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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2017**

**Or**

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

**For the transition period to**

**Commission file number 001- 34481**

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**Mistras Group, Inc.**

(Exact name of registrant as specified in its charter)

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**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)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

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

☐ Yes ☐ No

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

Large accelerated filer ☐

Non-accelerated filer ☐

(Do not check if a smaller reporting company)

Accelerated filer ☒

Smaller reporting company ☐

Emerging Growth Company ☐

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

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

☐ Yes ☒ No

As of November 2, 2017, the registrant had 28,290,709 shares of common stock outstanding and 1,146,249 shares of treasury stock.

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# PART I—FINANCIAL INFORMATION

## ITEM 1. Financial Statements

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

	(unaudited)	
	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 26,863	\$ 19,154
Accounts receivable, net	140,189	130,852
Inventories	11,237	10,017
Deferred income taxes	—	6,230
Prepaid expenses and other current assets	16,077	16,399
Total current assets	194,366	182,652
Property, plant and equipment, net	77,173	73,149
Intangible assets, net	42,242	40,007
Goodwill	165,704	169,940
Deferred income taxes	2,108	1,086
Other assets	2,829	2,593
Total assets	\$ 484,422	\$ 469,427
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 8,925	\$ 6,805
Accrued expenses and other current liabilities	65,608	58,697
Current portion of long-term debt	2,490	1,379
Current portion of capital lease obligations	6,261	6,488
Income taxes payable	4,576	4,342
Total current liabilities	87,860	77,711
Long-term debt, net of current portion	101,803	85,917
Obligations under capital leases, net of current portion	8,349	9,682
Deferred income taxes	9,238	17,584
Other long-term liabilities	9,510	7,789
Total liabilities	216,760	198,683
Commitments and contingencies		
Equity		
Preferred stock, 10,000,000 shares authorized	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 29,434,816 and 29,216,745 shares issued	294	292
Additional paid-in capital	221,149	217,211
Treasury stock, at cost, 1,146,249 and 420,258 shares	(24,923)	(9,000)
Retained earnings	88,744	91,803
Accumulated other comprehensive loss	(17,789)	(29,724)
Total Mistras Group, Inc. stockholders' equity	267,475	270,582
Non-controlling interests	187	162
Total equity	267,662	270,744
Total liabilities and equity	\$ 484,422	\$ 469,427

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

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

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Revenue</b>	\$ 179,570	\$ 168,811	\$ 513,326	\$ 514,606
Cost of revenue	126,316	112,754	360,144	352,027
Depreciation	5,357	5,406	15,790	16,423
<b>Gross profit</b>	47,897	50,651	137,392	146,156
Selling, general and administrative expenses	38,217	34,995	113,491	107,266
Impairment charges	15,810	—	15,810	—
Research and engineering	555	643	1,749	1,928
Depreciation and amortization	2,738	2,513	7,854	8,140
Litigation charges	1,200	—	1,200	6,320
Acquisition-related expense (benefit), net	(248)	384	(589)	(99)
<b>Income (loss) from operations</b>	(10,375)	12,116	(2,123)	22,601
Interest expense	1,081	778	3,114	2,218
<b>Income (loss) before (benefit) provision for income taxes</b>	(11,456)	11,338	(5,237)	20,383
(Benefit) provision for income taxes	(4,503)	4,083	(2,199)	6,908
<b>Net income (loss)</b>	(6,953)	7,255	(3,038)	13,475
Less: net income attributable to non-controlling interests, net of taxes	15	17	21	29
<b>Net income (loss) attributable to Mistras Group, Inc.</b>	<u>\$ (6,968)</u>	<u>\$ 7,238</u>	<u>\$ (3,059)</u>	<u>\$ 13,446</u>
Earnings (loss) per common share:				
Basic	\$ (0.25)	\$ 0.25	\$ (0.11)	\$ 0.46
Diluted	\$ (0.25)	\$ 0.24	\$ (0.11)	\$ 0.45
Weighted average common shares outstanding:				
Basic	28,274	29,051	28,465	28,966
Diluted	28,274	30,231	28,465	30,139

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

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

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net income (loss)	\$ (6,953)	\$ 7,255	\$ (3,038)	\$ 13,475
Other comprehensive income:				
Foreign currency translation adjustments	4,443	(2,641)	11,935	1,966
Comprehensive income (loss)	(2,510)	4,614	8,897	15,441
Less: comprehensive income attributable to non-controlling interest	16	13	25	25
Comprehensive income (loss) attributable to Mistras Group, Inc.	\$ (2,526)	\$ 4,601	\$ 8,872	\$ 15,416

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

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

	Nine months ended	
	September 30, 2017	September 30, 2016
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (3,038)	\$ 13,475
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	23,644	24,563
Impairment charges	15,810	—
Deferred income taxes	(4,755)	512
Share-based compensation expense	5,179	5,161
Bad debt provision for unexpected customer bankruptcy	1,200	—
Fair value adjustments to contingent consideration	(880)	(582)
Other	226	(2,017)
Changes in operating assets and liabilities, net of effect of acquisitions		
Accounts receivable	(4,017)	9,968
Inventories	(838)	200
Prepaid expenses and other assets	995	(2,777)
Accounts payable	1,466	(1,761)
Accrued expenses and other liabilities	668	5,247
Income taxes payable	(434)	120
<b>Net cash provided by operating activities</b>	<b>35,226</b>	<b>52,109</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(14,413)	(11,238)
Purchase of intangible assets	(941)	(1,106)
Acquisition of businesses, net of cash acquired	(8,356)	(1,200)
Proceeds from sale of equipment	1,194	1,057
<b>Net cash used in investing activities</b>	<b>(22,516)</b>	<b>(12,487)</b>
<b>Cash flows from financing activities</b>		
Repayment of capital lease obligations	(4,878)	(6,703)
Proceeds from borrowings of long-term debt	5,599	761
Repayment of long-term debt	(1,638)	(12,187)
Proceeds from revolver	38,400	38,200
Repayment of revolver	(26,900)	(49,000)
Payment of contingent consideration for business acquisitions	(554)	(2,919)
Purchases of treasury stock	(15,923)	—
Taxes paid related to net share settlement of share-based awards	(1,497)	(2,146)
Excess tax benefit from share-based compensation	—	646
Proceeds from exercise of stock options	277	857
<b>Net cash used in financing activities</b>	<b>(7,114)</b>	<b>(32,491)</b>
Effect of exchange rate changes on cash and cash equivalents	2,113	(221)
<b>Net change in cash and cash equivalents</b>	<b>7,709</b>	<b>6,910</b>
<b>Cash and cash equivalents</b>		
Beginning of period	19,154	9,599
End of period	\$ 26,863	\$ 16,509
<b>Supplemental disclosure of cash paid</b>		
Interest	\$ 3,031	\$ 2,454
Income taxes	\$ 2,868	\$ 9,562
<b>Noncash investing and financing</b>		
Equipment acquired through capital lease obligations	\$ 2,824	\$ 7,408
Issuance of notes payable and other debt obligations, primarily related to acquisitions	\$ —	\$ 325

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

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

**1. Description of Business and Basis of Presentation**

***Description of Business***

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

***Basis of Presentation***

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

***Principles of Consolidation***

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

On January 3, 2017, the Company's Board of Directors approved a change in the Company's fiscal year end from May 31 to December 31, effective December 31, 2016. The transition period was for the seven months ended December 31, 2016 ("the transition period"). Prior to this change, the Company's International segment was consolidated on a one month lag. Therefore, for this interim report, the condensed consolidated income statements include a one month lag for the International segment for the three and nine months ended September 30, 2016. Management does not believe that any events occurred during the one-month lag period that would have a material effect on the Company's condensed consolidated financial statements. The one-month lag was removed with the change in the Company's fiscal year noted above, and accordingly, the condensed consolidated income statements do not include a one month lag for the International segment's results for the three and nine months ended September 30, 2017.

