Mistras Group, Inc.
Form 10-Q
October 10, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2012

Or

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

For the transition period to

Commission file number 001- 34481

Mistras Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**22-3341267** (I.R.S. Employer Identification No.)
195 Clarksville Road **Princeton Junction, New Jersey** (Address of principal executive offices)	**08550** (Zip Code)

(609) 716-4000
(Registrant s telephone number, including area code)

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. x Yes o No

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

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

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

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

As of October 1, 2012, the registrant had 28,133,982 shares of common stock outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

Mistras Group, Inc. and Subsidiaries

Unaudited Consolidated Balance Sheets

(in thousands, except share and per share data)

	August 31, 2012	May 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 7,329	$ 8,410
Accounts receivable, net	87,627	104,515
Inventories, net	11,771	12,492
Deferred income taxes	1,860	1,885
Prepaid expenses and other current assets	5,190	6,321
Total current assets	113,777	133,623
Property, plant and equipment, net	62,181	63,527
Intangible assets, net	32,477	34,469
Goodwill	95,691	96,819
Other assets	697	1,378
Total assets	$ 304,823	$ 329,816
LIABILITIES, PREFERRED STOCK AND EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 5,589	$ 5,971
Current portion of capital lease obligations	6,211	5,951
Accounts payable	7,998	11,944
Accrued expenses and other current liabilities	33,478	39,334
Income taxes payable	813	1,119
Total current liabilities	54,089	64,319
Long-term debt, net of current portion	18,087	34,258
Obligations under capital leases, net of current portion	12,644	13,094
Deferred income taxes	5,490	4,901
Other long-term liabilities	17,778	19,996
Total liabilities	108,088	136,568
Commitments and contingencies		
Preferred stock, 10,000,000 shares authorized		
Equity		
Common stock, $0.01 par value, 200,000,000 shares authorized, 28,133,982 and 28,025,507 shares issued and outstanding as of August 31, 2012 and May 31, 2012, respectively	281	280
Additional paid-in capital	189,669	188,443
Retained earnings	11,617	7,336
Accumulated other comprehensive loss	(5,078)	(3,047)
Total Mistras Group, Inc. stockholders equity	196,489	193,012

Noncontrolling interest		246		236
Total equity		196,735		193,248
Total liabilities, preferred stock and equity	$	304,823	$	329,816

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

Table of Contents

Mistras Group, Inc. and Subsidiaries

Unaudited Consolidated Statements of Operations

(in thousands, except per share data)

	Three months ended August 31, 2012	2011
Revenues:		
Services	$ 99,225	$ 82,902
Products	14,162	8,545
Total revenues	113,387	91,447
Cost of revenues:		
Cost of services	70,516	56,887
Cost of products sold	5,010	3,640
Depreciation related to services	3,976	3,323
Depreciation related to products	168	177
Total cost of revenues	79,670	64,027
Gross profit	33,717	27,420
Selling, general and administrative expenses	23,492	19,381
Research and engineering	517	589
Depreciation and amortization	1,895	1,479
Acquisition-related costs	(179)	
Income from operations	7,992	5,971
Other expenses		
Interest expense	1,046	661
Income before provision for income taxes	6,946	5,310
Provision for income taxes	2,655	2,116
Net income	4,291	3,194
Net (income) loss attributable to noncontrolling interests, net of taxes	(10)	34
Net income attributable to Mistras Group, Inc.	$ 4,281	$ 3,228
Earnings per common share (see Note 4):		
Basic	$ 0.15	$ 0.12
Diluted	$ 0.15	$ 0.11
Weighted average common shares outstanding:		
Basic	28,045	27,677
Diluted	29,000	28,225

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

Table of Contents

Mistras Group, Inc. and Subsidiaries

Unaudited Consolidated Statements of Comprehensive Income

(in thousands)

	Three months ended August 31, 2012	2011
Net income	$ 4,291	$ 3,194
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(2,031)	(313)
Other comprehensive income	(2,031)	(313)
Comprehensive income	2,260	2,881
Comprehensive income (loss) attributable to noncontrolling interest	10	(37)
Comprehensive income attributable to Mistras Group, Inc.	$ 2,250	$ 2,918

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

Table of Contents

Mistras Group, Inc. and Subsidiaries

Unaudited Consolidated Statements of Stockholders Equity

(in thousands)

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	Total Mistras Group, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity
Three months ended August 31, 2011:								
Balance at May 31, 2011	27,667	$ 277	$ 180,594	$ (14,017)	$ 303	$ 167,157	$ 329	$ 167,486
Net income				3,228		3,228	(34)	3,194
Other comprehensive income, net of tax					(310)	(310)	(3)	(313)
Stock compensation	4		1,002			1,002		1,002
Net settlement on vesting of restricted stock units	36		(281)			(281)		(281)
Excess tax benefit from stock compensation			151			151		151
Exercise of stock options	5		55			55		55
Balance at August 31, 2011	27,712	$ 277	$ 181,521	$ (10,789)	$ (7)	$ 171,002	$ 292	$ 171,294
Three months ended August 31, 2012:								
Balance at May 31, 2012	28,026	$ 280	$ 188,443	$ 7,336	$ (3,047)	$ 193,012	$ 236	$ 193,248
Net income				4,281		4,281	10	4,291
Other comprehensive income, net of tax					(2,031)	(2,031)		(2,031)
Stock compensation	13		1,634			1,634		1,634
Net settlement on vesting of restricted stock units	85	1	(807)			(806)		(806)
Excess tax benefit from stock compensation			300			300		300
Exercise of stock options	10		99			99		99
Balance at August 31, 2012	28,134	$ 281	$ 189,669	$ 11,617	$ (5,078)	$ 196,489	$ 246	$ 196,735

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

Table of Contents

Mistras Group, Inc. and Subsidiaries

Unaudited Consolidated Statements of Cash Flows

(in thousands)

	Three months ended August 31, 2012	2011
Cash flows from operating activities		
Net income attributable to Mistras Group, Inc.	$ 4,281	$ 3,228
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,039	4,979
Deferred income taxes	694	146
Provision for doubtful accounts	(210)	85
Loss (gain) on sale of assets	119	(12)
Amortization of deferred financing costs	31	42
Stock compensation expense	1,634	1,002
Noncontrolling interest	10	(34)
Foreign currency loss	95	5
Changes in operating assets and liabilities, net of effect of acquisitions of businesses		
Accounts receivable	16,240	5,940
Inventories	613	(323)
Prepaid expenses and other current assets	854	180
Other assets	677	144
Accounts payable	(2,762)	(1,358)
Income taxes payable	(276)	(455)
Accrued expenses and other current liabilities	(6,493)	(770)
Net cash provided by operating activities	21,546	12,799
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,714)	(3,103)
Purchase of intangible assets	(228)	(130)
Acquisition of businesses, net of cash acquired		(5,628)
Proceeds from sale of equipment	325	68
Net cash used in investing activities	(2,617)	(8,793)
Cash flows from financing activities		
Repayment of capital lease obligations	(1,644)	(1,632)
Repayment of long-term debt	(1,621)	(2,047)
Net repayments against current revolver	(15,000)	
Net repayments against former revolver		(3,850)
Net repayments of other short-term borrowings		(1,014)
Payment of contingent consideration for business acquisitions	(1,113)	
Taxes paid related to net share settlement of equity awards	(807)	(281)
Excess tax benefit from stock compensation	300	151
Proceeds from the exercise of stock options	99	55
Net cash used in financing activities	(19,786)	(8,618)
Effect of exchange rate changes on cash and cash equivalents	(224)	224
Net change in cash and cash equivalents	(1,081)	(4,388)
Cash and cash equivalents		
Beginning of period	8,410	10,879
End of period	$ 7,329	$ 6,491
Supplemental disclosure of cash paid		
Interest	$ 746	$ 621
Income taxes	$ 1,122	$ 2,294

Noncash investing and financing				
Equipment acquired through capital lease obligations	$	1,555	$	3,598

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

Table of Contents

Mistras Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

(tabular dollars in thousands, except per share data)

