

Mistras Group, Inc.
Form 10-K
August 12, 2015

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

Form 10-K

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

For the fiscal year ended May 31, 2015

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 Number)

195 Clarksville Road
Princeton Junction, New Jersey 08550
(609) 716-4000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.01 par value	New York Stock Exchange

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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"). Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such

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

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the Registrant as of November 30, 2014, based upon the closing price of the common stock as reported by New York Stock Exchange on such date was approximately \$294.1 million.

As of August 1, 2015, a total of 28,703,320 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference to portions of the registrant's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders (the "Proxy Statement"), which is expected to be filed not later than 120 days after the registrant's fiscal year ended May 31, 2015. Except as expressly incorporated by reference, the Proxy Statement shall not be deemed to be a part of this report on Form 10-K.

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ITEM 1. BUSINESS

FORWARD-LOOKING STATEMENTS

This Report on Form 10-K contains forward-looking statements regarding us and our business, financial condition, results of operations and prospects 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). 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,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “may,” “could,” “should,” “would,” “predicts,” “appears,” “projects,” or the like, or other similar expressions. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those discussed elsewhere in this Report in Part I, Item 1A. “Risk Factors,” Part 2, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in this Item 1, as well as those discussed in our other Securities and Exchange Commission (SEC) filings. We undertake no obligation to (and expressly disclaim any obligation to) revise or update any forward-looking statements made herein whether as a result of new information, future events or otherwise. However, you should consult any further disclosures we may make on these or related topics in our reports on Form 8-K or Form 10-Q filed with the SEC.

The following discussions should be read in conjunction with the sections of this Report entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors”.

Our Business

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. Given the role our solutions 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 (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. As of May 31, 2015, we had approximately 5,700 employees, in approximately 120 offices across 16 countries. We have established long-term relationships as a critical solutions provider to many of the leading companies in our target markets.

Our asset protection solutions continuously evolve over time as we combine the disciplines of NDT, DT, PdM, MI, engineering & consulting services and data analysis and enterprise inspection data management software to provide value to our customers. The foundation of our business is NDT, which is the examination of assets without impacting current and future usefulness or impairing the integrity of these assets. The ability to inspect infrastructure assets and not interfere with their operating performance makes NDT a highly attractive alternative to many traditional intrusive inspection techniques, which may require dismantling equipment or shutting down a plant, mill or site. Our MI services are a systematic engineering-based approach to developing best practices for ensuring the on-going integrity and safety of equipment and industrial facilities. MI services involve conducting an inventory of infrastructure assets, developing and implementing inspection and maintenance procedures, training personnel in executing these procedures and managing inspections, testing and assessments of customer assets. By assisting customers in implementing MI programs we enable them to identify gaps between existing and desired practices, find and track deficiencies and degradations to be corrected and establish quality assurance standards for fabrication, engineering and installation of infrastructure assets. We believe our MI services improve plant safety and reliability and regulatory compliance, and in so doing reduce maintenance costs. Our solutions also incorporate comprehensive Risk Based

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Inspection (RBI) data analysis from our proprietary asset protection software to provide customers with detailed, integrated and cost-effective solutions that rate the risks of alternative maintenance approaches and recommend actions in accordance with consensus industry codes and standards and help to establish and support key performance indicators (KPI's) to ensure continued safe and economic operations.

We differentiate ourselves by delivering these solutions under our “One Source” umbrella, utilizing a proven systematic method that creates a closed loop life cycle for addressing continuous asset protection and improvement. Under this business model, customers outsource their inspection to us on a “run and maintain” basis. As a global asset protection leader, we provide a comprehensive range of solutions that includes:

- traditional and advanced outsourced NDT services conducted by our technicians, mechanical integrity assessments, above-ground storage tank inspection, pipeline inspection and American Petroleum Institute (API) visual inspections and PdM program development;

destructive testing (DT), a definitive discipline in material testing, taking specimens through to mechanical failure while examining a host of factors. Hardness, stiffness and strength are a few key indicators drawn from destructive tests per customer specifications. DT is a strength of our subsidiary, Mistras-GMA in Germany, which specializes in an array of destructive testing applications utilized throughout the materials selection and approval process in the aerospace, automotive, chemical, oil and gas and power generation industries.

advanced asset protection solutions, in most cases involving proprietary acoustic emission (AE), digital radiography, infrared, wireless and/or automated ultrasonic inspections and sensors, which are operated by our highly trained technicians;

a proprietary and customized portfolio of software products for testing and analyzing data captured in real-time by our technicians and sensors, including advanced features such as pattern recognition and neural networks;

enterprise software and relational databases to store and analyze inspection data, comparing it to prior operations and testing of similar assets, industrial standards and specific risk conditions, such as use with highly flammable or corrosive materials, and developing asset integrity management plans based on risk-based inspection that specify an optimal schedule for the testing, maintenance and retirement of assets;

on-line monitoring systems that provide secure web-based remote or on-site asset inspection, real-time reports and analysis of plant or enterprise-wide structural integrity data, comparison of integrity data to our library of historical inspection data and analysis to better assess structural integrity and provide alerts for and prioritize future inspections and maintenance;

in-house testing services: Mistras' in-house inspection services provide cost-effective, efficient solutions that improve the integrity and lifespan of critical assets featuring a dynamic suite of testing and inspection services. With a network of 15 in-house laboratories, Mistras provides a one-stop shop for traditional (NDT), advanced non-destructive testing (ANDT), and destructive testing (DT) of materials and fabricated structures by offering a complete inspection package — from preparation and production all the way to post-processing. These capabilities are available through our state-of-the-art testing equipment and expertise in our grid of in-house testing laboratories across the U.S.A., Canada and Europe;

full range of engineering consulting services to the downstream and renewable energy sectors that includes plant operations support covering both process and equipment technologies; project planning, management and execution; expert testimony and technical training; and

ultra high pressure water blasting & painting in place of sand blasting used on off shore oil and gas platforms and land based refinery and chemical fixed equipment, and offering NDT inspection while in post cleaning mode.

Our labs hold a wide variety of certifications that allow them to perform inspections to meet or exceed stringent regulatory requirements, such as: NADCAP, AS9100/ISO-9001, FAA Repair Station and ITAR/EAR. With these certifications comes a comprehensive range of approvals from prime contractors of major projects, the military, and internationally renowned products and systems manufactures from aerospace to nuclear energy; transportation to petrochemical industries.

We offer our customers a customized package of services, products and systems, or our enterprise software and other niche high-value products on a stand-alone basis. For example, customers can purchase most of our sensors and accompanying

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software to integrate with their own systems, or they can purchase a complete turn-key solution, including installation, monitoring and assessment services. Importantly, however, we do not sell certain of our advanced and proprietary software and other products as stand-alone offerings; instead, we embed them in our comprehensive service offerings to protect our investment in intellectual property while providing an added value which generates a substantial source of recurring revenues.

We generated revenues of \$711.3 million, \$623.5 million and \$529.3 million, net income of \$16.1 million, \$22.5 million and \$11.6 million and, and adjusted EBITDA of \$71.7 million, \$70.4 million and \$68.3 million for fiscal 2015, 2014 and 2013, respectively. An explanation of adjusted EBITDA and a reconciliation of these amounts to net income are set forth in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. For fiscal 2015, we generated approximately 75% of our revenues from our Services segment. Our revenues are diversified, with our top ten customers accounting for approximately 33%, 38% and 34% of our revenues during fiscal 2015, 2014 and 2013, respectively.

Asset Protection Industry Overview

Asset protection is a large and rapidly growing industry that consists of NDT inspection, DT inspection, PdM and MI services and inspection data management and analysis. NDT plays a crucial role in assuring the operational and structural integrity and reliability of critical infrastructure without compromising the usefulness of the tested materials or equipment. The evolution of NDT services, in combination with broader industry trends, including increased asset utilization and aging of infrastructure, the desire by companies to extend the useful life of their existing infrastructure, new construction projects, enhanced government regulation and the shortage of certified NDT professionals, have made NDT an integral and increasingly outsourced part of many asset-intensive industries. Well-publicized industrial and public infrastructure failures and accidents such as the Deepwater Horizon oil spill in the Gulf of Mexico and the I-35W Mississippi River bridge collapse in Minnesota, and a number of recent refinery accidents continues to raise the level of safety and environmental awareness of regulators, while owners and operators are recognizing the benefits that asset protection solutions can provide.

Historically, NDT solutions predominantly used qualitative testing methods aimed primarily at detecting defects in the tested materials. This methodology, which we categorize as “traditional NDT,” is typically labor intensive and, as a result, considerably dependent upon the availability and skill level of the certified technicians, engineers and scientists performing the inspection services. The traditional NDT market has been highly fragmented, with a significant number of small vendors providing inspection services to divisions of companies or local governments situated in close proximity to the vendor’s field inspection engineers and technicians. The trend over the past several years, however, is for customers to look for a select few vendors capable of providing a wider spectrum of asset protection solutions for global infrastructure that we call “one source”. This shift in underlying demand, which began in the early 1990s and has accelerated more recently, has contributed to a transition from traditional NDT solutions to more advanced solutions that employ automated digital sensor technologies and accompanying enterprise software, allowing for the effective capture, storage, analysis and reporting of inspection and engineering results electronically and in digital formats. These advanced techniques, taken together with advances in wired and wireless communication and information technologies, have further enabled the development of remote monitoring systems, asset-management and predictive maintenance capabilities and other data analytics and management. We believe that as advanced asset protection solutions continue to gain acceptance among asset-intensive organizations, those vendors offering broad, complete and integrated solutions, scalable operations and a global footprint will have a distinct competitive advantage. Moreover, we believe that vendors that are able to effectively deliver both advanced solutions and data analytics, by virtue of their access to customers’ data, create a significant barrier to entry for competitors, and lead the opportunity to create significant recurring revenues.

We believe the following represent key dynamics driving the growth of the asset protection industry:

Extending the Useful Life of Aging Infrastructure. The prohibitive cost and challenge of building new infrastructure has resulted in the significant aging of existing infrastructure and caused companies to seek ways to extend the useful life of existing assets. For example, due to the significant cost associated with constructing new refineries, stringent environmental regulations which have increased the costs of managing them and difficulty in finding suitable locations on which to build them, no major new refineries have been constructed in the United States since 1976. Another example is in the area of power transmission and distribution. The Smart Grid initiative in the United States is causing increased loading on aging transformers that are more than 40 years old in many cases. The need to test and monitor these units to ensure their reliability until replacement is instrumental in support of a reliable Smart Grid network. Because aging infrastructure requires relatively higher levels of maintenance and repair in comparison to new infrastructure, as well as more frequent, extensive and ongoing testing, companies and public authorities are increasing spending to ensure the operational and structural integrity of existing infrastructure.

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Outsourcing of Non-Core Activities and Technical Resource Constraints. The increasing sophistication and automation of NDT programs, together with a decreasing supply of skilled professionals and stricter and increasing governmental regulations, has caused many companies and public authorities to outsource NDT and other services rather than recruit and train such capabilities internally. Owners and operators of infrastructure are increasingly contracting with third party providers that have the necessary technical product portfolio, engineering expertise, technical workforce and proven track record of results-oriented performance to effectively meet their increasing requirements.

Increasing Asset and Capacity Utilization. Due to the dynamic fluctuating energy prices, the availability of new and inexpensive sources of raw materials, high repair and replacement costs and the limited construction of new infrastructure, existing infrastructure in some of our target markets is being used at higher capacities, causing increased stress and fatigue that accelerate deterioration. These dynamic prices and costs also motivate our customers to complete repairs, maintenance, replacements and upgrades more quickly. For example, increasing demand for refined petroleum products, combined with high plant utilization rates, is driving refineries to upgrade facilities to make them more efficient and expand capacity. In order to sustain high capacity utilization rates, customers are increasingly using asset protection solutions to efficiently ensure the integrity and safety of their assets. Implementation of asset protection solutions can also lead to increased productivity as a result of reduced maintenance-related downtime.

Increasing Corrosion from Low-Quality Inputs. The increased availability and low cost of crude oil from areas such as shale plays and oil sands resources have led to the use of lower grade raw materials and feedstock used in refinery and power generation processes. These lower grade raw materials and feedstock, especially in the case of the refining process involving petroleum with higher sulfur content, can rapidly corrode the infrastructure with which they come into contact, which in turn increases the need for asset protection solutions to identify such corrosion and enable infrastructure owners to proactively combat the problems caused by such corrosion.

Increasing Use of Advanced Materials. Customers in our target markets are increasingly utilizing advanced materials, such as composites, and other unique technologies in the manufacturing and construction of new infrastructure and aerospace applications. As a result, they require advanced testing, assessment and maintenance technologies to inspect and to protect these assets, since many of these advanced materials cannot be tested using traditional NDT techniques. We believe that demand for NDT solutions will increase as companies and public authorities continue to use these advanced materials, not only during the operating phase of the lifecycle of their assets, but also during the design, manufacturing and quality control phases and are more frequently integrating and embedding sensors directly into the end product in support of total life cycle asset management.

