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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

Or

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.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging Growth Company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 2, 2017, the registrant had 28,488,288 shares of common stock outstanding and 771,119 shares of treasury stock.

TABLE OF CONTENTS

	<u>PAGE</u>	
<u>PART I—FINANCIAL INFORMATION</u>		
<u>ITEM 1.</u>	<u>Financial Statements</u>	<u>1</u>
	<u>Condensed Consolidated Balance Sheets as of March 31, 2017 (unaudited) and December 31, 2016</u>	<u>1</u>
	<u>Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2017 and March 31, 2016</u>	<u>2</u>
	<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2017 and March 31, 2016</u>	<u>3</u>
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and March 31, 2016</u>	<u>4</u>
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>ITEM 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>25</u>
<u>ITEM 4</u>	<u>Controls and Procedures</u>	<u>25</u>
<u>PART II—OTHER INFORMATION</u>		
<u>ITEM 1.</u>	<u>Legal Proceedings</u>	<u>26</u>
<u>ITEM 1.A.</u>	<u>Risk Factors</u>	<u>26</u>
<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>26</u>
<u>ITEM 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>26</u>
<u>ITEM 4.</u>	<u>Mine Safety Disclosures</u>	<u>26</u>
<u>ITEM 5.</u>	<u>Other Information</u>	<u>26</u>
<u>ITEM 6.</u>	<u>Exhibits</u>	<u>27</u>
<u>SIGNATURES</u>		<u>28</u>

PART I—FINANCIAL INFORMATION

ITEM 1. Financial Statements

Mistras Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

	(unaudited)	
	March 31, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 27,592	\$ 19,154
Accounts receivable, net	124,221	130,852
Inventories	10,589	10,017
Deferred income taxes	—	6,230
Prepaid expenses and other current assets	14,772	16,399
Total current assets	177,174	182,652
Property, plant and equipment, net	72,898	73,149
Intangible assets, net	41,226	40,007
Goodwill	173,907	169,940
Deferred income taxes	1,897	1,086
Other assets	2,628	2,593
Total assets	\$ 469,730	\$ 469,427
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 9,345	\$ 6,805
Accrued expenses and other current liabilities	53,637	58,697
Current portion of long-term debt	1,766	1,379
Current portion of capital lease obligations	6,357	6,488
Income taxes payable	3,659	4,342
Total current liabilities	74,764	77,711
Long-term debt, net of current portion	96,042	85,917
Obligations under capital leases, net of current portion	8,861	9,682
Deferred income taxes	12,024	17,584
Other long-term liabilities	8,180	7,789
Total liabilities	199,871	198,683
Commitments and contingencies		
Equity		
Preferred stock, 10,000,000 shares authorized	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 29,257,763 and 29,216,745 shares issued	293	292
Additional paid-in capital	219,176	217,211
Treasury stock, at cost, 676,512 and 420,258 shares	(15,000)	(9,000)
Retained earnings	93,496	91,803
Accumulated other comprehensive loss	(28,274)	(29,724)
Total Mistras Group, Inc. stockholders' equity	269,691	270,582
Noncontrolling interests	168	162
Total equity	269,859	270,744
Total liabilities and equity	\$ 469,730	\$ 469,427

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

Mistras Group, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Income
(in thousands, except per share data)

	Three months ended	
	March 31, 2017	March 31, 2016
Revenue	\$ 163,318	\$ 167,455
Cost of revenue	115,002	118,230
Depreciation	5,163	5,255
Gross profit	43,153	43,970
Selling, general and administrative expenses	37,302	35,053
Research and engineering	643	662
Depreciation and amortization	2,502	2,762
Acquisition-related expense (benefit), net	(544)	(153)
Income from operations	3,250	5,646
Interest expense	1,018	1,100
Income before provision for income taxes	2,232	4,546
Provision for income taxes	534	1,088
Net income	1,698	3,458
Less: net income attributable to noncontrolling interests, net of taxes	6	11
Net income attributable to Mistras Group, Inc.	<u>\$ 1,692</u>	<u>\$ 3,447</u>
Earnings per common share		
Basic	\$ 0.06	\$ 0.12
Diluted	\$ 0.06	\$ 0.11
Weighted average common shares outstanding:		
Basic	28,687	28,915
Diluted	29,905	29,980

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

Mistras Group, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Comprehensive Income
(in thousands)

	Three months ended	
	March 31, 2017	March 31, 2016
Net income	\$ 1,698	\$ 3,458
Other comprehensive income:		
Foreign currency translation adjustments	1,450	2,387
Comprehensive income	3,148	5,845
Less: comprehensive income attributable to noncontrolling interest	6	9
Comprehensive income attributable to Mistras Group, Inc.	\$ 3,142	\$ 5,836

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

Mistras Group, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Three months ended	
	March 31, 2017	March 31, 2016
Cash flows from operating activities		
Net income	\$ 1,698	\$ 3,458
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	7,665	8,017
Deferred income taxes	(86)	1,037
Share-based compensation expense	1,724	1,729
Bad debt provision for a customer bankruptcy	1,200	—
Fair value adjustments to contingent consideration	(625)	(132)
Other	(147)	(200)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	6,161	12,133
Inventories	(585)	315
Prepaid expenses and other assets	1,716	(85)
Accounts payable	2,478	160
Accrued expenses and other liabilities	(7,053)	2,435
Income taxes payable	(733)	246
Net cash provided by operating activities	13,413	29,113
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,416)	(3,735)
Purchase of intangible assets	(376)	(422)
Acquisition of businesses, net of cash acquired	(4,500)	—
Proceeds from sale of equipment	155	48
Net cash used in investing activities	(8,137)	(4,109)
Cash flows from financing activities		
Repayment of capital lease obligations	(1,643)	(1,894)
Proceeds from borrowings of long-term debt	917	225
Repayment of long-term debt	(663)	(1,105)
Proceeds from revolver	20,900	5,400
Repayment of revolver	(10,800)	(20,200)
Payment of contingent consideration for business acquisitions	(51)	(1,530)
Purchases of treasury stock	(6,000)	—
Taxes paid related to net share settlement of share-based awards	(41)	(33)
Excess tax benefit from share-based compensation	—	58
Proceeds from exercise of stock options	234	191
Net cash provided by (used in) financing activities	2,853	(18,888)
Effect of exchange rate changes on cash and cash equivalents	309	(89)
Net change in cash and cash equivalents	8,438	6,027
Cash and cash equivalents		
Beginning of period	19,154	9,599
End of period	\$ 27,592	\$ 15,626
Supplemental disclosure of cash paid		
Interest	\$ 967	\$ 904
Income taxes	\$ 1,057	\$ 1,644
Noncash investing and financing		
Equipment acquired through capital lease obligations	\$ 667	\$ 2,267

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

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

1. Description of Business and Basis of Presentation

Description of Business

Mistras Group, Inc. and 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. 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, commercial aerospace and defense, transportation, primary metals and metalworking, pharmaceutical/biotechnology and food processing industries and research and engineering institutions.

