Mistras Group, Inc.
Form 10-Q
April 14, 2011

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

FORM 10-Q

(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended February 28, 2011
	Or
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period to

Commission file number 001- 34481

Mistras Group, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

to submit and post such files).
o Yes o No

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

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

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

As of April 8, 2011, the registrant had 26,670,181 shares of common stock outstanding.

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PART I—FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

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

	February 28, 2011	May 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 6,560	$ 16,037
Accounts receivable, net	62,290	54,721
Inventories, net	10,285	8,736
Deferred income taxes	2,271	2,189
Prepaid expenses and other current assets	5,622	5,292
Total current assets	87,028	86,975
Property, plant and equipment, net	46,322	39,981
Intangible assets, net	19,317	16,088
Goodwill	53,442	44,315
Other assets	896	1,273
Total assets	$ 207,005	$ 188,632
LIABILITIES, PREFERRED STOCK AND EQUITY		
Current liabilities		
Current portion of long-term debt	$ 4,769	$ 6,303
Current portion of capital lease obligations	5,997	5,370
Accounts payable	4,733	4,640
Accrued expenses and other current liabilities	22,288	20,090
Income taxes payable	2,212	3,281
Total current liabilities	39,999	39,684
Long-term debt, net of current portion	9,793	5,691
Obligations under capital leases, net of current portion	8,676	9,199
Deferred income taxes	3,526	2,087
Other long-term liabilities	1,058	1,417
Total liabilities	63,052	58,078
Commitments and contingencies		
Preferred stock, 10,000,000 shares authorized	—	—
Equity		
Common stock, $0.01 par value, 200,000,000 shares authorized, 26,670,181 and 26,663,528 shares issued and outstanding as of February 28, 2011 and May 31, 2010, respectively	267	267
Additional paid-in capital	164,764	162,054
Accumulated deficit	(20,735)	(30,448)
Accumulated other comprehensive loss	(707)	(1,587)
Total Mistras Group, Inc. stockholders' equity	143,589	130,286
Noncontrolling interest	364	268

Total equity		143,953		130,554
Total liabilities, preferred stock and equity	$	207,005	$	188,632

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

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

	Three months ended February 28, 2011	Three months ended February 28, 2010	Nine months ended February 28, 2011	Nine months ended February 28, 2010
Revenues:				
Services	$ 72,411	$ 57,966	$ 216,616	$ 176,484
Products	6,802	6,390	19,844	15,860
Total revenues	79,213	64,356	236,460	192,344
Cost of Revenues:				
Cost of services	50,696	41,641	147,754	120,516
Cost of goods sold	2,460	2,343	7,804	6,184
Depreciation of services	3,307	2,547	9,252	7,262
Depreciation of products	153	198	467	589
Total cost of revenues	56,616	46,729	165,277	134,551
Gross profit	22,597	17,627	71,183	57,793
Selling, general and administrative expenses	16,005	14,110	47,099	40,929
Research and engineering	514	586	1,638	1,518
Depreciation and amortization	1,385	1,299	3,889	3,558
Legal reserve	—	—	351	(297)
Income from operations	4,693	1,632	18,206	12,085
Other expenses				
Interest expense	596	744	1,957	2,825
Loss on extinguishment of long-term debt	—	—	—	387
Income before provision for income taxes and noncontrolling interest	4,097	888	16,249	8,873
Provision for income taxes	1,690	123	6,562	3,692
Net income	2,407	765	9,687	5,181
Net loss (income) attributable to noncontrolling interests, net of taxes	36	9	26	(30)
Net income attributable to Mistras Group, Inc.	2,443	774	9,713	5,151
Accretion of preferred stock	—	—	—	6,499
Net income attributable to common shareholders	$ 2,443	$ 774	$ 9,713	$ 11,650
Earnings per common share (See Note 4):				
Basic	$ 0.09	$ 0.03	$ 0.36	$ 0.58
Diluted	$ 0.09	$ 0.03	$ 0.36	$ 0.21
Weighted average common shares outstanding:				
Basic	26,667	26,469	26,665	20,103
Diluted	26,919	27,764	26,824	24,511

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

Mistras Group, Inc. and Subsidiaries
Unaudited Consolidated Statements of Stockholders' Equity
(in thousands)