Meeting Safety Regulations. Owners and operators of infrastructure assets increasingly face strict government regulations and safety requirements. Failure to meet these standards can result in significant financial liabilities, increased scrutiny by Occupational Safety and Health Administration (OSHA) and other regulators, higher insurance premiums and tarnished corporate brand value. There have been several industrial accidents, including explosions and fires, in recent years. These accidents created significant damage to the reputation of refineries and coupled with concern by owners, led OSHA to strengthen process safety enforcement standards with the continued implementation of the National Emphasis Program (NEP) that also extends to chemical plants for compliance with applicable regulations. As a result, these owners and operators are seeking highly reliable asset protection suppliers with a proven track record of providing asset protection services, products and systems to assist them in meeting these increasingly stringent regulations.

Expanding Addressable End-Markets. Advances in NDT sensor technology and asset protection software based systems, and the continued emergence of new technologies, are creating increased demand for asset protection solutions in applications where existing techniques were previously ineffective. Further, we expect increased demand

in relatively new markets, such as automotive component suppliers and the pharmaceutical and food processing industries, where infrastructure is now beginning to age to a point where significant maintenance may be required.

Expanding Addressable Geographies. We believe that incremental demand will continue to come from international markets, including Western and Eastern Canada, Asia, Europe and parts of Latin America. Specifically, as companies and governments in these markets build and maintain infrastructure and applications that require the use of asset protection solutions, we believe demand for our solutions will increase.

We believe that the market available to us will continue to grow as a result of these macro-market trends.

Our Target Markets

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Overview

Mistras operates in a highly competitive, but fragmented market. Our primary competitors are divisions of large companies, and many of our other competitors remain to be small independent local companies which may be, limited to a specific product, service or technology and focused on a niche market or geographic region. We focus our strategic sales, marketing and product development efforts on a range of infrastructure-intensive based industries and governmental authorities. In general, our largest markets in broad terms are energy-related infrastructure where we perform fitness for service inspection and engineering based services on fixed and rotating assets.

There are strong economic indicators that continue to drive our business, especially in the U.S. domestic markets as indicated by the Energy Information Administration (EIA);

- Growth in U.S. energy production-led by crude oil and natural gas-and only modest growth in demand reduces U.S. reliance on imported energy supplies

- Growing domestic production of natural gas and oil continues to reshape the U.S. energy economy, largely as a result of rising production from tight formations, but the effect has varied substantially based on resources and technology. The United States transitions from being a modest net importer of natural gas to a net exporter by 2017. U.S. export growth continues after 2017, with net exports in 2040 ranging from 3.0 trillion cubic feet (Tcf) in the Low Oil Price case to 13.1 Tcf in the High Oil and Gas Resource case.

- Industrial production expands over the next 10 to 15 years as the competitive advantage of low natural gas prices provides a boost to the industrial sector with increasing natural gas use.

U.S. oil production has grown rapidly in recent years. U.S. EIA data, which reflect combined production of crude oil and lease condensate, show a rise from 5.6 million barrels per day (bbl/d) in 2011 to 7.5 million bbl/d in 2013, and a record 1.2 million bbl/d increase to 8.7 million bbl/d in 2014. Increasing production of light crude oil in low-permeability or tight resource formations in regions like the Bakken, Permian Basin, and Eagle Ford (often referred to as light tight oil) account for nearly all the net growth in U.S. crude oil production.

EIA's latest Short-Term Energy Outlook, issued in May 2015, reflects continued production growth in 2015 and 2016, albeit at a slower pace than in 2013 and 2014, with U.S. crude oil production in 2016 forecast to reach 9.2 million bbl/d.

In addition, the EIA data expects the U.S. to transition from a net importer of 1.3 trillion cubic feet (Tcf) of natural gas in 2013 (5.5% of the 23.7 Tcf delivered to consumers) to a net exporter in 2017. Net exports are expected to continue to grow after 2017, to a 2040 range between 3.0 and 13.1 Tcf, and liquefied natural gas (LNG) exports may reach 3.4 Tcf in 2030 and remain at that level through 2040, when they account for 46% of total U.S. natural gas exports. The growth in U.S. LNG exports is supported by differences between international and domestic natural gas prices. LNG supplied to international markets is primarily priced on the basis of world oil prices, among other factors. This results in significantly higher prices for global LNG than for domestic natural gas supply, particularly in the near term.

From a global perspective the trends remain positive showing a significant increase in the demand for energy. The following represent the expected level of energy investment needs to the year 2035 to meet those demands as released in the 2014 World Energy Investment Outlook from the International Energy Agency (IEA).

Almost 70% of energy supply investment today is related to fossil fuels, whether in the extraction of oil, gas or coal, their transport to consumers, their transformation along the way (e.g. from crude to refined oil products), or the construction of fossil-fuel fired power plants.

More than \$1.6 trillion is being invested each year in order to provide the world's consumer with energy, a figure that has more than doubled in real terms since 2000, and an additional \$130 billion was spent in 2013 on improving end-use energy efficiency above 2012 levels.

Almost \$1.0 trillion of current energy supply investment is for primary fuel supply, mainly for oil and natural gas, and around \$650 billion is in the power sector. Spending on renewable energy sources has risen sharply since 2000 to reach \$250 billion in the first half of 2014, 15% of the total.

Over the period to 2035, the investment required each year to meet the world's energy needs is expected to rise steadily towards \$2.0 trillion and annual spending on energy efficiency increases to \$550 billion. This is expected to result in a cumulative global investment of more than \$48 trillion over this 20 year period.

Energy supply investment is dominated by the needs of the power sector (\$16.4 trillion), followed by oil (\$13.7 trillion) and gas (\$8.8 trillion). More than half of this is needed just to maintain energy supply at today's levels.

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Our largest market is energy-related infrastructure. We focus our sales, marketing and product development efforts on a range of infrastructure-intensive industries and governmental authorities. With our portfolio of asset protection services, engineering, products and systems, we can effectively serve our customer base throughout the lifecycle of their assets, beginning at the design stage, through the design, construction and maintenance phases and, as necessary, through the decommissioning of their infrastructure.

There has also been a renewed interest in energy alternatives to traditional fossil fuels. This has resulted from an increase in world energy demand and prices from 2003 to mid-2014, and concerns about the environmental consequences of greenhouse gas emissions. In addition, the discovery of large shale gas reserves, which are considered by some as a clean energy alternative, has driven the increase in the use of natural gas to fuel gas turbines in combined cycle power generation plants.

Long-term prospects continue to improve for generation from both nuclear and renewable energy sources, supported by government incentives, demand and by higher fossil fuel prices.

The outlook for coal in the U.S. has been altered substantially by additional constraints and legislation reducing and limiting the release of greenhouse gas emissions related to fossil fuels. There is a progressive shift from traditional gas energy to unconventional gas energy sources. According to the EIA report, very little new coal-fired capacity-and no new oil-fired capacity- will be built through 2040. Most generating fuel costs are attributed to coal and natural gas. In 2013, coal made up 44% of total generation fuel costs, and natural gas made up 42%. The EIA report expects that in 2040, coal will make up only 35% of total fuel costs, compared with 55% for natural gas. Oil, which is the most expensive fuel for generation, accounted for 6% of the total generating fuel costs in 2013 and from 2019 through 2040 is expect to account for only 3% of the total. Nuclear fuel accounts for 6% to 8% of electricity generation fuel costs throughout this period.

Revenue by Target Market

The following chart represents the percentage of consolidated revenues we generated from our various markets for fiscal 2015:

Mistras Revenues by Target Market (Fiscal 2015)

Oil and Gas

Because oil, gas, and coal are expected to continue to be the primary energy sources, the energy industry will have to continue increasing the supply of these fuels to meet this increasing demand. In addition, there were approximately 657 crude oil refineries in the world, with 142 refineries operating in the United States. Fluctuating high energy prices are driving consistently high utilization rates at these facilities. With aging infrastructure and growing capacity constraints, asset protection

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continues to grow as an indispensable tool in maintenance planning, quality control and prevention of catastrophic failure in refineries and petrochemical plants. Recent low oil and lower fossil fuel input prices have placed additional pressure on industry participants to increase capacity, focus on production efficiency and cost reductions and shorten shut-down time or “turnarounds.” Asset protection solutions are used for both off-stream inspections, or inspection when the tested infrastructure is shut-down, and increasingly, on-stream inspections, or inspection when the tested infrastructure is operating at normal levels. While we expect off-stream inspection of vessels and piping during a plant shut-down or turnaround to remain a routine practice by companies in these industries, we expect the areas of greatest future growth to occur as a result of on-stream inspections and monitoring of facilities, such as offshore platforms, transport systems and oil and gas pipeline transmission lines, because of the substantial opportunity costs of shutting them down. On-stream inspection enables companies to avoid the costs associated with shutdowns during testing while enabling the economic and safety advantages of advanced planning or predictive maintenance.

Power Generation and Transmission

Asset protection in the power industry has traditionally been associated with the inspection of high-energy, critical steam piping, boilers, rotating equipment, and various other plant components (balance of plant), utility aerial man-lift devices, large transformer testing and various other applications for nuclear and fossil-fuel based power plants. We believe that in recent years the use of asset protection solutions has grown rapidly in this industry due to the aging of critical power generation and transmission infrastructure. For instance, the average age of a nuclear power plant in the United States is over 30 years. Also driving this segment is the large conversion of tradition coal plants to cleaner burning and more efficient natural gas fired power plants. Furthermore, global demand for power generation and transmission has grown rapidly and is expected to continue, primarily as a result of the energy needs of emerging economies such as China and India. The areas of traditional power generation and transmission on which we focus our efforts are natural gas, fossil, nuclear, alternative, renewable, and wind.

Process Industries

The process industries, or industries in which raw materials are treated or prepared in a series of stages, include chemicals, pharmaceuticals, food processing, paper and pulp and metals and mining, have a need for our products and services. As with oil and gas processing facilities, chemical processing facilities require significant spending on maintenance and monitoring. Given their aging infrastructure and high utilization requirements, growing capacity constraints and increasing capital costs, we believe asset protection solutions will continue to grow in importance in maintenance planning, quality and cost control and prevention of catastrophic failure in the chemicals industry. Although the pharmaceuticals and food processing industries have historically not employed asset protection solutions as much as other industries, these industries are increasing the use of asset protection solutions throughout their manufacturing and other processes.

Public Infrastructure, Research and Engineering

We believe that high profile infrastructure catastrophes, such as the collapse of the I-35W Mississippi River Bridge in Minneapolis and others since, have caused public authorities to more actively seek ways to prevent similar events from occurring. Public authorities tasked with the construction of new, and maintenance of existing, public infrastructure, including bridges and highways, increasingly use asset protection solutions to test and inspect these assets. Importantly, these authorities now employ asset protection solutions throughout the life of these assets, from their original design and construction, with the use of embedded sensing devices to enable on-line monitoring, through ongoing maintenance requirements. With more than 143,000 bridges in the United States, almost 25 percent of all bridges, classified as structurally deficient or functionally obsolete by the Federal Highway Agency (FHWA), the need for structural health monitoring is significant. An immediate “cost-beneficial” investment aimed at replacing or repairing deficient bridges may cost as much as \$76 billion, according to the U.S. Department of Transportation.

This is a target market for our application technology and experience. Over the last ten years, we have provided testing and health monitoring on hundreds of bridges and structures worldwide, among which include some of the largest and well-known bridges in the United Kingdom, California, Pennsylvania and the greater New York metropolitan area. Commencing in fiscal 2011, we provided a continuous on-line Structural Health Monitoring System to the California Department of Transportation that monitored structural integrity of the San Francisco Oakland Bay Bridge while a new bridge was being contracted in parallel to it. We continue to provide these monitoring services worldwide. We continue to develop products today that incorporate low power energy electronic technology as a result of a \$6.9 million project awarded to us and several universities in 2009 under the National Institute of Standards and Technology (NIST) Innovation Program that was intended to bring a transformational impact in the area of civil infrastructure structural health monitoring using affordable self-powered wireless sensors, data collectors and energy harvesting products.

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The use of asset protection solutions within the transportation industry is primarily focused in the automotive and rail segments. Within the automotive segment, manufacturers use asset protection solutions throughout the entire design and development process, including the inspection of raw material inputs, during in-process manufacturing and, finally, during end-product testing and analysis. Although asset protection technologies have been utilized in the automobile industry for a number of decades, we believe growth in this market will increase as automobile manufacturers begin to outsource their asset protection requirements and take advantage of new technologies that enable them to more thoroughly inspect their products throughout the manufacturing process, reduce costs and shorten time to market. Within the rail subdivision, asset protection solutions are used primarily to test rails and passenger and tank cars.

Aerospace and Defense

The operational safety, reliability, structural integrity and maintenance of aircraft and associated products is critical to the aerospace and defense industries. Industry participants increasingly use asset protection solutions to perform inspections upon delivery, and also periodically employ asset protection solutions during the operational service of aircraft, using advanced ultrasonic immersion systems or digital radiography in order to precisely detect structural defects. Industry participants also use asset protection solutions for the inspection of advanced composites found in new classes of aircraft, x-ray of critical engine components, ultrasonic fatigue testing of complete aircraft structures, corrosion detection and on-board monitoring of landing gear and other critical components. We expect increased demand for our solutions including our destructive testing business from the aerospace industry to result from wider use of these advanced composites and distributed on-line sensor networks and other embedded analytical applications built into the structure of assets to enable real-time performance monitoring and condition-based maintenance. We serve this rapidly growing target market by providing our state of the art fully integrated inspection systems to original equipment manufacturers (OEMs). For the OEM that prefers to outsource this inspection, we provide a full range of in-house services through our four regional facilities that combined have eighteen immersion inspection tank systems and two gantry systems. These facilities have obtained numerous accreditations and certifications required to meet the stringent inspection criteria that the aerospace industry demands.

