

**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, 2020

Or

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

For the transition period from __ to __

Commission file number 001-34481

Mistras Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

22-3341267

(I.R.S. Employer
Identification No.)

195 Clarksville Road

Princeton Junction, New Jersey
(Address of principal executive offices)

08550

(Zip Code)

(609) 716-4000

(Registrant's telephone number, including area code)

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

<i>Title of each class</i>	<i>Trading Symbol(s)</i>	<i>Name of each exchange on which registered</i>
Common Stock, \$0.01 par value	MG	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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 October 31, 2020, the registrant had 29,192,562 shares of common stock outstanding.

TABLE OF CONTENTS

	<u>PAGE</u>
<u>PART I—FINANCIAL INFORMATION</u>	
ITEM 1. <u>Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2020 (unaudited) and December 31, 2019</u>	<u>1</u>
<u>Unaudited Condensed Consolidated Statements of Income (Loss) for the three and nine months ended September 30, 2020 and September 30, 2019</u>	<u>2</u>
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2020 and September 30, 2019</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Equity for the three and nine months ended September 30, 2020 and September 30, 2019</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and September 30, 2019</u>	<u>5</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>6</u>
ITEM 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
ITEM 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>40</u>
ITEM 4. <u>Controls and Procedures</u>	<u>40</u>
<u>PART II—OTHER INFORMATION</u>	
ITEM 1. <u>Legal Proceedings</u>	<u>42</u>
ITEM 1.A. <u>Risk Factors</u>	<u>42</u>
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
ITEM 3. <u>Defaults Upon Senior Securities</u>	<u>43</u>
ITEM 4. <u>Mine Safety Disclosures</u>	<u>43</u>
ITEM 5. <u>Other Information</u>	<u>43</u>
ITEM 6. <u>Exhibits</u>	<u>44</u>
<u>SIGNATURES</u>	<u>45</u>

PART I—FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	September 30, 2020 (unaudited)	December 31, 2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 22,116	\$ 15,016
Accounts receivable, net	114,090	135,997
Inventories	14,902	13,413
Prepaid expenses and other current assets	16,699	14,729
Total current assets	167,807	179,155
Property, plant and equipment, net	91,771	98,607
Intangible assets, net	69,389	109,537
Goodwill	201,623	282,410
Deferred income taxes	1,811	1,786
Other assets	48,374	48,383
Total assets	\$ 580,775	\$ 719,878
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 12,588	\$ 15,033
Accrued expenses and other current liabilities	78,415	81,389
Current portion of long-term debt	9,889	6,593
Current portion of finance lease obligations	3,651	4,131
Income taxes payable	1,737	2,094
Total current liabilities	106,280	109,240
Long-term debt, net of current portion	226,617	248,120
Obligations under finance leases, net of current portion	11,291	13,043
Deferred income taxes	4,219	21,290
Other long-term liabilities	46,841	42,163
Total liabilities	395,248	433,856
Commitments and contingencies		
Equity		
Preferred stock, 10,000,000 shares authorized	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 29,191,876 and 28,945,472 shares issued and outstanding	292	289
Additional paid-in capital	233,267	229,205
Retained earnings (deficit)	(22,029)	77,613
Accumulated other comprehensive loss	(26,209)	(21,285)
Total Mistras Group, Inc. stockholders' equity	185,321	285,822
Non-controlling interests	206	200
Total equity	185,527	286,022
Total liabilities and equity	\$ 580,775	\$ 719,878

The accompanying notes are an integral part of these Unaudited 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 147,894	\$ 192,192	\$ 431,794	\$ 569,595
Cost of revenue	94,930	129,241	286,208	386,721
Depreciation	5,580	5,182	16,400	16,160
Gross profit	47,384	57,769	129,186	166,714
Selling, general and administrative expenses	37,113	42,328	116,278	126,014
Bad debt provision for troubled customers, net of recoveries	—	—	—	2,798
Impairment charges	—	—	106,062	—
Pension withdrawal expense	—	(45)	—	489
Research and engineering	638	650	2,170	2,261
Depreciation and amortization	3,182	4,089	10,359	12,380
Acquisition-related expense (benefit), net	709	(32)	186	970
Income (loss) from operations	5,742	10,779	(105,869)	21,802
Interest expense	3,645	2,959	9,410	10,065
Income (loss) before provision (benefit) for income taxes	2,097	7,820	(115,279)	11,737
Provision (benefit) for income taxes	544	4,733	(15,645)	6,493
Net income (loss)	1,553	3,087	(99,634)	5,244
Less: Net income (loss) attributable to non-controlling interests, net of taxes	30	(6)	8	13
Net income (loss) attributable to Mistras Group, Inc.	<u>\$ 1,523</u>	<u>\$ 3,093</u>	<u>\$ (99,642)</u>	<u>\$ 5,231</u>
Earnings (loss) per common share:				
Basic	\$ 0.05	\$ 0.11	\$ (3.43)	\$ 0.18
Diluted	\$ 0.05	\$ 0.11	\$ (3.43)	\$ 0.18
Weighted-average common shares outstanding:				
Basic	29,177	28,800	29,086	28,678
Diluted	29,311	29,156	29,086	29,022

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net income (loss)	\$ 1,553	\$ 3,087	\$ (99,634)	\$ 5,244
Other comprehensive income (loss):				
Foreign currency translation adjustments	5,963	(5,425)	(4,924)	355
Comprehensive income (loss)	7,516	(2,338)	(104,558)	5,599
Less: comprehensive income (loss) attributable to non-controlling interest	34	(8)	6	11
Comprehensive income (loss) attributable to Mistras Group, Inc.	<u>\$ 7,482</u>	<u>\$ (2,330)</u>	<u>\$ (104,564)</u>	<u>\$ 5,588</u>

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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

Three months ended								
	Common Stock		Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total Mistras Group, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Amount						
Balance at June 30, 2020	29,110	\$ 291	\$ 231,724	\$ (23,552)	\$ (32,172)	\$ 176,291	\$ 172	\$ 176,463
Net income	—	—	—	1,523	—	1,523	30	1,553
Other comprehensive income, net of tax	—	—	—	—	5,963	5,963	4	5,967
Share-based payments	—	—	1,593	—	—	1,593	—	1,593
Net settlement of restricted stock units	82	1	(50)	—	—	(49)	—	(49)
Balance at September 30, 2020	29,192	\$ 292	\$ 233,267	\$ (22,029)	\$ (26,209)	\$ 185,321	\$ 206	\$ 185,527
Balance at June 30, 2019	28,685	\$ 286	\$ 228,883	\$ 73,691	\$ (21,777)	\$ 281,083	\$ 196	\$ 281,279
Net income	—	—	—	3,093	—	3,093	(6)	3,087
Other comprehensive income, net of tax	—	—	—	—	(5,425)	(5,425)	(2)	(5,427)
Share-based payments	—	—	1,682	—	—	1,682	—	1,682
Net settlement of options and restricted stock units	230	3	(2,278)	—	—	(2,275)	—	(2,275)
Balance at September 30, 2019	28,915	\$ 289	\$ 228,287	\$ 76,784	\$ (27,202)	\$ 278,158	\$ 188	\$ 278,346

