, 2002 and 2001	19
Consolidated Statements of Cash Flows — Years ended May 31, 2003, 2002 and 2001	20
Notes to Consolidated Financial Statements	21

2. Financial Statement Schedules

All other schedules are omitted because they are not applicable or because the required information is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits

Exhibit Number	
3.1*	Second Restated Articles of Incorporation of the Company, as amended through August 31, 1999, (filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1999).
3.2*	Bylaws of the Company (filed as Exhibit 4.2 to the Company's Registration Statement on Form S-2, File No. 33-31663).

Exhibit Number	
4.1*	Certificate representing shares of common stock of Company (filed as Exhibit 4(1) to the Company's Registration Statement on Form S-1, File No. 2-68928).
10.1*#	Employment Agreements and Consulting and Salary Continuation Agreements between the Company and certain of its executive officers (filed as Exhibit 10(f) to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1988, as Exhibit 10 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1989, as amended by Form 8 dated October 19, 1989, and Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1990).
10.2*	Team, Inc. Salary Deferral Plan (filed as Exhibit 99(a) to the Company's Registration Statement on form S-8, File No. 333-74062).
10.3*#	Team, Inc. Restated Non-Employee Directors' Stock Option Plan as amended through March 28, 1996 (filed as Exhibit 10(z) to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1996).
10.4*#	Amendment dated January 9, 1997, to the Team, Inc. Restated Non-Employee Directors Stock Option Plan (filed as Exhibit 10(m) to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1997).
10.5*#	Amendment dated January 29, 1998, to the Team, Inc. Restated Non-Employee Directors Stock Option Plan (filed as Exhibit 10(k) to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1997).
10.6#	Amendment dated September 27, 2001 to the Team, Inc. Restated Non-Employee Directors' Stock Option Plan.
10.7*#	Team, Inc. Officers' Restricted Stock Option Plan dated December 14, 1995 (filed as Exhibit 10(dd) to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1996).
10.8*#	First Amendment to the Consulting and Salary Continuation Agreement by and between Team, Inc. and George W. Harrison dated December 24, 1990 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter ended November 30, 1996).
10.9*#	First Amendment to Employment Agreement by and between Philip J. Hawk and Team, Inc. effective October 1, 2001 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2002).
10.10*#	Incentive Stock Option Award Agreement by and between Philip J. Hawk and Team, Inc. dated November 2, 1998 (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1998).
10.11*#	Standard Restricted Stock Option Award Agreement by and between Philip J. Hawk and Team, Inc. dated November 2, 1998 (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1998).
10.12*#	First Amendment to Price Vested Restricted Stock Option Award Agreement by and between Philip J. Hawk and Team, Inc. dated October 1, 2001 (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2002).
10.12#	Second Amendment dated July 11, 2002 to Price Vested Restricted Stock Option Award Agreement by and between Philip J. Hawk and Team, Inc.
10.14*#	Stock Purchase Agreement by and between Philip J. Hawk and Team, Inc. dated November 2, 1998 (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1998).

Exhibit Number	
10.15*#	Incentive Stock Option Award Agreement by and between Philip J. Hawk and Team, Inc. dated October 1, 2001 (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2002).
10.16*	Stock Purchase Agreement by and between Team, Inc. and Houston Post Oak Partners, Ltd. Dated June 9, 1998 (filed as a exhibit to the Company's Current Report on Form 8-K filed June 8, 1998).
10.17*	1998 Incentive Stock Option Plan dated January 29, 1998 (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 1998).
10.18*	Credit Agreement dated August 28, 1998 among Team, NationsBank, N.A. and various Financial Institutions named in the Credit Agreement (filed as Exhibit 2.5 to the Company's Current Report on Form 8-K filed September 9, 1998).
10.19#	Exchange Agreement by and among E. Patrick Manuel, B. Dal Miller and Team, Inc. dated July 5, 2001.
10.20#	Stock Option Agreement by and between B. Dal Miller and Team, Inc. dated July 5, 2001.
14.1	Code of Ethics
21#	Subsidiaries of the Company (filed as Exhibit 21 to the Company's Annual Report on Form 10K for the fiscal year ended May 31, 1999).
23.1	Consent of Independent Auditor — KPMG LLP
23.2	Consent of Independent Auditor — Deloitte & Touche LLP
31.1	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated herein by reference to the respective filing identified above.

\# Management contracts and/or compensation plans required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c) of Form 10-K.

(b) *Reports on Form 8-K.*

The Company filed one (1) report on form 8-K during the fourth quarter covering a press release announcing its earnings for the quarter ended February 28, 2003. The date of the report was March 26, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized August 26, 2003.

TEAM, INC.