	Common Stock Shares	Common Stock Amount	Additionl paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive loss	Total Mistras Group, Inc . Stockholders' Equity	Noncontrolling Interest	Total Equity
Nine months ended February 28, 2010:								
Balance at May 31, 2009	13,000	$ 130	$ 917	$ (47,376)	$ (1,583)	$ (47,912)	$ 245	$ (47,667)
Net income	—	—	—	5,151	—	5,151	30	5,181
Other comprehensive income, net of tax:								
Foreign currency translation adjustment	—	—	—	—	648	648	—	648
Comprehensive Income						5,799	30	5,829
Accretion of preferred stock	—	—	—	6,499	—	6,499	—	6,499
Issuance of common stock upon conversion of class A & B preferred stock	6,759	68	84,416	—	—	84,484	—	84,484
Issuance of common stock from initial public offering, net	6,700	67	73,950	—	—	74,017	—	74,017
Stock compensation	—	—	1,860	—	—	1,860	—	1,860
Exercise of stock options	55	1	20			21		21
Other	—	(1)	—	(7)	—	(8)	(1)	(9)
Balance at February 28, 2010	26,514	$ 265	$ 161,163	$ (35,733)	$ (935)	$ 124,760	$ 274	$ 125,034
Nine months ended February 28, 2011:								
Balance at May 31, 2010	26,664	$ 267	$ 162,054	$ (30,448)	$ (1,587)	$ 130,286	$ 268	$ 130,554

Net income	—	—	—	9,713	—	9,713	(26)	9,687
Other comprehensive income, net of tax:								
Foreign currency translation adjustment	—	—	—	—	880	880	5	885
Comprehensive Income						10,593	(21)	10,572
Stock compensation	1	—	2,680	—	—	2,680	—	2,680
Exercise of stock options	5	—	30	—	—	30	—	30
Noncontrolling interest in subsidiary	—	—	—	—	—	—	117	117
Balance at February 28, 2011	26,670	$ 267	$ 164,764	$ (20,735)	$ (707)	$ 143,589	$ 364	$ 143,953

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

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

	Nine months ended February 28, 2011	Nine months ended February 28, 2010
Cash flows from operating activities		
Net income attributable to Mistras Group, Inc.	$ 9,713	$ 5,151
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	13,608	11,409
Deferred income taxes	171	(60)
Provision for doubtful accounts	45	1,032
Loss on extinguishment of long-term debt	—	387
Gain on sale of assets	38	78
Amortization of deferred financing costs	127	163
Stock compensation expense	2,680	1,860
Interest rate swap	(210)	(398)
Noncontrolling interest	(26)	30
Foreign currency gain	(310)	(694)
Changes in operating assets and liabilities, net of effect of acquisitions		
Accounts receivable	(6,620)	(10,379)
Inventories	(1,377)	(646)
Prepaid expenses and other current assets	979	(1,200)
Other assets	971	2,322
Accounts payable	410	1,179
Income taxes payable	(302)	2,822
Accrued expenses and other current liabilities	1,468	(705)
Net cash provided by operating activities	21,365	12,351
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,051)	(1,669)
Purchase of intangible assets	(398)	(133)
Acquisition of businesses, net of cash acquired	(18,301)	(14,338)
Proceeds from sale of equipment	170	237
Net cash used in investing activities	(24,580)	(15,903)
Cash flows from financing activities		
Repayment of capital lease obligations	(4,631)	(4,619)
Repayments of long-term debt	(6,808)	(66,855)
Net borrowings (repayments) from revolver	5,000	(15,505)
Proceeds from borrowings of long-term debt	42	25,000
Debt issuance costs	—	(484)
Net proceeds from issuance of common stock	—	74,007
Proceeds from the exercise of stock options	30	21
Net cash (used in) provided by financing activities	(6,367)	11,565
Effect of exchange rate changes on cash and cash equivalents	105	28
Net change in cash and cash equivalents	(9,477)	8,041
Cash and cash equivalents		
Beginning of period	16,037	5,668

End of period	$	6,560	$	13,709
Supplemental disclosure of cash paid				
Interest	$	2,058	$	3,126
Income taxes	$	6,581	$	1,303
Noncash investing and financing				
Equipment acquired through capital lease obligations	$	3,678	$	5,045
Issuance of notes payable and other debt obligations primarily related to acquisitions	$	1,637	$	5,398

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

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

1. Description of Business & Basis of Presentation

Description of Business

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended February 28, 2011 are not necessarily indicative of the results that may be expected for the year ending May 31, 2011. The balance sheet at May 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. You should read these unaudited consolidated financial statements together with the historical consolidated financial statements of the Company as filed with the Securities and Exchange Commission.