Industrial

The quality control requirements driven by the need for zero to low defect component tolerance within automated robotic intensive industries such as automotive, consumer electronics and medical industries, serve as key drivers for the recent growth of NDT technologies, such as ultrasonics and radiography. We expect that increasingly stringent quality control requirements and competitive forces will drive the demand for more costly finishing and polishing which, in turn, may promote greater use of NDT throughout the production lifecycle.

Our Competitive Strengths

We believe the following competitive strengths contribute to our being a leading provider of asset protection solutions and will allow us to further capitalize on growth opportunities in our industry:

One Source Provider for Asset Protection Solutions® Worldwide. We believe we have the most comprehensive portfolio of proprietary and integrated asset protection solutions, including inspection and engineering services, products and systems worldwide, which positions us to be the leading single source provider for a customer's asset protection requirements. Through our network of approximately 120 offices, supplemented by independent representatives in 16 countries around the world, we offer an extensive portfolio of solutions that enables our customers to consolidate all their inspection and maintenance requirements and the associated data storage and analytics on a single system that spans the customers' entire enterprise.

Long-Standing Trusted Provider to a Diversified and Growing Customer Base. By providing critical and reliable NDT services, products and systems for more than 30 years and expanding our asset protection solutions, we have become a trusted partner to a large and growing customer base across numerous infrastructure-intensive industries globally. Our customers include some of the largest and most well-recognized firms in the oil and gas, chemicals, fossil and nuclear power, and aerospace and defense industries as well as some of the largest public authorities.

Repository of Customer-Specific Inspection Data. Our enterprise data management and analysis software, PCMS, enables us to capture, warehouse, manage and analyze our customers' testing and inspection data in a centralized relational database. As a result, we have accumulated large amounts of proprietary process data and information that allows us to provide our customers with value-added services, such as benchmarking, risk-based inspection, reliability

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centered maintenance solutions including predictive maintenance, inspection scheduling, data analytics and regulatory compliance.

Proprietary Products, Software and Technology Packages. We have developed systems that have become the cornerstone of several high value-added unique NDT applications, such as those used for the testing of above-ground storage tanks (the TANKPAC® technology package). These proprietary products allow us to efficiently and effectively provide highly valued solutions to our customers' complex applications, resulting in a significant competitive advantage. In addition to the proprietary products and systems that we sell to customers on a stand-alone basis, we also develop a range of proprietary sensors, instruments, systems and software used exclusively by our Services segment.

Deep Domain Knowledge and Extensive Industry Experience. We are an industry leader in developing advanced asset protection solutions, including acoustic emission testing for non-intrusive on-line monitoring of storage tanks and pressure vessels, bridges and transformers, portable corrosion mapping, ultrasonic testing (UT) systems, on-line plant asset integrity management with sensor fusion, enterprise software solutions for plant-wide and fleet-wide inspection data archiving and management, advanced and thick composites inspection and ultrasonic phased array inspection of thick wall boilers.

Collaborating with Our Customers. Our asset protection solutions have historically been designed in response to our customers' unique performance specifications and are supported by our proprietary technologies. Important technology packages, such as TANKPAC for tank floor corrosion detection and Acoustic Turbine Monitoring System (ACTMS), were developed in close cooperation and partnership with key Mistras customers. Our sales and engineering teams work closely with our customers' research and design staff during the design phase in order to incorporate our products into specified infrastructure projects, as well as with facilities maintenance personnel to ensure that we are able to provide the asset protection solutions necessary to meet these customers' changing demands.

Experienced Management Team. Our management team has a track record of leadership in NDT, DT, PdM and engineering services, averaging over 20 years' experience in the industry. These individuals also have extensive experience in growing businesses organically and in acquiring and integrating companies, which we believe is important to facilitate future growth in the fragmented asset protection industry. In addition, our senior managers are supported by highly experienced managers who are responsible for delivering our solutions to customers.

Our Growth Strategy

Our growth strategy emphasizes the following key elements:

Continue to Develop Technology-Enabled Asset Protection Services, Products, Software and Systems. We intend to maintain and enhance our technological leadership by continuing to invest in the internal development of new services, products, software and systems. Our highly trained team of Ph.D.'s, engineers, application software developers and certified technicians has been instrumental in developing numerous significant asset protection standards. We believe their knowledge base will continue to enable us to innovate a wide range of new asset protection solutions.

Increase Revenues from Our Existing Customers. Many of our customers are multinational corporations with asset protection requirements from multiple divisions at multiple locations across the globe. Currently, we believe we capture a relatively small portion of their overall expenditures on these solutions. We believe our superior services, products and systems, combined with the trend of outsourcing asset protection solutions to a small number of trusted service providers, position us to significantly expand both the number of divisions and locations that we serve as well

as the types of solutions we provide. We strive to be the preferred global partner for our customers and aim to become the single source provider for their asset protection solution requirements.

Add New Customers in Existing Target Markets. Our current customer base represents a small fraction of the total number of companies in most of our target markets with asset protection requirements. Our scale, scope of products and services and expertise in creating technology-enabled solutions have allowed us to build a reputation for high-quality and have increased customer awareness about us and our asset protection solutions. We intend to leverage our reputation and solutions offerings to win new customers within our existing target markets, especially as asset protection solutions are adopted internationally. We intend to continue to leverage our competitive strengths to win new business as customers in our existing target markets continue to seek a single source and trusted provider of advanced asset protection solutions.

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Expand Our Customer Base into New End Markets. We believe we have significant opportunities to expand our customer base in relatively new end markets, including nuclear, wind turbine and other alternative energy and natural gas transportation industries and the market for public infrastructure, such as highways and bridges. The expansion of our addressable markets is being driven by the increased recognition and adoption of asset protection services, products and systems, and new NDT technologies enabling further applications in industries such as healthcare and compressed and liquefied natural gas transportation, and the aging of infrastructure, such as construction and loading cranes and ports, to the point where visual inspection has proven inadequate and new asset protection solutions are required. We expect to continue to expand our global sales organization, grow our inspection data management and data mining services and find new high-value applications. As companies in these emerging end markets realize the benefits of our asset protection solutions, we expect to expand our leadership position by addressing customer needs and winning new business.

Continue to Capitalize on Acquisitions. We intend to continue employing a disciplined acquisition strategy to broaden, complement and enhance our product and service offerings, add new customers and certified personnel, expand our sales channels, supplement our internal development efforts and accelerate our expected growth. We believe the market for asset protection solutions is highly fragmented with a large number of potential acquisition opportunities. We have a proven ability to integrate complementary businesses, as demonstrated by the success of our past acquisitions, which have often contributed entirely new products and services that have added to our revenues and profitability. In addition, we often sell our advanced asset protection solutions to customers of companies we acquired that had previously relied on traditional NDT solutions.

Our Segments

The Company has three operating segments:

Services. This segment provides asset protection solutions predominantly in North America with the largest concentration in the United States along with a growing Canadian services business, consisting primarily of non-destructive testing, and inspection and engineering 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 our 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 our Services and Products and Systems segments to global markets, in Europe, the Middle East, Africa, Asia and South America, but not to customers in China and South Korea, which are served by our Products and Systems segment.

For discussion of segment revenues, operating results and other financial information, including geographic areas in which we recorded revenues, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7, as well as Note 20 - Segment Disclosure in the notes to consolidated financial statements in Item 8 of this Report.

Our Solutions

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, 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. We deliver our solutions through a combination of services and products and systems.

Our Services

Our Services segment provides a range of testing and inspection services to a diversified customer base across energy-related, industrial and public infrastructure industries. We either deploy our services directly at the customer's location or through our own extensive network of field testing facilities. Our footprint allows us to provide asset protection solutions through local offices in close proximity to our customers, permitting us to keep response time, and travel, living and per diem costs to a

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minimum, while maximizing our ability to develop meaningful, collaborative customer relationships. Examples of our comprehensive portfolio of services include: testing components of new construction as they are built or assembled; providing corrosion monitoring data to help customers determine whether to repair or retire infrastructure; providing material analysis to ensure the integrity of infrastructure components; and supplying non-invasive on-stream techniques that enable our customers to pinpoint potential problem areas prior to failure. In addition, we also provide services to assist in the planning and scheduling of resources for repairs and maintenance activities. Our experienced inspection professionals perform these services, supported by our advanced proprietary software and hardware products. Examples of our services are discussed below.

Traditional NDT Services

Our certified personnel provide a range of traditional inspection services. For example, our visual inspections provide comprehensive assessments of the condition of our customers' plant equipment during capital construction projects and maintenance shutdowns. Of the broad set of traditional NDT techniques that we provide, several lend themselves to integration with our other offerings and often serve as the initial entry point to more advanced customer engagements. For example, we provide a comprehensive program for the inspection of above-ground storage tanks designed to meet stringent industry standards for the inspection, repair, alteration and reconstruction of oil and petrochemical storage tanks. This program includes magnetic flux exclusion for the rapid detection of floor plate corrosion, advanced ultrasonic systems and leak detection of floor defects, remote ultrasonic crawlers for shell and roof inspections and trained, certified inspectors for visual inspection and documentation.

Advanced NDT Services

In addition to traditional NDT services, we provide a broad range of proprietary advanced NDT services that we offer on a stand-alone basis or in combination with software solutions such as our proprietary enterprise inspection data management and plant condition monitoring software and systems (PCMS). We also provide on-line monitoring capabilities and other solutions that enable the delivery of accurate and real-time information to our customers. Our advanced NDT services require more complex equipment and more skilled inspection professionals to operate this equipment and interpret test results. Some of the technologies and techniques we use include automated ultrasonic testing, guided ultrasonic long wave testing, phased array ultrasonic testing, risk-based inspection (RBI), computed and digital radiography, among others.

Mechanical Integrity Services

We provide a broad range of MI services that enable our customers to meet stringent regulatory requirements. These services increase plant safety, minimize unscheduled downtime and allow our customers to plan for, repair and replace critical components and systems before failure occurs. Our services are designed to complement a comprehensive predictive and preventative inspection and maintenance program that we can provide for our customers in addition to the MI services. Customers of our MI services have, in many instances, also licensed our PCMS software, which allows for the storage and analysis of data captured by our testing and inspection products and services, and implemented this solution to complement our inspection services.

As a result of the information captured by PCMS and its risk-based inspection software module, we are able to provide a professional service known as "Mechanical Integrity Gap Analysis" for process facilities. Our Mechanical Integrity Gap Analysis service offers insight into the level of plant readiness, how best to manage and monitor the integrity of process facility assets, and how to extend the useful lives of such assets. Our Mechanical Integrity Gap Analysis service also assists customers in benchmarking and managing their infrastructure through key performance indicators and other metrics.

Destructive Testing Services

We provide a wide range of Destructive testing (DT) services. Hardness, stiffness and strength are a few key indicators drawn from destructive tests per customer specifications. DT is a strength of our subsidiary, Mistras-GMA in Germany, which specializes in an array of destructive testing applications utilized throughout the materials selection and approval process in the aerospace, automotive, chemical, oil and gas and power generation industries.

Example testing includes:

Mechanical tests — Materials, specimens and even composites are subjected to increasing levels of tension, compression, shear and peeling until failure. There are a number of variations of mechanical testing in which adding temperature, strain, unidirectional load or shear can provide useful results

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Physical/Chemical — Used to examine specific material and thermal characteristics as well as chemical compositions, including differential scanning calorimetry (DSC), high performance liquid chromatography, fiber volume content and fourier transformation infrared spectroscopy (FTIR)

Materialography — Gives an insight into the geometries of structural composites, which presents an inside track with regards to determining failure mechanisms and asset lifespan expectations.

Our Products and Systems

We provide a range of acoustic emission (AE) products and are a leader in the design and manufacture of AE sensors, instruments and turn-key systems used for monitoring and testing materials, pressure components, processes and structures. Though we principally sell our products as a system, which includes a combination of sensors, an amplifier, signal processing electronics, knowledge-based software and decision and feedback electronics, we can also sell these as individual components to certain customers that have the in-house expertise to perform their own services. Our sensors “listen” to structures and materials to detect real-time AE activity and to determine the presence of active corrosion, crack propagation and other structural flaws in the inspected materials. Such components include pressure vessels, storage tanks, heat exchangers, piping, turbine blades and reactors.

In addition, we provide leak monitoring and detection systems used in diverse applications, including the detection and location of both gaseous and liquid leaks in valves, vessels, pipelines, boilers and tanks. AE leak monitoring and detection, when applied in a systematic preventive maintenance program, has proven to substantially reduce costs by eliminating the need for visual valve inspection and unscheduled down-time.

We design, manufacture and market a complete line of ultrasonic equipment. While AE technology detects flaws and pinpoints their location, our UT technology has the ability to size defects in three-dimensional geometric representations. Our line of UT systems include various Automated UT scanners, our unique portable UT handheld and tablet systems with motion control to run our many inspection scanners, and our immersion systems ranging from small bench top units to large UT systems over 55 feet long and large production unit gantry systems.

We provide a wide array of digital radiographic systems to solve specific industrial problems, including Computed Radiography (CR), Real-Time Radiography (RTR), Direct Radiography (DR), and Computed Tomography (CT). Digital Radiography is one of the newest forms of radiographic imaging. Thickness profiles of piping systems, both insulated and un-insulated, are performed using computed radiography, while large production runs of smaller parts are inspected using direct radiography. Real time radiography is utilized for large “real time” inspections of insulated piping systems looking for areas of pipe degradation.