By: /s/ PHILIP J. HAWK
Philip J. Hawk
Chief Executive Officer
(Principal Executive Officer)

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

/s/ PHILIP J. HAWK (Philip J. Hawk)	Chief Executive Officer and Director	August 26, 2003
/s/ GEORGE W. HARRISON (George W. Harrison)	Director	August 26, 2003
/s/ JACK M. JOHNSON, JR. (Jack M. Johnson, Jr.)	Director	August 26, 2003
/s/ E. THEODORE LABORDE (E. Theodore Laborde)	Director	August 26, 2003
/s/ E. PATRICK MANUEL (E. Patrick Manuel)	Director	August 26, 2003
/s/ LOUIS A. WATERS (Louis A. Waters)	Director	August 26, 2003
/s/ SIDNEY B. WILLIAMS (Sidney B. Williams)	Director	August 26, 2003
/s/ TED W. OWEN (Ted W. Owen)	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	August 26, 2003

Operating Locations

Principal Operating Subsidiaries

Team Industrial Services, Inc.
Teaminc Europe
Team Industrial Services, (Asia) Pte. Ltd.
Team Industrial Services of Canada
Climax Portable Machine Tools, Inc.
X-Ray Inspection, Inc.

Domestic Offices

Decatur, Alabama
Mobile, Alabama
San Francisco, California
Los Angeles, California
Denver, Colorado
Augusta, Georgia
Chicago, Illinois
Belle Chasse, Louisiana
New Orleans, Louisiana
Lafayette, Louisiana
Baton Rouge, Louisiana
Lake Charles, Louisiana
Bangor, Maine
Minneapolis, Minnesota
St. Louis, Missouri
Blackwood, New Jersey
Newark, New Jersey
Syracuse, New York
Wilmington, North Carolina
Cincinnati, Ohio
Toledo, Ohio
Tulsa, Oklahoma
Newberg, Oregon
Pittsburgh, Pennsylvania
Chattanooga, Tennessee
Alvin, Texas
Beaumont, Texas
Borger, Texas
Corpus Christi, Texas
Longview, Texas
Odessa, Texas
Pasadena, Texas
Pearland, Texas
Texas City, Texas
Richmond, Virginia
Seattle, Washington
Charleston, West Virginia

International Offices

Aruba
Canada
Germany
Singapore
Trinidad and Tobago

International Representation

Australia
Belgium
France
Mexico
The Netherlands
Norway
Saudi Arabia
Spain
Taiwan
United Kingdom
Venezuela

Directors and Officers

Directors

Philip J. Hawk
Chairman of the Board and
Chief Executive Officer
Team, Inc.

George W. Harrison
Retired, former Officer of
Team, Inc.

Jack M. Johnson, Jr.
Managing General Partner
Wintermann & Company
(real estate management)

E. Theodore Laborde
Retired, Marsh & McLennan, Inc.
(insurance brokerage services)

E. Patrick Manuel
Retired, former President of
X-Ray Inspection, Inc.

Louis A. Waters
Managing General Partner
Houston Post Oak Partners, Ltd.
(investment company)

Sidney B. Williams
Partner
Chamberlain, Hrdlicka, White,
Williams & Martin
(legal services)

Corporate Officers

Philip J. Hawk
Chairman of the Board and
Chief Executive Officer

Kenneth M. Tholan
President and
Chief Operating Officer

Ted W. Owen
Senior Vice President —
Finance and Administration
Secretary and Treasurer

John P. Kearns
Senior Vice President

CORPORATE INFORMATION

Registrar and transfer agent
Communications regarding change of address, transfer of stock ownership, lost stock certificates or consolidation of multiple listings should be directed to:
Registrar and Transfer Company
Attn: Investor Relations
10 Commerce Drive
Cranford, New Jersey 07016
Phone: 800-368-5948
Fax: 908-497-2318
E-Mail: invrelations@rtco.com

Outside legal counsel
Chamberlain, Hrdlicka, White, Williams & Martin
1400 Citicorp Center, 1200 Smith Street
Houston, TX 77002

Corporate headquarters
Stockholders or other interested persons wishing to be placed on the corporate mailing list should write to the corporate headquarters:
200 Hermann Drive
Alvin, Texas 77511
(281) 331-6154
Fax (281) 331-4107

Independent Auditors
KPMG LLP
700 Louisiana St.
Houston, TX 77002

Our Values

The Company has adopted a Code of Ethical Conduct which can be accessed on our internet website at ***www.teamindustrialservices.com.***

This Code encompasses our Core Values, which are:

- **Safety First** in everything we do.
- **Integrity** means doing the right thing.
- **Service Leadership** throughout the Company.
- **Innovation** supports continuous growth and improvement.
- **Pride and Respect** for ourselves and our Company.