Nine months ended								
	Common Stock		Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total Mistras Group, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Amount						
Balance at December 31, 2019	28,945	\$ 289	\$ 229,205	\$ 77,613	\$ (21,285)	\$ 285,822	\$ 200	\$ 286,022
Net income (loss)	—	—	—	(99,642)	—	(99,642)	8	(99,634)
Other comprehensive (loss), net of tax	—	—	—	—	(4,924)	(4,924)	(2)	(4,926)
Share-based payments	—	—	4,391	—	—	4,391	—	4,391
Net settlement of restricted stock units	247	3	(329)	—	—	(326)	—	(326)
Balance at September 30, 2020	29,192	\$ 292	\$ 233,267	\$ (22,029)	\$ (26,209)	\$ 185,321	\$ 206	\$ 185,527
Balance at December 31, 2018	28,563	\$ 285	\$ 226,616	\$ 71,553	\$ (27,557)	\$ 270,897	\$ 177	\$ 271,074
Net income	—	—	—	5,231	—	5,231	13	5,244
Other comprehensive income (loss), net of tax	—	—	—	—	355	355	(2)	353
Share-based payments	—	—	4,598	—	—	4,598	—	4,598
Net settlement of restricted stock units	349	4	(2,959)	—	—	(2,955)	—	(2,955)
Exercise of stock options	3	—	32	—	—	32	—	32
Balance at September 30, 2019	28,915	\$ 289	\$ 228,287	\$ 76,784	\$ (27,202)	\$ 278,158	\$ 188	\$ 278,346

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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

	Nine months ended September 30,	
	2020	2019
Cash flows from operating activities		
Net income (loss)	\$ (99,634)	\$ 5,244
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	26,759	28,540
Impairment charges	106,062	—
Deferred income taxes	(16,831)	3,151
Share-based compensation expense	4,312	4,598
Bad debt provision for troubled customers, net of recoveries	—	2,798
Fair value adjustments to contingent consideration	186	537
Foreign currency (gain) loss	1,965	(1,010)
Other	2,419	(143)
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions		
Accounts receivable	20,319	(3,098)
Inventories	(1,845)	(391)
Prepaid expenses and other assets	(2,305)	439
Accounts payable	(2,357)	(261)
Accrued expenses and other liabilities	3,069	(2,465)
Income taxes payable	(328)	2,537
Net cash provided by operating activities	41,791	40,476
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,676)	(17,275)
Purchase of intangible assets	(311)	(704)
Acquisition of business, net of cash acquired	—	(4,822)
Proceeds from sale of equipment	429	1,173
Net cash used in investing activities	(10,558)	(21,628)
Cash flows from financing activities		
Repayment of finance lease obligations	(3,078)	(3,338)
Proceeds from borrowings of long-term debt	2,245	684
Repayment of long-term debt	(4,334)	(5,189)
Proceeds from revolver	27,250	20,500
Repayment of revolver	(44,000)	(38,500)
Payment of financing costs	(1,497)	—
Payment of contingent consideration for business acquisitions	(1,337)	(755)
Taxes paid related to net share settlement of share-based awards	(326)	(2,955)
Proceeds from exercise of stock options	—	32
Net cash used in financing activities	(25,077)	(29,521)
Effect of exchange rate changes on cash and cash equivalents	944	(499)
Net change in cash and cash equivalents	7,100	(11,172)
Cash and cash equivalents at beginning of period	15,016	25,544
Cash and cash equivalents at end of period	\$ 22,116	\$ 14,372
Supplemental disclosure of cash paid		
Interest	\$ 9,061	\$ 9,944
Income taxes, net of refunds	\$ 1,633	\$ 4,011
Noncash investing and financing		
Equipment acquired through finance lease obligations	\$ 1,607	\$ 5,536

The accompanying notes are an integral part of these Unaudited 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" multinational provider of integrated technology-enabled asset protection solutions helping to maximize the safety and operational uptime for civilization's most critical industrial and civil assets.

Backed by an innovative, data-driven asset protection portfolio, proprietary technologies, and decades-long legacy of industry leadership, the Company helps clients in the oil and gas, aerospace and defense, power generation, infrastructure, and manufacturing industries towards achieving and maintaining operational excellence. By supporting these organizations that help fuel our vehicles and power our society; inspecting components that are trusted for commercial, defense, and space craft; and building real-time monitoring equipment to enable safe travel across bridges, the Company helps the world at large.

The Company enhances value for its clients by integrating asset protection throughout supply chains and centralizing integrity data through a suite of Industrial IoT-connected digital software and monitoring solutions. The company's core capabilities also include non-destructive testing ("NDT") field inspections enhanced by advanced robotics, laboratory quality control and assurance testing, sensing technologies and NDT equipment, asset and mechanical integrity engineering services, and light mechanical maintenance and access services.

The Company serves a global customer base of companies with asset-intensive infrastructure, including companies in the oil and gas, commercial aerospace and defense, fossil and nuclear power, alternative and renewable energy, public infrastructure, chemicals, transportation, primary metals and metalworking, pharmaceutical/biotechnology and food processing industries and research and engineering institutions.

Recent Developments

In March 2020, the World Health Organization declared the outbreak of the COVID-19 coronavirus (COVID-19) as a pandemic, which continues to infect the population throughout the United States and most other parts of the world. The COVID-19 pandemic has caused significant volatility in domestic and international markets. There is on-going uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. In addition, oil prices have dropped significantly, and airline traffic has experienced a significant decline. In response to various factors surrounding the COVID-19 pandemic and, in the case of the oil and gas market, other macroeconomic events, companies within the oil and gas and aerospace industries (including our customers) have reduced spending and/or slowed down (or temporarily ceased) production. This, in turn, resulted in decreases in awards of new contracts or adjustments, reductions, suspensions or cancellations of existing contracts.

The COVID-19 pandemic, significant volatility in oil prices and decreased traffic in the aerospace industry have adversely affected the Company's workforce and operations, as well as the operations of the Company's customers, suppliers and contractors. These negative factors have also resulted in significant volatility and uncertainty in the markets in which the Company operates. To successfully navigate through this unprecedented period, the Company continues to focus on the following key priorities:

- Ensuring the health and safety of its employees and those of its customers and suppliers;
- Maintaining business continuity and financial strength and stability; and
- Serving its customers as they provide essential products and services to the world.

While the Company cannot fully assess the impact that the factors discussed above will have on its operations at this time, there are certain impacts that the Company has identified:

- The financial market volatility that resulted from COVID-19 and the volatility in oil prices required the Company to reassess the goodwill it had recorded related to various prior acquisitions under the guidance of ASC 350 during the

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

first quarter of 2020. The Company determined that the fair values of various reporting units were less than their carrying values (including goodwill). As a result, the Company recorded an impairment charge related to goodwill of approximately \$77.1 million during the three months ended March 31, 2020. See Note 8-*Goodwill*.