***Reclassification***

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

**Customers**

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

One customer, primarily generated from the Services segment, accounted for approximately 10% and 11% of our revenues for the three and nine months ended September 30, 2017. This customer accounted for 8% of accounts receivable as of September 30, 2017. One customer accounted for 14% and 12% of our revenues for the three and nine months ended September 30, 2016.

### ***Significant Accounting Policies***

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

### ***Recent Accounting Pronouncements***

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 for all entities by one year. This update is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2014-09 will become effective for us beginning 2018, which is when we plan to adopt this standard. The ASU permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The ASU also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The Company plans to adopt this guidance using the cumulative catch-up method. We are still in the process of evaluating the effect of adoption on our condensed consolidated financial statements and are currently assessing our contracts with customers across each of its global operating segments. Our assessment is not yet complete and therefore we are unable to quantify the potential impacts. However, as most of our projects are short-term in nature and billed on at time and materials basis, we do not currently anticipate that the adoption of ASU 2014-09 will result in substantial changes to the overall pattern or timing of our revenue recognition.

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

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

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

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

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

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

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350)*. This amendment eliminates Step Two of the goodwill impairment test. Under the amendments in this update, entities should perform the annual goodwill impairment test by comparing the carrying value of its reporting units to their fair value. An entity should record an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Tax deductibility of goodwill should be considered in evaluating any reporting unit's impairment loss to be taken. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company has early adopted ASU 2017-04 in the third quarter of 2017 for its condensed consolidated financial statements and related disclosures. See Notes 7 and 8 for information on the impairment of assets in the Products and Systems reporting unit during the three months ended September 30, 2017.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting*. This amendment provides guidance concerning which changes to the terms or conditions of a share-based payment require an entity to apply modification accounting. Certain changes to stock awards, notably administrative changes, do not require modification accounting. There are three specific criteria that need to be met in order to prove that modification accounting is not required. ASU 2017-09 is effective for fiscal years, and interim period within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the impact that ASU 2017-09 will have on its condensed consolidated financial statements and related disclosures.

## **2. Share-Based Compensation**

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

### **Stock Options**

For the three months ended September 30, 2017 and 2016, the Company did not recognize any share-based compensation expense related to stock option awards.

For the nine months ended September 30, 2017 and 2016, the Company did not recognize any share-based compensation expense and recognized less than \$0.1 million, respectively, related to stock option awards.

No unrecognized compensation costs remained related to stock option awards as of September 30, 2017.

No stock options were granted during the three and nine months ended September 30, 2017 and September 30, 2016.

A summary of the stock option activity, weighted average exercise prices and options outstanding as of September 30, 2017 and 2016 is as follows:

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

	For the nine months ended September 30,			
	2017		2016	
	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price
Outstanding at beginning of period:	2,167	\$ 13.33	2,265	\$ 13.16
Granted	—	\$ —	—	\$ —
Exercised	(37)	\$ 7.39	(87)	\$ 9.83
Expired or forfeited	—	\$ —	—	\$ —
Outstanding at end of period:	<u>2,130</u>	<u>\$ 13.43</u>	<u>2,178</u>	<u>\$ 13.29</u>

***Restricted Stock Unit Awards***

For the three months ended September 30, 2017 and September 30, 2016, the Company recognized share-based compensation expense related to restricted stock unit awards of \$1.1 million and \$1.2 million, respectively.

For the nine months ended September 30, 2017 and September 30, 2016, the Company recognized share-based compensation expense related to restricted stock unit awards of \$3.4 million for each respective period. As of September 30, 2017, there was \$8.1 million of unrecognized compensation costs, net of estimated forfeitures, related to restricted stock unit awards, which are expected to be recognized over a remaining weighted average period of 2.4 years.

During the first nine months of 2017 and 2016, the Company granted approximately 21,000 and 22,000 shares, respectively, of fully-vested common stock to its five non-employee directors, as provided for under the Company's non-employee director compensation plan. These shares had grant date fair values of \$0.4 million and \$0.5 million, respectively, which was recorded as share-based compensation expense during the nine months ended September 30, 2017 and September 30, 2016, respectively.

During the first nine months of 2017 and 2016, approximately 175,000 and 182,000 restricted stock units vested for each period. The fair value of these units was \$3.2 million and \$4.5 million for each respective period. Upon vesting, restricted stock units are generally net share-settled to cover the required minimum withholding tax and the remaining amount is converted into an equivalent number of shares of common stock.

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

	For the nine months ended September 30,			
	2017		2016	
	Units	Weighted Average Grant-Date Fair Value	Units	Weighted Average Grant-Date Fair Value
Outstanding at beginning of period:	569	\$ 20.81	595	\$ 18.89
Granted	124	\$ 21.21	218	\$ 24.51
Released	(175)	\$ 20.61	(182)	\$ 19.66
Forfeited	(30)	\$ 21.21	(26)	\$ 19.24
Outstanding at end of period:	<u>488</u>	<u>\$ 20.97</u>	<u>605</u>	<u>\$ 20.68</u>

***Performance Restricted Stock Units***

The Company maintains Performance Restricted Stock Units (PRSUs) that have been granted to select executives and senior officers whose ultimate payout is based on the Company's performance over a one-year period based on three metrics, as defined: (1) Operating Income, (2) Adjusted EBITDAS and (3) Revenue. There also is a discretionary portion of the PRSUs

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

based on individual performance, at the discretion of the Compensation Committee (Discretionary PRSUs). PRSUs and Discretionary PRSUs generally vest ratably on each of the first four anniversary dates upon completion of the performance period, for a total requisite service period of up to five years and have no dividend rights.

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

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

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

For the nine months ended September 30, 2017			
	Units		Weighted Average Grant-Date Fair Value
Outstanding at beginning of period:	290	\$	16.01
Granted	128	\$	20.42
Performance condition adjustments	(67)	\$	20.55
Released	(64)	\$	14.87
Forfeited	—	\$	—
Outstanding at end of period:	287	\$	17.07

During the nine months ended September 30, 2017, the Compensation Committee modified the awards issued during the transition period ended December 31, 2016 from a one-year performance period to a seven month performance period to align the awards with the change in the Company's fiscal year from May 31 to December 31. Accordingly, for the nine months ended September 30, 2017, the Compensation Committee approved these transition period PRSUs, which resulted in a reduction of approximately 3,000 units. There was a reduction of approximately 64,000 units to the awards granted in 2017 during the nine months ended September 30, 2017.