1. Description of Business & Basis of Presentation

Description of Business

Mistras Group, Inc., together with its subsidiaries (the Company), is a leading one source global provider of technology-enabled asset protection solutions used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure. The Company combines industry-leading products and technologies, expertise in mechanical integrity (MI) and non-destructive testing (NDT) services and proprietary data analysis software to deliver a comprehensive portfolio of customized solutions, ranging from routine inspections to complex, plant-wide asset integrity assessments and management. These mission critical solutions enhance customers ability to extend the useful life of their assets, increase productivity, minimize repair costs, comply with governmental safety and environmental regulations, manage risk and avoid catastrophic disasters. Given the role the services of the Company play in ensuring the safe and efficient operation of infrastructure, the Company has historically provided a majority of its services to its customers on a regular, recurring basis. The Company serves a global customer base of companies with asset-intensive infrastructure, including companies in the oil and gas, fossil and nuclear power, alternative and renewable energy, public infrastructure, chemicals, aerospace and defense, transportation, primary metals and metalworking, pharmaceuticals and food processing industries.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included. Operating results for the three months ended August 31, 2012 are not necessarily indicative of the results that may be expected for the year ending May 31, 2013. The balance sheet at May 31, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. You should read these unaudited consolidated financial statements together with the historical consolidated financial statements of the Company as filed with the Securities and Exchange Commission.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Mistras Group, Inc. and its wholly or majority-owned subsidiaries. Where the Company s ownership interest is less than 100%, the noncontrolling interests are reported in stockholders equity in the accompanying consolidated balance sheets. The noncontrolling interest in net income, net of tax, is classified separately in the accompanying consolidated statements of operations.

All significant intercompany accounts and transactions have been eliminated in consolidation. Mistras Group, Inc. s and its subsidiaries fiscal years end on May 31 except for the companies in the International segment, which end on April 30. The effect of this difference in timing of reporting foreign operations on the consolidated results of operations and consolidated financial position is not significant.

Reclassification

Certain amounts in prior periods have been reclassified to conform to the current year presentation. Such reclassifications did not have a material effect on the Company s financial condition or results of operations as previously reported.

2. Summary of Significant Accounting Policies

Revenue Recognition

Revenue recognition policies for the various sources of revenues are as follows:

Services

The Company predominantly derives revenues by providing its services on a time and material basis and recognizes revenues when services are rendered. At the end of any reporting period, there may be earned but unbilled revenues that are accrued. Payments received in advance of revenue recognition are reflected as deferred revenues.

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

Software

Revenues from the sale of perpetual licenses are recognized upon the delivery and acceptance of the software. Revenues from term licenses are recognized ratably over the period of the license. Revenues from maintenance, unspecified upgrades and technical support are recognized ratably over the period such items are delivered. For multiple-element arrangement software contracts that include non-software elements, and where the software is essential to the functionality of the non-software elements (collectively referred to as software multiple-element arrangements), the Company applies the rules as noted below.

Products

Revenues from product sales are recognized when risk of loss and title passes to the customer. The exceptions to this accounting treatment would be for multiple-element arrangements (described below) or those situations where specialized installation or customer acceptance is required. Payments received in advance of revenue recognition are reflected as deferred revenues.

Percentage of Completion

A portion of the Company s revenues are generated from engineering and manufacturing of custom products under long-term contracts that may last from several months to several years, depending on the contract. Revenues from long-term contracts are recognized on the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting revenues are recognized as work is performed. The percentage of completion at any point in time is based on total costs or total labor dollars incurred to date in relation to the total estimated costs or total labor dollars estimated at completion. The percentage of completion is then applied to the total contract revenue to determine the amount of revenue to be recognized in the period. Application of the percentage-of-completion method of accounting requires the use of estimates of costs to be incurred for the performance of the contract. Contract costs include all direct materials, direct labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and all costs associated with operation of equipment. The cost estimation process is based upon the professional knowledge and experience of the Company s engineers, project managers and financial professionals. Factors that are considered in estimating the work to be completed include the availability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in project performance and the recoverability of any claims. Whenever revisions of estimated contract costs and contract values indicate that the contract costs will exceed estimated revenues, thus creating a loss, a provision for the total estimated loss is recorded in that period.

Multiple-element Arrangements

The Company occasionally enters into transactions that represent multiple-element arrangements, which may include any combination of services, software, and hardware. When a sales arrangement contains multiple elements, such as hardware and services and/or software products, the Company allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. The Company has historically utilized the VSOE due to the nature of its products. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements. The more significant estimates include valuation of goodwill and intangible assets, useful lives of long-lived assets, allowances for doubtful accounts, inventory valuation, reserves for self-insured workers compensation and health benefits and provision for income taxes. Actual results could differ from those estimates.

Table of Contents

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair market value of net assets of the acquired business at the date of acquisition. The Company tests for impairment annually, in its fiscal fourth quarter. The most recent annual test for impairment performed for fiscal 2012 did not identify any instances of impairment and there were no events through August 31, 2012 that warranted a reconsideration of the impairment test results.

Intangible assets are recorded at cost. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. At times, cash deposits may exceed the limits insured by the Federal Deposit Insurance Corporation. The Company believes it is not exposed to any significant credit risk or risk of nonperformance of financial institutions.

The Company sells primarily to large companies, extends reasonably short collection terms, performs credit evaluations and does not require collateral. The Company maintains reserves for potential credit losses.

The Company has one customer, BP plc. (BP), which accounted for 12% and 16% of revenues for the three months ended August 31, 2012 and August 31, 2011, respectively. Accounts receivable from this customer were approximately 9% of total accounts receivable, net as of August 31, 2012 and May 31, 2012. The relationship with BP is comprised of separate contracts for non-destructive testing and inspection services with multiple affiliated entities within the broad BP organization. The Company conducts business with various divisions or affiliates of the BP organization through numerous contracts covering many segments of BP s business including downstream (refinery), midstream (pipelines) and upstream (exploration). These contracts are typically negotiated locally with the specific BP division or affiliate, are of varying lengths, have different start and end dates and differ in terms of the scope of work and nature of services provided. Most contracts are based on time and materials.

Equity-based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based upon the grant-date fair value of the award. The Company uses the straight-line attribution method for allocating compensation costs and recognizes the fair value of each equity award on a straight-line basis over the vesting period of the related awards.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of the stock option awards as of the grant date. The Black-Scholes model, by its design, is highly complex and dependent upon key data inputs estimated by management. The primary data inputs with the greatest degree of judgment are the expected term of stock option awards and the estimated volatility of the Company s common stock price. The Black-Scholes model is sensitive to changes in these two variables. Since the Company s initial public offering (IPO), the expected term of the Company s stock options is generally determined using the mid-point between the vesting period and the end of the contractual term. Expected stock price volatility is typically based on the daily historical trading data for a period equal to the expected term. Because the Company s historical trading data only dates back to October 8, 2009, the first trading date after its IPO, the Company has estimated expected volatility using an analysis of the stock price volatility of comparable peer companies. Prior to the Company s IPO, the exercise price equaled the estimated fair market value of the Company s common stock, as determined by its board of directors. Since the Company s IPO, the exercise price of stock option grants is determined using the closing market price of the Company s common stock on the date of grant.

Recent Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, that is intended to reduce the cost and complexity of the impairment test for indefinite-lived intangible assets by providing an entity with the option to first assess qualitatively whether it is necessary to perform the impairment test that is currently in place. An entity would not be required to quantitatively calculate the fair value of an indefinite-lived intangible asset unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. ASU 2012-02 is effective for annual and interim impairment test beginning after September 15, 2012.

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

Early adoption is permitted. The Company does not expect that the adoption of this pronouncement will have a material impact on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 allows an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This authoritative guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 does not change the items that must be reported in other comprehensive income, when an item of other comprehensive income must be reclassified to net income, or the Company s option to present components of other comprehensive income either net of related tax effects or before related tax effects, nor does it affect how earnings per share is calculated or presented. Effective June 1, 2012, the Company adopted the provisions of this updated accounting standard related to comprehensive income. The adoption of this pronouncement did not have a material impact on the Company s consolidated financial statements.

3. Capitalization

Common Stock

Dividends on common stock will be paid when, and if, declared by the board of directors. Each holder of common stock is entitled to vote on all matters and is entitled to one vote for each share held.