Principles of Consolidation

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

All significant intercompany accounts and transactions have been eliminated in consolidation. All foreign subsidiaries’ fiscal years end on April 30, while Mistras Group, Inc. and the domestic subsidiaries’ fiscal years end on May 31. The effect of this difference in timing of reporting foreign operations on the consolidated results of operations and consolidated financial position is not significant.

Reclassification

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

Mistras Group, Inc. and Subsidiaries
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(tabular dollars in thousands, except per share data)

2. Summary of Significant Accounting Policies

Revenue recognition

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

Services

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

Software

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

Products

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

Percentage of completion

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

Multiple-element arrangements

The Company occasionally enters into transactions that represent multiple-element arrangements, which may include any combination of services, software, and hardware. Under current Financial Accounting Standards Board ("FASB") guidance, the Company utilizes vendor-specific objective evidence to determine whether the multiple elements can be separated into more than one unit of accounting. A multiple-element arrangement is separated into more than one unit of accounting if: (1) the delivered item has value on a standalone basis; and (2) there is objective and reliable evidence of the fair value of the undelivered items, if the delivery or performance of the undelivered items is probable and in the control of the Company.

Mistras Group, Inc. and Subsidiaries
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If these criteria are not met, then revenues are deferred until such criteria are met or until the period(s) over which the last undelivered element is delivered. If there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative fair value. Effective June 1, 2012, the Company will adopt updated guidance from the FASB that will require the allocation of revenue in multiple-element arrangements to separate units of accounting based on an element's estimated selling price if vendor-specific or other first party evidence is not available; see "Recent Accounting Pronouncements".

Use of Estimates

These unaudited consolidated financial statements have been prepared in conformity with GAAP, which requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The more significant estimates include valuation of goodwill and intangible assets, useful lives of long-lived assets, allowances for doubtful accounts, inventory valuation, reserves for self-insured workers compensation and health benefits and provision for income taxes.

Earnings per Share

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

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair market value of net assets of the acquired business at the date of acquisition. The Company tests for impairment annually, in its fiscal fourth quarter, using a two-step process. The first step identifies potential impairment by comparing the fair value of the Company's reporting units to its carrying value. If the fair value is less than the carrying value, the second step measures the amount of impairment, if any. The impairment loss is the amount by which the carrying amount of goodwill exceeds the implied fair value of that goodwill. The most recent annual test for impairment performed for fiscal 2010 did not identify any instances of impairment and there were no events through February 28, 2011 that warranted a reconsideration of our impairment test results.

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

Concentration of Credit Risk

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

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

Various divisions or business units of B.P., plc. ("BP"), the Company's largest customer, accounted for 21% and 17% of revenues for the three months ended February 28, 2011 and 2010, respectively, and 17% and 19% of total revenues for the nine months ended February 28, 2011 and 2010, respectively. Accounts receivable from this customer was approximately 15% and 10% of total accounts receivable, net, as of February 28, 2011 and May 31, 2010, respectively.

Mistras Group, Inc. and Subsidiaries
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(tabular dollars in thousands, except per share data)

Equity-based compensation

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

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

Recent Accounting Pronouncements

In October 2009, the FASB issued guidance on revenue recognition related to multiple-element arrangements. The new guidance requires companies to allocate revenue in multiple-element arrangements based on an element's estimated selling price if vendor-specific or other first party evidence of value is not available. This guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted retrospectively from the beginning of an entity's fiscal year. The Company does not expect a significant impact on the financial statements of the Company when the guidance is adopted in fiscal 2012.

3. Capitalization

Common Stock

In October 2009, the Company completed its IPO of 10,000,000 shares of common stock at a price of $12.50 per share. The Company sold 6,700,000 shares. The Company received net proceeds of approximately $74.0 million from the offering. The Company used approximately $68.0 million of the net proceeds to repay the outstanding principal balance of its then term loan ($25.0 million) and of its revolving credit facility ($41.4 million), and accrued interest thereon ($0.1 million), as well as approximately $1.5 million to pay costs and expenses related to the offering. The remaining proceeds (approximately $6.0 million) were used for acquisitions and working capital purposes.

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

Preferred stock

Prior to its IPO in October 2009, the Company completed several private placements of its Class A and Class B preferred stock. These preferred shares included various redemption and conversion features and were reported outside the equity section and adjusted to fair value, which represented their redemption value at each reporting date. Effective upon the closing of the IPO, all of the preferred shares outstanding as of the offering converted to common stock.