As of September 30, 2017, the liability related to Discretionary PRSUs was less than \$0.1 million and is classified within accrued expenses and other current liabilities on the condensed consolidated balance sheet.

For the three months ended September 30, 2017 and September 30, 2016, the Company recognized aggregate share-based compensation expense related to the awards described above of approximately \$0.4 million and \$0.5 million, respectively.

For the nine months ended September 30, 2017 and September 30, 2016, the Company recognized aggregate share-based compensation expense related to the awards described above of approximately \$1.3 million for each respective period.

At September 30, 2017, there was \$2.7 million of total unrecognized compensation costs related to approximately 287,000 non-vested performance restricted stock units, which are expected to be recognized over a remaining weighted average period of 2.1 years.

### 3. Earnings per Share

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

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

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Basic earnings (loss) per share:				
Numerator:				
Net income (loss) attributable to Mistras Group, Inc.	\$ (6,968)	\$ 7,238	\$ (3,059)	\$ 13,446
Denominator:				
Weighted average common shares outstanding	28,274	29,051	28,465	28,966
Basic earnings (loss) per share	<u>\$ (0.25)</u>	<u>\$ 0.25</u>	<u>\$ (0.11)</u>	<u>\$ 0.46</u>
Diluted earnings (loss) per share:				
Numerator:				
Net income (loss) attributable to Mistras Group, Inc.	\$ (6,968)	\$ 7,238	\$ (3,059)	\$ 13,446
Denominator:				
Weighted average common shares outstanding	28,274	29,051	28,465	28,966
Dilutive effect of stock options outstanding	n/a <sup>(1)</sup>	814	n/a <sup>(1)</sup>	810
Dilutive effect of restricted stock units outstanding	n/a <sup>(2)</sup>	366	n/a <sup>(2)</sup>	363
	<u>28,274</u>	<u>30,231</u>	<u>28,465</u>	<u>30,139</u>
Diluted earnings (loss) per share	<u>\$ (0.25)</u>	<u>\$ 0.24</u>	<u>\$ (0.11)</u>	<u>\$ 0.45</u>

(1) - For the three and nine months ended September 30, 2017, 716 and 802 shares, respectively were excluded from the calculation of diluted EPS due to the net loss for the respective periods.

(2) - For the three and nine months ended September 30, 2017, 308 and 337 shares, respectively, were excluded from the calculation of diluted EPS due to the net loss for the respective periods.

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#### **4. Acquisitions**

During the nine months ended September 30, 2017, the Company completed two acquisitions, one that performs mechanical services at height, located in Canada, and a company located in the U.S. that primarily performs chemical and specialty process services, primarily in the aerospace industry.

In these acquisitions, the Company acquired the assets of the U.S. acquiree and 100% of the common stock of the Canada acquiree in exchange for aggregate consideration of \$8.5 million in cash, contingent consideration up to \$5.9 million to be earned based upon the acquired business achieving specific performance metrics over the initial three years of operations from the acquisition date and \$1.6 million for working capital adjustments yet to be finalized. The Company accounted for these transactions in accordance with the acquisition method of accounting for business combinations.

The assets and liabilities of the businesses acquired in 2017 were included in the Company's condensed consolidated balance sheet based upon their estimated fair values on the date of acquisition as determined in a preliminary purchase price allocation, using available information and making assumptions management believes are reasonable. The Company is still in the process of completing its valuations of the assets acquired. The results of operations for these acquisitions are included in the Services segment's results from the date of acquisition. Goodwill of \$4.3 million primarily relates to expected synergies and assembled workforce, of which \$1.8 million is generally deductible for tax purposes. Other intangible assets, primarily related to customer relationships and covenants not to compete, were \$8.4 million.

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

	<b>2017</b>
Number of Entities	2
Consideration transferred:	
Cash paid	\$ 8,509
Working capital adjustments	1,604
Contingent consideration	4,126
Consideration transferred	<u>\$ 14,239</u>
Current assets	\$ 2,443
Property, plant and equipment	1,140
Intangible assets	8,436
Goodwill	4,271
Current liabilities	(881)
Long-term deferred tax liability	(1,170)
Net assets acquired	<u>\$ 14,239</u>

Revenues and operating income included in the condensed consolidated statement of operations for 2017 from these acquisitions for the period subsequent to the closing of this transaction was approximately \$9.1 million and \$1.1 million, respectively. As these acquisitions were immaterial to the Company's 2017 results, no unaudited pro forma financial information has been included in this report for either acquisition.

The Company completed two acquisitions that provide NDT services, located in Canada, during the nine months ended September 30, 2016. The Company acquired 100% of the common stock of both acquirees in exchange for aggregate consideration of \$1.2 million in cash, \$0.3 million of notes payable and contingent consideration estimated to be \$0.4 million to be earned based upon the acquired businesses achieving specific performance metrics over their initial three years of operations from their acquisition dates.

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**Acquisition-Related Expense**

In the course of its acquisition activities, the Company incurs costs in connection with due diligence, professional fees, and other expenses. Additionally, the Company adjusts the fair value of acquisition-related contingent consideration liabilities on a quarterly basis. These amounts are recorded as acquisition-related expense (benefit), net, on the condensed consolidated statements of income and were as follows for the three and nine months ended September 30, 2017 and 2016:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Due diligence, professional fees and other transaction costs	\$ —	\$ 28	\$ 291	\$ 577
Adjustments to fair value of contingent consideration liabilities	(248)	356	(880)	(676)
Acquisition-related expense (benefit), net	<u>\$ (248)</u>	<u>\$ 384</u>	<u>\$ (589)</u>	<u>\$ (99)</u>

**5. Accounts Receivable, net**

Accounts receivable consisted of the following:

	September 30, 2017	December 31, 2016
Trade accounts receivable	\$ 144,503	\$ 133,704
Allowance for doubtful accounts	(4,314)	(2,852)
Accounts receivable, net	<u>\$ 140,189</u>	<u>\$ 130,852</u>

**6. Property, Plant and Equipment, net**

Property, plant and equipment consisted of the following:

	Useful Life (Years)	September 30, 2017	December 31, 2016
Land		\$ 1,909	\$ 1,714
Buildings and improvements	30-40	22,735	19,261
Office furniture and equipment	5-8	13,941	12,574
Machinery and equipment	5-7	179,681	166,423
		<u>218,266</u>	<u>199,972</u>
Accumulated depreciation and amortization		(141,093)	(126,823)
Property, plant and equipment, net		<u>\$ 77,173</u>	<u>\$ 73,149</u>

Depreciation expense for the three months ended September 30, 2017 and September 30, 2016 was \$5.7 million and \$5.8 million, respectively.

Depreciation expense for the nine months ended September 30, 2017 and September 30, 2016 was \$16.8 million and \$17.6 million, respectively.

**7. Goodwill**

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

	Services	International	Products and Systems	Total
Balance at December 31, 2016	\$ 123,392	\$ 33,351	\$ 13,197	\$ 169,940
Goodwill acquired during the period	4,271	—	—	4,271
Impairment charges	—	—	(13,197)	(13,197)
Adjustments to preliminary purchase price allocations	(211)	—	—	(211)
Foreign currency translation	1,028	3,873	—	4,901
Balance at September 30, 2017	\$ 128,480	\$ 37,224	\$ —	\$ 165,704

The Company reviews goodwill for impairment on a reporting unit basis on October 1 of each year and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable.