Equity Awards

In September 2009, the Company s board of directors and shareholders adopted and approved the 2009 Long-Term Incentive Plan (the 2009 Plan), which became effective upon the closing of the IPO. Awards may be in the form of stock options, restricted stock units and other forms of stock-based incentives, including stock appreciation rights and deferred stock rights. The term of each incentive and non-qualified stock option is ten years. Vesting generally occurs over a period of four years, the expense for which is recorded on a straight-line basis over the requisite service period. The 2009 Plan allows for the grant of awards of up to approximately 2,286,000 shares of common stock, of which 1,444,000 shares were available for future grants as of August 31, 2012. Prior to the Company s IPO in October 2009, the Company had two stock option plans: (i) the 1995 Incentive Stock Option and Restricted Stock Purchase Plan (the 1995 Plan), and (ii) the 2007 Stock Option Plan (the 2007 Plan). No additional awards may be granted from these two plans. As of August 31, 2012, there was an aggregate of approximately 2,539,000 stock options outstanding and approximately 562,000 unvested restricted stock units outstanding under the 2009 Plan, the 2007 Plan, and the 1995 Plan.

No stock options were granted during the three months ended August 31, 2012 or August 31, 2011.

The Company recognized stock-based compensation expense related to stock option awards of approximately $0.8 million for each of the three month periods ended August 31, 2012 and 2011. As of August 31, 2012, there was approximately $3.0 million of unrecognized compensation costs, net of estimated forfeitures, related to stock option awards, which are expected to be recognized over a remaining weighted average period of 1.0 year. Cash proceeds from and the aggregate intrinsic value of stock options exercised during the three months ended August 31, 2012 and 2011 were as follows:

	Three months ended August 31,	
	2012	**2011**
Cash proceeds from options exercised	$ 99	$ 55
Aggregate intrinsic value of options exercised	$ 126	$ 34

The Company also recognized approximately $0.6 million and $0.2 million in stock-based compensation expense related to restricted stock unit awards during the three months ended August 31, 2012 and 2011, respectively. As of August 31, 2012, there was approximately $10.1 million of unrecognized compensation costs, net of estimated forfeitures, related to restricted stock unit awards, which are expected to be recognized over a remaining weighted average period of 3.2 years.

Table of Contents

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

In June 2012, the Company granted approximately 13,000 shares of fully-vested common stock to its five non-employee directors, in connection with its non-employee director compensation plan. These shares had a grant date fair value of approximately $0.3 million, which was recorded as stock-based compensation expense during the quarter ended August 31, 2012.

During the first quarter of fiscal 2013 and 2012, approximately 123,000 and 52,000 restricted stock units vested. The fair value of these units was $1.9 million and $0.5 million, respectively. Upon vesting, restricted stock units are generally net share-settled to cover the required withholding tax and the remaining amount is converted into an equivalent number of shares of common stock. The restricted stock units that vested in the first quarter of fiscal 2013 and 2012 were net-share settled such that the Company withheld shares with value equivalent to the employees minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The Company withheld approximately 37,000 and 16,000 shares in the first quarter of fiscal 2013 and 2012, respectively. The shares withheld were based on the value of the restricted stock units on their vesting date as determined by the Company s closing stock price. Total payments for the employees tax obligations to the taxing authorities were $0.8 million and $0.3 million and are reflected as a financing activity within the consolidated statements of cash flows for the three months ended August 31, 2012 and 2011, respectively. These net-share settlements had the effect of share repurchases by the Company as they reduced and retired the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to the Company.

4. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the sum of (1) the weighted-average number of shares of common stock outstanding during the period, and (2) the dilutive effect of assumed conversion of equity awards using the treasury stock method. With respect to the number of weighted-average shares outstanding (denominator), diluted shares reflects: (i) only the 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 and (ii) the pro forma vesting of restricted stock units.

The following table sets forth the computations of basic and diluted earnings per share:

	Three months ended August 31,			
	2012		**2011**	
Basic earnings per share				
Numerator:				
Net income attributable to Mistras Group, Inc.	$	4,281	$	3,228
Denominator:				
Weighted average common shares outstanding		28,045		27,677
Basic earnings per share	$	0.15	$	0.12
Diluted earnings per share:				

Numerator:				
Net income attributable to Mistras Group, Inc.	$	4,281	$	3,228
Denominator:				
Weighted average common shares outstanding		28,045		27,677
Dilutive effect of stock options outstanding		806		477
Dilutive effect of restricted stock units outstanding		149		71
		29,000		28,225
Diluted earnings per share	$	0.15	$	0.11

Table of Contents

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

5. Acquisitions

Assets and liabilities of acquired businesses were included in the consolidated balance sheets as of August 31, 2012 based on their estimated fair value on the date of acquisition as determined in a purchase price allocation, using available information and making assumptions management believes are reasonable. The Company did not complete any acquisitions during the three months ended August 31, 2012. However, the Company is still in the process of completing its valuations of the intangible assets for certain of its acquisitions completed in fiscal 2012. These valuations and purchase price allocations are expected to be finalized prior to the end of the second fiscal quarter ending November 30, 2012. The results of operations of each of the acquisitions are reported in each respective operating segment s statement of operations from the date of acquisition.

During the three months ended August 31, 2012, the Company incurred acquisition-related costs of $0.6 million in connection with due diligence, professional fees, and other expenses for its fiscal 2013 acquisition activity. Additionally, the Company adjusted the fair value of certain acquisition-related contingent consideration liabilities. For the three months ended August 31, 2012, the adjustments resulted in a net decrease of approximately $0.8 million to the Company s acquisition-related contingent consideration liabilities, which were approximately $11.6 million as of August 31, 2012 and recorded on the balance sheet in accrued expenses and other liabilities. These adjustments also resulted in a corresponding net increase to income from operations of approximately $0.2 million for the three months ended August 31, 2012. Both the fair value adjustments to acquisition-related contingent consideration liabilities and the acquisition-related expenses have been classified as acquisition-related costs in the statement of operations for the three months ended August 31, 2012. Acquisition-related costs for the Company s fiscal 2012 acquisition activity were insignificant for the three months ended August 31, 2011.

The unaudited pro forma information for the periods set forth below gives effect to the Company s fiscal 2012 acquisitions as if they had occurred at the beginning of each period presented. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time (unaudited, in thousands):

	Three months ended August 31, 2012	Three months ended August 31, 2011
Revenues	$ 113,387	$ 107,504
Income from operations	$ 7,992	$ 4,798

6. Accounts Receivable, net

Accounts receivable consist of the following:

	As of August 31, 2012	As of May 31, 2012
Trade accounts receivable	$ 89,699	$ 106,821
Allowance for doubtful accounts	(2,072)	(2,306)
Total	$ 87,627	$ 104,515

7. Inventories, net

Inventories consist of the following:

Table of Contents

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

	As of August 31, 2012	As of May 31, 2012
Raw materials	$ 3,100	$ 3,054
Work in process	2,528	2,232
Finished goods	3,582	4,287
Supplies	2,561	2,919
Total	$ 11,771	$ 12,492

Inventories are net of reserves for slow-moving and obsolete inventory of approximately $1.3 million and $1.2 million as of August 31, 2012 and May 31, 2012, respectively.

8. Property, Plant and Equipment, net

Property, plant and equipment consist of the following:

	Useful Life (Years)	As of August 31, 2012	As of May 31, 2012
Land		$ 1,907	$ 1,892
Building and improvements	30-40	14,181	16,950
Office furniture and equipment	5-8	10,023	6,760
Machinery and equipment	5-7	106,924	105,096
		133,035	130,698
Accumulated depreciation and amortization		(70,854)	(67,171)
Property, plant and equipment, net		$ 62,181	$ 63,527

Depreciation expense for the three months ended August 31, 2012 and 2011 was approximately $4.4 million and $3.6 million, respectively.

9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	As of August 31, 2012	As of May 31, 2012
Accrued salaries, wages and related employee benefits	$ 13,786	$ 17,195
Contingent consideration, current portion	3,315	2,371
Accrued worker compensation and health benefits	3,660	3,678
Deferred revenues	3,212	5,390
Other accrued expenses	9,505	10,700
Total	$ 33,478	$ 39,334

10. Long-Term Debt

Long-term debt consists of the following:

Table of Contents

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

	As of August 31, 2012	As of May 31, 2012
Senior credit facility:		
Revolver	$ 10,000	$ 25,000
Notes payable	11,161	12,532
Other	2,515	2,697
	23,676	40,229
Less: Current maturities	(5,589)	(5,971)
Long-term debt, net of current maturities	$ 18,087	$ 34,258

Senior Credit Facility

In December 2011, the Company entered into a Third Amended and Restated Credit Agreement (Credit Agreement) with Bank of America, N.A., as agent for the lenders and a lender, and JPMorgan Chase Bank, N.A., Keybank National Association and TD Bank, N.A., as lenders. The Credit Agreement provides the Company with a $125.0 million revolving line of credit, which, under certain circumstances, can be increased to $150.0 million. The Credit Agreement has a maturity date of December 20, 2016. The Company may borrow up to $30.0 million in non-U.S. dollar currencies and use up to $10.0 million of the credit limit for the issuance of letters of credit. As of August 31, 2012, there were outstanding borrowings of $10.0 million and a total of $3.0 million of outstanding letters of credit under the current revolving credit facility.