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

Equity awards

In September 2009, the Company's board of directors and shareholders adopted and approved the 2009 Long-Term Incentive Plan (the "2009 Plan"), which became effective upon the closing of the IPO. Awards may be in the form of stock options, restricted stock units and other forms of stock-based incentives, including stock appreciation rights and deferred stock rights. The term of each incentive and non-qualified stock option is ten years. Vesting generally occurs over a period of four years, the expense for which is recorded on a straight-line basis over the requisite service period. The 2009 Plan allows for the grant of awards of up to approximately 2,286,000 shares of common stock, of which 1,998,000 shares were available for future grants as of February 28, 2011. Prior to the Company's IPO in October 2009, the Company had two stock option plans: (i) the 1995 Incentive Stock Option and Restricted Stock Purchase Plan (the "1995 Plan"), and (ii) the 2007 Stock Option Plan (the "2007 Plan"). No additional awards may be granted from these two plans. As of February 28, 2011, there were stock options for a total of approximately 2,878,000 shares of common stock and approximately 217,000 unvested restricted stock units outstanding under the 2009 Plan, the 2007 Plan, and the 1995 Plan.

The fair value of the Company's stock option awards was estimated at the date of grant using the Black-Scholes option-pricing model with the following range of assumptions:

	For the nine months ended February 28,			
	2011		2010	
Dividend yield	0.0	%	0.0	%
Expected volatility	44	%	44	%
Risk-free interest rate	2.6	%	1.9-3.0	%
Expected term (years)	6.3		4.0-6.3	

The Company recognized stock-based compensation expense related to stock option awards of approximately $0.8 million and $0.8 million for the three months ended February 28, 2011 and 2010, respectively. For the nine months ended February 28, 2011 and 2010, the Company recognized stock-based compensation expense related to stock option awards of $2.4 million and $1.9 million, respectively. Cash proceeds from and the aggregate intrinsic value of stock options exercised during the three and nine month periods ended February 28, 2011 and 2010 were as follows:

	For the three and nine months ended February 28,			
		2011		2010
Cash proceeds from options exercised	$	30	$	21
Aggregate intrinsic value of options exercised		43		762

As of February 28, 2011, there was approximately $7.7 million of unrecognized compensation costs, net of estimated forfeitures, related to stock option awards which are expected to be recognized over a remaining weighted average period of 2.5 years.

The Company also recognized approximately $0.1 million and $0.3 million in stock-based compensation expense related to restricted stock unit awards during the three and nine month periods ended February 28, 2011. There was no such expense incurred during the three and nine month periods ended February 28, 2010. As of February 28, 2011, there was approximately $1.8 million of unrecognized compensation costs, net of estimated forfeitures, related to restricted stock unit awards, which are expected to be recognized over a remaining weighted average period of 3.5 years.

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

4. Earnings per share

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

	Three months ended February 28, 2011	Three months ended February 28, 2010	Nine months ended February 28, 2011	Nine months ended February 28, 2010
Basic earnings per share				
Numerator:				
Net income attributable to common shareholders	$ 2,443	$ 774	$ 9,713	$ 11,650
Denominator				
Weighted average common shares outstanding	26,667	26,469	26,665	20,103
Basic earnings per share	$ 0.09	$ 0.03	$ 0.36	$ 0.58
Diluted earnings per share:				
Numerator:				
Net income attributable to common shareholders	$ 2,443	$ 774	$ 9,713	$ 5,151
Denominator				
Weighted average common shares outstanding	26,667	26,469	26,665	20,103
Dilutive effect of stock options outstanding	202	1,295	137	1,214
Dilutive effect of restricted stock units outstanding	50	—	22	—
Dilutive effect of conversion of preferred shares	—	—	—	3,194
Total shares	26,919	27,764	26,824	24,511
Diluted earnings per share	$ 0.09	$ 0.03	$ 0.36	$ 0.21

5. Acquisitions

The Company made four acquisitions during the nine months ended February 28, 2011 for strategic market expansion. Three of the acquisitions were asset purchases, but which met the definition of “acquisitions of businesses” under the provision FASB Accounting Standards Codification (“ASC”) 805-10-20. In the remaining acquisition, we acquired 80% of the common stock of the acquiree. The holders of the remaining 20% interest can require the Company to purchase the noncontrolling interest at any time for a price based upon EBITDA of the acquiree’s operations. The estimated fair value of the minority holders’ put option was de minimis as of February 28, 2011. The 20% minority interest is reflected as noncontrolling interest in stockholders’ equity. In addition to the cash and debt consideration, the Company also accrued a liability of approximately $0.7 million as of February 28, 2011 for the estimated fair value of contingent consideration expected to be payable in the event that certain of the acquired companies achieve specific performance metrics over the next four years of operations. The potential contingent consideration ranges from zero to $2.4 million and would be payable in four annual installments based upon operational performance for the fiscal years ended May 31, 2012 through 2015.