Basis of Presentation

The condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, the condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods of the fiscal years ending December 31, 2017 and 2016. Certain items included in these statements are based on management's estimates. Actual results may differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results expected for the year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to the audited consolidated financial statements contained in the Company's Transition Report on Form 10-K ("2016 Transition Report") for the transition period ended December 31, 2016, as filed with the Securities and Exchange Commission on March 20, 2017.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Mistras Group, Inc. and its wholly and majority-owned subsidiaries. For subsidiaries in which the Company's ownership interest is less than 100%, the noncontrolling interests are reported in stockholders' equity in the accompanying condensed consolidated balance sheets. The noncontrolling interests in net income, net of tax, is classified separately in the accompanying condensed consolidated statements of income. All significant intercompany accounts and transactions have been eliminated in consolidation.

On January 3, 2017, the Company's Board of Directors approved a change in the Company's fiscal year end from May 31 to December 31, effective December 31, 2016. The transition period was for the seven months ended December 31, 2016 ("the transition period"). Prior to this change, the Company's International segment was consolidated on a one month lag. Therefore, for this interim report, the condensed consolidated income statement includes a one month lag for the International segment for the three months ended March 31, 2016. Management does not believe that any events occurred during the one-month lag period that would have a material effect on the Company's condensed consolidated financial statements. The one month lag was removed with the change in the Company's fiscal year noted above, and accordingly, the condensed consolidated income statement does not include a one month lag for the International segment's results for the three months ended March 31, 2017.

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.

Customers

One customer accounted for approximately 11% of our revenues and 9% of accounts receivable in the first quarter of 2017, which primarily were generated from the Services segment. One customer accounted for 10% of our revenues in the first quarter of 2016.

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

Significant Accounting Policies

The Company's significant accounting policies are disclosed in Note 2 — *Summary of Significant Accounting Policies* in the Company's 2016 Transition Report. On an ongoing basis, the Company evaluates its estimates and assumptions, including, among other things those related to revenue recognition, valuations of accounts receivable, long-lived assets, goodwill, deferred tax assets and uncertain tax positions. Since the date of the 2016 Transition Report, there have been no material changes to the Company's significant accounting policies.

Recent Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 for all entities by one year. This update is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2014-09 will become effective for us beginning 2018, which is when we plan to adopt this standard. The ASU permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The ASU also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. We are still in the process of evaluating the effect of adoption on our condensed consolidated financial statements and are currently assessing our contracts with customers. We anticipate we will expand our condensed consolidated financial statement disclosures in order to comply with ASU 2014-09.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. This amendment will simplify the presentation of deferred tax assets and liabilities on the balance sheet and require all deferred tax assets and liabilities to be treated as non-current. ASU 2015-17 is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2016, with early adoption permitted. The Company adopted this guidance prospectively beginning in the first quarter of 2017, which did not have a material impact on the condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This amendment supersedes previous accounting guidance (*Topic 840*) and requires all leases, with exception of leases with a term of 12 months or less, to be recorded on the balance sheet as lease assets and lease liabilities. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2018, with early adoption permitted. The standard requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is evaluating the effect that ASU 2016-02 will have on its condensed consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Stock Compensation (Topic 718)*. This amendment will simplify certain aspects of accounting for share-based payment transactions, which include accounting for income taxes and the related impact on the statement of cash flows, an option to account for forfeitures when they occur in addition to the existing guidance to estimate the forfeitures of awards, classification of awards as either equity or liabilities and classification on the statement of cash flows for employee taxes paid to tax authorities on shares withheld for vesting. ASU 2016-09 is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2016, with early adoption permitted. The Company prospectively adopted this guidance beginning in the first quarter of 2017, and accordingly, is recording excess tax benefits and tax deficiencies as a component of income tax expense.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*. This amendment will provide guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. ASU 2016-15 is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the impact that ASU 2016-15 will have on its condensed consolidated financial statements and related disclosures.

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

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*. This amendment will clarify the presentation of restricted cash on the statement of cash flows. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending cash balances on the statement of cash flows. ASU 2016-18 is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company does not expect that ASU 2016-18 will have a material impact on its condensed consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350)*. This amendment eliminates Step Two of the goodwill impairment test. Under the amendments in this update, entities should perform the annual goodwill impairment test by comparing the carrying value of its reporting units to their fair value. An entity should record an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Tax deductibility of goodwill should be considered in evaluating any reporting unit's impairment loss to be taken. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the impact that ASU 2017-04 will have on its condensed consolidated financial statements and related disclosures.

2. Share-Based Compensation

The Company has share-based incentive awards outstanding to its eligible employees and non-employee directors under three equity incentive plans: (i) the 2007 Stock Option Plan (the 2007 Plan), (ii) the 2009 Long-Term Incentive Plan (the 2009 Plan) and (iii) the 2016 Long-Term Incentive Plan. No further awards may be granted under the 2007 and 2009 Plans, although awards granted under the 2007 and 2009 Plans remain outstanding in accordance with their terms. Awards granted under the 2016 Plan may be in the form of stock options, restricted stock units and other forms of share-based incentives, including performance restricted stock units, stock appreciation rights and deferred stock rights.

Stock Options

For the three months ended March 31, 2017, the Company did not recognize any share-based compensation expense related to stock option awards. No unrecognized compensation costs remained related to stock option awards as of March 31, 2017.

For the three months ended March 31, 2016, the Company recognized share-based compensation expense related to stock option awards of less than \$0.1 million.

No stock options were granted during the three months ended March 31, 2017 and March 31, 2016.