- These same events required the Company to reassess the tangible and intangible assets recorded under the guidance of ASC 360 during the first quarter of 2020. The Company determined that the fair values of certain asset groups were less than their carrying values (excluding goodwill). As a result, the Company recorded impairment charges related to intangible assets of approximately \$28.8 million and a right-of-use asset of approximately \$0.2 million during the three months ended March 31, 2020. See Note 9-*Intangible Assets* and Note 13-*Leases*.

To respond to the economic downturn resulting from the factors discussed above, in March 2020 the Company initiated a cost reduction and efficiency program. As part of this program, named executive officers of the Company took voluntarily temporary salary reductions ranging from 25% to 45% of their base salary. In addition, the Company instituted a reduction for certain other salaried employees, at lower percentages, and suspended the Company's voluntary match under the Company sponsored savings plans for its U.S. and Canadian employees. These reductions became effective at the beginning of the second quarter of 2020 and, except for the salary reductions for certain lower salaried employees, continued through the end of the third quarter of 2020. In addition, the Company's non-employee directors voluntarily agreed to a \$3,750 reduction in their second and third quarter 2020 director's fee payments. Beginning in the fourth quarter of 2020, all salary and director fee reductions were removed and pay levels were returned to first quarter levels, though certain other cost reduction measures have remained in place.

The Company is currently unable to predict with certainty the overall impact that the factors discussed above may have on its business, results of operations or liquidity or in other ways which the Company cannot yet determine. The Company will continue to monitor market conditions and respond accordingly.

Basis of Presentation

The Unaudited Condensed Consolidated Financial Statements contained in this report have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). In the opinion of management, the Unaudited 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 years ending December 31, 2020 and December 31, 2019.

The Company follows guidance on the consolidation of variable interest entities (VIEs) that requires companies to utilize a qualitative approach to determine whether it is the primary beneficiary of a VIE. The process for identifying the primary beneficiary of a VIE requires consideration of the factors that indicate a party has the power to direct the activities that most significantly impact the VIE's economic performance, including powers granted to the VIE's program manager, powers contained in the VIE governing board and, to a certain extent, a company's economic interest in the VIE. The Company analyzes its joint ventures and classifies them as either:

- a VIE that must be consolidated because the Company is the primary beneficiary, or the joint venture is not a VIE and the Company holds the majority voting interest with no significant participative rights available to the other partners; or
- a VIE that does not require consolidation and is treated as an equity method investment because the Company is not the primary beneficiary or the joint venture is not a VIE and the Company does not hold the majority voting interest.

As part of the above analysis, if it is determined that the Company has the power to direct the activities that most significantly impact the joint venture's economic performance, the Company considers whether or not it has the obligation to absorb losses or rights to receive benefits of the VIE that could potentially be significant to the VIE.

The Company became the primary beneficiary in July 2020 of a VIE in which the Company has a 49% interest in a limited partnership, and a 49% shareholder in the corporate general partner of the limited partnership. The Company consolidated the financial statements of the VIE with the financial statements of the Company. As of and the for the three months ended September 30, 2020, the VIE had no assets nor did it have any revenue. The Company is the primary sub-contractor of the VIE.

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

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

Audited Consolidated Financial Statements contained in the Company's 2019 Annual Report on Form 10-K ("2019 Annual Report").

Principles of Consolidation

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of Mistras Group, Inc. as well as its wholly-owned subsidiaries, majority-owned subsidiaries and consolidated VIE. 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 results, net of tax, is classified separately in the accompanying Unaudited Condensed Consolidated Statements of Income (Loss). All significant intercompany accounts and transactions have been eliminated in consolidation.

Customers

For each of the nine months ended September 30, 2020 and 2019, no customer represented 10% or more of the Company's revenue.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in Note 1—*Summary of Significant Accounting Policies and Practices* in the 2019 Annual Report. On an ongoing basis, the Company evaluates its estimates and assumptions, including among other things, those related to revenue recognition, long-lived assets, goodwill and acquisitions. Since the date of the 2019 Annual Report, there have been no material changes to the Company's significant accounting policies.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided if it is more likely than not that some or all of a deferred income tax asset will not be realized. Financial accounting standards prescribe a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. These standards also provide guidance on de-recognition, measurement, and classification of amounts relating to uncertain tax positions, accounting for and disclosure of interest and penalties, accounting in interim periods and disclosures required. Interest and penalties related to unrecognized tax positions are recognized as incurred within "provision for income taxes" in the Consolidated Statements of Income (Loss). ASC 740-270, Income Taxes-Interim Reporting, requires the Company to use an estimated annual effective tax rate (EAETR) for calculating its tax provision for interim periods. At each interim period, the Company is required, with certain exceptions and limitations, to estimate its forecasted worldwide EAETR, which is applied to the Company's year-to-date consolidated ordinary income or loss resulting in the year-to-date income tax provision before considering items not included in ordinary income or loss. The tax effects of events or transactions not considered to represent ordinary income or loss are accounted for discretely in the interim period and are not included in the determination of the EAETR.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act, among other things, includes tax provisions relating to deferment of employer's social security payments, net operating loss utilization and carryback periods, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property (QIP). The ultimate impact of the CARES Act may differ from the estimated impact the Company recorded during this interim period due to changes in interpretations and guidance that may be issued and actions the Company may take in response to the CARES Act. The Company will continue to assess the impact that various provisions of the CARES Act, and how they are interpreted and effected, will have on its business.

The Company continues to evaluate its deferred tax assets each period to determine if a valuation allowance is required based on whether it is more likely than not that some portion of these deferred tax assets will not be realized. As of September 30, 2020, management concluded that it is more likely than not that a substantial portion of the Company's deferred tax assets will

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

be realized. As part of the Company's analysis, it considered both positive and negative factors that impact profitability and whether those factors would lead to a change in the estimate of the Company's deferred tax assets that may be realized in the future.

The Company's effective income tax rate was approximately 26% and 61% for the three months ended September 30, 2020 and 2019, respectively. The Company's effective income tax rate was approximately 14% and 55% for the nine months ended September 30, 2020 and 2019, respectively. The effective income tax rate for the third quarter of 2020 was greater than the statutory rate due to the unfavorable impact of taxes in other jurisdictions and other permanent book to tax differences offset by the favorable impact of the CARES act. The effective income tax rate for the first nine-months of 2020 was lower than the statutory rate primarily due to impairments for which the Company will not realize income tax benefits, partially offset by income tax benefits of the CARES Act. The CARES Act provides a five-year carryback of net operating losses generated in years 2018 through 2020. As the statutory federal income tax rate applicable to certain years within the carryback period is 35%, carryback to those years of the Company's estimated 2020 annual federal tax loss provides a tax benefit in excess of the current federal statutory rate of 21%, resulting in an increased income tax benefit. The Company projects that the income tax effects of the CARES Act will result in additional income tax benefit recognized throughout the 2020 tax year and a cash refund in 2021 of taxes paid in prior years. The effective income tax rate for the three and nine months ended September 30, 2019 was higher than the statutory rate due to the impact of discrete items, the global intangible low-taxed income (GILTI), executive compensation, other provisions resulting from the December 22, 2017 passage of the Tax Cuts and Jobs Act and foreign tax rates different than statutory rates in the U.S.