Technology Solutions

In order to address some of the more common problems faced by our customers, we have developed a number of robust technology solutions. These packages generally allow more rapid and effective testing of infrastructure because they minimize the need for service professionals to customize and integrate asset protection solutions with the infrastructure and interpret test results. These packaged solutions use proprietary and specialized testing procedures and hardware, advanced pattern recognition, neural network software and databases to compare test results against our prior testing data or national and international structural integrity standards. One such package is our ACTMS (Acoustic Combustion Turbine Monitoring System), an on-line system to detect stator blade cracks in gas turbines. Others include TANKPAC for tank inspections, POWERPAC for monitoring discharges in critical power grid transformers, and the AMS boiler tube leak detection and location monitoring system.

Software Solutions

Our software solutions are designed to meet the demands of our customers inspection data management, risk management, data analysis and asset integrity management requirements. We address these requirements using best in class database management systems and applying enterprise based inspection and data management applications. We apply our comprehensive portfolio of customized Acoustic Emission and Ultrasonic application-specific software products to cover a broad range of materials testing and analysis methods, for neural networks, pattern recognition, wavelet analysis and moment tensor analysis. Some of the key software solutions we offer include:

- PCMS enterprise software: A leading inspection data management system for supporting asset protection and reliability

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ISOTRAC: A multiphase methodology to illustrate in 3-D each element of a plant to help develop an overall asset integrity management program that meets or exceeds compliance with current MI standards and regulations

Our PCMS application is an enterprise software system that allows for the collection, storage and analysis of data as captured by our testing and inspection products and services and convert it to valuable information for our plant personnel and plant management. PCMS allows our customers to design and develop asset integrity management monitoring plans that include:

- optimal systematic testing schedules for their infrastructure based on real-time data captured by our sensors;
- alerts that notify customers when to perform special testing services on suspect areas, enabling them to identify and resolve flaws on a timely basis by using our PCMS risk-based inspection (RBI) software module; and
- schedules for the maintenance and retirement of assets.

PCMS also offers advantages by allowing the information it develops and stores to be organized, linked and synchronized with enterprise software systems such as SAP and IBM's Maximo. We believe PCMS is one of the more widely used plant condition management software systems in the world. We estimate that more than 40% of U.S. refineries, by capacity, currently use PCMS. This provides us not only with recurring maintenance and support fees, but also marketing opportunities for additional software, asset integrity management and other asset protection solutions. PCMS has also been chosen and installed by leading midstream pipeline energy companies and major energy companies in Canada and Europe.

We also offer other software solutions, such as our Advanced Data Analysis Pattern Recognition and Neural Networks Software (NOESIS), which enables our AE experts to develop automated remote monitoring systems for our customers, and our Loose Parts Monitoring Software (LPMS), which is a software program for monitoring, detecting and evaluating metallic loose parts in nuclear reactor coolant systems in accordance with strict industry standards.

Engineering and Consulting Services

In addition to software and advanced technologies, Mistras also provides professional engineering and consulting services that is organized under our Asset Integrity Management Services (AIMS) group. Asset integrity management refers to the management system that enables plant owners to maintain the integrity of its assets in a fit for service condition for the desired life of the assets, as well as optimize the assets that are part of a process unit. Our engineering and consulting support capabilities include plant operations support, turn-around planning, project planning, management and execution, facilities planning studies, engineering design, safety reviews, plant operations improvement and optimization evaluations, and technical training

On-line Monitoring

Our on-line monitoring offerings combine all of our asset protection services, products and systems. We provide temporary, periodic and continuous monitoring of static infrastructures such as bridges, pipes, and transformers, as well as dynamic or rotating assets such as pumps, motors, gearboxes, steam and gas turbines. Temporary monitoring is typically used when there is a known defect or problem and the condition needs to be monitored until repaired or new equipment can be placed in service. Periodic monitoring, or "walk around" monitoring, is used as a preventative maintenance tool to take machine and device readings, on a periodic basis, to observe any change in the assets' condition, such as increased vibration or unusual heat buildup and dissipation. Continuous monitoring is applied "24/7" on critical assets to observe the earliest onset of a defect and to track its progression to avoid catastrophic failure.

Centers of Excellence

Another differentiator in our business model is the formation of our Centers of Excellence (COEs), which we consider to be incubators of inspection technology. The COEs are focused around target applications in our key market segments. They are supported by subject matter experts that will engage in strategic sales opportunities offering customers value-added solutions using advanced technologies and methods providing oversight, management and consultation. The COEs have a blueprint for their areas that can be replicated throughout the world by delivering procedures, equipment, reports, certifications, etc. ensuring a standardized approach to implementation yielding higher margin business.

Customers

We provide our asset protection solutions to a global customer base of diverse companies primarily in our target markets. No customer accounted for 10% or more of our revenue in fiscal 2015 and 2014 and one customer accounted for 11% of our

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revenues in fiscal 2013. Our relationship with that customer is comprised of separate contracts for non-destructive testing and inspection services with multiple affiliated entities within their broad organization. We conduct business with various divisions or affiliates of the organization through numerous contracts covering many segments of its business including downstream (refinery), midstream (pipelines) and upstream (exploration). These contracts are typically negotiated locally with the specific location, 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.

Geographic Areas

We conduct our business in 16 different countries. Our revenues are primarily derived from our U.S., Canadian and European operations. See Note 20 — Segment Disclosure to the consolidated financial statements in this report for further disclosure of our revenues, long-lived assets and other financial information regarding our international operations.

Seasonality

Our business is seasonal. This seasonality relates primarily to our Services segment. Our first and third fiscal quarter revenues for our Services segment are typically lower than our revenues in the second and fourth fiscal quarters because demand for our asset protection solutions from the oil and gas as well as the fossil and nuclear power industries increases during their non-peak production periods. Because we are increasing our work in the second and fourth fiscal quarters, our cash flows are lower in those quarters than in our first and third quarters, as collections of receivables lag behind revenues. For instance, U.S. refineries' non-peak periods are generally in our second fiscal quarter, when they are retooling to produce more heating oil for winter, and in our fourth fiscal quarter, when they are retooling to produce more gasoline for summer. Our quarterly Services segment revenues for fiscal 2015, as a percentage of total Services revenues for fiscal 2015, were 22% (first quarter), 30% (second quarter), 23% (third quarter), and 25% (fourth quarter). We expect that this seasonality will continue.

Competition

We operate in a highly competitive, but fragmented, market. Our primary competitors are divisions of large companies, and many of our other competitors are small companies, limited to a specific product or technology and focused on a niche market or geographic region. We believe that none of our competitors currently provides the full range of asset protection and NDT products, enterprise software (PCMS) and the traditional and advanced services solutions that we offer. Our competition with respect to NDT services include the Acuren division of Rockwood Service Corporation, SGS Group, the TCM division of Team, Inc. and APPLUS RTD. Our competition with respect to our PCMS software includes UltraPIPE, a division of Siemens, Lloyd's Register Capstone, Inc. and Meridium Systems. Our competition with respect to our ultrasonic and radiography products are GE Inspection Technologies and Olympus NDT. In the traditional NDT market, we believe the principal competitive factors include project management, availability of qualified personnel, execution, price, reputation and quality. In the advanced NDT market, reputation, quality and size are more significant competitive factors than price. We believe that the NDT market has significant barriers to entry which would make it difficult for new competitors to enter the market. These barriers include: (1) having to acquire or develop advanced NDT services, products and systems technologies, which in our case occurred over many years of customer engagements and at significant internal research and development expense, (2) complex regulations and safety codes that require significant industry experience, (3) license requirements and evolved quality and safety programs, (4) costly and time-consuming certification processes, (5) capital requirements and (6) emphasis by large customers on size and critical mass, length of relationship and past service record.

Sales and Marketing

We sell our asset protection solutions through our experienced and highly trained direct sales and marketing teams within all of our offices worldwide. In addition, our project and laboratory managers as well as our management are trained on our solutions and often are the source of sales leads and customer contacts. Our direct sales and marketing teams work closely with our customers' research and design personnel, reliability engineers and facilities maintenance engineers to demonstrate the benefits and capabilities of our asset protection solutions, refine our asset protection solutions based on changing market and customer needs and identify potential sales opportunities. We divide our sales and marketing efforts into services sales, products and systems sales and marketing and utilize a robust CRM system to collect, manage and collaborate customer information with our teams globally. Our CRM also provides critical data to provide accurate forecasting and reporting.

Manufacturing

Most of our hardware products are manufactured in our Princeton Junction, New Jersey facility. Our Princeton Junction facility includes the capabilities and personnel to fully produce all of our AE products, NDT Automation Ultrasonic equipment and

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Vibra-Metrics vibration sensing products and systems. We recently expanded our manufacturing facilities to handle the assembly and manufacturing of our larger UT systems due to growth in this segment. Certain other hardware is manufactured by a third party and then loaded by us with our proprietary software. We also design and manufacture automated ultrasonic systems and scanners in France.

Intellectual Property

Our success depends, in part, on our ability to maintain and protect our proprietary technology and to conduct our business without infringing on the proprietary rights of others. We utilize a combination of intellectual property safeguards, including patents, copyrights, trademarks and trade secrets, as well as employee and third-party confidentiality agreements, to protect our intellectual property.

As of May 31, 2015, we held 5 patents (by direct ownership or exclusive licensing), all in the United States, which will expire at various times between fiscal 2017 and 2026, and license certain other patents. However, we do not principally rely on these patents or licenses to provide our proprietary asset protection solutions. Our trademarks and service marks provide us and our products and services with a certain amount of brand recognition in our markets. We do not consider any single patent, trademark or service mark material to our financial condition or results of operations.

As of May 31, 2015, the primary trademarks and service marks that we held in the United States included Mistras® and our stylized globe design. Other trademarks or service marks that we utilize in localized markets or product advertising include PCMS®, Physical Acoustics Corporation and the PAC logo, Ropeworks®, NOESIS, Pocket AE®, Pocket UT®, AEwin®, AEwinPost, UTwin®, UTIA, LST, Vibra-Metrics®, Field CAL®, MONPAC, PERFPAC, TANKPAC®, Valve-Squeak®, VPAC, POWERPAC, Sensor Highway, QSL, NDT Automation, and One Source for Asset Projection Solutions®.

Many elements of our asset protection solutions involve proprietary know-how, technology or data that are not covered by patents or patent applications because they are not patentable, or patents covering them would be difficult to enforce, including technical processes, equipment designs, algorithms and procedures. We believe that this proprietary know-how, technology and data is the most important component of our intellectual property assets used in our asset protection solutions, and is a primary differentiator of our asset protection solutions from those of our competitors. We rely on various trade secret protection techniques and agreements with our customers, service providers and vendors to protect these assets. All of our employees are subject to confidentiality requirements through our employee handbook. In addition, employees in our Products and Systems segment and our other employees involved in the development of our intellectual property have entered into confidentiality and proprietary information agreements with us. Our employee handbook and these agreements require our employees not to use or disclose our confidential information, to assign to us all of the inventions, designs and technologies they develop during the course of employment with us, and otherwise address intellectual property protection issues. We also seek confidentiality agreements from our customers and business partners before we disclose any sensitive aspects of our asset protection solutions technology or business strategies. We are not currently involved in any material intellectual property claims.

Research and Development

Our research and development is principally conducted by engineers and scientists at our Princeton Junction, New Jersey headquarters, and supplemented by other employees in the United States and throughout the world, including France, Greece, and the United Kingdom, who have other primary responsibilities. Our total professional staff includes employees who hold Ph.D.'s and engineers and employees who hold Level III certification, the highest level of certification from the American Society of Non-Destructive Testing.

We work with customers to develop new products or applications for our technology. Research and development expenses are reflected on our consolidated statements of income as research and engineering expenses. Our company-sponsored research and engineering expenses were approximately \$2.5 million, \$3.0 million and \$2.4 million for fiscal 2015, 2014 and 2013, respectively. While we have historically funded most of our research and development expenditures, from time to time we also receive customer-sponsored research and development funding. We also have paid research contracts in Greece, Brazil, France, the United Kingdom, and the Netherlands, for various industries and applications, including testing of new composites, detecting crack propagation, wireless and communications technologies, as well as the development of permanently embedded inspection systems using acoustic emission and acousto-ultrasonics to provide continuous on-line in-service full coverage monitoring of critical structural components. Most of the projects are in our target markets; however, a few of the projects could lead to other future market opportunities.

Employees

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Providing our asset protection solutions requires a highly-skilled and technically proficient employee base. As of May 31, 2015, we had approximately 5,700 employees worldwide, of which approximately 70% were based in the United States. Less than 10% of our employees in the United States are unionized. We believe that we have good relations with our employees.

Environmental Matters

We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. In the United States, these laws and regulations include, among others: the Comprehensive Environmental Response, Compensation, and Liability Act, the Resources Conservation and Recovery Act, the Clean Air Act, the Federal Water Pollution Control Act, the Toxic Substances Control Act, the Atomic Energy Act, the Energy Reorganization Act of 1974, and applicable regulations. In addition to the federal laws and regulations, states and other countries where we do business often have numerous environmental, legal and regulatory requirements by which we must abide. We evaluate and address the environmental impact of our operations by assessing properties in order to avoid future liabilities and comply with environmental, legal and regulatory requirements.