A summary of the stock option activity, weighted average exercise prices and options outstanding as of March 31, 2017 and 2016 is as follows:

	For the three months ended March 31,			
	2017		2016	
	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price
Outstanding at beginning of period:	2,167	\$ 13.33	2,265	\$ 13.16
Granted	—	\$ —	—	\$ —
Exercised	(30)	\$ 7.67	(19)	\$ 10.02
Expired or forfeited	—	\$ —	—	\$ —
Outstanding at end of period:	<u>2,137</u>	<u>\$ 13.41</u>	<u>2,246</u>	<u>\$ 13.19</u>

Restricted Stock Unit Awards

For both the three months ended March 31, 2017 and March 31, 2016, the Company recognized share-based compensation expense related to restricted stock unit awards of \$1.1 million. As of March 31, 2017, there was \$8.3 million of unrecognized

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

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 2.5 years.

During the first three months of 2017 and 2016, the Company granted approximately 9,000 and 12,000 shares, respectively, of fully-vested common stock to its five non-employee directors, in connection with its non-employee director compensation plan. These shares had grant date fair values of \$0.2 million and \$0.3 million, respectively, which was recorded as share-based compensation expense during the three months ended March 31, 2017 and March 31, 2016, respectively.

During the first three months of 2017 and 2016, approximately 5,000 restricted stock units vested for each period. The fair value of these units was \$0.1 million for each respective period. Upon vesting, restricted stock units are generally net share-settled to cover the required minimum withholding tax and the remaining amount is converted into an equivalent number of shares of common stock.

A summary of the Company's outstanding, nonvested restricted share units is presented below:

	For the three months ended March 31,			
	2017		2016	
	Units	Weighted Average Grant-Date Fair Value	Units	Weighted Average Grant-Date Fair Value
Outstanding at beginning of period:	569	\$ 20.81	595	\$ 18.89
Granted	—	\$ —	1	\$ 23.11
Released	(5)	\$ 24.09	(5)	\$ 24.12
Forfeited	(3)	\$ 21.31	(9)	\$ 19.28
Outstanding at end of period:	<u>561</u>	<u>\$ 20.78</u>	<u>582</u>	<u>\$ 18.85</u>

Performance Restricted Stock Units

The Company maintains Performance Restricted Stock Units (PRSUs) that have been granted to select executives and senior officers whose ultimate payout is based on the Company's performance over a one-year period based on three metrics, as defined: (1) Operating Income, (2) Adjusted EBITDAS and (3) Revenue. There is a discretionary portion of the PRSUs based on individual performance, at the discretion of the Compensation Committee (Discretionary PRSUs). PRSUs and Discretionary PRSUs generally vest ratably on each of the first four anniversary dates upon completion of the performance period, for a total requisite service period of up to five years and have no dividend rights.

PRSUs are equity-classified and compensation costs are initially measured using the fair value of the underlying stock at the date of grant, assuming that the target performance conditions will be achieved. Compensation costs related to the PRSUs are subsequently adjusted for changes in the expected outcomes of the performance conditions.

Discretionary PRSUs are liability-classified and adjusted to fair value (with a corresponding adjustment to compensation expense) based upon the targeted number of shares to be awarded and the fair value of the underlying stock each reporting period until approved by the Compensation Committee, at which point they are classified as equity.

A summary of the Company's Performance Restricted Stock Unit activity is presented below:

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

For the three months ended March 31, 2017			
	Units	\$	Weighted Average Grant-Date Fair Value
Outstanding at beginning of period:	290	\$	16.01
Granted	—	\$	—
Performance condition adjustments	(3)	\$	23.30
Released	—	\$	—
Forfeited	—	\$	—
Outstanding at end of period:	287	\$	15.83

During the three months ended March 31, 2017, the Compensation Committee modified the awards issued during the transition period ended December 31, 2016 from a one year performance period to a seven month performance period to align the awards with the change in the Company's fiscal year from May 31 to December 31. Accordingly, for the three months ended March 31, 2017, the Compensation Committee approved these transition period PRSU's, which resulted in a reduction of approximately 3,000 units.

As of March 31, 2017, all PRSU's were classified as equity.

For each of the three months ended March 31, 2017 and March 31, 2016, the Company recognized aggregate share-based compensation expense related to the awards described above of approximately \$0.4 million. At March 31, 2017, there was \$2.3 million of total unrecognized compensation costs related to 287,000 non-vested performance restricted stock units, which are expected to be recognized over a remaining weighted average period of 1.8 years.

3. 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) 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:

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

	Three months ended	
	March 31, 2017	March 31, 2016
Basic earnings per share		
Numerator:		
Net income attributable to Mistras Group, Inc.	\$ 1,692	\$ 3,447
Denominator:		
Weighted average common shares outstanding	28,687	28,915
Basic earnings per share	<u>\$ 0.06</u>	<u>\$ 0.12</u>
Diluted earnings per share:		
Numerator:		
Net income attributable to Mistras Group, Inc.	\$ 1,692	\$ 3,447
Denominator:		
Weighted average common shares outstanding	28,687	28,915
Dilutive effect of stock options outstanding	879	777
Dilutive effect of restricted stock units outstanding	339	288
	<u>29,905</u>	<u>29,980</u>
Diluted earnings per share	<u>\$ 0.06</u>	<u>\$ 0.11</u>

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

4. Acquisitions

During the three months ended March 31, 2017, the Company completed one acquisition of a company located in the U.S. that provides NDT, chemical and special processing services.

In this acquisition, the Company acquired assets of the acquiree in exchange for aggregate consideration of \$4.5 million in cash, and contingent consideration up to \$3.5 million to be earned based upon the acquired business achieving specific performance metrics over the initial three years of operations from the acquisition date. The Company accounted for this transaction in accordance with the acquisition method of accounting for business combinations.

The Company is continuing its review of the fair value estimate of assets acquired and liabilities assumed for three entities acquired in the transition period ended December 31, 2016. This process will conclude as soon as the Company finalizes information regarding facts and circumstances that existed as of the acquisition date. Goodwill and intangibles for these three entities totaled \$4.1 million and \$3.4 million, respectively. This measurement period will not exceed one year from their respective acquisition dates.

The assets and liabilities of the business acquired in 2017 were included in the Company's condensed consolidated balance sheet based upon their estimated fair value on the date of acquisition as determined in a preliminary purchase price allocation, using available information and making assumptions management believes are reasonable. The Company is still in the process of completing its valuation of the assets, both tangible and intangible acquired. The results of operations for this acquisition are included in the Services segment's results from the date of acquisition. The goodwill of \$3.3 million primarily relates to expected synergies and assembled workforce and is generally deductible for tax purposes.