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"). ASU 2019-12 simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities related to outside basis differences. The standard is effective for interim and annual periods beginning January 1, 2021, with certain amendments applied prospectively and others requiring retrospective application. Early adoption is permitted, with any adjustments reflected as of the beginning of the fiscal year of adoption. If early adoption is elected, all changes as a result of the standard must be adopted in the same period. The Company is currently evaluating the impact of this guidance on its consolidated financial position, results of operations, and cash flows.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another rate that is expected to be discontinued. The amendments in ASU 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact of this guidance on its consolidated financial position, results of operations, and cash flows.

2. Revenue

The Company derives the majority of its revenue by providing services on a time and material basis, which are generally short-term in nature. The Company accounts for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*.

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

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of the Company's contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and is, therefore, not distinct. The Company provides highly integrated and bundled inspection services to its customers. Some of the Company's contracts have multiple performance obligations, most commonly due to the contract providing both goods and services. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using its best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is a relative selling price based on price lists.

Contract modifications are not routine in the performance of the Company contracts. Generally, when contracts are modified, the modification is to account for changes in scope to the goods and services that are provided. In most instances, contract modifications are for goods or services that are distinct, and, therefore, are accounted for as a separate contract.

The Company's performance obligations are satisfied over time as work progresses or at a point in time. The majority of the Company's revenue recognized over time as work progresses is related to its service deliverables, which includes providing testing, inspection and mechanical services to the Company's customers. Revenue is recognized over time based on time and material incurred to date which best portrays the transfer of control to the customer. The Company also utilizes an available practical expedient that provides for revenue to be recognized in an amount that corresponds directly with the value to the customer of the entity's performance completed to date. Fixed fee arrangements are determined based on expected labor, material, and overhead to be consumed on fulfillment of such services. Revenue is recognized on a cost-to-cost method tracked on an input basis.

The majority of the Company's revenue recognized at a point in time is related to product sales when the customer obtains control of the asset, which is generally upon shipment to the customer. Contract costs include labor, material and overhead.

The Company expects any significant remaining performance obligations to be satisfied within one year.

Contract Estimates

The majority of the Company's revenue are short-term in nature. The Company has many master service agreements (MSAs) that specify an overall framework and contract terms when the Company and customers agree upon services or products to be provided. The actual contracting to provide services or furnish products is triggered by a work order, purchase order, or some similar document issued pursuant to a MSA which sets forth the scope of services and/or identifies the products to be provided. From time-to-time, the Company may enter into long-term contracts, which can range from several months to several years. Revenue on such long-term contracts is recognized as work is performed based on total costs incurred to date in relation to the total estimated costs for the performance of the contract at completion. This includes contract estimates of costs to be incurred for the performance of the contract. Cost estimation is based upon the professional knowledge and experience of the Company's project managers, engineers and financial professionals. Factors that are considered in estimating the work to be completed include the availability of materials, the effect of any delays in the Company's project performance and the recoverability of any claims. Whenever revisions of estimates, contract costs and/or contract values indicate that the contract costs will exceed estimated revenue, thus creating a loss, a provision for the total estimated loss is recorded in that period.

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

Revenue by Category

The following series of tables present the Company's disaggregated revenue:

Revenue by industry was as follows:

Three Months Ended September 30, 2020	Services	International	Products	Corp/Elim	Total
Oil & Gas	\$ 72,195	\$ 9,749	\$ 51	\$ —	\$ 81,995
Aerospace & Defense	10,904	3,676	72	—	14,652
Industrials	12,209	5,261	442	—	17,912
Power generation & Transmission	9,053	2,054	390	—	11,497
Other Process Industries	6,023	2,373	85	—	8,481
Infrastructure, Research & Engineering	5,309	2,245	1,223	—	8,777
Other	4,028	1,119	1,669	(2,236)	4,580
Total	<u>\$ 119,721</u>	<u>\$ 26,477</u>	<u>\$ 3,932</u>	<u>\$ (2,236)</u>	<u>\$ 147,894</u>

Three Months Ended September 30, 2019	Services	International	Products	Corp/Elim	Total
Oil & Gas	\$ 100,927	\$ 11,561	\$ 71	\$ —	\$ 112,559
Aerospace & Defense	12,420	9,626	438	—	22,484
Industrials	15,612	5,453	506	—	21,571
Power generation & Transmission	7,215	3,462	461	—	11,138
Other Process Industries	6,942	2,674	304	—	9,920
Infrastructure, Research & Engineering	4,205	1,964	2,964	—	9,133
Other	5,251	2,310	777	(2,951)	5,387
Total	<u>\$ 152,572</u>	<u>\$ 37,050</u>	<u>\$ 5,521</u>	<u>\$ (2,951)</u>	<u>\$ 192,192</u>

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

Nine Months Ended September 30, 2020	Services	International	Products	Corp/Elim	Total
Oil & Gas	\$ 214,773	\$ 26,192	\$ 214	\$ —	\$ 241,179
Aerospace & Defense	39,804	14,686	370	—	54,860
Industrials	35,374	13,997	1,349	—	50,720
Power generation & Transmission	21,800	4,958	1,888	—	28,646
Other Process Industries	17,026	7,103	162	—	24,291
Infrastructure, Research & Engineering	12,820	6,726	3,683	—	23,229
Other	7,674	3,225	3,080	(5,110)	8,869
Total	<u>\$ 349,271</u>	<u>\$ 76,887</u>	<u>\$ 10,746</u>	<u>\$ (5,110)</u>	<u>\$ 431,794</u>

Nine Months Ended September 30, 2019	Services	International	Products	Corp/Elim	Total
Oil & Gas	\$ 301,696	\$ 33,033	\$ 551	\$ —	\$ 335,280
Aerospace & Defense	38,725	31,783	1,060	—	71,568
Industrials	51,373	15,987	1,585	—	68,945
Power generation & Transmission	21,829	7,383	2,328	—	31,540
Other Process Industries	19,644	7,420	376	—	27,440
Infrastructure, Research & Engineering	9,601	7,214	4,869	—	21,684
Other	11,211	6,482	2,453	(7,008)	13,138
Total	<u>\$ 454,079</u>	<u>\$ 109,302</u>	<u>\$ 13,222</u>	<u>\$ (7,008)</u>	<u>\$ 569,595</u>

Revenue per key geographic location was as follows:

Three Months Ended September 30, 2020	Services	International	Products	Corp/Elim	Total
United States	\$ 100,586	\$ 193	\$ 1,538	\$ (912)	\$ 101,405
Other Americas	18,767	1,100	75	(124)	19,818
Europe	350	24,790	1,002	(1,088)	25,054
Asia-Pacific	18	394	1,317	(112)	1,617
Total	<u>\$ 119,721</u>	<u>\$ 26,477</u>	<u>\$ 3,932</u>	<u>\$ (2,236)</u>	<u>\$ 147,894</u>

Three Months Ended September 30, 2019	Services	International	Products	Corp/Elim	Total
United States	123,585	\$ 128	\$ 3,780	\$ (1,084)	\$ 126,409
Other Americas	26,981	1,842	72	32	28,927
Europe	1,157	31,817	513	(1,844)	31,643
Asia-Pacific	849	3,263	1,156	(55)	5,213
Total	<u>\$ 152,572</u>	<u>\$ 37,050</u>	<u>\$ 5,521</u>	<u>\$ (2,951)</u>	<u>\$ 192,192</u>

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

Nine Months Ended September 30, 2020	Services	International	Products	Corp/Elim	Total
United States	\$ 298,372	\$ 507	\$ 5,150	\$ (2,433)	\$ 301,596
Other Americas	49,548	3,564	425	(370)	53,167
Europe	721	71,056	1,930	(2,129)	71,578
Asia-Pacific	630	1,760	3,241	(178)	5,453
Total	<u>\$ 349,271</u>	<u>\$ 76,887</u>	<u>\$ 10,746</u>	<u>\$ (5,110)</u>	<u>\$ 431,794</u>

Nine Months Ended September 30, 2019	Services	International	Products	Corp/Elim	Total
United States	\$ 368,600	\$ 461	\$ 8,727	\$ (3,638)	\$ 374,150
Other Americas	82,494	5,757	209	(232)	88,228
Europe	1,855	97,098	1,370	(3,079)	97,244
Asia-Pacific	1,130	5,986	2,916	(59)	9,973
Total	<u>\$ 454,079</u>	<u>\$ 109,302</u>	<u>\$ 13,222</u>	<u>\$ (7,008)</u>	<u>\$ 569,595</u>

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the Condensed Consolidated Balance Sheets. Amounts are generally billed as work progresses in accordance with agreed-upon contractual terms, generally at periodic intervals (e.g., weekly, bi-weekly or monthly). Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. However, the Company sometimes receives advances or deposits from its customers before revenue is recognized, resulting in contract liabilities. These assets and liabilities are aggregated on an individual contract basis and reported on the Condensed Consolidated Balance Sheets at the end of each reporting period within accounts receivable, net or accrued expenses and other current liabilities.

Revenue recognized during the nine months ended September 30, 2020 and 2019 that was included in the contract liability balance at the beginning of such year was \$4.4 million and \$3.4 million, respectively. Changes in the contract asset and liability balances during these periods were not materially impacted by any other factors. The Company has elected to utilize a practical expedient to expense incremental costs incurred related to obtaining a contract. The Company's expenses are expected to be amortized over a period less than one year.

3. Share-Based Compensation

The Company has share-based incentive awards outstanding to its eligible employees and non-employee directors under two equity incentive plans: (i) the 2009 Long-Term Incentive Plan (the "2009 Plan") and (ii) the 2016 Long-Term Incentive Plan (the "2016 Plan"). No further awards may be granted under the 2009 Plan, although awards granted under the 2009 Plan 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. At the annual shareholders meeting on May 19, 2020, the Company's shareholders approved an amendment to increase the total number of shares that may be issued under the 2016 Plan by 2 million, for a total of 3.7 million shares that may be issued under the 2016 Plan.

Stock Options

For the three and nine months ended September 30, 2020 and 2019, the Company did not recognize any share-based compensation expense related to stock option awards, as all outstanding stock options awards were then already fully vested. No unrecognized compensation costs remained related to stock option awards as of September 30, 2020.

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

The following table sets forth a summary of the stock option activity, weighted-average exercise prices and options outstanding as of September 30, 2020 and September 30, 2019:

	Nine months ended September 30,			
	2020		2019	
	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price
Outstanding at beginning of period:	5	\$ 22.35	2,105	\$ 13.47
Granted	—	\$ —	—	\$ —
Exercised	—	\$ —	(2,093)	\$ 13.45
Expired or forfeited	—	\$ —	(7)	\$ 10.00
Outstanding at end of period:	<u>5</u>	<u>\$ 22.35</u>	<u>5</u>	<u>\$ 22.35</u>

Restricted Stock Unit Awards

For the three months ended September 30, 2020 and September 30, 2019, the Company recognized share-based compensation expense related to restricted stock unit awards of \$1.1 million and \$1.0 million, respectively. For the nine months ended September 30, 2020 and September 30, 2019, the Company recognized share-based compensation expense related to restricted stock unit awards of \$3.2 million and \$3.0 million, respectively. As of September 30, 2020, there was \$5.5 million of unrecognized compensation costs, net of estimated forfeitures, related to restricted stock unit awards, which is expected to be recognized over a remaining weighted-average period of 2.4 years. Upon vesting, restricted stock units are generally net share-settled to cover the required withholding tax and the remaining amount is converted into an equivalent number of shares of common stock.

A summary of the vesting activity of restricted stock unit awards, with the respective fair value of the awards, is as follows:

	Nine months ended September 30,	
	2020	2019
Restricted stock awards vested	183	148
Fair value of awards vested	\$ 719	\$ 2,168

A summary of the fully-vested common stock the Company issued to its six non-employee directors, in connection with its non-employee director compensation plan, is as follows:

	Nine months ended September 30,	
	2020	2019
Awards issued	68	30
Grant date fair value of awards issued	\$ 326	\$ 450

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

	Nine months ended September 30,			
	2020		2019	
	Units	Weighted Average Grant-Date Fair Value	Units	Weighted Average Grant-Date Fair Value
Outstanding at beginning of period:	559	\$ 16.92	443	\$ 20.55
Granted	557	\$ 3.77	334	\$ 14.04
Released	(183)	\$ 18.44	(148)	\$ 20.17
Forfeited	(32)	\$ 9.87	(36)	\$ 18.38
Outstanding at end of period:	<u>901</u>	<u>\$ 8.72</u>	<u>593</u>	<u>\$ 17.08</u>

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

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 specific metrics approved by the Compensation Committee of the Board of Directors of the Company. For 2019, three metrics, as defined: (1) Operating Income, (2) Adjusted EBITDAS (defined as net income attributable to MISTRAS Group, Inc. plus: interest expense, provision for income taxes, depreciation and amortization, share-based compensation expense and certain acquisition related costs (including transaction due diligence costs and adjustments to the fair value of contingent consideration), foreign exchange (gain) loss and, if applicable, certain special items which are noted) and (3) Revenue. There also is a discretionary portion of the PRSUs based on individual performance, granted 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.