During the second quarter of 2017, there were pending contract bids which management assessed as having a reasonable chance of success. These contract bids were not awarded to the Company. As a result of this missed opportunity, the annual forecasting process was accelerated, resulting in lower future operating profits and cash flows. As such, there were indicators that the carrying amount of the goodwill for the Products and Systems reporting unit may not be recoverable due to the decline in the projected future cash flows.

The Company performed an analysis to determine any impairment of long-lived assets (see Note 8) as well as an analysis to determine any impairment of goodwill. For the goodwill analysis, we used income and market approaches to estimate the fair value of the reporting unit, which requires significant judgment in evaluation of economic and industry trends, estimated future cash flows, discount rates and other factors, and compared that fair value to the carrying value, and determined that the fair value of the reporting unit was less than the carrying value. The Company recorded an impairment charge of \$13.2 million, based on the difference between the fair value and the carrying value of the reporting unit, which resulted in an impairment of the entire amount of goodwill for the Products and Systems reporting unit.

The Company's cumulative goodwill impairment as of September 30, 2017 was \$23.1 million, of which \$13.2 million related to the Products and Systems segment and \$9.9 million related to the International segment. As of December 31, 2016, the cumulative goodwill impairment was \$9.9 million, which is within its International segment.

## 8. Intangible Assets

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

	Useful Life (Years)	September 30, 2017				December 31, 2016		
		Gross Amount	Accumulated Amortization	Impairment	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	5-14	\$ 92,488	\$ (56,582)	\$ (170)	\$ 35,736	\$ 81,559	\$ (50,417)	\$ 31,142
Software/Technology	3-15	19,219	(13,804)	(2,411)	3,004	18,128	(12,577)	5,551
Covenants not to compete	2-5	11,687	(10,227)	—	1,460	11,143	(9,647)	1,496
Other	2-12	8,262	(6,188)	(32)	2,042	7,266	(5,448)	1,818
Total		\$ 131,656	\$ (86,801)	\$ (2,613)	\$ 42,242	\$ 118,096	\$ (78,089)	\$ 40,007

Amortization expense for the three months ended September 30, 2017 and September 30, 2016 was \$2.4 million and \$2.1 million, respectively.

Amortization expense for the nine months ended September 30, 2017 and September 30, 2016 was \$6.8 million and \$6.9 million, respectively.

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As described in Note 7, the Company performed an analysis to determine whether there was any impairment of long-lived assets for the Products and Systems reporting unit. We used income and market approaches to estimate the fair value of the long-lived assets, which requires significant judgment in evaluation of the useful lives of the assets, economic and industry trends, estimated future cash flows, discount rates, and other factors. The result of the analysis was an impairment of \$2.4 million to software/technology, \$0.2 million to customer relationships and less than \$0.1 million to other intangibles, which are included in the impairment charges line on the condensed consolidated statements of income for the three and nine months ended September 30, 2017.

## 9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2017	December 31, 2016
Accrued salaries, wages and related employee benefits	\$ 29,763	\$ 23,442
Contingent consideration, current portion	2,999	1,826
Accrued workers' compensation and health benefits	5,740	6,351
Deferred revenue	5,440	3,743
Litigation accrual	1,200	6,320
Other accrued expenses	20,466	17,015
Total accrued expenses and other liabilities	<u>\$ 65,608</u>	<u>\$ 58,697</u>

## 10. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2017	December 31, 2016
Senior credit facility	\$ 95,050	\$ 82,776
Notes payable	230	320
Other	9,013	4,200
Total debt	104,293	87,296
Less: Current portion	(2,490)	(1,379)
Long-term debt, net of current portion	<u>\$ 101,803</u>	<u>\$ 85,917</u>

### Senior Credit Facility

The Company's revolving credit agreement with its banking group ("Credit Agreement") provides the Company with a \$175.0 million revolving line of credit, which, under certain circumstances, can be increased to \$225.0 million. The Company may borrow up to \$30.0 million in non-U.S. Dollar currencies and use up to \$10.0 million of the credit limit for the issuance of letters of credit. The Credit Agreement has a maturity date of October 30, 2019. As of September 30, 2017, the Company had borrowings of \$95.1 million and a total of \$5.0 million of letters of credit outstanding under the Credit Agreement.

Loans under the Credit Agreement bear interest at LIBOR plus an applicable LIBOR margin ranging from 1% to 1.75%, or a base rate less a margin of 1.25% to 0.375%, at the option of the Company, based upon the Company's Funded Debt Leverage Ratio. Funded Debt Leverage Ratio is defined as the ratio of (1) all outstanding indebtedness for borrowed money and other interest-bearing indebtedness as of the date of determination to (2) EBITDA (which is (a) net income, less (b) income (or plus loss) from discontinued operations and extraordinary items, plus (c) income tax expenses, plus (d) interest expense, plus (e) depreciation, depletion, and amortization (including non-cash loss on retirement of assets), plus (f) stock compensation expense, less (g) cash expense related to stock compensation, plus or minus certain other adjustments) for the period of four consecutive fiscal quarters immediately preceding the date of determination. The Company has the benefit of the lowest margin if its Funded Debt Leverage Ratio is equal to or less than 0.5 to 1, and the margin increases as the ratio increases, to the maximum margin if the ratio is greater than 2.0 to 1. The Company will also bear additional costs for market disruption, regulatory changes effecting the lenders' funding costs, and default pricing of an additional 2% interest rate margin on any

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amounts not paid when due. Amounts borrowed under the Credit Agreement are secured by liens on substantially all of the assets of the Company.

The Credit Agreement contains financial covenants requiring that the Company maintain a Funded Debt Leverage Ratio of no greater than 3.25 to 1 and an Interest Coverage Ratio of at least 3.0 to 1. Interest Coverage Ratio is defined as the ratio, as of any date of determination, of (a) EBITDA for the 12 month period immediately preceding the date of determination, to (b) all interest, premium payments, debt discount, fees, charges and related expenses of the Company and its subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, paid during the 12 month period immediately preceding the date of determination. The Credit Agreement also limits the Company's ability to, among other things, create liens, make investments, incur more indebtedness, merge or consolidate, make dispositions of property, pay dividends and make distributions to stockholders, enter into a new line of business, enter into transactions with affiliates and enter into burdensome agreements. The Credit Agreement does not limit the Company's ability to acquire other businesses or companies except that the acquired business or company must be in the Company's line of business, the Company must be in compliance with the financial covenants on a pro forma basis after taking into account the acquisition, and, if the acquired business is a separate subsidiary, in certain circumstances the lenders will receive the benefit of a guaranty of the subsidiary and liens on its assets and a pledge of its stock.

As of September 30, 2017, the Company was in compliance with the terms of the Credit Agreement, and will continuously monitor its compliance with the covenants contained in its Credit Agreement.

***Notes Payable and Other***

In connection with certain of its acquisitions, the Company issued subordinated notes payable to the sellers. The maturity of the notes that remain outstanding are three years from the date of acquisition and bear interest at the prime rate for the Bank of Canada, currently 3.2% as of September 30, 2017. Interest expense is recorded in the condensed consolidated statements of income.