Loans under the Credit Agreement bear interest, at the option of the Company, at LIBOR, plus an applicable margin ranging from 1% to 2%, or base rate less a margin ranging from 1.25% to .25%, based upon its Funded Debt Leverage Ratio. Funded Debt Leverage Ratio is generally the ratio of (1) all outstanding indebtedness for borrowed money and other interest-bearing indebtedness as of the date of determination to (2) EBITDA (which is (a) net income, less (b) income (or plus loss) from discontinued operations and extraordinary items, plus (c) income tax expenses, plus (d) interest expense, plus (e) depreciation, depletion, and amortization (including non-cash loss on retirement of assets), plus (f) stock compensation expense, less (g) cash expense related to stock compensation, plus or minus certain other adjustments) for the period of four consecutive fiscal quarters immediately preceding the date of determination. The Company has the benefit of the lowest margin if its Funded Debt Leverage Ratio is equal to or less than 0.5 to 1, and the margin increases as the ratio increases, to the maximum margin if the ratio is greater than 2.5 to 1. The Company will also bear additional costs for market disruption, regulatory changes effecting the lenders funding costs, and default pricing of an additional 2% interest rate margin if the Funded Debt Leverage Ratio exceeds 3.0 to 1. Amounts borrowed under the Credit Agreement are secured by liens on substantially all of the assets of the Company.

The Credit Agreement contains financial covenants requiring that the Company maintain a Funded Debt Leverage Ratio of less than 3.0 to 1 and an Interest Coverage Ratio of at least 3.0 to 1. Interest Coverage Ratio means the ratio, as of any date of determination, of (a) EBITDA for the 12 month period immediately preceding the date of determination, to (b) all interest, premium payments, debt discount, fees, charges and related expenses of the Company and its subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, paid during the 12 month period immediately preceding the date of determination. The Credit Agreement also limits the Company s ability to, among other things, create liens, make investments, incur more indebtedness, merge or consolidate, make dispositions of property, pay dividends and make distributions to stockholders, enter into a new line of business, enter into transactions with affiliates and enter into burdensome agreements. The Credit Agreement does not limit the Company s ability to acquire other businesses or companies except that the acquired business or company must be in its line of business, the Company must be in compliance with the financial covenants on a pro forma basis after taking into account the acquisition, and, if the acquired business is a separate subsidiary, in certain circumstances the lenders will receive the benefit of a guaranty of the subsidiary and liens on its assets and a pledge of its stock.

As of August 31, 2012, the Company was in compliance with the terms of the credit agreement, and it will continuously monitor its compliance with the covenants contained in the new credit agreement.

Table of Contents

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

Notes Payable and Other

In connection with certain of the acquisitions the Company has completed, it has, at various times, issued subordinated notes payable to the sellers. The maturity of these notes range from three to five years from the date of acquisition with interest rates ranging from 0% to 7%. The Company has discounted these obligations to reflect a 3.5% to 10% imputed interest rate. Unamortized discount on these notes totaled approximately $0.1 million as of August 31, 2012 and May 31, 2012. Amortization is recorded as interest expense in the consolidated statement of operations. The Company also has payment obligations to the sellers or the shareholders of the sellers pursuant to non-compete agreements which require the sellers and shareholders of the sellers not to compete with the Company. The payment obligations under these agreements range from 3 to 5 years.

The carrying value of the Company s long-term debt approximates fair value as it amended its credit agreement on December 21, 2011, bringing the Company s interest rate to current market rates. The fair value of the Company s notes payable and capital lease obligations approximates their carrying amounts based on anticipated interest rates which management believes would currently be available to the Company for similar issues of debt.

11. Fair Value Measurements

The Company performs fair value measurements in accordance with the guidance provided by ASC 820, Fair Value Measurements and Disclosures. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a three level hierarchy that prioritizes the inputs used to measure fair value. The three levels of the hierarchy are defined as follows:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 Observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable inputs reflecting the Company s own assumptions about inputs that market participants would use in pricing the asset or liability based on the best information available.

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company s financial liabilities that are required to be remeasured at fair value on a recurring basis:

	August 31, 2012			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent consideration	$	$	$ 11,613	$ 11,613
Total Liabilities	$	$	$ 11,613	$ 11,613

	May 31, 2012			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent consideration	$	$	$ 13,063	$ 13,063
Total Liabilities	$	$	$ 13,063	$ 13,063

Table of Contents

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

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

12. Commitments and Contingencies

Litigation

The Company is subject to periodic lawsuits, investigations and claims that arise in the ordinary course of business. Although the Company cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against it, the Company does not believe that any currently pending legal proceeding to which the Company is a party will have a material adverse effect on its business, results of operations, cash flows or financial condition. The costs of defense and amounts that may be recovered in such matters may be covered by insurance.

Acquisition-related contingencies

The Company is liable for contingent consideration in connection with certain of its acquisitions. As of August 31, 2012, total potential acquisition-related contingent consideration ranged from zero to $17.7 million and would be payable upon the achievement of specific performance metrics by certain of the acquired companies over the next four years of operations. See Note 5 to these consolidated financial statements for further discussion of the Company s acquisitions.

13. Subsequent Event

In September 2012, the Company s German subsidiary acquired all of the shares of an inspection and asset protection company headquartered in Germany for approximately $36.0 million, comprised of $28.3 million in cash and $7.7 million of subordinated notes, which are payable over three years. In addition to the cash and debt consideration, the share purchase agreement provides for the potential payment to the sellers of contingent consideration that may be earned based upon the acquired company reaching specific performance metrics over the next five years of operation. The Company is in the process of completing the preliminary purchase price allocation.

14. Segment Disclosure

The Company s three segments are:

Services. This segment provides asset protection solutions primarily in North America with the largest concentration in the United States, consisting primarily of non-destructive testing and inspection services that are used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure.

Products and Systems. This segment designs, manufactures, sells, installs and services the Company s asset protection products and systems, including equipment and instrumentation, predominantly in the United States.

International. This segment offers services, products and systems similar to those of the other segments to global markets, principally in Europe, the Middle East, Africa, Asia and South America, but not to customers in China and South Korea, which are served by the Products and Systems segment.

Allocations for general corporate services, including accounting, audit, and contract management, that are provided to the segments are reported within Corporate and eliminations. Sales to the International segment from the Products and Systems segment and subsequent sales by the International segment of the same items are recorded and reflected in the operating performance of both segments. Additionally, engineering charges and royalty fees charged to the Services and International segments by the Products and Systems segment are reflected in the operating performance of each segment. All such intersegment transactions are eliminated in the Company s consolidated financial reporting.

Table of Contents

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

Segment income from operations is determined based on internal performance measures used by the Chief Executive Officer, who is the chief operating decision maker, to assess the performance of each business in a given period and to make decisions as to resource allocations. In connection with that assessment, the Chief Executive Officer may exclude matters such as charges for stock-based compensation and certain other acquisition-related charges and balances, technology and product development costs, certain gains and losses from dispositions, and litigation settlements or other charges. Certain general and administrative costs such as human resources, information technology and training are allocated to the segments. Segment income from operations also excludes interest and other financial charges and income taxes. Corporate and other assets are comprised principally of cash, deposits, property, plant and equipment, domestic deferred taxes, deferred charges and other assets. Corporate loss from operations consists of depreciation on the corporate office facilities and equipment, administrative charges related to corporate personnel and other charges that cannot be readily identified for allocation to a particular segment.