Assets and liabilities of the acquired businesses were included in the Consolidated Balance Sheet as of February 28, 2011 based on their estimated fair value on the date of acquisition as determined in a purchase price allocation, using available information and making assumptions management believes are reasonable. Results of operations for the period from acquisition date are reported in each respective operating segment’s statement of operations.

Revenues included in the Consolidated Statement of Operations for the three and nine month periods ended February 28, 2011 from these acquisitions for the period subsequent to the closing of each respective transaction was approximately $4.5 million and $9.9 million, respectively. On a pro forma basis from the beginning of fiscal 2011, revenues from these acquisitions would have been approximately $4.5 million and $15.9 million for the three and nine month periods ended February 28, 2011. Operating income or other financial measures for these acquisitions both from the date of closing of each respective transaction and on a pro forma basis is impractical to estimate due to the integration of these entities post-acquisition.

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The table below summarizes the purchase price allocation for all acquisitions during the nine months ended February 28, 2011 and 2010, respectively:

	Nine months ended February 28, 2011	2010
Number of entities	4	3
Cash paid	$ 18,301	$ 14,350
Subordinated notes issued	1,637	5,399
Debt assumed	1,100	—
Contingent consideration	697	687
Purchase price	$ 21,735	$ 20,436
Current net assets acquired	127	939
Property, plant and equipment	6,341	5,124
Deferred tax asset	41	1,067
Intangibles, primarily customer lists	6,465	8,239
Goodwill	8,878	5,067
Less: noncontrolling interest	(117)	—
Net assets acquired	$ 21,735	$ 20,436

The amortization period of intangible assets acquired ranges from one to seven years. Goodwill resulting from these acquisitions arises largely from the synergies expected from combining the operations of the acquisitions with our existing services operations, as well as from the benefits derived from the assembled workforce of the acquired companies. The goodwill recognized is expected to be deductible for tax purposes.

6. Property, plant and equipment, net

Property, plant and equipment consist of the following:

	Useful Life (Years)	February 28, 2011	May 31, 2010
Land		$ 2,209	$ 1,304
Building and improvements	30-40	12,411	10,240
Office furniture and equipment	5-8	3,955	1,479
Machinery and equipment	5-7	79,040	68,238
		97,615	81,261
Accumulated depreciation and amortization		(51,293)	(41,280)
		$ 46,322	$ 39,981

Depreciation expense for the three months ended February 28, 2011 and 2010 was approximately $3.5 million and $2.6 million, respectively. Depreciation expense for the nine months ended February 28, 2011 and 2010 was approximately $9.5 million and $8.0 million, respectively.

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7. Accounts Receivable and Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided against accounts receivable for amounts management believes may be uncollectible. Changes in the allowance for doubtful accounts are represented by the following:

Balance, May 31, 2010	$ 1,661
Increase due to acquisitions	33
Provision for doubtful accounts	(121)
Write-offs, net of recoveries	88
Foreign exchange valuation	(12)
Balance, February 28, 2011	$ 1,649

8. Inventories

Inventories consist of the following:

	As of February 28, 2011	As of May 31, 2010
Raw materials	$ 2,879	$ 2,564
Work in process	2,458	2,252
Finished goods	3,122	2,655
Supplies	1,826	1,265
	$ 10,285	$ 8,736

Inventories are net of reserves for slow-moving and obsolete inventory of approximately $0.4 million and $0.9 million as of February 28, 2011 and May 31, 2010, respectively.

9. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	As of February 28, 2011	As of May 31, 2010
Accrued salaries, wages and related employee benefits	$ 10,910	$ 8,158
Other accrued expenses	2,778	2,740
Accrued worker compensation and health benefits	7,116	8,041
Deferred revenues	1,484	1,151
Total	$ 22,288	$ 20,090

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10. Long-Term Debt

Long-term debt consists of the following:

	As of February 28, 2011	As of May 31, 2010
Senior credit facility:		
Revolver	$ 5,000	$ —
Notes payable - acquisitions	8,729	11,023
Other	833	971
	14,562	11,994
Less: Current maturities	4,769	6,303
Long-term debt, net of current maturities	$ 9,793	$ 5,691

Senior Credit Facility

In July 2009, the Company entered into its current credit agreement with Bank of America, N.A., JPMorgan Chase Bank, N.A., TD Bank, N.A. and Capital One, N.A., which provided for a $25.0 million term loan and a $55.0 million secured revolving credit facility. The term loan was repaid and extinguished in October 2009 with proceeds from the IPO. As of February 28, 2011, the Company had $5.0 million of outstanding borrowings under the revolving credit facility. Borrowings made under the revolving credit facility are payable in July 2012.