For 2020, the Compensation Committee changed the criteria for the PRSUs to four metrics, with no discretionary portion. Revenue and Adjusted EBITDAS are being retained, and two additional metrics, free cash flow as a percentage of revenue and return on average book equity, will replace Operating Income. These two newly-added metrics are relative metrics, the performance of which are based upon how the Company performs relative to a peer group.

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 equity-classified.

A summary of the Company's PRSU activity is as follows:

	Nine months ended September 30,			
	2020		2019	
	Units	Weighted Average Grant-Date Fair Value	Units	Weighted Average Grant-Date Fair Value
Outstanding at beginning of period:	260	\$ 16.77	277	\$ 17.80
Granted	292	\$ 3.68	190	\$ 13.63
Performance condition adjustments	(145)	\$ 3.54	(36)	\$ 14.06
Released	(78)	\$ 15.43	(77)	\$ 15.86
Forfeited	—	\$ —	—	\$ —
Outstanding at end of period:	<u>329</u>	<u>\$ 11.09</u>	<u>354</u>	<u>\$ 16.45</u>

During the nine months ended September 30, 2020 and September 30, 2019, the Compensation Committee approved the final calculation of the award metrics for calendar year 2019 and calendar year 2018, respectively. As a result, the calendar year 2019 PRSUs increased by approximately 1,000 units and the calendar year 2018 PRSUs decreased by approximately 3,000 units. Calendar year 2020 PRSUs decreased by 146,000 units during the nine months ended September 30, 2020 based on forecasted results for calendar year 2020. Calendar year 2019 PRSUs decreased approximately 33,000 units during the nine months ended September 30, 2019 based on forecasted results for calendar year 2019.

For the three months ended September 30, 2020 and September 30, 2019, the Company recognized aggregate share-based compensation expense related to the awards described above of approximately \$0.2 million and \$0.5 million, respectively. For the nine months ended September 30, 2020 and September 30, 2019, the Company recognized aggregate share-based compensation expense related to the awards described above of approximately \$0.8 million and \$1.2 million, respectively. At September 30, 2020, there was \$1.3 million of total unrecognized compensation costs related to approximately 329,000 non-vested PRSUs, which is expected to be recognized over a remaining weighted-average period of 1.8 years.

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

4. Earnings (loss) per Share

Basic earnings (loss) 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Basic earnings (loss) per share:				
Numerator:				
Net income (loss) attributable to Mistras Group, Inc.	\$ 1,523	\$ 3,093	\$ (99,642)	\$ 5,231
Denominator:				
Weighted-average common shares outstanding	29,177	28,800	29,086	28,678
Basic earnings (loss) per share	\$ 0.05	\$ 0.11	\$ (3.43)	\$ 0.18
Diluted earnings (loss) per share:				
Numerator:				
Net income (loss) attributable to Mistras Group, Inc.	\$ 1,523	\$ 3,093	\$ (99,642)	\$ 5,231
Denominator:				
Weighted-average common shares outstanding	29,177	28,800	29,086	28,678
Dilutive effect of stock options outstanding	—	129	—	147
Dilutive effect of restricted stock units outstanding ⁽¹⁾	134	227	—	197
	<u>29,311</u>	<u>29,156</u>	<u>29,086</u>	<u>29,022</u>
Diluted earnings (loss) per share	\$ 0.05	\$ 0.11	\$ (3.43)	\$ 0.18

⁽¹⁾ For the nine months ended September 30, 2020, 213 thousand shares related to restricted stock were excluded from the calculation of diluted EPS due to the net loss for the period.

5. Acquisitions and Dispositions

Acquisitions

The Company did not complete any acquisitions during the nine months ended September 30, 2020. During September 2019, the Company completed one acquisition that provides pipeline integrity management software and services to energy transportation companies. The Company acquired all the equity interest of the acquiree in exchange for aggregate consideration of \$4.4 million in cash, contingent consideration of up to \$4.3 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 working capital adjustments. The goodwill recorded is primarily attributable to expected synergies and is generally deductible for tax purposes. The Company accounted for this transaction in accordance with the acquisition method of accounting for business combinations.

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

The following table summarizes the final fair value of the assets acquired and liabilities assumed, the Company's allocation of purchase price and any subsequent adjustments made for the September 2019 acquisition:

Cash paid	\$	4,380
Working capital adjustments		(152)
Fair value of contingent consideration		1,342
Total consideration	\$	<u>5,570</u>
Current net assets	\$	142
Other assets		34
Property, plant and equipment		65
Intangibles		3,594
Goodwill		1,735
Net assets acquired	\$	<u>5,570</u>

Acquisition-Related Expense

In the course of its acquisition activities, the Company incurs costs in connection with due diligence, such as 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 reported as Acquisition-related expense, net on the Unaudited Condensed Consolidated Statements of Income (Loss) and were as follows for the three and nine months ended September 30, 2020 and 2019:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Due diligence, professional fees and other transaction costs	\$ —	\$ 93	\$ —	\$ 433
Adjustments to fair value of contingent consideration liabilities	709	(125)	186	537
Acquisition-related expense, net	<u>\$ 709</u>	<u>\$ (32)</u>	<u>\$ 186</u>	<u>\$ 970</u>

The Company's contingent consideration liabilities are included in Accrued expenses and other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheets.

6. Accounts Receivable, net

Accounts receivable consisted of the following:

	September 30, 2020	December 31, 2019
Trade accounts receivable	\$ 122,515	\$ 144,282
Allowance for doubtful accounts	(8,425)	(8,285)
Accounts receivable, net	<u>\$ 114,090</u>	<u>\$ 135,997</u>

The Company had \$20.5 million and \$22.2 million of unbilled revenue accrued as of September 30, 2020 and December 31, 2019, respectively. These amounts are included in the trade accounts receivable balances above. Unbilled revenue is generally billed in the subsequent quarter to their revenue recognition.

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

The Company was contracted to perform inspections of welds on various pipeline projects in Texas for a customer. As of September 30, 2020, approximately \$1.4 million of past due receivables were outstanding from this customer. The Company received notice from the customer in December 2019, alleging that the work performed was not in compliance with the contract. The Company filed a lawsuit to recover the \$1.4 million and other amounts due to the Company and the customer filed a counterclaim, alleging breach of contract and seeking its damages. Accordingly, the Company recorded a reserve of \$0.3 million during the three months ended September 30, 2019 and \$1.1 million during the three months ended December 31, 2019 for these past due receivables. The status of this situation has not changed during 2020. See Note 14-*Commitments and Contingencies* for additional details.

In the fourth quarter of 2018, the Company recorded a reserve of \$0.7 million for a renewable energy industry customer, based in part on the available information about the financial difficulties of the customer. During the first quarter of 2019, the Company recorded an additional charge of \$5.7 million to fully reserve for the amount of the exposure related to this customer. This customer filed for a voluntary insolvency proceeding on April 9, 2019. During the second quarter of 2019, the Company reversed \$1.0 million of this reserve based on additional information obtained during the quarter. The status of the dispute has not changed since the second quarter of 2019.