Selected consolidated financial information by segment for the periods shown was as follows:

	Three months ended August 31, 2012	2011
Revenues		
Services	$ 82,397	$ 75,689
Products and Systems	9,534	7,513
International	24,429	9,773
Corporate and eliminations	(2,973)	(1,528)
	$ 113,387	$ 91,447

Revenues by operating segment include intercompany transactions, which are eliminated in Corporate and eliminations. The Services segment had sales to other operating segments of $1.1 million and $0.1 million for the three months ended August 31, 2012 and 2011, respectively. The Products and Systems segment had sales to other operating segments of $1.7 million and $1.3 million for the three months ended August 31, 2012 and 2011, respectively. The International segment had sales to other operating segments of $0.1 million for each of the three month periods ended August 31, 2012 and 2011.

	Three months ended August 31, 2012	2011
Gross profit		
Services	$ 20,940	$ 20,308
Products and Systems	5,245	3,751
International	7,081	3,431
Corporate and eliminations	451	(70)
	$ 33,717	$ 27,420

	Three months ended August 31, 2012	2011

Income from operations				
Services	$	6,823	$	7,160
Products and Systems		3,165		1,011
International		1,595		736
Corporate and eliminations		(3,591)		(2,936)
	$	7,992	$	5,971

Table of Contents

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

Operating income by operating segment includes intercompany transactions, which are eliminated in Corporate and eliminations.

	Three months ended August 31, 2012	Three months ended August 31, 2011
Depreciation and amortization		
Services	$ 4,524	$ 4,103
Products and Systems	491	471
International	1,047	360
Corporate and eliminations	(23)	45
	$ 6,039	$ 4,979

	As of August 31, 2012	As of May 31, 2012
Intangible assets, net		
Services	$ 16,355	$ 17,180
Products and Systems	9,971	10,095
International	5,359	6,390
Corporate and eliminations	792	804
	$ 32,477	$ 34,469

	As of August 31, 2012	As of May 31, 2012
Goodwill		
Services	$ 59,054	$ 58,746
Products and Systems	13,592	13,592
International	23,045	24,481
	$ 95,691	$ 96,819

	As of August 31, 2012	As of May 31, 2012
Long-lived assets		
Services	$ 120,317	$ 120,846
Products and Systems	24,111	24,242
International	44,234	47,825
Corporate and eliminations	1,687	1,902
	$ 190,349	$ 194,815

Table of Contents

Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

	As of August 31, 2012	As of May 31, 2012
Total assets		
Services	$ 191,192	$ 204,209
Products and Systems	40,128	43,914
International	75,725	82,579
Corporate and eliminations	(2,222)	(886)
	$ 304,823	$ 329,816

Revenues by geographic area for the three months ended August 31, 2012 and 2011, respectively, were as follows:

	Three months ended August 31, 2012	2011
Revenues		
United States	$ 75,138	$ 71,476
Other Americas	12,925	9,798
Europe	16,677	5,600
Asia-Pacific	8,647	4,573
	$ 113,387	$ 91,447

Table of Contents

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (Securities Act), and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). Forward-looking statements reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. Forward-looking statements include, among other things, the information concerning our possible future results of operations, business and growth strategies, financing plans, our competitive position and the effects of competition, the projected growth of the industries in which we operate, the benefits and synergies to be obtained from our completed and any future acquisitions, and statements of management s goals and objectives, and other similar expressions concerning matters that are not historical facts. Words such as may, should, could, would, predicts, potential, continue, expects, ar future, intends, plans, believes, estimates, appears, projects and similar expressions, as well as statements in the future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Forward-looking information is based on information available at the time and management s good faith belief with respect to future events, and is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Important factors that could cause such differences include, but are not limited to the factors discussed under the Risk Factors section below.

The following is a discussion and analysis of our financial condition and results of operations and should be read together with our condensed consolidated financial statements and related notes to the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes to the audited consolidated financial statements included in our Annual Report on Form 10-K. In this quarterly report, our fiscal years, which end on May 31, are identified according to the calendar year in which they end (e.g., the fiscal year ended May 31, 2012 is referred to as fiscal 2012), and unless otherwise specified or the context otherwise requires, Mistras, the Company, we, us and our refer to Mistras Group, Inc. and its consolidated subsidiaries.

Overview

We are a leading one source global provider of technology-enabled asset protection solutions used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure. We combine industry-leading products and technologies, expertise in mechanical integrity (MI) and non-destructive testing (NDT) services and proprietary data analysis software to deliver a comprehensive portfolio of customized solutions, ranging from routine inspections to complex, plant-wide asset integrity assessments and management. These mission critical solutions enhance our customers ability to extend the useful life of their assets, increase productivity, minimize repair costs, comply with governmental safety and environmental regulations, manage risk and avoid catastrophic disasters. Given the role our services play in ensuring the safe and efficient operation of infrastructure, we have historically provided a majority of our services to our customers on a regular, recurring basis. We serve a global customer base of companies with asset-intensive infrastructure, including companies in the oil and gas, fossil and nuclear power, public infrastructure, chemicals, aerospace and defense, transportation, primary metals and metalworking, pharmaceuticals and food processing industries. As of August 31, 2012, we had approximately 3,600 employees, including approximately 30 Ph.D. s and 100 other degreed engineers and certified technicians, in approximately 80 offices across 15 countries. We have established long-term relationships as a critical solutions provider to many leading companies in our target markets. Our current principal market is the oil and gas industry, which accounted for approximately 47% and 56% of our first quarter revenues of fiscal 2013 and 2012, respectively.

For the last several years, we have focused on introducing our advanced asset protection solutions to our customers using proprietary, technology-enabled software and testing instruments, including those developed by our Products and Systems segment. During this period, the demand for outsourced asset protection solutions, in general, has increased, creating demand from which our entire industry has benefited. We believe continued growth can be realized in all of our target markets. Concurrent with this growth, we have worked to build our infrastructure to profitably absorb additional growth and have made a number of small acquisitions in an effort to leverage our fixed costs, grow our base of experienced, certified personnel, expand our product and technical capabilities and increase our geographical reach.

We have increased our capabilities and the size of our customer base through the development of applied technologies and managed support services, organic growth and the integration of acquired companies. These acquisitions, in the aggregate,

Table of Contents

have provided us with additional products, technologies, resources and customers that we believe will enhance our advantages over our competition.

The global economy continues to be fragile. Global financial markets continue to experience uncertainty, including tight liquidity and credit availability, relatively low consumer confidence, slow economic growth, persistently high unemployment rates, volatile currency exchange rates and continued uncertainty about economic stability. However, we believe these conditions have allowed us to capitalize on an opportunity to selectively hire new talented individuals that otherwise might not have been available to us, to acquire and develop new technologies in order to aggressively expand our proprietary portfolio of customized solutions, and to make acquisitions of complementary businesses at reasonable valuations.

Consolidated Results of Operations

Three months ended August 31, 2012 compared to the three months ended August 31, 2011

Our consolidated results of operations for the three months ended August 31, 2012 and 2011 were as follows:

	Three months ended August 31, 2012	2011
	($ in thousands)	
Statement of Operations Data		
Revenues	$ 113,387	$ 91,447
Cost of revenues	75,526	60,527
Depreciation	4,144	3,500
Gross profit	33,717	27,420
Selling, general and administrative expenses	23,492	19,381
Research and engineering	517	589
Depreciation and amortization	1,895	1,479
Acquisition-related costs	(179)	
Income from operations	7,992	5,971
Interest expense	1,046	661
Income before provision for income taxes	6,946	5,310
Provision for income taxes	2,655	2,116
Net income	4,291	3,194
Net (income) loss attributable to noncontrolling interests, net of taxes	(10)	34
Net income attributable to Mistras Group, Inc.	$ 4,281	$ 3,228

Our EBITDA and Adjusted EBITDA, non-GAAP measures explained below, for the three months ended August 31, 2012 and 2011 were as follows:

	Three months ended August 31, 2012	2011

		($ in thousands)		
EBITDA and Adjusted EBITDA data				
Net income attributable to Mistras Group, Inc.	$	4,281	$	3,228
Interest expense		1,046		661
Provision for income taxes		2,655		2,116
Depreciation and amortization		6,039		4,979
EBITDA	$	14,021	$	10,984
Stock compensation expense		1,634		1,002
Acquisition-related costs		(179)		
Adjusted EBITDA	$	15,476	$	11,986

Table of Contents

Note About Non-GAAP Measures

EBITDA and Adjusted EBITDA are performance measures used by management that are not calculated in accordance with U.S. generally accepted accounting principles (GAAP). EBITDA is defined in this Quarterly Report as net income attributable to Mistras Group, Inc. plus: interest expense, provision for income taxes and depreciation and amortization. Adjusted EBITDA is defined in this Quarterly Report as net income attributable to Mistras Group, Inc. plus: interest expense, provision for income taxes, depreciation and amortization, stock-based compensation expense, and, if applicable, certain acquisition related costs (including adjustments to the fair value of contingent consideration) and certain non-recurring items (which items are listed below or in the reconciliation table above).