The Company's preliminary purchase price allocations are included in the table below, summarizing the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	2017
Number of Entities	1
Consideration transferred:	
Cash paid	\$ 4,500
Notes payable	—
Contingent consideration	2,508
Consideration transferred	<u>\$ 7,008</u>
Current assets	\$ —
Property, plant and equipment	845
Intangible assets	2,742
Goodwill	3,326
Current liabilities	—
Long-term deferred tax asset	95
Net assets acquired	<u>\$ 7,008</u>

Revenues and operating income included in the condensed consolidated statement of operations for 2017 from this acquisition for the period subsequent to the closing of this transaction was approximately \$0.3 million and \$0.1 million, respectively. As this acquisition was immaterial to the Company's 2017 results, no unaudited pro forma financial information has been included in this report.

During the three months ended March 31, 2016, the Company did not complete any acquisitions.

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

Acquisition-Related Expense

In the course of its acquisition activities, the Company incurs costs in connection with due diligence, professional fees, and other expenses. Additionally, the Company adjusts the fair value of acquisition-related contingent consideration liabilities on a quarterly basis. These amounts are recorded as acquisition-related (benefit) expense, net, on the condensed consolidated statements of income and were as follows for the three months ended March 31, 2017 and 2016:

	Three months ended March 31,	
	2017	2016
Due diligence, professional fees and other transaction costs	\$ 81	\$ 103
Adjustments to fair value of contingent consideration liabilities	(625)	(256)
Acquisition-related expense (benefit), net	<u>\$ (544)</u>	<u>\$ (153)</u>

5. Accounts Receivable, net

Accounts receivable consisted of the following:

	March 31, 2017	December 31, 2016
Trade accounts receivable	\$ 128,056	\$ 133,704
Allowance for doubtful accounts	(3,835)	(2,852)
Accounts receivable, net	<u>\$ 124,221</u>	<u>\$ 130,852</u>

6. Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	Useful Life (Years)	March 31, 2017	December 31, 2016
Land		\$ 1,717	\$ 1,714
Buildings and improvements	30-40	19,896	19,261
Office furniture and equipment	5-8	12,850	12,574
Machinery and equipment	5-7	170,544	166,423
		<u>205,007</u>	<u>199,972</u>
Accumulated depreciation and amortization		(132,109)	(126,823)
Property, plant and equipment, net		<u>\$ 72,898</u>	<u>\$ 73,149</u>

Depreciation expense for the three months ended March 31, 2017 and March 31, 2016 was \$5.5 million and \$5.6 million, respectively.

7. Goodwill

Changes in the carrying amount of goodwill by segment is shown below:

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

	Services	International	Products and Systems	Total
Balance at December 31, 2016	\$ 123,392	\$ 33,351	\$ 13,197	\$ 169,940
Goodwill acquired during the period	3,326	—	—	3,326
Adjustments to preliminary purchase price allocations	—	—	—	—
Foreign currency translation	111	530	—	641
Balance at March 31, 2017	\$ 126,829	\$ 33,881	\$ 13,197	\$ 173,907

The Company reviews goodwill for impairment on a reporting unit basis on October 1 of each year and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. As of March 31, 2017, the Company did not identify any changes in circumstances that would indicate the carrying value of goodwill may not be recoverable.

The Company's cumulative goodwill impairment as of March 31, 2017 and December 31, 2016 was \$9.9 million, which is within its International segment.

8. Intangible Assets

The gross amount, accumulated amortization and net carrying amount of intangible assets were as follows:

	Useful Life (Years)	March 31, 2017			December 31, 2016		
		Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	5-12	\$ 84,218	\$ (52,046)	\$ 32,172	\$ 81,559	\$ (50,417)	\$ 31,142
Software/Technology	3-15	18,525	(12,942)	5,583	18,128	(12,577)	5,551
Covenants not to compete	2-5	11,540	(9,823)	1,717	11,143	(9,647)	1,496
Other	2-5	7,415	(5,661)	1,754	7,266	(5,448)	1,818
Total		\$ 121,698	\$ (80,472)	\$ 41,226	\$ 118,096	\$ (78,089)	\$ 40,007

Amortization expense for the three months ended March 31, 2017 and March 31, 2016 was \$2.2 million and \$2.4 million, respectively.

9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	March 31, 2017	December 31, 2016
Accrued salaries, wages and related employee benefits	\$ 23,932	\$ 23,442
Contingent consideration, current portion	3,044	1,826
Accrued workers' compensation and health benefits	5,385	6,351
Deferred revenue	4,740	3,743
Legal settlement accrual	—	6,320
Other accrued expenses	16,536	17,015
Total accrued expenses and other liabilities	\$ 53,637	\$ 58,697

10. Long-Term Debt

Long-term debt consisted of the following:

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

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Senior credit facility	\$ 92,966	\$ 82,776
Notes payable	323	320
Other	4,519	4,200
Total debt	97,808	87,296
Less: Current portion	(1,766)	(1,379)
Long-term debt, net of current portion	<u>\$ 96,042</u>	<u>\$ 85,917</u>

Senior Credit Facility

On October 31, 2014, the Company entered into a Third Amendment and Modification Agreement of its revolving line of credit, the Third Amended and Restated Credit Agreement (“Credit Agreement”), dated December 21, 2011, with its lending group. The Credit Agreement provides the Company with a \$175.0 million revolving line of credit, which, under certain circumstances, the line of credit can be increased to \$225.0 million. 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. The Credit Agreement has a maturity date of October 30, 2019. As of March 31, 2017, the Company had borrowings of \$93.0 million and a total of \$5.7 million of letters of credit outstanding under the Credit Agreement.

Loans under the Credit Agreement bear interest at LIBOR plus an applicable LIBOR margin ranging from 1% to 1.75%, or a base rate less a margin of 1.25% to 0.375%, at the option of the Company, based upon the Company’s Funded Debt Leverage Ratio. Funded Debt Leverage Ratio is defined as 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 2.0 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 on any amounts not paid when due. 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 no greater than 3.25 to 1 and an Interest Coverage Ratio of at least 3.0 to 1. Interest Coverage Ratio is defined as 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 the Company’s 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 March 31, 2017, the Company was in compliance with the terms of the Credit Agreement, and will continuously monitor its compliance with the covenants contained in its Credit Agreement.