In December 2009, the Company signed an amendment to its current credit agreement that, among other things, adjusted certain affirmative and negative covenants including delivery of financial statements, the minimum consolidated debt service coverage ratio, the procedures for obtaining lender approval for acquisitions and the removal of the minimum EBITDA requirement.

Under the amended agreement, borrowings under the credit agreement bear interest at the LIBOR or base rate, at the Company's option, plus an applicable LIBOR margin ranging from 1.75% to 3.25%, or base rate margin ranging from -0.50% to 0.50%, and a market disruption increase of between 0% and 1.0%, if the lenders determine that it's applicable. As of February 28, 2011, the interest rate on our revolving credit facility borrowings was 2.75%.

The credit agreement also contains financial and other covenants limiting our ability to, among other things, create liens, make investments and certain capital expenditures, incur more indebtedness, merge or consolidate, acquire other companies, make dispositions of property, pay dividends and make distributions to stockholders, enter into a new line of business, enter into transactions with affiliates and enter into burdensome agreements. The agreement's financial covenants require us to maintain a minimum debt service coverage ratio, and a funded debt leverage ratio, all as defined in the credit agreement. There is a provision in the credit facility that requires us to repay 25% of the immediately preceding fiscal year's "free cash flow" if our ratio of "funded debt" to EBITDA, as defined in the credit agreement, is greater than a specified amount on or before October 1 each year.

As of February 28, 2011, we were in compliance with the terms of the credit agreement.

During the nine months ended February 28, 2010, the Company capitalized approximately $0.5 million of costs related to the new credit agreement and expensed approximately $0.2 million of deferred financing costs related to its former credit facility. In connection with the repayment and extinguishment of the term loan portion of the new facility in October 2009, the Company expensed approximately $0.2 million of financing costs incurred during the nine months ended February 28, 2010. The unamortized balance of these costs is included in net intangible assets in the Consolidated Balance Sheet. The accelerated amounts expensed are classified as loss on extinguishment of long-term debt in the Consolidated Statement of Operations.

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Notes Payable and Other

In connection with its acquisitions through February 28, 2011, the Company issued subordinated notes payable to the sellers. The maturity of these notes range from three to five years from the date of acquisition with interest rates ranging from 0% to 7%. The Company has discounted these obligations to reflect a 3.5% to 10% imputed interest rate. Unamortized discount on these notes totaled approximately $0.2 million and $0.3 million as of February 28, 2011 and May 31, 2010, respectively. Amortization is recorded as interest expense in the Consolidated Statement of Operations.

11. Fair Value Measurements

In calendar 2010, the Company hedged a portion of the variable rate interest payments on its debt using an interest rate swap contract to convert variable payments into fixed payments. The Company did not apply hedge accounting to its interest rate swap contracts. Changes in the fair value of this instrument were reported as a component of interest expense. The interest rate swap contract matured in November 2010 and had a notional amount of $8.0 million. The following outlines the significant terms of the contract and the fair value of the contract as of May 31, 2010:

Contract date	Term	Notional Amount	Variable interest rate	Fixed interest rate	As of May 31, 2010
November 20, 2006	4 years	$ 8,000	LIBOR	5.17 %	$ (210)
		$ 8,000			$ (210)

The Company classifies its interest rate swaps at fair value in the following categories:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than quoted market prices in active markets that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value of the Company's interest rate swap liability was determined using quoted prices in an active market and was classified as a Level 1 liability within the fair value hierarchy.

12. Commitments and Contingencies

Litigation

The Company is a defendant in two related purported class action lawsuits in California, based upon alleged violations of California labor and employment law: Quiroz v. Mistras Group, Inc., et al, U.S. District Court, Central District of California (Case No. CV09-7146 PSG), filed in September 2009, and Ballard v. Mistras Group, Inc., et al, U.S. District Court, Central District of California (Case No. 2:10-cv-03186 (PSG)), filed in March 2010. Both of these cases are purported class action lawsuits brought on behalf of existing and former California employees of the Company and its subsidiaries for violation of various labor and employment laws, primarily for failure to pay wages timely and for having defective wage statements, as well as other claims, and is seeking penalties under the California Private Attorneys General Act. The Ballard case was filed shortly after the plaintiff's request to certify the Quiroz case as a class action suit was denied by the same attorney representing the plaintiff in the Quiroz case.