Our management uses Adjusted EBITDA as a measure of operating performance to assist in comparing performance from period to period on a consistent basis, as a measure for planning and forecasting overall expectations and for evaluating actual results against such expectations. Adjusted EBITDA is also used as a performance evaluation metric for our executive and employee incentive compensation programs.

We believe investors and other users of our financial statements benefit from the presentation of Adjusted EBITDA in evaluating our operating performance because it provides an additional tool to compare our operating performance on a consistent basis and measure underlying trends and results in our business. Adjusted EBITDA removes the impact of certain items that management believes do not directly reflect our core operations. For instance, Adjusted EBITDA generally excludes interest expense, taxes and depreciation and amortization, each of which can vary substantially from company to company depending upon accounting methods and the book value and age of assets, capital structure, capital investment cycles and the method by which assets were acquired. It also eliminates stock-based compensation, which is a non-cash expense and is excluded by management when evaluating the underlying performance of our business operations.

While Adjusted EBITDA is a term and financial measurement commonly used by investors and securities analysts, it has limitations. As a non-GAAP measurement, Adjusted EBITDA has no standard meaning and, therefore, may not be comparable with similar measurements for other companies. Adjusted EBITDA is generally limited as an analytical tool because it excludes charges and expenses we do incur as part of our operations. For example, Adjusted EBITDA excludes income taxes, but we generally incur significant U.S. federal, state and foreign income taxes each year and the provision for income taxes is a necessary cost. Adjusted EBITDA should not be considered in isolation or as a substitute for analyzing our results as reported under U.S. generally accepted accounting principles.

Revenues. Revenues were $113.4 million for the three months ended August 31, 2012 compared to $91.4 million for the three months ended August 31, 2011. Revenues by segment for the first quarter of fiscal 2013 and 2012 were as follows:

	Three months ended August 31, 2012	Three months ended August 31, 2011
	($ in thousands)	
Revenues		
Services	$ 82,397	$ 75,689
Products and Systems	9,534	7,513
International	24,429	9,773
Corporate and eliminations	(2,973)	(1,528)
	$ 113,387	$ 91,447

We estimate our growth rates for the first quarter of fiscal 2013 and 2012 were as follows:

Table of Contents

	Three months ended August 31, 2012	2011
	($ in thousands)	
Revenue growth	$ 21,940	$ 23,037
% Growth over prior year	24.0%	33.7%
Comprised of:		
% of organic growth	8.8%	19.3%
% of acquisition growth	16.8%	12.4%
% foreign exchange (decrease) increase	(1.6)%	2.0%
	24.0%	33.7%

Revenues increased $21.9 million, or approximately 24%, for the three months ended August 31, 2012 compared to the three months ended August 31, 2011 as a result of growth in all our segments, but principally attributable to growth in our International segment. Our International segment revenue growth primarily resulted from our fiscal 2012 acquisitions. For the first quarter of fiscal 2013 and 2012, we estimate that our organic growth rate, as compared to growth driven by acquisitions, was approximately 9% and 19%, respectively. In the first quarter of fiscal 2013, we estimate that our acquisition growth was approximately 17% compared to approximately 12% in the first quarter of fiscal 2012.

We continued to experience growth in many of our target markets during the first quarter of fiscal 2013. Oil and gas is our largest target market and represented approximately 47% of total revenues in the first quarter of fiscal 2013, compared to approximately 56% in the first quarter of fiscal 2012. Oil and gas revenue in the first quarter of fiscal 2013 increased approximately 4% over the prior year with the largest increase coming from the midstream section of the oil and gas industry. We experienced the majority of our growth in several of our other target markets outside of oil and gas, including industrial, process industries which include chemical and pharmaceutical, infrastructure, power generation and aerospace and defense markets. Taken as a group, revenues for all target markets other than oil and gas grew approximately 49% in the first quarter of fiscal 2013 over the prior year period. Our largest customer in both periods was BP plc. (BP), accounting for approximately 12% of our revenues in the first quarter of fiscal 2013 and approximately 16% in the first quarter of fiscal 2012. Our top ten customers represented approximately 32% of our revenues in the first quarter of fiscal 2013 compared to 40% in the same quarter last year.

Gross Profit. Our gross profit was $33.7 million and increased $6.3 million, or 23% in the first quarter of fiscal 2013 compared to $27.4 million in the first quarter of fiscal 2012. Gross profit by segment for the three months ended August 31, 2012 and 2011 was as follows:

	Three months ended August 31, 2012	2011
	($ in thousands)	
Gross profit		
Services	$ 20,940	$ 20,308
Products and Systems	5,245	3,751
International	7,081	3,431
Corporate and eliminations	451	(70)
	$ 33,717	$ 27,420

As a percentage of revenues, our gross profit and its components for the three months ended August 31, 2012 and 2011 were as follows:

Table of Contents

	Three months ended August 31, 2012		2011
	($ in thousands)		
Gross profit	$ 33,717		$ 27,420
Gross profit % comprised of:			
Revenues	100.0%		100.0%
Cost of revenues	(66.6)%		(66.2)%
Depreciation	(3.7)%		(3.8)%
Total	29.7%		30.0%
Gross profit % decrease from prior year	(0.3)%		(0.4)%

As a percentage of revenues, our gross profit remained fairly consistent at approximately 30% for each of the first quarters of fiscal 2013 and fiscal 2012. Cost of revenues, excluding depreciation, as a percentage of revenues was approximately 67% and 66% in the first quarter of fiscal 2013 and fiscal 2012, respectively. Depreciation expense included in the determination of gross profit for the first quarter of fiscal 2013 and fiscal 2012 was $4.1 million and $3.5 million, respectively.

The 30 basis point decrease in our gross profit as a percentage of revenues was primarily attributable to decrease in gross profit in our International segment, which relates to our fiscal 2012 acquisitions, as these companies primarily provide lower margin, traditional NDT services. Additionally, the service offerings in our International segment are increasing faster than our product sales, which also lower our gross profit margin. Also contributing to the decrease in gross profit as a percentage of revenues is a change in the mix of project work completed in our Services segment during the quarter and slightly higher unbillable labor. These decreases were offset by improvements in our Products segment due to a change in the mix of products sales in the quarter compared to the prior year.

Income from Operations. Our income from operations by segment for the three months ended August 31, 2012 and 2011 were as follows:

	Three months ended August 31, 2012	2011
	($ in thousands)	
Income from operations		
Services	$ 6,823	$ 7,160
Products and Systems	3,165	1,011
International	1,595	736
Corporate and eliminations	(3,591)	(2,936)
	$ 7,992	$ 5,971

Our income from operations of $8.0 million for the first quarter of fiscal 2013 increased $2.0 million, or 34%, compared to the first quarter of fiscal 2012. As a percentage of revenues, our income from operations was approximately 7% in the first quarter of fiscal 2013 and fiscal 2012.

Our SG&A expenses, as a percentage of revenues, was approximately 21% for each of the first quarters of fiscal 2013 and 2012, increasing approximately $4.1 million in fiscal 2013. Of this amount, SG&A for companies acquired within the last twelve months accounted for approximately $3.1 million of the total increase. The increase in expense was primarily due to the cost of additional salary and other infrastructure costs to support our growth in revenues, including the addition of new locations and personnel in connection with our recent acquisitions. Excluding acquisitions, our SG&A expenses included higher compensation and benefit expenses of $0.8 million over the same period in the prior year attributed to normal salary increases, as well as our investment in additional management and corporate staff to support our growth. Other increases in SG&A expenses, excluding acquisitions, included increased stock compensation costs of $0.6 million. Depreciation and amortization included in the determination of income from operations for the first quarter of fiscal 2013 and fiscal 2012 was $1.9 million and $1.5 million, respectively, each representing approximately 2% of revenues.