Notes Payable and Other

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

In connection with certain of its acquisitions, the Company issued subordinated notes payable to the sellers. The maturity of the notes that remain outstanding are three years from the date of acquisition and bear interest at the prime rate for the Bank of Canada, currently 2.7% as of March 31, 2017. Interest expense is recorded in the condensed consolidated statements of income.

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.

Financial instruments measured at fair value on a recurring basis

The fair value of contingent consideration liabilities classified as Level 3 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 applicable acquisition agreements.

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

	Three months ended	
	March 31, 2017	
Beginning balance	\$	3,094
Accretion of liability		68
Foreign currency translation		14
Payments		(51)
Revaluation		(693)
Acquisitions		2,508
Ending Balance	\$	4,940

Financial instruments not measured at fair value on a recurring basis

The Company has evaluated current market conditions and borrower credit quality and has determined that the carrying value of its long-term debt approximates fair value. 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 issuances of debt.

12. Commitments and Contingencies

Legal Proceedings and Government Investigations

The Company is subject to periodic lawsuits, investigations and claims that arise in the ordinary course of business. The Company cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against it. Except possibly for certain of the matters described below, 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 against the Company may be covered by insurance for certain matters.

Litigation and Commercial Claims

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

The Company was a defendant in a consolidated purported class and collective action, *Edgar Vical and David Kruger v Mistras Group, et al*, pending in the U.S. District Court for the Northern District of California. This matter resulted from the consolidation of two cases originally filed in California state court in April 2015. The parties have settled the case, whereby the Company recorded a pre-tax charge of \$6.3 million during the three months ended June 30, 2016 and paid the settlement in February 2017.

The Company is a defendant in the lawsuit *AGL Services Company v. Mistras Group, Inc.*, pending in U.S. District Court for the Northern District of Georgia, filed November 2016. The case involves radiography work performed by the Company in fiscal 2013 on the construction of a pipeline project in the U.S. The owner of the pipeline project contends that certain of the radiography images the Company's technicians prepared regarding the project did not meet the code quality interpretation standards required by the American Petroleum Institute. The project owner is claiming damages as a result of the alleged quality defects of the Company's radiography images. The complaint alleges damages of approximately \$6 million. The Company is currently unable to determine the likely outcome or reasonably estimate the amount or range of potential liability related to this matter after consideration of its insurance coverage, and accordingly, has not established any reserves for this matter.

The Company's subsidiary in France has been involved in a dispute with a former owner of a business in France purchased by the Company's French subsidiary. The former owner received a judgment in his favor in the amount of approximately \$0.4 million for payment of the contingent consideration portion of the purchase price for the business. The judgment is being appealed, but the Company recorded a reserve for the full amount of the judgment during the three months ended June 30, 2016.

The Company is a defendant in a lawsuit, *Triumph Aerostructures, LLC d/b/a Triumph Aerostructures-Vought Aircraft Division v. Mistras Group, Inc.*, pending in Texas State district court, 193rd Judicial District, Dallas County, Texas, filed September 2016. The plaintiff alleges Mistras delivered, in fiscal 2014, a defective Ultrasonic inspection system and is alleging damages of approximately \$2.3 million, the amount it paid for the system. The Company is currently unable to determine the likely outcome or reasonably estimate the amount or range of potential liability related to this matter, and accordingly, has not established any reserves for this matter.

Government Investigations

In May 2015, the Company received a notice from the U.S. Environmental Protection Agency ("EPA") that it performed a preliminary assessment at a leased facility the Company operates in Cudahy, California. Based upon the preliminary assessment, the EPA is conducting an investigation of the site, which includes taking groundwater and soil samples. The purpose of the investigation is to determine whether any hazardous materials were released from the facility. The Company has been informed that certain hazardous materials and pollutants have been found in the ground water in the general vicinity of the site and the EPA is attempting to ascertain the origination or source of these materials and pollutants. Given the historic industrial use of the site, the EPA determined that the site of the Cudahy facility should be examined, along with numerous other sites in the vicinity. At this time, the Company is unable to determine whether it has any liability in connection with this matter and if so, the amount or range of any such liability, and accordingly, has not established any reserves for this matter.

Acquisition-related contingencies

The Company is liable for contingent consideration in connection with certain of its acquisitions. As of March 31, 2017, total potential acquisition-related contingent consideration ranged from zero to approximately \$16.9 million and would be payable upon the achievement of specific performance metrics by certain of the acquired companies over the next 3.0 years of operations. See Note 4 - *Acquisitions* to these condensed consolidated financial statements for further discussion of the Company's acquisitions.

13. Segment Disclosure

The Company's three operating segments are:

- *Services*. This segment provides asset protection solutions primarily in North America with the largest concentration in the United States and the Canadian services business, consisting primarily of non-destructive

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

testing and inspection and engineering services that are used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure.

- *International.* This segment offers services, products and systems similar to those of the Company's other two 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.
- *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.

Costs incurred for general corporate services, including finance, legal, and certain other costs 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.

Selected consolidated financial information by segment for the periods shown was as follows (intercompany transactions are eliminated in Corporate and eliminations):

	Three months ended	
	March 31, 2017	March 31, 2016
Revenues		
Services	\$ 126,329	\$ 131,579
International	34,256	30,980
Products and Systems	5,550	6,680
Corporate and eliminations	(2,817)	(1,784)
	<u>\$ 163,318</u>	<u>\$ 167,455</u>

	Three months ended	
	March 31, 2017	March 31, 2016
Gross profit		
Services	\$ 30,213	\$ 32,458
International	10,460	8,673
Products and Systems	2,594	2,738
Corporate and eliminations	(114)	101
	<u>\$ 43,153</u>	<u>\$ 43,970</u>

	Three months ended	
	March 31, 2017	March 31, 2016
Income (loss) from operations		
Services	\$ 7,380	\$ 11,339
International	3,034	720
Products and Systems	(449)	(132)
Corporate and eliminations	(6,715)	(6,281)
	<u>\$ 3,250</u>	<u>\$ 5,646</u>

Income (loss) by operating segment includes intercompany transactions, which are eliminated in Corporate and eliminations.