The Company and counsel for the plaintiffs in both the Quiroz and Ballard cases have agreed upon a settlement, which has received preliminary court approval. The Company has reserved approximately $0.3 million in connection with this settlement, the charges for which were taken in prior quarters of fiscal 2011. This reserve represents the Company's estimate of its total potential liability related to the settlement of these cases, net of insurance reimbursements.

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Commitments

In October 2010, we entered into an agreement for the construction of a new facility that will consolidate our facilities in the Houston, Texas metro area. This facility will serve as our Gulf Region headquarters and is expected to be completed by the end of the first quarter of fiscal 2012. Total construction costs are expected to be approximately $3.3 million.

Acquisition-related contingencies

The Company is liable for contingent consideration in connection with certain of its acquisitions. See Note 5 to these consolidated financial statements for further discussion.

13. Subsequent Event

In March 2011, the Company acquired the assets of an asset protection business for approximately $16.3 million, comprised of $7.5 million in cash and subordinated notes payable of approximately $8.8 million, which are payable over five years. In addition to the cash and debt consideration, the agreement allows for contingent consideration to be earned based upon the acquired company reaching specific performance metrics over the next three years of operation. The Company is in the process of completing the preliminary purchase price allocation. This acquisition was not individually significant and no pro forma information has been included.

14. Segment Disclosure

The Company's three segments are:

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

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

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

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

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

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Revenues by operating segment include intercompany transactions, which are eliminated in corporate and eliminations.

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

	Three months ended February 28,		Nine months ended February 28,	
	2011	2010	2011	2010
Revenues				
Services	$ 66,708	$ 52,912	$ 198,098	$ 159,552
Products and Systems	5,436	4,768	15,974	13,137
International	8,671	8,092	27,062	23,322
Corporate and eliminations	(1,602)	(1,416)	(4,674)	(3,667)
	$ 79,213	$ 64,356	$ 236,460	$ 192,344

The Services segment had sales to other operating segments of $0.4 million and $0.1 million for the three months ended February 28, 2011 and 2010, respectively. For the nine months ended February 28, 2011 and 2010, the Services segment sales to other operating segments totaled $0.8 million and $0.2 million, respectively.

The Products and Systems segment had sales to other operating segments of $1.0 million and $0.9 million for the three months ended February 28, 2011 and 2010, respectively. For the nine months ended February 28, 2011 and 2010, the Products and Systems segment sales to other operating segments totaled $3.1 million and $2.8 million, respectively.

The International segment had sales to other operating segments of $0.1 million and $0.2 million for the three months ended February 28, 2011 and 2010, respectively. For the nine months ended February 28, 2011 and 2010, the International segment sales to other operating segments totaled $0.2 million and $0.5 million, respectively.

	Three months ended February 28,		Nine months ended February 28,	
	2011	2010	2011	2010
Gross profit				
Services	$ 16,650	$ 11,898	$ 53,404	$ 41,831
Products and Systems	3,049	2,711	8,440	7,217
International	2,935	3,222	9,466	9,212
Corporate and eliminations	(37)	(204)	(127)	(467)
	$ 22,597	$ 17,627	$ 71,183	$ 57,793

	Three months ended February 28,		Nine months ended February 28,	
	2011	2010	2011	2010
Income from operations				
Services	$ 5,494	$ 2,257	$ 19,591	$ 13,114
Products and Systems	1,213	980	2,980	2,021
International	404	527	2,514	2,597

Corporate and eliminations	(2,418)	(2,132)	(6,879)	(5,647)
	$ 4,693	$ 1,632	$ 18,206	$ 12,085

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

	Three months ended February 28, 2011	Three months ended February 28, 2010	Nine months ended February 28, 2011	Nine months ended February 28, 2010
Depreciation and amortization				
Services	$ 4,247	$ 3,363	$ 11,855	$ 9,527
Products and Systems	206	252	624	752
International	350	397	1,016	1,036
Corporate and eliminations	42	32	113	94
	$ 4,845	$ 4,044	$ 13,608	$ 11,409

	As of February 28, 2011	As of May 31, 2010
Intangible assets, net		
Services	$ 16,892	$ 14,042
Products and Systems	1,190	1,016
International	801	504
Corporate and eliminations	434	526
	$ 19,317	$ 16,088

	As of February 28, 2011	As of May 31, 2010
Goodwill		
Services	$ 51,738	$ 42,804
Products and Systems	—	—
International	1,704	1,511
	$ 53,442	$ 44,315