Table of Contents

Our acquisition-related costs for the first quarter of fiscal 2013 were due to adjustments to the estimated fair value of certain acquisition-related contingent consideration liabilities that resulted in a net increase to income from operations of $0.8 million. This was offset by $0.6 million in professional fees and other expenses in connection with our fiscal 2013 acquisition activity. Acquisition-related costs for the three months ended August 31, 2011 were insignificant.

Interest Expense. Interest expense was $1.0 million and $0.7 million for the first quarter of fiscal 2013 and 2012, respectively. The increase in the first quarter of fiscal 2013 related to an increase in average borrowings in the current year quarter compared to the prior year and interest accretion from the estimated fair value of our contingent consideration liabilities related to our acquisitions.

Net Income Attributable to Noncontrolling Interests, net of taxes. The net income attributable to noncontrolling interests for the three months ended August 31, 2012 is primarily related to the net income incurred by Diapac, our subsidiary in Russia and our U.K subsidiaries.

Income Taxes. Our effective income tax rate was approximately 38% for the first quarter of fiscal 2013 compared to approximately 40% for the first quarter of fiscal 2012. The decrease was primarily due to changes in the geographic mix of earnings in the various state and foreign jurisdictions

Net Income Attributable to Mistras Group, Inc. Net income attributable to Mistras Group, Inc. for the first quarter of fiscal 2013 was $4.3 million, or 4% of our revenues, an increase of $1.1 million over the first quarter of fiscal 2012, which was $3.2 million, or 4% of revenues. The increase in net income was primarily the result of our revenue growth, partially offset by increases in our SG&A expenses.

Liquidity and Capital Resources

Cash Flows Table

Our cash flows are summarized in the table below:

	Three months ended August 31,			
	2012		2011	
	($ in thousands)			
Net cash provided by (used in):				
Operating Activities	$	21,546	$	12,799
Investing Activities		(2,617)		(8,793)
Financing Activities		(19,786)		(8,618)
Effect of exchange rate changes on cash		(224)		224
Net change in cash and cash equivalents	$	(1,081)	$	(4,388)

Cash Flows from Operating Activities

During the three months ended August 31, 2012, cash provided by our operating activities was $21.5 million, an increase of $8.7 million from the comparable period of fiscal 2012. Positive operating cash flow was primarily attributable to higher net income, excluding depreciation, amortization and other non-cash expenses of $12.7 million and $8.8 million of cash provided by an increase in our working capital, which primarily related to collections of our trade accounts receivable.

During the three months ended August 31, 2011, cash provided by our operating activities was $12.8 million, an increase of $3.6 million from the comparable period of fiscal 2011. Positive operating cash flow was primarily attributable to higher net income, excluding depreciation, amortization and other non-cash expenses of $9.4 million and $3.4 million of cash provided by an increase in our working capital, which primarily related to collections of our trade accounts receivable.

Cash Flows from Investing Activities

During the three months ended August 31, 2012, cash used in investing activities was $2.6 million, a decrease of $6.2 million from the comparable period of fiscal 2012. Cash used in investing activities included purchases of property, plant and equipment of $2.7 million and were primarily related to equipment used by our technicians.

Table of Contents

During the three months ended August 31, 2011, cash used in investing activities was $8.8 million, an increase of $1.6 from the comparable period of fiscal 2011. Cash used in investing activities included our acquisition of three asset protection businesses for cash payments aggregating $5.6 million. Cash purchases of property, plant and equipment were $3.1 million and were primarily related to equipment used by our technicians.

Cash Flows from Financing Activities

Net cash used in financing activities was $19.8 million for the three months ended August 31, 2012, an increase of $11.2 million from the comparable period of fiscal 2012. Net cash used in financing activities related primarily to repayments of our revolving credit facility, capital lease obligations, long-term debt, and contingent consideration of $15.0 million, $1.6 million, $1.6 million, and $1.1 million, respectively.

Net cash used in financing activities was $8.6 million for the three months ended August 31, 2011, an increase of $4.6 million from the comparable period of fiscal 2011. Net cash used in financing activities related primarily to repayments of our capital lease obligations, long-term debt, revolving credit facility, and other short-term borrowings of $1.6 million, $2.0 million, $3.9 million, and $1.0 million, respectively.

Effect of Exchange Rate Changes on Cash and Cash Equivalents

The effect of exchange rate changes on our cash and cash equivalents was approximately ($0.2) million and $0.2 million for the three months ended August 31, 2012 and 2011, respectively.

Cash Balance and Credit Facility Borrowings

As of August 31, 2012, we had cash and cash equivalents totaling $7.3 million and available borrowing capacity of $112.0 million under our current revolving credit facility. As of August 31, 2012, there were outstanding borrowings of $10.0 million and a total of $3.0 million of outstanding letters of credit under the existing revolving credit facility. We finance our operations primarily through our existing cash balances, cash collected from operations, bank borrowings and capital lease financing. We believe these sources are sufficient to fund our operations for the foreseeable future.

In December 2011, we entered into a Third Amended and Restated Credit Agreement (Credit Agreement), with Bank of America, N.A., as agent for the lenders and a lender, and JPMorgan Chase Bank, N.A., Keybank National Association and TD Bank, N.A., as lenders. The Credit Agreement provides us with a $125 million revolving line of credit, which, under certain circumstances, can be increased to $150 million. The Credit Agreement has a maturity date of December 20, 2016 and permits us to borrow up to $30 million in non-US dollar currencies and to use up to $10 million of the credit limit for the issuance of letters of credit. Loans under the Credit Agreement bear interest at our option, at LIBOR plus an applicable LIBOR margin ranging from 1% to 2%, or a base rate less a margin of 1.25% to 0.25%,or based upon our Funded Debt Leverage Ratio. Funded Debt Leverage Ratio is generally the ratio of (1) all outstanding indebtedness for borrowed money and other interest-bearing indebtedness as of the date of determination to (2) EBITDA (which is (a) net income, less (b) income (or plus loss) from discontinued operations and extraordinary items, plus (c) income tax expenses, plus (d) interest expense, plus (e) depreciation, depletion, and amortization (including non-cash loss on retirement of assets), plus (f) stock compensation expense, less (g) cash expense related to stock compensation, plus or minus certain other adjustments) for the period of four consecutive fiscal quarters immediately preceding the date of determination. We have the benefit of the lowest margin if our Funded Debt Leverage Ratio is equal to or less than 0.5 to 1, and the margin increases as the ratio increases, to the maximum margin if the ratio is greater than 2.5 to 1. We will also bear additional costs for market disruption, regulatory changes effecting the lenders funding costs, and default pricing of an additional 2% interest rate margin if the Funded Debt Leverage Ratio exceeds 3.0 to 1. Amounts borrowed under our Credit Agreement are secured by liens on substantially all of our assets.

The Credit Agreement contains financial covenants requiring that we maintain a Funded Debt Leverage Ratio of less than 3.0 to 1 and an Interest Coverage Ratio of at least 3.0 to 1. Interest Coverage Ratio means the ratio, as of any date of determination, of (a) EBITDA for the 12 month period immediately preceding the date of determination, to (b) all interest, premium payments, debt discount, fees, charges and related expenses of us and our subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, paid during the 12 month period immediately preceding the date of determination. The Credit Agreement also limits our ability to, among other things, create liens, make investments, incur more indebtedness, merge or consolidate, make dispositions of property, pay dividends and make distributions to stockholders, enter into a new line of business, enter into transactions with affiliates and enter into burdensome agreements.

Table of Contents

The Credit Agreement does not limit our ability to acquire other businesses or companies except that the acquired business or company must be in our line of business, we must be in compliance with the financial covenants on a pro forma basis after taking into account the acquisition, and, if the acquired business is a separate subsidiary, in certain circumstances the lenders will receive the benefit of a guaranty of the subsidiary and liens on its assets and a pledge of its stock.

As of August 31, 2012, we were in compliance with the terms of the credit agreement, and we will continuously monitor our compliance with the covenants contained in our new credit agreement.