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

	Three months ended	
	March 31, 2017	March 31, 2016
Depreciation and amortization		
Services	\$ 5,318	\$ 5,623
International	1,844	1,880
Products and Systems	567	588
Corporate and eliminations	(64)	(74)
	<u>\$ 7,665</u>	<u>\$ 8,017</u>

	March 31, 2017	December 31, 2016
	Intangible assets, net	
Services	\$ 21,184	\$ 19,550
International	13,889	14,139
Products and Systems	5,293	5,482
Corporate and eliminations	860	836
	<u>\$ 41,226</u>	<u>\$ 40,007</u>

	March 31, 2017	December 31, 2016
	Total assets	
Services	\$ 293,401	\$ 291,539
International	134,813	130,427
Products and Systems	29,819	28,964
Corporate and eliminations	11,697	18,497
	<u>\$ 469,730</u>	<u>\$ 469,427</u>

Revenues by geographic area for the three months ended March 31, 2017 and 2016, respectively, were as follows:

	Three months ended	
	March 31, 2017	March 31, 2016
Revenues		
United States	\$ 111,531	\$ 121,271
Other Americas	15,473	14,783
Europe	30,660	27,247
Asia-Pacific	5,654	4,154
	<u>\$ 163,318</u>	<u>\$ 167,455</u>

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

14. Repurchase of Common Stock

On October 7, 2015, the Company's Board of Directors approved a \$50 million stock repurchase plan. As part of this plan, on August 17, 2016, the Company entered into an agreement with its CEO, Dr. Sotirios Vahaviolos, to purchase up to 1 million of his shares, commencing in October 2016. Pursuant to the agreement, in general, the Company will purchase from Dr. Vahaviolos up to \$2 million of shares each month, at a 2% discount to the average daily closing price of the Company's common stock for the preceding month. During the quarter ended March 31, 2017, the Company purchased approximately 256,000 shares from Dr. Vahaviolos at an average price of \$23.41 per share and an aggregate cost of \$6.0 million. From the inception of the plan, the Company has purchased approximately 530,000 shares from Dr. Vahaviolos at an average price of \$22.63 per share for an aggregate cost of \$12.0 million and approximately 146,000 shares in the open market at an average price of \$20.48 per share for an aggregate cost of approximately \$3.0 million. All such repurchased shares are classified as *Treasury Stock* on the condensed consolidated balance sheet. As of March 31, 2017, approximately \$35.0 million remained available to repurchase shares under the stock repurchase plan.

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

The following Management's Discussion and Analysis ("MD&A") includes a narrative explanation and analysis of our results of operations and financial condition for the three months ended March 31, 2017 and March 31, 2016. The MD&A should be read together with our condensed consolidated financial statements and related notes included in Item 1 in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes included in our Transition Report on Form 10-K for the transition period ended December 31, 2016, filed March 20, 2017 ("2016 Transition Report"). Unless otherwise specified or the context otherwise requires, "Mistras," "the Company," "we," "us" and "our" refer to Mistras Group, Inc. and its consolidated subsidiaries. The MD&A includes disclosure in the following areas:

- Forward-Looking Statements
- Overview
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies and Estimates

Forward-Looking Statements

This report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act"). Such forward-looking statements include those that express plans, anticipation, intent, contingency, goals, targets or future development and/or otherwise are not statements of historical fact. These forward-looking statements are based on our current expectations and projections about future events and they are subject to risks and uncertainties known and unknown that could cause actual results and developments to differ materially from those expressed or implied in such statements.

In some cases, you can identify forward-looking statements by terminology, such as "goals," or "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "may," "could," "should," "would," "predicts," "appears," "projects," or the negative of such terms or other similar expressions. You are urged not to place undue reliance on any such forward-looking statements, any of which may turn out to be wrong due to inaccurate assumptions, various risks, uncertainties or other factors known and unknown. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those discussed in the "Business—Forward-Looking Statements," and "Risk Factors" sections of our 2016 Transition Report as well as those discussed in our other filings with the Securities and Exchange Commission ("SEC").

Overview

We offer our customers "one source for asset protection solutions"® and are a leading 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), Non-Destructive Testing (NDT), Destructive Testing (DT) and predictive maintenance (PdM) services, process and fixed asset engineering and consulting services, proprietary data analysis and our world class enterprise inspection database management

and analysis software, PCMS, to deliver a comprehensive portfolio of customized solutions, ranging from routine inspections to complex, plant-wide asset integrity management and assessments. These mission critical solutions enhance our customers' ability to comply with governmental safety and environmental regulations, extend the useful life of their assets, increase productivity, minimize repair costs, manage risk and avoid catastrophic disasters. Our operations consist of three reportable segments: Services, International and Products and Systems.

- *Services* provides asset protection solutions predominantly in North America with the largest concentration in the United States, consisting primarily of NDT, inspection and engineering services that are used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure.
- *International* 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.
- *Products and Systems* designs, manufactures, sells, installs and services the Company's asset protection products and systems, including equipment and instrumentation, predominantly in the United States.

Given the role our solutions play in ensuring the safe and efficient operation of infrastructure, we provide 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 (downstream, midstream, upstream and petrochemical), power generation (natural gas, fossil, nuclear, alternative, renewable, and transmission and distribution), public infrastructure, chemicals, commercial aerospace and defense, transportation, primary metals and metalworking, pharmaceutical/biotechnology and food processing industries and research and engineering institutions. We have established long-term relationships as a critical solutions provider to many of the leading companies in our target markets.

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. We have made a number of acquisitions in an effort to grow our base of experienced, certified personnel, expand our product and technical capabilities, increase our geographical reach and leverage our fixed costs. 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 have provided us with additional products, technologies, resources and customers that we believe will enhance our advantages over our competition.

Demand for outsourced asset protection solutions has generally increased over the last ten years, creating demand from which our entire industry has benefited. We believe continued growth can be realized in all of our target markets. However, current market conditions are soft, driven by lower oil prices which have caused many of the Company's customers to curtail spending.