**11. Fair Value Measurements**

The Company performs fair value measurements in accordance with the guidance provided by ASC 820, Fair Value Measurements and Disclosures. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

***Financial instruments measured at fair value on a recurring basis***

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

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

	Nine months ended September 30, 2017
Beginning balance	\$ 3,094
Acquisitions	4,126
Payments	(554)
Accretion of liability	198
Revaluation	(1,078)
Foreign currency translation	28
Ending balance	<u>\$ 5,814</u>

***Financial instruments not measured at fair value on a recurring basis***

The Company has evaluated current market conditions and borrower credit quality and has determined that the carrying value of its long-term debt approximates fair value. The fair value of the Company's notes payable and capital lease obligations approximates their carrying amounts based on anticipated interest rates which management believes would currently be available to the Company for similar issuances of debt.

## **12. Commitments and Contingencies**

### ***Legal Proceedings and Government Investigations***

The Company is subject to periodic lawsuits, investigations and claims that arise in the ordinary course of business. The Company cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against it. Except possibly for certain of the matters described below, the Company does not believe that any currently pending legal proceeding to which the Company is a party will have a material adverse effect on its business, results of operations, cash flows or financial condition. The costs of defense and amounts that may be recovered against the Company may be covered by insurance for certain matters. The Company has accrued an aggregate of approximately \$1.6 million for losses related to the matters described below, net of insurance, for which the Company has stated that an accrual has been established. This \$1.6 million accrual does not include the California class action matter, described below, as to which the settlement amount has been fully paid.

#### Litigation and Commercial Claims

The Company settled a consolidated purported class and collective action that resulted from the consolidation of two cases originally filed in California state court in April 2015. In connection with the settlement, the Company recorded a pre-tax charge of \$6.3 million during the three months ended June 30, 2016 and paid the settlement in February 2017.

The Company is a defendant in the lawsuit *AGL Services Company v. Mistras Group, Inc.*, pending in U.S. District Court for the Northern District of Georgia, filed November 2016. The case involves radiography work performed by the Company in 2013 on the construction of a pipeline project in the U.S. The owner of the pipeline project has claimed damages of approximately \$5.8 million and contends that certain of the radiography images the Company's technicians prepared regarding the project did not meet the code quality interpretation standards required by the American Petroleum Institute. At a trial concluded on October 26, 2017, the jury awarded the plaintiff damages plus interest, which the Company believes is fully covered by insurance.

The Company's subsidiary in France has been involved in a dispute with a former owner of a business purchased by the Company's French subsidiary. The judgment is being appealed, but the Company recorded an accrual for the judgment during the three months ended June 30, 2016. The loss for this matter is included in the accrual set forth above.

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The Company is a defendant in a lawsuit, *Triumph Aerostructures, LLC d/b/a Triumph Aerostructures-Vought Aircraft Division v. Mistras Group, Inc.*, pending in Texas State district court, 193rd Judicial District, Dallas County, Texas, filed September 2016. The plaintiff alleges Mistras delivered a defective Ultrasonic inspection system in 2014 and is alleging damages of approximately \$2.3 million. The Company has established an accrual for this matter, which is included in the amount set forth above.

#### Government Investigations

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

#### *Acquisition-related contingencies*

The Company is liable for contingent consideration in connection with certain of its acquisitions. As of September 30, 2017, total potential acquisition-related contingent consideration ranged from zero to approximately \$8.6 million and would be payable upon the achievement of specific performance metrics by certain of the acquired companies over the next 2.8 years of operations. See Note 4 - *Acquisitions* to these condensed consolidated financial statements for further discussion of the Company’s acquisitions.

### **13. Segment Disclosure**

The Company’s three operating segments are:

- *Services*. This segment provides asset protection solutions primarily in North America with the largest concentration in the United States and the Canadian services business, consisting primarily of non-destructive testing and inspection, mechanical and engineering services that are used to evaluate and maintain the structural integrity and reliability of critical energy, industrial and public infrastructure.
- *International*. This segment offers services, products and systems similar to those of the Company’s other two segments to global markets, principally in Europe, the Middle East, Africa, Asia and South America, but not to customers in China and South Korea, which are served by the Products and Systems segment.
- *Products and Systems*. This segment designs, manufactures, sells, installs and services the Company’s asset protection products and systems, including equipment and instrumentation, predominantly in the United States.

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

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

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Revenues</b>				
Services	\$ 137,194	\$ 127,153	\$ 397,565	\$ 395,089
International	38,200	37,922	106,360	105,275
Products and Systems	6,268	6,807	16,925	19,955
Corporate and eliminations	(2,092)	(3,071)	(7,524)	(5,713)
	<u>\$ 179,570</u>	<u>\$ 168,811</u>	<u>\$ 513,326</u>	<u>\$ 514,606</u>

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Gross profit</b>				
Services	\$ 34,729	\$ 33,704	\$ 100,432	\$ 102,652
International	10,432	13,133	29,720	33,673
Products and Systems	2,753	3,686	7,313	9,475
Corporate and eliminations	(17)	128	(73)	356
	<u>\$ 47,897</u>	<u>\$ 50,651</u>	<u>\$ 137,392</u>	<u>\$ 146,156</u>

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Income (loss) from operations</b>				
Services	\$ 11,699	\$ 12,221	\$ 31,211	\$ 30,932
International	1,023	5,751	3,866	8,925
Products and Systems	(15,573)	806	(16,913)	560
Corporate and eliminations	(7,524)	(6,662)	(20,287)	(17,816)
	<u>\$ (10,375)</u>	<u>\$ 12,116</u>	<u>\$ (2,123)</u>	<u>\$ 22,601</u>

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

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Depreciation and amortization</b>				
Services	\$ 5,543	\$ 5,516	\$ 16,330	\$ 17,224
International	2,004	1,958	5,736	5,881
Products and Systems	594	552	1,746	1,718
Corporate and eliminations	(46)	(107)	(168)	(260)
	<u>\$ 8,095</u>	<u>\$ 7,919</u>	<u>\$ 23,644</u>	<u>\$ 24,563</u>

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	<u>September 30, 2017</u>	<u>December 31, 2016</u>
<b>Intangible assets, net</b>		
Services	\$ 24,951	\$ 19,550
International	14,228	14,139
Products and Systems	2,309	5,482
Corporate and eliminations	754	836
	<u>\$ 42,242</u>	<u>\$ 40,007</u>

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
<b>Total assets</b>		
Services	\$ 306,323	\$ 291,539
International	150,555	130,427
Products and Systems	13,944	28,964
Corporate and eliminations	13,600	18,497
	<u>\$ 484,422</u>	<u>\$ 469,427</u>

Revenues by geographic area for the three and nine months ended September 30, 2017 and 2016, respectively, were as follows:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30, 2017</u>	<u>September 30, 2016</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
<b>Revenues</b>				
United States	\$ 114,249	\$ 113,409	\$ 344,808	\$ 358,343
Other Americas	26,084	16,940	59,452	48,828
Europe	36,264	33,126	97,630	93,265
Asia-Pacific	2,973	5,336	11,436	14,170
	<u>\$ 179,570</u>	<u>\$ 168,811</u>	<u>\$ 513,326</u>	<u>\$ 514,606</u>