During 2019, the Company sold to an unaffiliated third party, without recourse, its remaining outstanding receivables owed from a customer which filed for bankruptcy, and for which the Company had initially recorded a charge during the second quarter of 2017. During the first quarter of 2019, the Company recorded a recovery of \$0.2 million and during the second quarter of 2019, the Company recorded a recovery \$1.7 million, related to a bad debt provision for the receivables due from this customer. This matter is considered fully resolved.

7. Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	Useful Life (Years)	September 30, 2020	December 31, 2019
Land		\$ 2,694	\$ 2,672
Buildings and improvements	30-40	25,114	24,537
Office furniture and equipment	5-8	19,924	17,227
Machinery and equipment	5-7	231,890	225,974
		<u>279,622</u>	<u>270,410</u>
Accumulated depreciation and amortization		(187,851)	(171,803)
Property, plant and equipment, net		<u>\$ 91,771</u>	<u>\$ 98,607</u>

Depreciation and amortization expense for the three months ended September 30, 2020 and 2019 was approximately \$6.2 million and \$5.8 million, respectively.

Depreciation expense for the nine months ended September 30, 2020 and 2019 was \$18.3 million and \$18.0 million, respectively.

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

8. Goodwill

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

	Services	International	Products and Systems	Total
Balance at December 31, 2019	\$ 247,215	\$ 35,195	\$ —	\$ 282,410
Goodwill acquired during the period	—	—	—	—
Impairment charges	(57,227)	(19,862)	—	(77,089)
Adjustments to preliminary purchase price allocations	200	—	—	200
Foreign currency translation	(3,735)	(163)	—	(3,898)
Balance at September 30, 2020	<u>\$ 186,453</u>	<u>\$ 15,170</u>	<u>\$ —</u>	<u>\$ 201,623</u>

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 first quarter of 2020, the Company's market capitalization declined significantly compared to the fourth quarter of 2019. Over the same period, the equity value of the Company's peer group, and the overall U.S. stock market also declined significantly amid market volatility. In addition, oil prices had dropped significantly. These declines were driven in large part by the uncertainty surrounding the COVID-19 pandemic and other macroeconomic events such as the geopolitical tensions between OPEC and Russia. Based on these factors, the Company concluded that multiple triggering events occurred and, accordingly, an interim quantitative goodwill impairment test was performed as of the testing date for each reporting unit as of March 31, 2020 ("testing date"). During the first quarter of 2020, the Company also performed an analysis to determine any impairment of long-lived assets (see Note 9-*Intangible Assets*) based on the triggering events noted above.

In performing the interim quantitative goodwill impairment test and consistent with prior practice, the Company determined the fair value of each of the reporting units using a combination of the income approach and the market approach by assessing each of these valuation methodologies based upon availability and relevance of comparable company data and determining the appropriate weighting.

Under the income approach, the fair value for each of the reporting units was determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. The Company used internal forecasts, updated for recent events, to estimate future cash flows with cash flows beyond the specific operating plans estimated using a terminal value calculation, which incorporates historical and forecasted trends, including an estimate of long-term future growth rates, based on the Company's most recent views of the long-term outlook for each reporting unit. The internal forecasts include assumptions about future market recovery, including the expected demand for the Company's goods and services. Due to the inherent uncertainties involved in making estimates and assumptions, actual results may differ from those assumed in the forecasts. The Company derived the discount rates using a capital asset pricing model and analyzing published rates for industries relevant to the reporting units to estimate the cost of equity financing. The Company used discount rates that are commensurate with the risks and uncertainties inherent in the respective businesses and in the internally developed forecasts, updated for recent events.

The market approach valuations were derived from metrics of publicly traded companies or historically completed transactions of comparable businesses. The selection of comparable businesses was based on the markets in which the reporting units operate considering risk profiles, size, geography, and diversity of products and services.

Based upon the results of the interim quantitative goodwill impairment test during the first quarter of 2020, the Company recorded an aggregate impairment charge of \$77.1 million, which included \$57.2 million in the services reporting unit within the Services segment, and \$19.3 million in the European reporting unit and \$0.6 million in the Brazilian reporting unit, both within the International segment. The impairment was calculated based on the difference between the estimated fair value and the carrying value of the reporting units and are included in Impairment charges on the Unaudited Condensed Consolidated Statements of Income (Loss) for the nine months ended September 30, 2020. Subsequent to March 31, 2020 through September 30, 2020, the Company did not identify any changes in circumstances that would indicate the carrying value of goodwill may not be recoverable. Significant adverse changes in future periods could negatively affect the Company's key assumptions and may result in future goodwill impairment charges which could be material.

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

The Company's cumulative goodwill impairment as of September 30, 2020 was \$100.2 million, of which \$57.2 million related to the Services segment, \$29.8 million related to the International segment and \$13.2 million related to the Products and Systems segment. The Company's cumulative goodwill impairment as of December 31, 2019 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.

9. Intangible Assets

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

	Useful Life (Years)	September 30, 2020			December 31, 2019			
		Gross Amount	Accumulated Amortization	Impairment	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	5-18	\$ 114,174	\$ (72,796)	\$ (2,206)	\$ 39,172	\$ 113,861	\$ (67,853)	\$ 46,008
Software/Technology	3-15	75,739	(22,323)	(25,874)	27,542	77,914	(18,756)	59,158
Covenants not to compete	2-5	12,735	(11,990)	(212)	533	12,795	(11,630)	1,165
Other	2-12	10,950	(8,306)	(502)	2,142	10,813	(7,607)	3,206
Total		\$ 213,598	\$ (115,415)	\$ (28,794)	\$ 69,389	\$ 215,383	\$ (105,846)	\$ 109,537

As described in Note 8-*Goodwill*, during the first quarter of 2020, there were negative market indicators that were determined to be triggering events indicating a potential impairment of certain long-lived assets within asset groups in the Services, International, Products and Corporate segments. The asset groups are groupings of assets and liabilities determined at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability testing indicated that certain intangible assets and right of use assets (See Note 13-*Leases*) were potentially impaired. For asset groups that required an impairment measurement, similar to the valuations performed to determine the goodwill impairment, the Company 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 aggregate impairment charge of \$28.8 million, which included \$25.9 million to software/technology, \$2.2 million to customer relationships, \$0.5 million to other intangibles and \$0.2 million to covenants not to compete, all of which are in the Services reporting unit within the Services segment and are included in Impairment charges on the Unaudited Condensed Consolidated Statements of Income (Loss) for the nine months ended September 30, 2020.

Amortization expense for the three months ended September 30, 2020 and 2019 was approximately \$2.6 million and \$3.4 million, respectively.

Amortization expense for the nine months ended September 30, 2020 and 2019 was \$8.5 million and \$10.5 million, respectively.