Results of Operations

Condensed consolidated results of operations for the three months ended March 31, 2017 and March 31, 2016 were as follows:

	Three months ended	
	March 31, 2017	March 31, 2016
	(\$ in thousands)	
Revenues	\$ 163,318	\$ 167,455
Gross profit	43,153	43,970
<i>Gross profit as a % of Revenue</i>	26%	26%
Total operating expenses	39,903	38,324
<i>Operating expenses as a % of Revenue</i>	24%	23%
Income from operations	3,250	5,646
<i>Income from Operations as a % of Revenue</i>	2%	3%
Interest expense	1,018	1,100
Income before provision for income taxes	2,232	4,546
Provision for income taxes	534	1,088
Net income	1,698	3,458
Less: net income attributable to noncontrolling interests, net of taxes	6	11
Net income attributable to Mistras Group, Inc.	<u>\$ 1,692</u>	<u>\$ 3,447</u>

Note About Non-GAAP Measures

In this MD&A under the heading "Income from Operations", the non-GAAP financial performance measure "Income before special items" is used for each of our three segments, the Corporate segment and the "Total Company", with tables reconciling the measure to a financial measure under GAAP. This non-GAAP measure excludes from the GAAP measure "Income from Operations" (a) transaction expenses related to acquisitions, such as professional fees and due diligence costs, (b) the net changes in the fair value of acquisition-related contingent consideration liabilities and (c) non-recurring items. These items have been excluded from the GAAP measure because these expenses and credits are not related to the Company's or Segment's core business operations. The acquisition related costs and special items can be a net expense or credit in any given period.

We believe investors and other users of our financial statements benefit from the presentation of "Income before special items" in evaluating our performance. Income before special items provides an additional tool to compare our core business operating performance on a consistent basis and measure underlying trends and results in our business. Income before special items is not used to determine incentive compensation for executives or employees.

Revenue

Revenues for the three months ended March 31, 2017 were \$163.3 million, a decrease of \$4.1 million, or 2.5%, compared with the three months ended March 31, 2016.

Revenues by segment for the three months ended March 31, 2017 and March 31, 2016 were as follows:

	Three months ended	
	March 31, 2017	March 31, 2016
	(\$ in thousands)	
Revenues		
Services	\$ 126,329	\$ 131,579
International	34,256	30,980
Products and Systems	5,550	6,680
Corporate and eliminations	(2,817)	(1,784)
	<u>\$ 163,318</u>	<u>\$ 167,455</u>

Three Months

In the three months ended March 31, 2017, Services segment revenues decreased 4% due to a combination of mid single digit organic decline, offset by low single digit acquisition growth. International segment revenues increased by 11%, driven by mid

double digit organic growth, offset by a mid single digit unfavorable impact of foreign exchange rates. Products and Systems segment revenues decreased by 17% driven by lower sales volume.

Oil and gas revenues were a primary driver for the decline in total revenues for the three months ended March 31, 2017 as compared with the three months ended March 31, 2016. Oil and gas revenues comprised approximately 59% of total Company revenues for both periods. The Company's top ten customers comprised approximately 43% of total revenues for the three months ended March 31, 2017 from 41% for the three months ended March 31, 2016. One customer, BP plc., accounted for approximately 11% of our total revenues for the three months ended March 31, 2017 and 10% of our revenues for the three months ended March 31, 2016.

Gross Profit

Gross profit decreased by \$0.8 million, or 1.9%, in the three months ended March 31, 2017, on a sales decline of 2.5%.

Gross profit by segment for the three months ended March 31, 2017 and March 31, 2016 was as follows:

	Three months ended	
	March 31, 2017	March 31, 2016
	(\$ in thousands)	
Gross profit		
Services	\$ 30,213	\$ 32,458
<i>% of segment revenue</i>	23.9%	24.7%
International	10,460	8,673
<i>% of segment revenue</i>	30.5%	28.0%
Products and Systems	2,594	2,738
<i>% of segment revenue</i>	46.7%	41.0%
Corporate and eliminations	(114)	101
	<u>\$ 43,153</u>	<u>\$ 43,970</u>
<i>% of total revenue</i>	26.4%	26.3%

Three months

As a percentage of revenues, gross profit was 26.4% and 26.3% for the three months ended March 31, 2017 and 2016, respectively. Services segment gross profit margins decreased to 23.9% in the three months ended March 31, 2017 compared to 24.7% in the three months ended March 31, 2016. The 80 basis point decrease was primarily driven by a change in sales mix. International segment gross margins increased to 30.5% in the three months ended March 31, 2017 compared with 28.0% in the three months ended March 31, 2016. The 250 basis point increase was driven by improvements in technical labor utilization, sales mix and overhead utilization. Products and Systems segment gross margin improved by 570 basis points for the three months ended March 31, 2017 to 46.7% compared with 41.0% in the three months ended March 31, 2016, driven by a change in sales mix.

Income from Operations

The following table shows a reconciliation of the income from operations to income before special items for each of the Company's three segments and for the Company in total:

	Three months ended	
	March 31, 2017	March 31, 2016
	(\$ in thousands)	
Services:		
Income from operations	\$ 7,380	\$ 11,339
Bad debt provision for a customer bankruptcy	1,200	—
Severance costs	16	—
Acquisition-related expense (benefit), net	(124)	(173)
Income before special items	8,472	11,166
International:		
Income from operations	3,034	720
Severance costs	13	65
Acquisition-related expense (benefit), net	(501)	20
Income before special items	2,546	805
Products and Systems:		
Loss from operations	(449)	(132)
Severance costs	—	(11)
Acquisition-related expense (benefit), net	—	—
Loss before special items	(449)	(143)
Corporate and Eliminations:		
Loss from operations	(6,715)	(6,281)
Acquisition-related expense (benefit), net	81	—
Loss before special items	(6,634)	(6,281)
Total Company		
Income from operations	\$ 3,250	\$ 5,646
Bad debt provision for a customer bankruptcy	\$ 1,200	\$ —
Severance costs	\$ 29	\$ 54
Acquisition-related expense (benefit), net	\$ (544)	\$ (153)
Income before special items	\$ 3,935	\$ 5,547

Three months

For the three months ended March 31, 2017, income from operations (GAAP) decreased \$2.4 million, or 42%, compared with the three months ended March 31, 2016 and income before special items (non-GAAP) decreased \$1.6 million, or 29%. As a percentage of revenues, income before special items declined by 90 basis points to 2.4% in the three months ended March 31, 2017 from 3.3% in the three months ended March 31, 2016.

Operating expenses increased \$1.6 million during the three months ended March 31, 2017, driven primarily by a \$1.2 million bad debt provision taken in the first quarter of 2017 pertaining to a customer's Chapter 11 bankruptcy filing.

Interest Expense

Interest expense was approximately \$1.0 million and \$1.1 million for the three months ended March 31, 2017 and 2016, respectively.