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**(tabular dollars and shares in thousands, except per share data)**

## **14. Repurchase of Common Stock**

On October 7, 2015, the Company's Board of Directors approved a \$50 million stock repurchase plan. As part of this plan, on August 17, 2016, the Company entered into an agreement with its CEO, Dr. Sotirios Vahaviolos, to purchase up to 1 million of his shares, commencing in October 2016. Pursuant to the agreement, in general, the Company will purchase from Dr. Vahaviolos up to \$2 million of shares each month, at a 2% discount to the average daily closing price of the Company's common stock for the preceding month. During the nine months ended September 30, 2017, the Company purchased approximately 726,000 shares from Dr. Vahaviolos at an average price of \$21.93 per share and an aggregate cost of \$15.9 million. From the inception of the plan through September 30, 2017, the Company has purchased 1,000,000 shares from Dr. Vahaviolos at an average price of \$21.92 per share for an aggregate cost of approximately \$21.9 million and approximately 146,000 shares in the open market at an average price of \$20.48 per share for an aggregate cost of approximately \$3.0 million. All such repurchased shares are classified as *Treasury Stock* on the condensed consolidated balance sheet. As of September 30, 2017, approximately \$25.1 million remained available to repurchase shares under the stock repurchase plan.

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

The following Management's Discussion and Analysis ("MD&A") includes a narrative explanation and analysis of our results of operations and financial condition for the three and nine months ended September 30, 2017 and September 30, 2016. The MD&A should be read together with our condensed consolidated financial statements and related notes included in Item 1 in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes included in our Transition Report on Form 10-K for the transition period ended December 31, 2016, filed March 20, 2017 ("2016 Transition Report"). Unless otherwise specified or the context otherwise requires, "Mistras," "the Company," "we," "us" and "our" refer to Mistras Group, Inc. and its consolidated subsidiaries. The MD&A includes disclosure in the following areas:

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

### **Forward-Looking Statements**

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

In some cases, you can identify forward-looking statements by terminology, such as "goals," or "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "may," "could," "should," "would," "predicts," "appears," "projects," or the negative of such terms or other similar expressions. You are urged not to place undue reliance on any such forward-looking statements, any of which may turn out to be wrong due to inaccurate assumptions, various risks, uncertainties or other factors known and unknown. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those discussed in the "Business—Forward-Looking Statements," and "Risk Factors" sections of our 2016 Transition Report as well as those discussed in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission ("SEC").

### **Overview**

We offer our customers "one source for asset protection solutions"® and are a leading global provider of technology-enabled asset protection solutions used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure. We combine industry-leading products and technologies, expertise in mechanical integrity (MI), Non-Destructive Testing (NDT), Destructive Testing (DT), mechanical and predictive maintenance (PdM) services, process and fixed asset engineering and consulting services, proprietary data analysis and our world class enterprise inspection database

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

- *Services* provides asset protection solutions predominantly in North America with the largest concentration in the United States, consisting primarily of NDT, inspection, mechanical and engineering services that are used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure.
- *International* offers services, products and systems similar to those of the other segments to global markets, principally in Europe, the Middle East, Africa, Asia and South America, but not to customers in China and South Korea, which are served by the Products and Systems segment.
- *Products and Systems* designs, manufactures, sells, installs and services the Company's asset protection products and systems, including equipment and instrumentation, predominantly in the United States.

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

We have focused on introducing our advanced asset protection solutions to our customers using proprietary, technology-enabled software and testing instruments, including those developed by our Products and Systems segment. We have made a number of acquisitions in an effort to grow our base of experienced, certified personnel, expand our service lines and technical capabilities, increase our geographical reach and leverage our fixed costs. We have increased our capabilities and the size of our customer base through the development of applied technologies and managed support services, organic growth and the integration of acquired companies. These acquisitions have provided us with additional service lines, technologies, resources and customers that we believe will enhance our advantages over our competition.

Demand for outsourced asset protection solutions has generally increased over the last ten years, creating demand from which our entire industry has benefited. We believe continued growth can be realized in all of our target markets. For most of 2017, current market conditions have been soft, driven by lower oil prices which have caused many of the Company's customers to curtail spending for our services and products. However, during the fall of 2017, market conditions turned modestly positive and we believe this will continue for the remainder of 2017 and through the spring of 2018.

## **Results of Operations**

Condensed consolidated results of operations for the three and nine months ended September 30, 2017 and September 30, 2016 were as follows:

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(\$ in thousands)		(\$ in thousands)	
<b>Revenues</b>	\$ 179,570	\$ 168,811	\$ 513,326	\$ 514,606
<b>Gross profit</b>	47,897	50,651	137,392	146,156
<i>Gross profit as a % of Revenue</i>	27 %	30%	27 %	28%
Total operating expenses	58,272	38,535	139,515	123,555
<i>Operating expenses as a % of Revenue</i>	32 %	23%	27 %	24%
<b>Income (loss) from operations</b>	(10,375)	12,116	(2,123)	22,601
<i>Income (loss) from Operations as a % of Revenue</i>	(6)%	7%	— %	4%
Interest expense	1,081	778	3,114	2,218
Income (loss) before (benefit) provision for income taxes	(11,456)	11,338	(5,237)	20,383
(Benefit) provision for income taxes	(4,503)	4,083	(2,199)	6,908
<b>Net income (loss)</b>	(6,953)	7,255	(3,038)	13,475
Less: net income attributable to non-controlling interests, net of taxes	15	17	21	29
<b>Net income (loss) attributable to Mistras Group, Inc.</b>	<u>\$ (6,968)</u>	<u>\$ 7,238</u>	<u>\$ (3,059)</u>	<u>\$ 13,446</u>

### Note About Non-GAAP Measures

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

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

### Revenue

Revenues for the three months ended September 30, 2017 were \$179.6 million, an increase of \$10.8 million, or 6%, compared with the three months ended September 30, 2016. Revenues for the nine months ended September 30, 2017 were \$513.3 million, a decrease of \$1.3 million, or less than 1%, compared with the nine months ended September 30, 2016.

Revenues by segment for the three and nine months ended September 30, 2017 and September 30, 2016 were as follows:

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(\$ in thousands)		(\$ in thousands)	
<b>Revenues</b>				
Services	\$ 137,194	\$ 127,153	\$ 397,565	\$ 395,089
International	38,200	37,922	106,360	105,275
Products and Systems	6,268	6,807	16,925	19,955
Corporate and eliminations	(2,092)	(3,071)	(7,524)	(5,713)
	<u>\$ 179,570</u>	<u>\$ 168,811</u>	<u>\$ 513,326</u>	<u>\$ 514,606</u>

### Three Months

In the three months ended September 30, 2017, Services segment revenues increased 8% due to a combination of acquisition growth and low single digit favorable impacts of foreign exchange rates and organic growth. The organic growth was achieved despite the negative impact of the 2017 hurricanes and continued weakness in a challenged region that includes a fairly large customer contract. International segment revenues increased 1%, driven by low single digit favorable impacts of foreign exchange rates, offset by a low single digit organic decline. Products and Systems segment revenues decreased by 8% driven by lower sales volume.