	As of February 28, 2011	As of May 31, 2010
Total Assets		
Services	$ 171,934	$ 148,462
Products and Systems	22,384	21,817
International	22,997	19,163
Corporate and eliminations	(10,310)	(810)
	$ 207,005	$ 188,632

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Revenues by geographic area for the three and nine month periods ended February 28, 2011 and 2010, respectively, were as follows:

	Three months ended February 28,		Nine months ended February 28,	
	2011	2010	2011	2010
Revenues by geographic region				
United States	$ 64,189	$ 51,793	$ 191,309	$ 155,733
Europe	6,448	5,788	20,088	17,700
Other Americas	6,818	4,490	18,960	12,966
Asia-Pacific	1,758	2,285	6,103	5,945
	$ 79,213	$ 64,356	$ 236,460	$ 192,344

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

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

The following is a discussion and analysis of our financial condition and results of operations and should be read together with our condensed consolidated financial statements and related notes to the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes to the audited consolidated financial statements included in our Annual Report on Form 10-K. In this quarterly report, our fiscal years, which end on May 31, are identified according to the calendar year in which they end (e.g., the fiscal year ended May 31, 2010 is referred to as "fiscal 2010"), and unless otherwise specified or the context otherwise requires, "Mistras," "the Company," "we," "us" and "our" refer to Mistras Group, Inc. and consolidated subsidiaries.

Overview

We are a leading "one source" global provider of technology-enabled asset protection solutions used to evaluate the structural integrity of critical energy, industrial and public infrastructure. We combine industry-leading products and technologies, expertise in mechanical integrity (MI) and non-destructive testing (NDT) services and proprietary data analysis software to deliver a comprehensive portfolio of customized solutions, ranging from routine inspections to complex, plant-wide asset integrity assessments and management. These mission critical solutions enhance our customers' ability to extend the useful life of their assets, increase productivity, minimize repair costs, comply with governmental safety and environmental regulations, manage risk and avoid catastrophic disasters. Given the role our services play in ensuring the safe and efficient operation of infrastructure, we have historically provided a majority of our services to our customers on a regular, recurring basis. We serve a global customer base of companies with asset-intensive infrastructure, including companies in the oil and gas, fossil and nuclear power, alternative and renewable energy, public infrastructure, chemicals, aerospace and defense, transportation, primary metals and metalworking, pharmaceuticals and food processing industries. During fiscal 2010, we provided our asset protection solutions to approximately 4,800 customers. As of February 28, 2011, we had approximately 2,700 employees, including 32 Ph.D.'s and more than 100 other degreed engineers and highly-skilled, certified technicians, in 78 offices across 15 countries. We have established long-term relationships as a critical solutions provider to many leading companies in our target markets. Our current principal market is the oil and gas industry, which accounted for approximately 61% and 63% of our revenues for the first nine months of fiscal 2011 and 2010, respectively.

For the last several years, we have focused on introducing our advanced asset protection solutions to our customers using proprietary, technology-enabled software and testing instruments, including those developed by our Products and Systems segment. During this period, the demand for outsourced asset protection solutions, in general, has increased, creating demand from which our entire industry has benefited. We have experienced compounded annual growth rate (CAGR) for revenue of 31% over the last three fiscal years, including the impact of acquisitions and currency fluctuations. We believe further growth can be realized in all of our target markets. Concurrent with this growth, we have worked to build our infrastructure to profitably absorb additional growth and have made a number of small acquisitions in an effort to leverage our fixed costs, grow our base of experienced, certified personnel, expand our product and technical capabilities and increase our geographical reach.

We have increased our capabilities and the size of our customer base through the development of applied technologies and managed support services, organic growth and the integration of acquired companies. These acquisitions have provided us with additional products, technologies, resources and customers that we believe will enhance our competitive advantages over our competition.

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

The recent earthquakes and tsunami in Japan and the related damages to the Fukushima-1 nuclear plant have caused supply chain issues for many industries. While we have not experienced any significant supply chain issues to date, we will continue to monitor our supply chain situation in Japan.

Consolidated Results of Operations

Three months ended February 28, 2011 compared to the three months ended February 28, 2010

Our consolidated results of operations for the three months ended February 28, 2011 and 2010 were as follows:

	Three months ended February 28,			
		2011		2010
	(in thousands)			
Statement of Operations Data				
Revenues	$	79,213	$	64,356
Cost of revenues		53,156		43,984
Depreciation		3,460		2,745
Gross profit		22,597		17,627
Selling, general and administrative expenses		16,005		14,110
Research and engineering		514		586
Depreciation and amortization		1,385		1,299
Legal reserve				