Income Taxes

The Company's effective income tax rate was approximately 24% for the three months ended March 31, 2017 and 2016. The effective income tax rate for the first quarter of each of 2017 and 2016 was lower than the anticipated annual effective tax rate due to discrete items.

Liquidity and Capital Resources**Cash Flows Table**

Cash flows are summarized in the table below:

	Three months ended	
	March 31, 2017	March 31, 2016
	(\$ in thousands)	
Net cash provided by (used in):		
Operating activities	\$ 13,413	\$ 29,113
Investing activities	(8,137)	(4,109)
Financing activities	2,853	(18,888)
Effect of exchange rate changes on cash	309	(89)
Net change in cash and cash equivalents	<u>\$ 8,438</u>	<u>\$ 6,027</u>

Cash Flows from Operating Activities

During the three months ended March 31, 2017, cash provided by operating activities was \$13.4 million, a decrease of \$15.7 million, or 54%. The decrease was primarily attributable to the timing of collections and the payment of a \$6.3 million legal settlement.

Cash Flows from Investing Activities

During the three months ended March 31, 2017, cash used in investing activities was \$8.1 million, compared with a cash outflow of \$4.1 million in the comparable period of the prior year. The first three months of 2017 included \$4.5 million outflow related to acquisitions, compared with no acquisition activity for the comparable period in 2016. Cash used for capital expenditures was \$3.8 million and \$4.2 million in the first three months of 2017 and 2016, respectively.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$2.9 million for the three months ended March 31, 2017. The Company borrowed \$10.1 net on its Credit Agreement, of which \$6.0 million was used to purchase treasury stock and \$4.5 million was used for an acquisition. For the comparable period in 2016, net cash used by financing activities was \$18.9 million, of which \$17.6 million was to reduce its debt and capital lease obligations.

Effect of Exchange Rate Changes on Cash and Cash Equivalents

The effect of exchange rate changes on our cash and cash equivalents was a net increase of \$0.3 million in the first three months of 2017, compared to a \$0.1 million reduction for the first three months of 2016.

Cash Balance and Credit Facility Borrowings

The terms of our Credit Agreement have not changed from those set forth in Part II, Item 7 of our 2016 Transition Report under the Section "Liquidity and Capital Resources", under the heading "Cash Balance and Credit Facility Borrowings," and Note 10 - *Long-Term Debt* to these condensed consolidated financial statements in this Quarterly Report, under the heading "Senior Credit Facility."

As of March 31, 2017, we had cash and cash equivalents totaling \$27.6 million and available borrowing capacity of \$76.3 million under our Credit Agreement with borrowings of \$93.0 million and \$5.7 million of letters of credit outstanding. We

finance 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.

As of March 31, 2017, we were in compliance with the terms of the Credit Agreement, and we will continuously monitor our compliance with the covenants contained in our Credit Agreement.

Contractual Obligations

There have been no significant changes in our contractual obligations and outstanding indebtedness as disclosed in the 2016 Transition Report.

Off-balance Sheet Arrangements

During the three months ended March 31, 2017, 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.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in the 2016 Transition Report.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no significant changes to the Company’s quantitative and qualitative disclosures about market risk as discussed in Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk,” included in the 2016 Transition Report.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of March 31, 2017, 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) of the Exchange Act. 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 Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC 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 March 31, 2017 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

PART II—OTHER INFORMATION**ITEM 1. Legal Proceedings**

There have been no material developments with regard to any matters disclosed under Part I, Item 3 “Legal Proceedings” in our 2016 Transition Report.

See Note 12 - *Commitments and Contingencies* to the condensed consolidated financial statements included in this Quarterly Report for a description of our legal proceedings.

ITEM 1.A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risk factors discussed under the “Risk Factors” section included in our 2016 Transition Report. There have been no material changes to the risk factors previously disclosed in the 2016 Transition 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 table sets forth the shares of our common stock we acquired during the quarter pursuant to our publicly announced share repurchase plan and as a result of the surrender of shares by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units.

Month Ending	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
January 31, 2017	83,897	\$ 24.61	81,103	\$ 39,004,574
February 28, 2017	85,985	\$ 23.26	85,985	\$ 37,004,563
March 31, 2017	89,261	\$ 22.43	89,166	\$ 35,004,570

(1) - On October 7, 2015, the Company announced that its Board of Directors approved a share repurchase plan, which authorizes the expenditure of up to \$50.0 million for the purchase of the Company's common stock. On August 17, 2016, the Company entered into an agreement with its founder, Chairman and Chief Executive Officer, Dr. Sotirios Vahaviolos, which provides for the Company to repurchase up to 1 million shares of its common stock from Dr. Vahaviolos. The plan with Dr. Vahaviolos is included in the \$50.0 million of purchases authorized by our Board of Directors. The amounts of 81,103, 85,985 and 89,166 in the shares purchased column represent the purchases from Dr. Vahaviolos during the first quarter of 2017.

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

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/ Jonathan H. Wolk

Jonathan H. Wolk

Senior Executive Vice President, Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer and duly authorized officer)

Date: May 9, 2017

CERTIFICATION PURSUANT TO RULE 13A-14(a) OF THE SECURITIES

EXCHANGE ACT OF 1934

I, Sotirios J. Vahaviolos, certify that:

1. I have reviewed this report on Form 10-Q of Mistras Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2017

/s/ Sotirios J. Vahaviolos

Sotirios J. Vahaviolos

Chairman and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION PURSUANT TO RULE 13A-14(a) OF THE SECURITIES

EXCHANGE ACT OF 1934

I, Jonathan H. Wolk, certify that:

1. I have reviewed this report on Form 10-Q of Mistras Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2017

/s/ Jonathan H. Wolk

Jonathan H. Wolk

Senior Executive Vice President, Chief Financial Officer and Treasurer

(Principal Financial Officer)

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, for the purposes of section 1350 of chapter 63 of title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Mistras Group, Inc. (the "Company"), that, to his knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2017 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Report.

Dated: May 9, 2017

/s/ Sotirios J. Vahaviolos

Sotirios J. Vahaviolos

Chairman and Chief Executive Officer

(Principal Executive Officer)

/s/ Jonathan H. Wolk

Jonathan H. Wolk

Senior Executive Vice President, Chief Financial Officer and Treasurer

(Principal Financial Officer)