Oil and gas customer revenues comprised approximately 54% and 56% of total Company revenues for the three months ended September 30, 2017 and 2016, respectively. The Company's top ten customers comprised approximately 36% of total revenues for the three months ended September 30, 2017, as compared to 38% for the three months ended September 30, 2016. One customer, BP plc., accounted for approximately 10% and 14% of total revenues, respectively, for the three months ended September 30, 2017 and three months ended September 30, 2016.

### Nine Months

In the nine months ended September 30, 2017, Services segment revenues increased 1%, as acquisition growth slightly offset a low single digit organic decline. International segment revenues increased 1%, as low single digit organic growth slightly offset a low single digit unfavorable impact of foreign exchange rates. Products segment revenues decreased 15% due to lower sales volume.

Oil and gas revenues comprised approximately 58% and 57% of total Company revenues for the nine month periods ended September 30, 2017 and September 30, 2016, respectively. The Company's top ten customers comprised approximately 38% of total revenues for both the nine month periods ended September 30, 2017 and September 30, 2016. One customer, BP plc., accounted for approximately 11% of our total revenues for the nine months ended September 30, 2017 and 12% for the nine months ended September 30, 2016.

### Gross Profit

Gross profit decreased by \$2.8 million, or 5%, in the three months ended September 30, 2017, despite a sales increase of 6%. During the nine month period ended September 30, 2017, gross profit had a year-on-year decrease of \$8.8 million, or 6%, on a sales decline of less than 1%.

Gross profit by segment for the three and nine months ended September 30, 2017 and September 30, 2016 was as follows:

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(\$ in thousands)		(\$ in thousands)	
<b>Gross profit</b>				
Services	\$ 34,729	\$ 33,704	\$ 100,432	\$ 102,652
<i>% of segment revenue</i>	25.3%	26.5%	25.3%	26.0%
International	10,432	13,133	29,720	33,673
<i>% of segment revenue</i>	27.3%	34.6%	27.9%	32.0%
Products and Systems	2,753	3,686	7,313	9,475
<i>% of segment revenue</i>	43.9%	54.2%	43.2%	47.5%
Corporate and eliminations	(17)	128	(73)	356
	<u>\$ 47,897</u>	<u>\$ 50,651</u>	<u>\$ 137,392</u>	<u>\$ 146,156</u>
<i>% of total revenue</i>	26.7%	30.0%	26.8%	28.4%

### Three months

Gross profit margin was 26.7% and 30.0% for the three month periods ended September 30, 2017 and 2016, respectively. Services segment gross profit margins had a year-on-year decline of 120 basis points to 25.3% in the three months ended September 30, 2017, driven primarily by an adverse impact from the 2017 summer hurricanes, which reduced revenues by

more than \$1 million while labor costs were largely unchanged, as the Company chose to pay its technicians who were unable to work due to these events. International segment gross margins had a year-on-year decline of 730 basis points to 27.3% in the three months ended September 30, 2017. This decline was primarily driven by lower revenues in the Company's German subsidiary, as well as poor margins on a large contract and lower utilization of technical labor in the UK. Products and Systems segment gross margin declined by 1030 basis points for the three months ended September 30, 2017 to 43.9%, driven by lower sales volumes.

*Nine months*

Gross profit margin was 26.8% and 28.4% for the nine months ended September 30, 2017 and 2016, respectively. Services segment gross profit margins declined by 70 basis points to 25.3% in the nine months ended September 30, 2017, driven primarily by the aforementioned 2017 hurricane impact and also by a weak spring 2017 turnaround season which adversely impacted utilization of technicians. International segment gross margins declined by 410 basis points to 27.9% in the nine months ended September 30, 2017, driven primarily by lower revenues in the Company's German subsidiary, as well poor margins on a large contract and lower utilization of technical labor in the UK. Products and Systems segment gross margin decreased by 430 basis points to 43.2% for the nine months ended September 30, 2017, driven by lower sales volumes.

## Income (Loss) from Operations

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

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(\$ in thousands)		(\$ in thousands)	
<b>Services:</b>				
Income from operations	\$ 11,699	\$ 12,221	\$ 31,211	\$ 30,932
Litigation charges	—	—	—	6,320
Bad debt provision for a customer bankruptcy	—	—	1,200	—
Severance costs	163	43	493	43
Asset write-offs and lease terminations	—	—	123	—
Acquisition-related expense (benefit), net	(126)	345	(48)	(123)
Income before special items	11,736	12,609	32,979	37,172
<b>International:</b>				
Income from operations	1,023	5,751	3,866	8,925
Severance costs	379	89	455	799
Acquisition-related expense (benefit), net	—	11	(501)	(53)
Income before special items	1,402	5,851	3,820	9,671
<b>Products and Systems:</b>				
Income (loss) from operations	(15,573)	806	(16,913)	560
Impairment charges	15,810	—	15,810	—
Severance costs	—	—	—	17
Acquisition-related expense (benefit), net	—	—	—	—
Income (loss) before special items	237	806	(1,103)	577
<b>Corporate and Eliminations:</b>				
Loss from operations	(7,524)	(6,662)	(20,287)	(17,816)
Litigation charges	1,200	—	1,200	—
Severance costs	—	133	—	133
Acquisition-related expense (benefit), net	(122)	28	(40)	77
Loss before special items	(6,446)	(6,501)	(19,127)	(17,606)
<b>Total Company</b>				
Income (loss) from operations	\$ (10,375)	\$ 12,116	\$ (2,123)	\$ 22,601
Litigation charges	1,200	—	1,200	6,320
Impairment charges	15,810	—	15,810	—
Bad debt provision for a customer bankruptcy	—	—	1,200	—
Severance costs	542	265	948	992
Asset write-offs and lease terminations	—	—	123	—
Acquisition-related expense (benefit), net	(248)	384	(589)	(99)
Income before special items	\$ 6,929	\$ 12,765	\$ 16,569	\$ 29,814

### Three months

For the three months ended September 30, 2017, income from operations (GAAP) decreased \$22.5 million, or 186%, compared with the three months ended September 30, 2016, while income before special items (non-GAAP) decreased \$5.8 million, or

46%. As a percentage of revenues, income before special items declined by 370 basis points to 3.9% in the three months ended September 30, 2017 from 7.6% in the three months ended September 30, 2016.

Operating expenses increased \$19.7 million during the three months ended September 30, 2017, driven primarily by the \$15.8 million impairment charges, after completion of the analysis described above, for the Products and Systems segment, during the three months ended September 30, 2017 (See Notes 7 and 8). In addition, there was a \$1.1 million increase in foreign currency transactional expenses, \$1.2 million of additional operating expenses pertaining to Services segment acquisitions and \$0.7 in Corporate segment expenses, primarily professional fees.

#### *Nine months*

For the nine months ended September 30, 2017, income from operations (GAAP) decreased \$24.7 million, or 109% compared with the prior year, and income before special items (non-GAAP) decreased \$13.2 million, or 44%. As a percentage of revenues, income before special items decreased by 260 basis points to 3.2% in the nine months ended September 30, 2017, as compared to 5.8% in the nine months ended September 30, 2016.