Liquidity and Capital Resources Outlook

Future Sources of Cash

We expect our future sources of cash to include cash flow from operations and cash borrowed under our revolving credit facility. Our revolving credit facility is available for cash advances required for working capital and for letters of credit to support our operations. To meet our short-and long-term liquidity requirements, we expect primarily to rely on cash generated from our operating activities and borrowings under our revolving credit facility. We are currently funding our acquisitions through our available cash, borrowings under our revolving credit facility and seller notes. We have an effective shelf registration statement with the SEC for the issuance of up to approximately $64.2 million of securities, including shares of common and preferred stock, debt securities, warrants and units. Accordingly, we may also seek to obtain capital through the issuance of debt or equity securities, or a combination of both. As of October 1, 2012, there were outstanding borrowings of approximately $42.2 million approximately $3.0 million of outstanding letters of credit under our revolving credit facility.

Future Uses of Cash

We expect our future uses of cash will primarily be for acquisitions, international expansion, purchases or manufacture of field testing equipment to support growth, additional investments in technology and software products and the replacement of existing assets and equipment used in our operations. We often make purchases to support new sources of revenues, particularly in our Services segment. In addition, we will need to fund a certain amount of replacement equipment, including our fleet vehicles. We historically spend approximately 3% to 4% of our total revenues on capital expenditures, excluding acquisitions, and expect to fund these expenditures through a combination of cash and lease financing.

Our anticipated acquisitions may also require capital. We completed the acquisition of one company in September 2012 with an initial cash outlay of $28.3 million. In some cases, additional equipment will be needed to upgrade the capabilities of these acquired companies. In addition, our future acquisition and capital spending may increase as we pursue growth opportunities. Other investments in infrastructure, training and software may also be required to match our growth, but we plan to continue using a disciplined approach to building our business. In addition, we will use cash to fund our operating leases, capital leases and long-term debt repayments and various other obligations as they arise.

We also expect to use cash to support our working capital requirements for our operations, particularly in the event of further growth and due to the impacts of seasonality on our business. Our future working capital requirements will depend on many factors, including the rate of our revenue growth, our introduction of new solutions and enhancements to existing solutions and our expansion of sales and marketing and product development activities. To the extent that our cash and cash equivalents and future cash flows from operating activities are insufficient to fund our future activities, we may need to raise additional funds through bank credit arrangements, public or private equity financings, or debt financings. We also may need to raise additional funds in the event we determine in the future to effect one or more acquisitions of businesses, technologies or products that will complement our existing operations. In the event additional funding is required, we may not be able to obtain bank credit arrangements or effect an equity or debt financing on terms acceptable to us or at all.

Off-balance Sheet Arrangements

During the three months ended August 31, 2012, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Risk

We have foreign currency exposure related to our operations in foreign locations. This foreign currency exposure, particularly the Euro, British Pound Sterling, Brazilian Real, Russian Ruble, Japanese Yen, Canadian Dollar and the Indian

Table of Contents

Rupee, arises primarily from the translation of our foreign subsidiaries financial statements into U.S. Dollars. For example, a portion of our annual sales and operating costs are denominated in British Pound Sterling and we have exposure related to sales and operating costs increasing or decreasing based on changes in currency exchange rates. If the U.S. Dollar increases in value against these foreign currencies, the value in U.S. Dollars of the assets and liabilities originally recorded in these foreign currencies will decrease. Conversely, if the U.S. Dollar decreases in value against these foreign currencies, the value in U.S. Dollars of the assets and liabilities originally recorded in these foreign currencies will increase. Thus, increases and decreases in the value of the U.S. Dollar relative to these foreign currencies have a direct impact on the value in U.S. Dollars of our foreign currency denominated assets and liabilities, even if the value of these items has not changed in their original currency. For our foreign subsidiaries, assets and liabilities are translated at period ending rates of exchange. Translation adjustments for the assets and liability accounts are included in accumulated other comprehensive income in stockholders equity (deficit). We had approximately $2.0 million of foreign currency translation losses in other comprehensive income for the first three months of fiscal 2013. We do not currently enter into forward exchange contracts to hedge exposures to foreign currencies. We may consider entering into hedging or forward exchange contracts in the future.

Interest Rate Sensitivity

The interest rate on our revolving credit facility currently ranges from 1.26% to 2.00% and is variable and adjusts periodically. As of August 31, 2012, there were outstanding borrowings of $10.0 million under our revolving credit facility. A hypothetical 100 basis point adverse shift in interest rates would not have had a material effect on our results of operations for the three months ended August 31, 2012.

From time to time, we may enter into interest rate swap contracts whereby we would receive or pay an amount equal to the difference between a fixed rate and LIBOR on a quarterly basis in order to reduce our potential exposure to interest rate fluctuations. All gains and losses are recognized as an adjustment to interest expense and the combined fair values are recorded in other liabilities on the consolidated balance sheet. As of August 31, 2012, we had no such contracts in effect.

We had cash and cash equivalents of $7.3 million as of August 31, 2012. These amounts are held for working capital purposes and were invested primarily in bank deposits, money market funds and short-term, interest-bearing, investment-grade securities. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates.

Fair Value of Financial Instruments

We do not believe that we have material exposure to market risk with respect to investments, as our investments consist primarily of highly liquid investments purchased with a remaining maturity of three months or less. We do not use derivative financial instruments for speculative or trading purposes; however, this does not preclude our adoption of specific hedging strategies in the future.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of August 31, 2012, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures, as such term is defined in Rule 13a-15(e). Based on the evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company s internal control over financial reporting that occurred during the Company s quarter ended August 31, 2012 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

We have received notice of a governmental investigation concerning an environmental incident which occurred in February 2011, outside on the premises of our Cudahy, California facility. We acquired this facility as part of the acquisition in October 2010 of the assets and ongoing business operations of General Testing and Inspection, Inc. (GTI), a business which provides in-house or shop inspection and non-destructive testing at the Cudahy premises. On February 11, 2011, while liquid hazardous waste was being pumped into the tanker truck of an unaffiliated certified hazardous waste transporter at the Cudahy facility, a chemical reaction occurred that caused an emission of a vapor cloud. No human injury or property damage was reported or appears to have been caused as a result of the incident. The incident was investigated by the L.A. Country Fire Department (the Fire Department) and the U.S. Environmental Protection Agency (EPA). At the conclusion of the Fire Department s investigation, the Fire Department imposed on the Company a fine in the amount of $4,000 for alleged violations of the California Health and Safety Code in April 2011, which was paid shortly thereafter.

The Company received no further governmental communications or notices concerning fines or sanctions related to the incident until January 13, 2012, when we received grand jury subpoenas from the U.S. Attorney s Office for the Central District of California addressed to the Company, GTI and an employee of the Company. These subpoenas were issued in connection with an EPA criminal investigation. The subpoena received by the Company requested documents and information relating to, among other things, our handling, identification, storage and disposal of hazardous waste, training records, corporate environmental policies, acquisition of GTI and any ongoing organization relationship with GTI, and analytical results of the tests concerning the hazardous materials involved in the incident. In April 2012, we were informed by the U.S. Attorney s Office for the Central District of California that we are a target of a criminal investigation into potential violations of the Resource Conservation and Recovery Act. The violations are alleged to be related to purportedly improper storage and labeling of hazardous waste at the Cudahy facility. This U.S. Attorney s Office also raised a concern about a possible obstruction of justice issue involving the conduct of one or more of our employees at this facility. Upon receiving the subpoenas, we engaged our outside legal counsel to assist us in conducting an investigation concerning the incident, including interviews with our current employees. To date, we have produced documents in response to the subpoena, and are aware of at least one of our employees having testified before the grand jury.

While management cannot predict the ultimate outcome of this matter, based on our internal investigation to date, management does not believe the outcome will have a material effect on the Company s financial condition or results of operations.

See Note 11 to the financial statements included in this report for a description of our other legal proceedings.

ITEM 1.A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed under the Risk Factors section included in our Annual Report on Form 10-K, filed with the SEC on August 14, 2012. There have been no material changes to the risk factors previously disclosed in the Annual Report.

ITEM 2. Unregistered Sale of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds from Public Offering of Common Stock

None.

(c) *Repurchases of Our Equity Securities*

The following sets forth the shares of our common stock we acquired during the quarter pursuant to the surrender of shares by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units.

Table of Contents

Fiscal Month Ending	Total Number of Shares (or Units) Purchased		Average Price Paid per Share (or Unit)
August 31, 2012	37,320	$	21.63

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

Table of Contents

Signatures

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

MISTRAS GROUP, INC.

By:	/s/ FRANCIS T. JOYCE Francis T. Joyce Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and duly authorized officer)

Date: October 10, 2012