We received a notice in May 2015 that the U.S. Environmental Protection Agency (“EPA”) performed a preliminary assessment of a leased facility we operate in Cudahy, California. Based upon the preliminary assessment, the EPA would like to conduct an investigation of the site, which would include taking groundwater and soil samples. The purpose of the investigation is to determine whether any hazardous materials were released from the facility. We have 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 Cudahy facility should be examined along with numerous other sites in the vicinity. At this time, we are not able to determine whether we have any liability in connection with this matter and if so, the amount or range of any such liability.

See “Legal Proceedings” in Item 3 of this report for another environmental matter involving us, which is incorporated herein by reference.

Our Website and Available Information

Our website address is www.mistrasgroup.com. We file reports with the SEC, including Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K, Current Reports on Form 8-K and Proxy Statements. All of the materials we file with or furnish to the SEC are available free of charge on our website at <http://investors.mistrasgroup.com/sec.cfm>, as soon as reasonably practicable after having been electronically submitted to the SEC. Information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report or any other filing with the SEC. All of our SEC filings are also available at the SEC’s website at www.sec.gov. In addition, materials we file with the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Rom by calling the SEC at 1-800-SEC-0330.

Executive Officers

The following are our executive officers and other key employees as of May 31, 2015 and their background and experience:

Name	Age	Position
Sotirios J. Vahaviolos	69	Chairman, President, Chief Executive Officer and Director
Dennis Bertolotti	55	President, Chief Operating Officer, Services

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Mark F. Carlos	63	Group Executive Vice President, Products and Systems
Ralph L. Genesi	60	Group Executive Vice President, Marketing and Sales
Michael C. Keefe	58	Executive Vice President, General Counsel and Secretary
Michael J. Lange	55	Group Executive Vice President, Services, and Director
Jonathan H. Wolk	54	Executive Vice President, Chief Financial Officer and Treasurer

Subsequent to May 31, 2015, Michael J. Lange was appointed Vice Chairman and became Group Executive Vice President, Strategic Planning and Business Development. Dennis Bertolotti became Group Executive Vice President, Services America. Ralph Genesi departed the Company after May 31, 2015.

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Sotirios J. Vahaviolos has been our Chairman, President and Chief Executive Officer since he founded Mistras in 1978 under the name Physical Acoustics Corporation. Prior to joining Mistras, Dr. Vahaviolos worked at AT&T Bell Laboratories. Dr. Vahaviolos received a B.S. in Electrical Engineering and graduated first in his engineering class from Fairleigh Dickinson University and received Masters Degrees in Electrical Engineering and Philosophy and a Ph.D. (EE) from the Columbia University School of Engineering. During Dr. Vahaviolos' career in non-destructive testing, he has been elected Fellow of The Institute of Electrical and Electronics Engineers, a member of The American Society for Nondestructive Testing (ASNT) where he served as its President from 1992-1993 and its Chairman from 1993-1994, a member of Acoustic Emission Working Group (AEWG) and an honorary life member of the International Committee for Nondestructive Testing. Additionally, he was the recipient of ASNT's Gold Medal in 2001 and AEWG's Gold Medal in 2005. He was also one of the six founders of NDT Academia International in 2008 headquartered in Brescia, Italy.

Dennis Bertolotti has been with us since we acquired Conam Inspection Services in 2003, where Mr. Bertolotti was a Vice President at the time of the acquisition. Mr. Bertolotti has been in the NDT business for over 29 years, and previously held ASNT Level III certifications and various American Petroleum Institute, or API, certifications, and received his Associate of Science degree in NDT from Moraine Valley Community College in 1983. Mr. Bertolotti has also received a Bachelor of Science and MBA from Otterbein College.

Mark F. Carlos joined Mistras at its founding in 1978. Prior to joining Mistras, Mr. Carlos worked at AT&T Bell Laboratories. Mr. Carlos received a MBA from Rider University and a Masters in Electrical Engineering from Columbia University. Mr. Carlos is an elected Fellow of ASNT and AEWG, and currently serves as the Chairman of the American Society for Testing and Materials' NDT Standards Writing Committee E-07 and was the recipient of its prestigious Charles W. Briggs Award in 2007.

Ralph L. Genesi joined Mistras in March of 2009 with more than 25 years of executive management experience in marketing and sales as well as corporate profit and loss responsibility.

Michael C. Keefe joined Mistras in December 2009. Most recently before Mistras, Mr. Keefe worked at International Fight League, a publicly-traded sports promotion company, from 2007 until 2009, initially as Executive Vice President, General Counsel and Corporate Secretary, then becoming the Chief Financial Officer, and eventually its President. From 1990 until 2006, Mr. Keefe served in various legal roles with Lucent Technologies and AT&T, the last four years as Vice President, Corporate and Securities Law and Assistant Secretary, and prior to that was in private practice at McCarter & English, LLP. Before starting his legal career, Mr. Keefe was employed at PricewaterhouseCoopers LLP, and worked in accounting for seven years, becoming a certified public accountant. Mr. Keefe received a BS in Business Administration (Accounting) from Seton Hall University and a J.D. from Seton Hall University School of Law.

Michael J. Lange joined Mistras when we acquired Quality Services Laboratories in November 2000, and was elected a Director in 2003. Mr. Lange is a well-recognized authority in Radiography and has held an ASNT Level III Certificate for almost 20 years. Mr. Lange received an Associate of Science degree in NDT from the Spartan School of Aeronautics in 1979.

Jonathan H. Wolk joined us in November 2013. Prior to joining Mistras, he served as Senior Vice President, Chief Financial Officer and Secretary of American Woodmark Corporation from 2004 until August 2013. Prior to American Woodmark, he served as the Chief Financial Officer and Treasurer of Tradecard, Inc., from 2000 to 2004, and was the global controller of GE Capital Real Estate from 1998 to 2000. Mr. Wolk started his career in public accounting at KPMG, received his B.S. in accounting from State University of New York-Albany and is a certified public accountant.

Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.

ITEM 1A.

RISK FACTORS

This section describes the major risks to us, our business and our common stock. You should carefully read and consider the risks described below, together with the other information contained in this Annual Report, including our financial statements and the notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”(MD&A) before making an investment decision. The statements contained in this section constitute cautionary statements under the Private Securities Litigation Reform Act of 1995. If any of these risks actually occur, our business, financial condition, results of operations and future growth prospects may be adversely affected. As a result, the trading price of our common stock would likely decline, and you may lose all or part of your investment. You should understand that it is not possible to predict or identify all risk factors that could impact us. Accordingly, you should not consider the following to be a complete discussion of all risks and uncertainties pertaining to us and our common stock.

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Risks Related to Our Business

Our growth strategy includes acquisitions. We may not be able to identify suitable acquisition candidates or integrate acquired businesses successfully, which may adversely impact our results. Furthermore, acquisitions that we do complete could expose us to a number of unanticipated operational and financial risks.

A significant factor in our growth has been and will continue to be based upon our ability to make acquisitions and successfully integrate these acquired businesses. We intend to continue to seek additional acquisition opportunities, both to expand into new markets and to enhance our position in existing markets. This strategy has provided us with many benefits and has helped fuel our growth, but also carries with it many risks. Some of the risks associated with our acquisition strategy include:

• Whether we successfully identify suitable acquisition candidates, negotiate appropriate acquisition terms, and complete proposed acquisitions

• Whether we can successfully integrate acquired businesses into our current operations, including our accounting, internal control and information technology systems, marketing and other key infrastructure

• Whether we can adequately capture opportunities that an acquired business may offer, including the expansion into new markets in which we have no prior experience

• Whether we value an acquired business properly when determining the purchase price, terms and whether we are able to achieve the returns on the investment we expected

• Whether an acquired business can achieve levels of revenues, profitability, productivity or cost savings we expected

• Whether an acquired business is compatible with our culture and philosophy of doing business

• Unexpected loss of key personnel and customers of an acquired business;

• The assumption of liabilities and risks (including environmental-related costs) of an acquired business, some of which may not be unanticipated

• Potential disruption of our ongoing business and distraction of management and other personnel of us and the acquired business resulting from the efforts to acquire then integrate an acquired business

Our ability to undertake acquisitions is limited by our financial resources, including available cash and borrowing capacity. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of substantial additional indebtedness and other expenses, any of which could adversely impact our financial condition and results of operations. Although management intends to: (i) evaluate the risks inherent in any particular transaction, (ii) assume only risks management believes to be acceptable, and (iii) develop plans to mitigate such risks, there are no assurances that we will properly ascertain or accurately assess the extent of all such risks. Difficulties encountered with acquisitions may adversely impact our business, financial condition and results of operations.

In addition, we have a significant amount of goodwill and other intangible assets on our balance sheet as a result of our acquisitions. This will increase as we complete more acquisitions. If our acquisitions do not perform as planned and we do not realize the benefits and profitability we expect, we could incur significant write-downs and impairment charges to our earnings due to the impairment of the goodwill and other intangible assets we have acquired.

Our international operations are subject to risks relating to non-U.S. operations.

In fiscal 2015, 2014 and 2013 we generated approximately 31%, 32% and 31% of our revenues outside the United States, respectively. We may choose to increase our international presence over time. Our primary operations outside the United States are in Canada, Germany, Brazil, the United Kingdom, and France. We also have operations in the Netherlands, India, Belgium and Switzerland. There are numerous risks inherent in doing business in international markets, including:

fluctuations in currency exchange rates and interest rates;

- varying regional and geopolitical business and economic conditions and demands;

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• compliance with applicable foreign regulations and licensing requirements, and U.S. laws and regulation with respect to our business in other countries, including export controls and anti-bribery laws;

• the cost and uncertainty of obtaining data and creating solutions that are relevant to particular geographic markets;

• the need to provide sufficient levels of technical support in different locations;

• the complexity of maintaining effective policies and procedures in locations around the world;

• political instability and civil unrest;

• restrictions or limitations on outsourcing contracts or services abroad;

• restrictions or limitations on the repatriation of funds; and

• potentially adverse tax consequences.

We engage in marketing efforts in certain emerging markets, such as Brazil, India and China. Doing business in emerging markets may present additional risks beyond those associated with more developed international markets. For example, in China, we may encounter risks associated with the ongoing transition from state business ownership to privatization. In any emerging market, we may face the risks of inconsistent government policies and encountering sudden currency revaluations.

Due to our dependency on customers in the oil and gas industry, we are susceptible to prolonged negative trends relating to this industry that could adversely affect our operating results.

Our customers in the oil and gas industry (including the petrochemical market) have accounted for a substantial portion of our historical revenues. Specifically, they accounted for approximately 52%, 49% and 50% of our revenues for fiscal 2015, 2014 and 2013, respectively. Although we have expanded our customer base into industries other than the oil and gas industry, we still receive approximately half of our revenues from this industry. While our services are vital to the operators of plants and refineries, economic slowdowns or reductions in petroleum prices could result in cut backs in contracts for our services. If the oil and gas industry were to suffer a prolonged or significant downturn, our revenues, profits and cash flows may be reduced. Please refer to the discussion in the MD&A regarding the impact on our business of the reduction in oil prices in the second half of fiscal 2015. While we continue to expand our market presence in the power generation and transmission, and the chemical processing industries, among others, these markets are also cyclical in nature and as such, are subject to economic downturns.

We expect to continue expanding and our success depends on how effectively we manage our growth.

We expect to continue experiencing growth in the number of employees and the scope of our operations. To effectively manage our anticipated future growth, we must continue to implement and improve our managerial, operational, compliance, financial and reporting systems and capabilities, expand our facilities and continue to recruit and train additional qualified personnel. We expect that all of these measures will require significant expenditures and will demand the attention of management. Failure to manage our growth effectively could lead us to over or under-invest in technology and operations, result in weaknesses in our infrastructure, systems, compliance programs or controls, give rise to operational mistakes, loss of business opportunities, the loss of employees and reduced productivity among remaining employees. Our expected growth could require significant capital expenditures and

may divert financial resources from other projects, such as the development of new solutions. If our management is unable to effectively manage our expected growth, our expenses may increase more than expected, our profit margins may suffer, our revenues could decline or may grow more slowly than expected and we may be unable to implement our business strategy as anticipated.

Our operating results could be adversely affected by a reduction in business with our significant customers.

We derive a significant amount of revenues from a few customers. For instance, various divisions or business units of our largest customer were responsible for approximately 11% of our revenues for fiscal 2013. Taken as a group, our top ten customers were responsible for approximately 33%, 38% and 34% of our revenues for fiscal 2015, 2014 and 2013, respectively. This concentration pertains almost exclusively to our Services segment, which accounted for more than 70% of our revenues for each of the last three fiscal years. Generally, our customers do not have an obligation to make purchases from us and may stop ordering our products and services or may terminate existing orders or contracts at any time with little or no financial

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penalty. The loss of any of our significant customers, any substantial decline in sales to these customers or any significant change in the timing or volume of purchases by our customers could result in lower revenues and could harm our business, financial condition or results of operations.

An accident or incident involving our asset protection solutions could expose us to claims, harm our reputation and adversely affect our ability to compete for business and, as a result, harm our operating performance.