Operating expenses increased \$16.0 million during the nine months ended September 30, 2017, driven primarily by the \$15.8 million impairment charges in the Products and Systems segment. In addition, there was a \$2.0 million increase in foreign currency transaction expenses for the Company, \$2.3 million of additional operating expenses pertaining to Services segment acquisitions and \$0.8 million of Corporate segment expenses, primarily professional fees. These increases were primarily offset by a \$5.1 million decrease in litigation expenses for the respective periods.

### **Interest Expense**

Interest expense was approximately \$1.1 million and \$0.8 million for the three months ended September 30, 2017 and 2016, respectively, and \$3.1 million and \$2.2 million for the nine months ended September 30, 2017 and 2016. The increases were due to increased borrowings on the Company's revolving line of credit.

### **Income Taxes**

The Company's effective income tax rate was approximately 39% and 36% for the three months ended September 30, 2017 and 2016, respectively. The Company's effective tax rate was approximately 42% and 34% for the nine months ended September 30, 2017 and 2016, respectively. The increase in the income tax rate for these respective periods was due to a discrete item related to the impairment of goodwill and intangible assets in the Products and Systems reporting unit. Excluding this item, the effective income tax rate would have been 35% and 36%, respectively, for the three and nine months ended September 30, 2017.

### **Liquidity and Capital Resources**

Cash flows are summarized in the table below:

	Nine months ended	
	September 30, 2017	September 30, 2016
	(\$ in thousands)	
Net cash provided by (used in):		
Operating activities	\$ 35,226	\$ 52,109
Investing activities	(22,516)	(12,487)
Financing activities	(7,114)	(32,491)
Effect of exchange rate changes on cash	2,113	(221)
Net change in cash and cash equivalents	\$ 7,709	\$ 6,910

### **Cash Flows from Operating Activities**

During the nine months ended September 30, 2017, cash provided by operating activities was \$35.2 million, representing a year-on-year decrease of \$16.9 million, or 32%. The decrease was primarily attributable to a lower level of net income, as well as movements in working capital, including the 2017 payment of a \$6.3 million legal settlement and the timing of collections.

### **Cash Flows from Investing Activities**

During the nine months ended September 30, 2017, cash used in investing activities was \$22.5 million, compared with a use of cash of \$12.5 million in the comparable period of the prior year. The first nine months of 2017 included increased outflows of \$7.2 million related to acquisitions and an increase of \$3.0 million for capital expenditures, as the Company was in the midst of its build-out in France to service an important new customer contract.

### **Cash Flows from Financing Activities**

Net cash used in financing activities was \$7.1 million for the nine months ended September 30, 2017. The Company borrowed \$11.5 million, net, on its Credit Agreement, to help fund the purchase of \$15.9 million of treasury stock and towards the funding of \$8.4 million for acquisitions. For the comparable period in 2016, net cash used in financing activities was \$32.5 million, of which \$28.9 million was to reduce the Company's debt and capital lease obligations.

### **Effect of Exchange Rate Changes on Cash and Cash Equivalents**

The effect of exchange rate changes on our cash and cash equivalents was a net increase of \$2.1 million in the first nine months of 2017, compared to a \$0.2 million decrease for the first nine months of 2016.

### **Cash Balance and Credit Facility Borrowings**

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

As of September 30, 2017, we had cash and cash equivalents totaling \$26.9 million and available borrowing capacity of \$74.9 million under our Credit Agreement with borrowings of \$95.1 million and \$5.0 million of letters of credit outstanding. We finance operations primarily through our existing cash balances, cash collected from operations, bank borrowings and capital lease financing. We believe these sources are sufficient to fund our operations for the foreseeable future.

As of September 30, 2017, we were in compliance with the terms of the Credit Agreement, and we will continuously monitor our compliance with the covenants contained in our Credit Agreement.

### **Contractual Obligations**

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

### **Off-balance Sheet Arrangements**

During the nine months ended September 30, 2017, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### **Critical Accounting Policies and Estimates**

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

### **ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

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

### **ITEM 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

As of September 30, 2017, the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and the Company’s Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Exchange Act. Based on the evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

#### **Changes in Internal Control Over Financial Reporting**

There has been no change in the Company’s internal control over financial reporting that occurred during the Company’s quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

## PART II—OTHER INFORMATION

### ITEM 1. Legal Proceedings

There have been no material developments with regard to any matters disclosed under Part I, Item 3 “Legal Proceedings” in our 2016 Transition Report, except as disclosed in Note 12 (see below).

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

### ITEM 1.A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risk factors discussed under the “Risk Factors” section included in our 2016 Transition Report. There have been no material changes to the risk factors previously disclosed in the 2016 Transition Report.

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

#### (a) Sales of Unregistered Securities

None.

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

None.

#### (c) Repurchases of Our Equity Securities

The following table sets forth the shares of our common stock we acquired during the quarter pursuant to our publicly announced share repurchase plan and as a result of the surrender of shares by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units.

Month Ending	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
July 31, 2017	94,877	\$ 21.08	94,877	\$ 27,004,569
August 31, 2017	139,276	\$ 20.20	90,490	\$ 25,081,657
September 30, 2017	—	\$ —	—	\$ 25,081,657

(1) On August 17, 2016, the Company entered into an agreement with its founder, Chairman and Chief Executive Officer, Dr. Sotirios Vahaviolos, which provides for the Company to repurchase up to 1 million shares of its common stock from Dr. Vahaviolos. The plan with Dr. Vahaviolos is included in the \$50.0 million of purchases authorized by our Board of Directors described in footnote 2 below. All of the amounts in this column represent the purchases from Dr. Vahaviolos during the third quarter of 2017.

(2) - On October 7, 2015, the Company announced that its Board of Directors approved a share repurchase plan, which authorizes the expenditure of up to \$50.0 million for the purchase of the Company's common stock.

### ITEM 3. Defaults Upon Senior Securities

None.

### ITEM 4. Mine Safety Disclosures

Not applicable.

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

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

## **Signatures**

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

### **MISTRAS GROUP, INC.**

By: /s/ Jonathan H. Wolk

Jonathan H. Wolk

Senior Executive Vice President, Chief Operating Officer, Chief Financial Officer  
and Treasurer

(Principal Financial and Accounting Officer and duly authorized officer)

Date: November 9, 2017

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

## EXCHANGE ACT OF 1934

I, Dennis Bertolotti, certify that:

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

Date: November 9, 2017

/s/ Dennis Bertolotti

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Dennis Bertolotti

President and Chief Executive Officer

(Principal Executive Officer)

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

## EXCHANGE ACT OF 1934

I, Jonathan H. Wolk, certify that:

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

Date: November 9, 2017

/s/ Jonathan H. Wolk

Jonathan H. Wolk

Senior Executive Vice President, Chief Operating Officer, Chief Financial Officer, and Treasurer

(Principal Financial Officer)

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

Each of the undersigned hereby certifies, for the purposes of section 1350 of chapter 63 of title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Mistras Group, Inc. (the “Company”), that, to his knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2017 (the “Report”), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Report.

Dated: November 9, 2017

/s/ Dennis Bertolotti

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Dennis Bertolotti

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Jonathan H. Wolk

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Jonathan H. Wolk

Senior Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer

(Principal Financial Officer)