We could be exposed to liabilities arising out of the solutions we provide. For instance, we furnish the results of our testing and inspections for use by our customers in their assessment of their assets, facilities, plants and other structures. If such results were to be incorrect or incomplete, as a result of, for instance, poorly designed inspections, malfunctioning testing equipment or our employees' failure to adequately test or properly record data, we could be subject to claims. Further, if an accident or incident involving a structure we tested occurs and causes personal injuries or property damage, such as the collapse of a bridge or an explosion in a facility, and particularly if these injuries or damages could have been prevented by our customers had we provided them with correct or complete results, we may face significant claims relating to personal injury, property damage or other losses. Even if our results are correct and complete, we may face claims for such injuries or damage simply because we tested the structure or facility in question. While we do have insurance, our insurance coverage may not be adequate to cover the damages from any such claims, forcing us to bear these uninsured damages directly, which could harm our operating results and may result in additional expenses and possible loss of revenues. An accident or incident for which we are found partially or fully responsible, even if fully insured, may also result in negative publicity, which would harm our reputation among our customers and the public, cause us to lose existing and future contracts or make it more difficult for us to compete effectively, thereby significantly harming our operating performance. In addition, the occurrence of an accident or incident might also make it more expensive or extremely difficult for us to insure against similar events in the future.

Many of the sites at which we work are inherently dangerous workplaces. If we fail to maintain a safe work environment, we may incur losses and lose business.

Many of our customers, particularly in the oil and gas and chemical industries, require their inspectors and other contractors working at their facilities to have good safety records because of the inherent danger at these sites. If our employees are injured at the work place, we will incur costs for the injuries and lost productivity. In addition, safety records are impacted by the number and amount of workplace incidents involving a contractor's employees. If our safety record is not within the levels required by our customers, or compares unfavorably to our competitors, we could lose business, be prevented from working at certain facilities or suffer other adverse consequences, all of which could negatively impact our business, revenues, reputation and profitability.

Most all of our computer and communications hardware is located at a single facility, the failure of which would harm our business and results of operations.

Most all of our computer and communications hardware is located at a single facility. We have a back-up data-center and storage in a different geographic area. Should a natural disaster or some other event occur that damages our primary data center or significantly disrupts its operation, such as human error, fire, flood, power loss, telecommunications failure, break-ins, terrorist attacks, acts of war and similar events, we could suffer temporary interruption of key functions and capabilities before the back-up facility is fully operational.

If we are unable to attract and retain a sufficient number of trained certified technicians, engineers and scientists at competitive wages, our operational performance may be harmed and our costs may increase.

We believe that our success depends, in part, upon our ability to attract, develop and retain a sufficient number of trained certified technicians, engineers and scientists at competitive wages. The demand for such employees is strong,

and we project that it will continue in the future. Accordingly, we have generally experienced increases in our labor costs, particularly in our Services segment, but also, to a lesser extent, in our International segment. Some of the companies with which we compete for experienced personnel have comparatively greater name recognition and resources. The markets for our products and services require us to use personnel trained and certified in accordance with standards set by domestic or international standard-setting bodies, such as the American Society of Non-Destructive Testing or the American Petroleum Institute. Because of the limited supply of these certified technicians, we expend substantial resources maintaining in-house training and certification programs. If we fail to attract sufficient new personnel or fail to motivate and retain our current personnel, our ability to perform under existing contracts and orders or to pursue new business may be harmed, preventing us from growing our business or causing us to lose customers and revenues, and the costs of performing such contracts and orders may increase, which would likely reduce our margins.

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We operate in competitive markets and if we are unable to compete successfully, we could lose market share and revenues and our margins could decline.

We face strong competition from NDT and a variety of niche asset protection providers, both larger and smaller than we are. Some of our competitors have greater financial resources than we do and could focus their substantial financial resources to develop a competing business model or develop products or services that are more attractive to potential customers than what we offer. Some of our competitors are business units of companies substantially larger than us and could attempt to combine asset protection solutions into an integrated offering to customers who already purchase other types of products or services from them. Our competitors may offer asset protection solutions at lower prices than ours in order to attempt to gain market share. Smaller niche competitors with small customer bases could be aggressive in their pricing in order to retain customers. These competitive factors could reduce our market share, revenues and profits.

Events such as natural disasters, industrial accidents, epidemics, war and acts of terrorism, and adverse weather conditions could disrupt our business or the business of our customers, which could significantly harm our operations, financial results and cash flow.

Our operations and those of our customers are susceptible to the occurrence of catastrophic events outside our control, ranging from severe weather conditions to acts of war and terrorism. Any such events could cause a serious business disruption that reduces our customers' need or interest in purchasing our asset protection solutions. In the past, such events have resulted in order cancellations and delays because customer equipment, facilities or operations have been damaged, or are not then operational or available. A large portion of our customer base has operations in the Gulf of Mexico, which is subject to hurricanes in the first and second quarters of our fiscal year. Hurricane-related disruptions to our customers' operations have adversely affected our revenues in the past. Such events in the future may result in substantial delays in the provision of solutions to our customers and the loss of valuable equipment. In addition, our third quarter fiscal results can be adversely impacted by severe winter weather conditions, which can result in lost work days and temporary closures of customer facilities or outdoor projects. Any cancellations, delays or losses due to such events may significantly reduce our revenues and harm our operating performance.

If we lose key members of our senior management team upon whom we are dependent, we may be less effective in managing our operations and may have more difficulty achieving our strategic objectives.

Our future success depends to a considerable degree upon the availability, contributions, vision, skills, experience and effort of our senior management team. We have in place various compensation programs, such as an annual cash incentive program, equity incentive program and a severance policy, each designed to incentivize and retain our key senior managers. At this time, we do not have any reason to believe that we may lose the services of any of these key persons in the foreseeable future and we believe our compensation programs will help us retain these individuals. However, the loss or interruption of the service of any of the key members of our senior management team could harm our business, financial condition and results of operations and could significantly reduce our ability to manage our operations and implement our strategy.

Deteriorations in economic conditions in certain markets or other factors may cause us to recognize impairment charges for our goodwill.

As of May 31, 2015, the carrying amount of our goodwill was approximately \$166 million, of which approximately \$36 million relates to our International segment. A significant portion of our international operations are concentrated in Europe and Brazil. The economic environment in Brazil was difficult in 2013. As a result of a contraction in the Brazilian economy (specifically in the oil and gas industry), in 2013 we recognized goodwill impairment in our Brazil reporting unit of approximately \$9.9 million. Significant deterioration in industry or economic conditions in which we

operate, disruptions to our business, not effectively integrating acquired businesses, or other factors, may cause further impairment charges to goodwill in future periods.

The success of our businesses depends, in part, on our ability to develop new asset protection solutions, increase the functionality of our current offerings and meet the needs and demands of our customers.

The market for asset protection solutions is impacted by technological change, uncertain product lifecycles, shifts in customer demands and evolving industry standards and regulations. We may not be able to successfully develop and market new asset protection solutions that comply with present or emerging industry regulations and technology standards. Also, new regulations or technology standards could increase our cost of doing business.

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From time to time, our customers have requested greater functionality in our solutions. As part of our strategy to enhance our asset protection solutions and grow our business, we continue to make investments in the research and development of new technologies. We believe our future success will depend, in part, on our ability to continue to design new, competitive and broader asset protection solutions, enhance our current solutions and provide new, value-added services. Developing new solutions will require continued investment, and we may experience unforeseen technological or operational challenges. In addition, our asset protection software is complex and can be expensive to develop, and new software and software enhancements can require long development and testing periods. If we are unable to develop new asset protection solutions or enhancements that meet market demands on a timely basis, we may experience a loss of customers or otherwise be likely to lose opportunities to earn revenues and to gain customers or access to markets, and our business and results of operations will be adversely affected.

Even if we develop new solutions, if our customers, or potential customers, do not see the value our solutions have over competing products and services, our operating results could be adversely impacted. In addition, because the asset protection solutions industry is rapidly evolving, we could lose insight into trends that may be emerging, which would further harm our competitive position by making it difficult to predict and respond to customer needs. If the market for our asset protection solutions does not continue to develop, our ability to grow our business would be limited and we might not be able to maintain profitability. If we cannot convince our customers of the advantages and value of our advanced NDT services we could lose large contracts or suffer lower profit margin.

If our software or system produces inaccurate information or are incompatible with the systems used by our customers and make us unable to successfully provide our solutions, it could lead to a loss of revenues and customers.

Our software and systems are complex and, accordingly, may contain undetected errors or failures. Software or system defects or inaccurate data may cause incorrect recording, reporting or display of information related to our asset protection solutions. Any such failures, defects and inaccurate data may prevent us from successfully providing our asset protection solutions, which could result in lost revenues. Software or system defects or inaccurate data may lead to customer dissatisfaction and could cause our customers to seek to hold us liable for any damages incurred. As a result, we could lose customers, our reputation may be harmed and our financial condition and results of operations could be materially adversely affected.

We currently serve a commercial, industrial and governmental customer base that uses a wide variety of constantly changing hardware, software solutions and operating systems. Our asset protection solutions need to interface with these non-standard systems in order to gather and assess data. Our business depends on the following factors, among others:

- our ability to integrate our technology with new and existing hardware and software systems;
- our ability to anticipate and support new standards, especially Internet-based standards; and
- our ability to integrate additional software modules under development with our existing technology and operational processes.

If we are unable to adequately address any of these factors, our results of operations and prospects for growth and profitability would be adversely impacted.

The seasonal nature of our business reduces our revenues and profitability in our first and third fiscal quarters.

Our business, primarily in our Services segment, is seasonal. Our first and third fiscal quarter revenues for our Services segment are typically lower than our revenues in the second and fourth fiscal quarters because demand for

our asset protection solutions from the oil and gas as well as the fossil and nuclear power industries increases during their non-peak production periods. For instance, U.S. refineries' non-peak periods are generally in our second fiscal quarter, when they are retooling to produce more heating oil for winter, and in our fourth fiscal quarter, when they are retooling to produce more gasoline for summer. As a result of these trends, we generally have reduced cash flows in our second and fourth fiscal quarters, as collections of receivables lag behind revenues, possibly requiring us to borrow under our credit agreement. In addition, most of our operating expenses, such as employee compensation and property rental expense, are relatively fixed over the short term. Moreover, our spending levels are based in part on our expectations regarding future revenues. As a result, if revenues for a particular quarter are below expectations, we may not be able to proportionately reduce operating expenses for that quarter. We expect that the impact of seasonality will continue.

Growth in revenues from our service offerings, particularly traditional NDT services, relative to revenues from the sale of our products and systems may reduce our overall gross profit margin.

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Our gross profit margin from our services offerings, particularly traditional NDT services, has historically been lower than our gross profit margin from our products and systems for numerous reasons. For instance, the gross profit margin in our Services segment for fiscal 2015 was approximately 25%, while our gross profit margin in our Products and Systems segment was approximately 46%. Our overall gross profit margin was approximately 26% during the same period. When we are awarded new “evergreen” or “run and maintain” contracts at oil refineries, the services we provide at the beginning of these contracts are primarily traditional NDT services. Until such time as we can understand the needs of each new “evergreen” plant and we can then make recommendations to provide our advanced NDT services, and thus improve our service mix, our margins may be negatively impacted. As a result, we expect our overall gross profit margin will be lower in periods when revenues from our services, and particularly from traditional NDT services, has increased as a percentage of total revenues and will be higher in periods when revenues from our advanced NDT services and our products and systems have increased as a percentage of total revenues. We expect the trend toward more traditional NDT services to continue and to the extent it does, our margins may decrease or remain flat. In addition, service offerings have become a larger portion of our International segment revenues than in the past, a trend we expect to continue, and this increased service revenue will be lower margin traditional NDT services. As a result, the gross profit margin in our International segment has decreased from 28% in fiscal 2014 to 24% in fiscal 2015. These factors will create more pressure on margins. Fluctuations in our gross profit margin may affect our level of profitability in any period.

Our business, and the industries we currently serve, are currently subject to governmental regulation, and may become subject to modified or new government regulation that may negatively impact our ability to market our asset protection solutions.

We incur substantial costs in complying with various government regulations and licensing requirements. For example, the transportation and overnight storage of radioactive materials used in providing certain of our asset protection solutions such as radiography are subject to regulation under federal and state laws and licensing requirements. Our Services segment is currently licensed to handle radioactive materials by the U.S. Nuclear Regulatory Commission (NRC) and over 20 state regulatory agencies. If we allegedly fail to comply with these regulations, we may be investigated and incur significant legal expenses associated with such investigations, and if we are found to have violated these regulations, we may be fined or lose one or more of our licenses or permits, which would prevent or restrict our ability to provide radiography services. In addition, while we are investigated, we may be required to suspend work on the projects associated with our alleged noncompliance, resulting in loss of profits or customers, and damage to our reputation. Many of our customers have strict requirements concerning safety or loss time occurrences and if we are unable to meet these requirements it could result in lost revenues. In the future, federal, state, provincial or local governmental agencies may seek to change current regulations or impose additional regulations on our business. Any modified or new government regulation applicable to our current or future asset protection solutions may negatively impact the marketing and provision of those solutions and increase our costs and the price of our solutions.

Additionally, greenhouse gases that result from human activities, including burning of fossil fuels, have been the focus of increased scientific and political scrutiny and are being subjected to various legal requirements. International agreements, national laws, state laws and various regulatory schemes limit or otherwise regulate emissions of greenhouse gases, and additional restrictions are under consideration by different governmental entities. We derive a significant amount of revenues and profits from such industries, including oil and gas, power generation and transmission, and chemicals processing. Such regulations could negatively impact our customers, which could negatively impact the market for the services and products we provide. This could materially adversely affect our business, financial condition, results of operations and cash flows.

We rely on certification of our NDT solutions by industry standards-setting bodies. We and/or our subsidiaries currently have International Organization for Standardization (ISO) 9001:2008 certification, ISO 14001:2004 certification and OHSAS 18001:2007 certification. In addition, we currently have Nadcap (formerly National Aerospace and Defense Contractors Accreditation Program) and similar certifications for certain of our locations. We continually review our NDT solutions for compliance with the requirements of industry specification standards and the Nadcap special processes quality requirements. However, if we fail to maintain our ISO, Nadcap or other certifications, our business may be harmed because our customers generally require that we have these certification before they purchase our NDT solutions.

Intellectual property may impact our business and results of operations.

Our ability to compete effectively depends in part upon the maintenance and protection of the intellectual property related to our asset protection solutions. Patent protection is unavailable for certain aspects of the technology and operational processes important to our business and any patent or patent applications, trademarks or copyrights held by us or to be issued to us, may not adequately protect us. Some of our trademarks that are not in use may become available to others. To date, we have relied

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principally on copyright, trademark and trade secrecy laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our intellectual property. However, we have not obtained confidentiality agreements from all of our customers and vendors. Although we obligate all of our employees to confidentiality, we cannot be certain that these obligations will be honored or enforceable.

Some of our customers are subject to laws and regulations that require them to disclose information that we would otherwise seek to keep confidential. We do not transfer ownership of some of our more advanced asset protection products and systems and, instead, sell to our customers' services using these products and systems. We have taken steps to protect our intellectual property rights, but these might not prevent misappropriation of the intellectual property or provide effective protection in jurisdictions outside the United States. Failure to adequately protect and enforce our rights could cause us to lose valuable rights in our intellectual property and may negatively affect our business. Third-party patent applications, patents, copyrights and trademarks may be applicable to our asset protection solutions. As a result, third parties may in the future make infringement claims and other allegations that could subject us to intellectual property litigation relating to our solutions. Such litigation could impede or prevent delivery of our solutions and require us to pay significant royalties, licensing fees and damages. In addition, litigation to protect or enforce our intellectual property rights or to defend claims against third parties claiming we are violating or infringing their intellectual property rights can be costly and divert resources from our daily operations.

We may require additional capital to support business growth, which might not be available.

We intend to continue making investments to support our business growth and may require additional funds to respond to business challenges or opportunities, including the need to develop new, or enhance our current, asset protection solutions, enhance our operating infrastructure or acquire businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our current stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. While our current bank financing is meeting our current need, any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, no assurance can be given that adequate or acceptable financing will be available to us, in which case we may not be able to grow our business or respond to business challenges.

Our credit agreement contains financial and operating restrictions that may limit our access to credit. If we fail to comply with financial or other covenants in our credit agreement, we may be required to repay indebtedness to our existing lenders, which may harm our liquidity.

Our credit agreement contains financial covenants that require us to maintain compliance with specified financial ratios. If we fail to comply with these covenants, the lenders could prevent us from borrowing under our credit agreement, require us to pay all amounts outstanding, require that we cash collateralize letters of credit issued under the credit agreement and restrict us from making acquisitions. If the maturity of our indebtedness is accelerated, we then may not have sufficient funds available for repayment or the ability to borrow or obtain sufficient funds to replace the accelerated indebtedness on terms acceptable to us, or at all.

Our current credit agreement also imposes restrictions on our ability to engage in certain activities, such as creating liens, making certain investments, incurring more debt, disposing of certain property, paying dividends and making distributions and entering into a new line of business. While these restrictions have not impeded our business operations to date, if our plans change, these restrictions could be burdensome or require that we pay fees to have the restrictions waived.

Any real or perceived internal or external electronic security breaches in connection with the use of our asset protection solutions could harm our reputation, inhibit market acceptance of our solutions and cause us to lose customers.

We and our customers use our asset protection solutions to compile and analyze sensitive or confidential customer-related information. In addition, some of our asset protection solutions allow us to remotely control and store data from equipment at commercial, institutional and industrial locations. Our asset protection solutions rely on the secure electronic transmission of proprietary data over the Internet or other networks. The occurrence or perception of security breaches in connection with our asset protection solutions or our customers' concerns about Internet security or the security of our solutions, whether warranted or not, would likely harm our reputation or business, inhibit market acceptance of our asset protection solutions and cause us to lose customers, any of which would harm our financial condition and results of operations.

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We may come into contact with sensitive information or data when we perform installation, maintenance or testing functions for our customers. Even the perception that we have improperly handled sensitive, confidential information would have a negative effect on our business. If, in handling this information, we fail to comply with privacy or security laws, we could incur civil liability to government agencies, customers and individuals whose privacy is compromised. In addition, third parties may attempt to breach our security or inappropriately harm our asset protection solutions through computer viruses, electronic break-ins and other disruptions. If a breach is successful, confidential information may be improperly obtained, for which we may be subject to lawsuits and other liabilities.

Risks Related to Our Common Stock

Our stock price could fluctuate for numerous reasons, including variations in our results.

Our quarterly operating results have fluctuated in the past and may do so in the future. Accordingly, we believe that period-to-period comparisons of our results of operations may be the best indicators of our business. You should not rely upon the results of one quarter as an indication of future performance. Our revenues and operating results may fall below the expectations of securities analysts or investors in any future period. Our failure to meet these expectations may cause the market price of our common stock to decline, perhaps substantially. Our quarterly revenues and operating results may vary depending on a number of factors, including those listed previously under “Risks Related to Our Business.” In addition, the price of our common stock is subject to general economic, market, industry, and competitive conditions, the risk factors discussed below and numerous other conditions outside of our control.

A significant stockholder controls the direction of our business. The concentrated ownership of our common stock may prevent other stockholders from influencing significant corporate decisions.

Dr. Sotirios J. Vahaviolos, our Chairman, Chief Executive Officer and President, owns approximately 44% of our outstanding common stock. As a result, Dr. Vahaviolos effectively controls our Company and has the ability to exert substantial influence over all matters requiring approval by our shareholders, including the election and removal of directors, amendments to our certificate of incorporation, and any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. This concentration of ownership could be disadvantageous to other shareholders with differing interests from Dr. Vahaviolos.

We currently have no plans to pay dividends on our common stock.

We have not declared or paid any cash dividends on our common stock to date, and we do not anticipate declaring or paying any dividends on our common stock in the foreseeable future. To the extent we do not pay dividends on our common stock, investors must look solely to stock appreciation for a return on their investment.

Shares eligible for future sale may cause the market price for our common stock to decline even if our business is doing well.

Future sales by us or by our existing shareholders of substantial amounts of our common stock in the public market, or the perception that these sales may occur, could cause the market price of our common stock to decline. This could also impair our ability to raise additional capital in the future through the sale of our equity securities. Under our second amended and restated certificate of incorporation, we are authorized to issue up to 200,000,000 shares of common stock, of which approximately 28,703,000 shares of common stock were outstanding as of August 1, 2015. In addition, we have approximately 3,388,000 shares of common stock reserved for issuance related to stock options and restricted stock units that were outstanding as of August 1, 2015. We cannot predict the size of future issuances of our common stock or the effect, if any, that future sales and issuances of shares of our common stock, or the perception of such sales or issuances, would have on the market price of our common stock.

Provisions of our charter, bylaws and of Delaware law could discourage, delay or prevent a change of control of our company, which may adversely affect the market price of our common stock.

Certain provisions of our second amended and restated certificate of incorporation and amended and restated bylaws could discourage, delay or prevent a merger, acquisition, or other change of control that stockholders may consider favorable, including transactions in which our stockholders might otherwise receive a premium for their shares. These provisions also could limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. Stockholders who wish to participate in these transactions may not have the opportunity to

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do so. Furthermore, these provisions could prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions:

• allow the authorized number of directors to be changed only by resolution of our board of directors;

• require that vacancies on the board of directors, including newly created directorships, be filled only by a majority vote of directors then in office;

• authorize our board of directors to issue, without stockholder approval, preferred stock that, if issued, could operate as a “poison pill” to dilute the stock ownership of a potential hostile acquirer to prevent an acquisition that is not approved by our board of directors;

• require that stockholder actions must be effected at a duly called stockholder meeting by prohibiting stockholder action by written consent;

• prohibit cumulative voting in the election of directors, which would otherwise allow holders of less than a majority of stock to elect some directors; and

• establish advance notice requirements for stockholder nominations to our board of directors or for stockholder proposals that can be acted on at stockholder meetings and limit the right to call special meetings of stockholders to the Chairman of the Board, the Chief Executive Officer, the board of directors acting pursuant to a resolution adopted by a majority of directors or the Secretary upon the written request of stockholders entitled to cast not less than 35% of all the votes entitled to be cast at such meeting.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may, unless certain criteria are met, prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a prescribed period of time.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of May 31, 2015, we operated approximately 120 offices in 16 countries, with our corporate headquarters located in Princeton Junction, New Jersey. Our headquarters in Princeton Junction is our primary location, where most of our manufacturing and research and development is conducted. While we lease most of our facilities, as of May 31, 2015, we owned properties located in Olds, Alberta; Monroe, North Carolina; Trainer, Pennsylvania; LaPonte, Texas; Burlington, Washington; Gillette, Wyoming; and Jonquiere, Quebec. Our Services segment, utilizes approximately 80 offices throughout North America (including Canada). Our Products and Systems segment’s primary location is in our Princeton Junction, NJ facility. Our International segment has approximately 40 offices including locations in Belgium, Brazil, France, Germany, Greece, India, the Netherlands, and the United Kingdom. We believe that all of our facilities are well maintained and are suitable and adequate for our current needs.

ITEM 3. LEGAL PROCEEDINGS

We are subject to periodic lawsuits, investigations and claims that arise in the ordinary course of business. See “Litigation” in Note 18 — Commitments and Contingencies to our audited consolidated financial statements contained in

Item 8 of this report for a description of legal proceedings involving us and our business, which is incorporated herein by reference.

See also the discussion in “Environmental Matters” contained in Item 1 of this report, which is incorporated herein by reference.

ITEM 4.

MINE SAFETY DISCLOSURES

None.

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ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Market for Common Stock

Our common stock currently trades on the New York Stock Exchange (NYSE) under the ticker symbol "MG". The following table sets forth for the periods indicated the range of high and low sales prices of our common stock.

	Year ended May 31, 2015		Year ended May 31, 2014	
	High	Low	High	Low
Quarter ended August 31,	\$25.04	\$20.70	\$22.37	\$16.60
Quarter ended November 30,	\$21.55	\$15.98	\$20.33	\$15.99
Quarter ended February 28,	\$21.50	\$15.87	\$25.23	\$19.40
Quarter ended May 31,	\$19.34	\$17.50	\$24.29	\$20.42

Holders of Record

As of August 1, 2015, there were 11 holders of record of our Common Stock. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies. The transfer agent of our common stock is American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219.

Dividends

No cash dividends have been paid on our Common Stock to date. We currently intend to retain our future earnings, if any, to finance the expansion of our business and do not expect to pay any cash dividends in the foreseeable future.

Purchases of Equity Securities

The following sets forth the shares of our common stock we acquired during the fourth quarter of fiscal 2015 pursuant to the surrender of shares by employees to satisfy minimum 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)
April 30, 2015	510	\$ 18.20
May 31, 2015	90	\$ 18.02

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ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial data for each of the last five fiscal years. This selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and the audited consolidated financial statements and the notes thereto in Item 8 in this Annual Report.

	For the year ended May 31,				
	2015	2014	2013	2012	2011
	(\$ in thousands, except share and per share data)				
Statement of Income Data					
Revenues	\$711,252	\$623,447	\$529,282	\$436,875	\$338,589
Gross profit	184,733	172,943	148,371	129,690	103,403
Income from operations	30,353	¹ 38,295	27,554	² 36,098	29,611
Net income attributable to Mistras Group, Inc.	\$16,081	\$22,518	\$11,646	\$21,353	\$16,431
Per Share Information:					
Weighted average common shares outstanding:					
Basic	28,613	28,365	28,141	27,839	26,724
Diluted	29,590	29,324	29,106	28,685	26,933
Earnings (loss) per common share:					
Basic	\$0.56	\$0.79	\$0.41	\$0.77	\$0.61
Diluted	\$0.54	\$0.77	\$0.40	\$0.74	\$0.61
Balance Sheet Data					
Cash and cash equivalents	\$10,555	\$10,020	\$7,802	\$8,410	\$10,879
Total assets	471,727	443,972	377,997	329,816	248,637
Total long-term debt, including current portion	113,459	76,648	60,267	40,229	21,851
Obligations under capital leases, including current portion	19,363	20,915	17,689	19,045	15,476
Total Mistras Group, Inc. stockholders’ equity	\$244,819	\$242,104	\$210,053	\$193,012	\$167,157
Cash Flow Data:					
Net cash provided by operating activities	\$50,624	\$36,873	\$43,503	\$31,402	\$25,254
Net cash used in investing activities	(49,941)	(38,005)	(45,479)	(37,512)	(36,478)
Net cash provided by financing activities	481	3,262	1,144	2,009	5,344

1 - Includes pre-tax charges of \$5.1 million relating to: charges associated with the exit of our Japan and Russian operations (\$2.5 million), severance charges (\$1.6 million) and lease termination and other charges (\$1.0 million).

2 - Includes pre-tax goodwill impairment charge of \$9.9 million

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATION

The following Management’s Discussion and Analysis (“MD&A”) provides a narrative of our results of operations for the years ended May 31, 2015, 2014 and 2013, respectively, and our financial position as of May 31, 2015 and 2014, respectively. The MD&A should be read together with our consolidated financial statements and related notes included in Item 8 in this Annual Report on Form 10-K. In this annual 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, 2015 is referred to as “fiscal 2015”), 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. The MD&A includes the following sections:

Forward-Looking Statements

Overview

Consolidated Results of Operations

Segment Results of Operations

Liquidity and Capital Resources

Critical Accounting Estimates

Recent Accounting Pronouncements

Forward-Looking Statements

This report on Form 10-K 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). 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. See “Forward-Looking Statements” at the beginning of Item 1 of this Report.

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 along with a growing Canadian services business, 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, 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. South America consists of our Brazil operations.

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 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 (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. As of May 31, 2015, we had approximately 5,700

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employees in approximately 120 offices across 16 countries. We have established long-term relationships as a critical solutions provider to many of the leading companies in our target markets.

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 are working on building our infrastructure to profitably absorb additional growth and have made a number of 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 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, high unemployment rates, slow economic growth, fluctuating oil prices and volatile currency exchange rates. However, we believe these conditions have allowed us to selectively hire new talented individuals that otherwise might not have been available to us, to acquire new technologies in order to expand our proprietary portfolio of customized solutions, and to make acquisitions of complementary businesses at reasonable valuations.

Consolidated Results of Operations

The following table summarizes our consolidated statements of operations for fiscal 2015, 2014 and 2013:

	For the year ended May 31,			
	2015	2014	2013	
	(\$ in thousands)			
Revenues	\$711,252	\$623,447	\$529,282	
Gross profit	184,733	172,943	148,371	
Gross profit as a % of Revenue	26	% 28	% 28	%
Total operating expenses	154,380	134,648	120,817	
Operating expenses as a % of Revenue	22	% 22	% 23	%
Income from operations	30,353	38,295	27,554	
Income from operations as a % of Revenue	4	% 6	% 5	%
Interest expense	4,622	3,192	3,288	
Income before provision for income taxes	25,731	35,103	24,266	
Provision for income taxes	9,740	12,528	12,627	
Net income	15,991	22,575	11,639	
Less: net loss (income) attributable to noncontrolling interests, net of taxes	90	(57	) 7	
Net income attributable to Mistras Group, Inc.	\$16,081	\$22,518	\$11,646	

Our EBITDA and Adjusted EBITDA, non-GAAP measures explained below, for the years ended May 31, 2015, 2014 and 2013:

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	For the year ended May 31,		
	2015	2014	2013
	(\$ in thousands)		
Net income attributable to Mistras Group, Inc.	\$16,081	\$22,518	\$11,646
Interest expense	4,622	3,192	3,288
Provision for income taxes	9,740	12,528	12,627
Depreciation and amortization	33,286	28,429	26,647
EBITDA	\$63,729	\$66,667	\$54,208
Share-based compensation expense	6,579	6,261	6,285
Acquisition-related expense, net	(5,167)	(2,657)	(2,141)
Charges related to sale of foreign operations	\$2,516	\$—	\$—
Severance costs	1,587	—	—
Foreign exchange loss	1,474	101	—
Asset write-offs and lease terminations	1,029	—	—
Goodwill impairment	—	—	9,938
Adjusted EBITDA	\$71,747	\$70,372	\$68,290

Note about Non-GAAP Measures

Adjusted EBITDA is a performance measure used by management that is not calculated in accordance with U.S. generally accepted accounting principles (GAAP). EBITDA is defined in this 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 Report as net income attributable to Mistras Group, Inc. plus: interest expense, provision for income taxes, depreciation and amortization, share-based compensation expense, and certain acquisition-related costs (including transaction due diligence costs and adjustments to the fair value of contingent consideration), foreign exchange loss and, if applicable, certain non-recurring items which are noted.

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 certain of our executive and employee incentive compensation programs.

Later in this MD&A under the heading "Income for Operations", the non-GAAP financial performance measures "Income from operations before acquisition-related expense (benefit), net" is used for each of our three segments 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 and (b) the net changes in the fair value of acquisition-related contingent consideration liabilities. 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 and are related solely to the Company's or Segment's acquisition activities. Changes in the fair value of acquisition-related contingent consideration liabilities can be a net expense or credit in any given period, and fluctuate based upon the then current value of cash consideration the Company expects to pay in the future for prior acquisitions, without impacting cash generated from the Company's business operations.

In the MD&A section "Liquidity and Capital Resources", we use the term "free cash flow", a non-GAAP measurement. We define free cash flow as cash provided by operating activities less capital expenditures (which is classified as an investing activity). Free cash flow for fiscal 2015 was \$35.5 million consisting of \$50.6 million of operating cash flow less \$15.1 million of capital expenditures. For fiscal 2014, free cash flow was \$20.0 million consisting of \$36.9 million of operating cash flow less \$16.9 million of capital expenditures.

We believe investors and other users of our financial statements benefit from the presentation of EBITDA, Adjusted EBITDA and "Income from operations before acquisition-related expense (benefit), net" for each of our three segments and the "Total Company", and free cash flow in evaluating our operating performance because they provide additional tools to compare our operating performance on a consistent basis and measure underlying trends and results in our business. EBITDA and Adjusted EBITDA remove 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

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structure, capital investment cycles and the method by which assets were acquired. It also eliminates share-based compensation, which is a non-cash expense and is excluded by management when evaluating the underlying performance of our business operations. Similarly, we believe that "Income from operations before acquisition-related expense (benefit), net" for each of our three segments and the "Total Company", provides investors with useful information and more meaningful period over period comparisons by identifying and excluding these acquisition-related costs so that the performance of the core business operations can be identified and compared.

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. EBITDA and 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. In addition, acquisitions are a part of our growth strategy, and therefore acquisition-related items are a necessary cost of the Company's business. "Income from operations before acquisition-related expense (benefit), net" for each of our three segments and for the consolidated company and "free cash flow" are not metrics used to determine incentive compensation for executives or employees.

Revenues

Our revenues by segment for fiscal 2015, 2014 and 2013 were as follows:

	For the year ended May 31,		
	2015	2014	2013
	(\$ in thousands)		
Revenues			
Services	\$540,224	\$443,229	\$380,851
International	146,953	161,395	126,840
Products and Systems	31,255	33,544	33,301
Corporate and eliminations	(7,180)	) (14,721	) (11,710
	\$711,252	\$623,447	\$529,282

Our growth rates for fiscal 2015, 2014 and 2013 were as follows:

	For the year ended May 31,		
	2015	2014	2013
	(\$ in thousands)		
Revenue growth	\$87,805	\$94,165	\$92,407
% Growth over prior year	14.1	% 17.8	% 21.2
Comprised of:			
% of organic growth	4.2	% 8.5	% 3.1
% of acquisition growth	12.0	% 9.0	% 18.7
% foreign exchange increase (decrease)	(2.1)	)% 0.3	% (0.6)
	14.1	% 17.8	% 21.2

Fiscal 2015

Revenue was \$711.3 million in fiscal 2015, an increase of \$87.8 million or 14% compared to fiscal 2014, due entirely to growth in our Services segment. Services segment revenues increased 22% due to acquisition growth of 16% and organic revenue growth of 6%. International Segment revenues declined by 9%, driven by unfavorable foreign exchange rates of 7%, and additionally by large projects in the United Kingdom and product sales in Japan and Russia in fiscal 2014 that did not repeat in fiscal year 2015. Products and Systems segment revenues declined approximately 7% due to lower sales volume.

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Robust North American market conditions combined with the Company's market share gains and acquisitions led Services revenue to grow by 38% over prior year during the first half of fiscal 2015. However, a combination of the 50% drop in the price of oil and labor union strikes at various customer sites caused market conditions to slow dramatically in the second half of the fiscal year, reducing the Services second half year-over-year revenue growth rate to 8%. Revenues from oil and gas customers comprised 52% and 49% of revenues in fiscal 2015 and 2014, respectively. Revenues from oil and gas customers grew by 22% in fiscal 2015, led by growth from upstream customers, driven by organic gains and from an acquisition focused on upstream customers. Fiscal 2015 revenue growth from customers in other industries, including industrial, process industries which include chemical and pharmaceutical, power generation and infrastructure grew by 6% over prior year. Our top ten customers represented approximately 33% of our fiscal 2015 revenues compared with 38% in fiscal 2014. No single customer accounted for 10% or more of fiscal 2015 revenues.

Fiscal 2014

Revenue was \$623.5 million in fiscal 2014, an increase of \$94.2 million or 18% compared to fiscal 2013, driven by growth in our Services and International segments. Organic growth and acquisitions contributed equally to the 18% fiscal 2014 revenue growth. Services revenue grew by 16% over prior year, driven by 12% organic growth coupled with 5% from acquisitions. International growth was 27% over prior year, driven by the 23% year-over-year impact of a large acquisition made in the middle of fiscal 2013.

Services revenue growth was adversely impacted by unusually difficult winter weather in the third quarter of fiscal year 2014 but otherwise followed normal seasonal patterns. Revenue from oil and gas customers represented 49% and 50% of revenues in fiscal 2014 and 2013, respectively. Oil and gas revenues grew by 15% in fiscal 2014, led by increases from both downstream and upstream customers. Fiscal 2014 revenue growth from customers in other industries, including aerospace and defense, power generation, industrial, process industries which include chemical and pharmaceutical, and infrastructure, grew by 20%.

No customer accounted for 10% or more of our fiscal 2014 revenues.

Gross Profit. Our gross profit by segment for fiscal 2015, 2014 and 2013 was as follows:

	For the year ended May 31,		
	2015	2014	2013
	(\$ in thousands)		
Gross profit			
Services	\$135,201	\$114,182	\$98,907
International	34,572	44,893	32,319
Products and Systems	14,314	14,495	16,947
Corporate and eliminations	646	(627)	) 198
	\$184,733	\$172,943	\$148,371

Fiscal 2015

Gross profit increased \$11.8 million, or 7% in fiscal 2015 compared to fiscal 2014. As a percentage of revenues, our gross profit was 26% and 28% in fiscal 2015 and fiscal 2014, respectively.

The 2015 decrease of 170 basis points in gross profit as a percentage of revenues was primarily attributable to the International and Services segments. International segment gross margins decreased to 24% in fiscal 2015 compared with 28% in the prior year, due primarily to lower levels of project sales in the U.K. and of product sales in several countries. Other factors included an increase in unutilized technician labor, and severance costs related to workforce

reductions. Services segment gross profit margin declined by approximately 80 basis points compared with fiscal 2014, due primarily to wage increases that exceeded price increases earlier in the Company's fiscal year and the adverse impact from labor union strikes at various customer sites. Products and Systems segment gross margin improved to 46% compared to 43% in the prior year driven by cost reductions. Gross profit attributable to Corporate and eliminations is primarily due to the elimination of Services segment depreciation expense.

Fiscal 2014

Gross profit increased \$24.6 million, or 17% in fiscal 2014 compared with fiscal 2013. As a percentage of revenues, our gross profit was approximately 28% in both fiscal 2014 and 2013.

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The slight 2014 decrease of 30 basis points in gross profit as a percentage of revenues was primarily attributable to bad winter weather conditions in North America, as well as costs to prepare to serve a large new customer in Alaska and an important new contract with a major integrated energy company with significant operations in the Canadian oil sands region. Additionally, the Company incurred staffing costs which preceded revenues pertaining to market share gains in France. The cumulative adverse impact of these items aggregated approximately \$3 million, approximately \$2 million of which reduced gross profit and the remainder increased operating expenses during fiscal 2014.

Income from Operations. The following table shows a reconciliation of the segment income from operations before acquisition-related (benefit) expense, net, to income from operations for fiscal 2015, 2014 and 2013:

	For the year ended May 31,		
	2015	2014	2013
	(\$ in thousands)		
Services:			
Income from operations before acquisition-related (benefit) expense, net	\$48,503	\$44,846	\$41,750
Acquisition-related (benefit) expense, net	(639)	) 1,625	1,425
Income from operations	49,142	43,221	40,325
International:			
Income from operations before acquisition-related (benefit) expense, net and goodwill impairment	\$(3,501)	) \$6,786	\$2,596
Acquisition-related (benefit) expense, net and goodwill impairment	(2,926)	) (3,452)	) 10,842
(Loss) Income from operations	(575)	) 10,238	(8,246)
Products and Systems:			
Income from operations before acquisition-related (benefit), net	\$2,461	\$1,517	\$4,883
Acquisition-related (benefit), net	—	(1,035)	) (2,403)
Income from operations	2,461	2,552	7,286
Corporate and Eliminations:			
Loss from operations before acquisition-related (benefit) expense, net	\$(22,277)	) \$(17,511)	) \$(13,878)
Acquisition-related (benefit) expense, net	(1,602)	) 205	(2,067)
Loss from operations	(20,675)	) (17,716)	) (11,811)
Total Company			
Income from operations before acquisition-related (benefit) expense, net and goodwill impairment	\$25,186	\$35,638	\$35,351
Acquisition-related (benefit) expense, net and goodwill impairment	\$(5,167)	) \$(2,657)	) \$7,797
Income from operations	\$30,353		