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

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2020	December 31, 2019
Accrued salaries, wages and related employee benefits	\$ 28,612	\$ 30,072
Contingent consideration, current portion	1,971	2,614
Accrued workers' compensation and health benefits	4,803	4,467
Deferred revenue	5,982	5,860
Pension accrual	2,519	2,519
Right-of-use liability - operating	9,944	10,133
Other accrued expenses	24,584	25,724
Total	<u>\$ 78,415</u>	<u>\$ 81,389</u>

11. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2020	December 31, 2019
Senior credit facility	\$ 135,430	\$ 151,773
Senior secured term loan, net of unamortized debt issuance costs of \$0.3 million and \$0.1 million	90,973	94,919
Other	10,103	8,021
Total debt	<u>236,506</u>	<u>254,713</u>
Less: Current portion	<u>(9,889)</u>	<u>(6,593)</u>
Long-term debt, net of current portion	<u>\$ 226,617</u>	<u>\$ 248,120</u>

Senior Credit Facility

The Company has a credit agreement with its banking group ("Credit Agreement") which provides the Company with a revolving line of credit and a \$100 million senior secured term loan A facility. Pursuant to the Amendment described below, the revolving line of credit was reduced from \$300 million to \$175 million. Both the revolving line of credit and the term loan A facility under the Credit Agreement have a maturity date of December 12, 2023.

On May 15, 2020, the Company entered into the Third Amendment (the "Amendment") to the Credit Agreement. The amendment was needed because the Company determined that as a result of the uncertain impact of the COVID-19 pandemic and the significant drop in oil prices, it would not meet the then existing financial covenants in the Credit Agreement for upcoming quarters. Accordingly, the Amendment modified the financial covenants to provide for: i) elimination of the Funded Debt Leverage Ratio (as defined in the Credit Agreement) for the quarters ended June 30 and September 30, 2020 and increased the Funded Debt Leverage ratio to no greater than 5.25 to 1 beginning for the quarter ending December 31, 2020 and decreasing each successive quarter to no greater than 3.50 to 1 for the quarter ended September 30, 2021, and all quarterly periods thereafter; ii) an elimination of the minimum Fixed Charge Coverage Ratio (as defined in the Credit Agreement for the quarters ended June 30, September 30 and December 31, 2020), a decrease to 1.0 to 1 for the quarter ending March 31, 2021 and returning to 1.25 to 1 for the quarter ending June 30, 2021 and thereafter; iii) the addition of a minimum EBITDA covenant requiring \$3.44 million for the three months ending June 30, 2020, \$24.25 million for the six months ending September 30, 2020, and \$38.55 million for the nine months ending December 31, 2020, with no requirement thereafter; and iv) the addition of a minimum Liquidity (as defined in the Amendment) covenant of not less than \$20.0 million at all times through September 30, 2020 and ceasing thereafter. In addition, the Amendment set a LIBOR floor of 1.0% applicable to all LIBOR loans, and increased the LIBOR margin range to 1.50% to 4.15%, in addition to certain other modifications of the Credit Agreement. The Amendment also requires that the Company promptly prepay the outstanding amount under the revolving credit facility in an amount equal to the difference between (a) the aggregate sum of cash and cash equivalents of the Company and its subsidiaries

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

held in the United States minus (b) \$10.0 million if, for a period of two (2) consecutive business days, (i) the outstanding amount under the revolving credit facility exceeds \$75.0 million and (ii) the sum of such cash and cash equivalents exceeds \$10.0 million.

The Credit Amendment, as amended, provides that the Company may not make any acquisitions prior to June 30, 2021, and thereafter only if the Company's Funded Debt Leverage Ratio is less than 2.50 to 1, and after giving effect to such acquisition, its pro forma Funded Debt Leverage Ratio will not be greater than 3.25 to 1. 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 or repurchase its stock, enter into a new line of business, enter into transactions with affiliates and enter into burdensome agreements.

The Company may borrow up to \$100 million in non-U.S. Dollar currencies and use up to \$20 million of the credit limit for the issuance of letters of credit.

As of September 30, 2020, the Company had borrowings of \$226.4 million and a total of \$4.3 million of letters of credit outstanding under the Credit Agreement. The Company has capitalized costs associated with debt modifications of \$1.2 million as of September 30, 2020, which is included in Other Assets on the Condensed Consolidated Balance Sheets. The Amendment reduced the Company's total available loan capacity, amongst other things, and as a result, the Company expensed approximately \$0.6 million in capitalized debt issuance costs during the second quarter of 2020, which was included in Selling, general and administrative expenses on the Unaudited Condensed Consolidated Statements of Income (Loss).

As of September 30, 2020, the Company was in compliance with the terms of the Credit Agreement, as amended, and will continuously monitor its compliance with the covenants contained in its Credit Agreement. The Company believes that it is probable, based on the amended covenants, that the Company will be able to comply with the financial covenants in the Credit Agreement as modified by the Amendment and that sufficient credit remains available under the Credit Agreement to meet the Company's liquidity needs. However, due to the uncertainties being caused by the COVID-19 pandemic, the significant volatility in oil prices, and volatility in the aerospace production, such matters cannot be predicted with certainty.

Other debt

The Company's other debt includes local bank financing provided at the local subsidiary level used to support working capital requirements and fund capital expenditures. At September 30, 2020, there was an aggregate of approximately \$10.1 million outstanding, payable at various times through 2030. Monthly payments range from \$1 thousand to \$17 thousand and interest rates range from 0.4% to 3.5%.

12. 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.

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

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

	Nine months ended September 30,	
	2020	2019
Beginning balance	\$ 3,216	\$ 2,365
Acquisitions	200	1,081
Payments	(1,337)	(755)
Accretion of liability	33	85
Revaluation	153	452
Foreign currency translation	(23)	50
Ending balance	<u>\$ 2,242</u>	<u>\$ 3,278</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 finance 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.

13. Leases

The Company leases certain office and operating facilities, machinery, equipment, and vehicles. Concurrent with the adoption of ASC 842, the Company recognized a right-of-use (ROU) asset and lease liability based on the present value of the future lease payments over the lease term for each lease agreement. The Company has elected not to recognize a ROU asset and lease liability for leases with terms of 12 months or less and will continue to recognize lease expense for these leases on a straight-line basis over the lease term. The Company has leases with both lease components and non-lease components, such as common area maintenance, utilities, or other repairs and maintenance. For all asset classes, the Company decided to utilize the practical expedient to include both fixed lease components and fixed non-lease components in calculating the ROU asset and lease liability. The Company identified variable lease payments, such as maintenance payments based on actual activities performed or costs incurred, at lease commencement by assessing the nature of the payment provisions, including whether the payments are subject to a minimum charge. Many of the Company's leases include one or more options to renew. When it is reasonably certain that the Company will exercise the option, the Company will include the impact of the option in the lease term for purposes of determining future lease payments. As the Company is unable to determine the discount rate implicit in its lease agreements, the Company uses its incremental borrowing rate on the commencement date to calculate the present value of future payments.

The Company's Condensed Consolidated Balance Sheets includes the following related to operating leases:

Leases	Classification	September 30, 2020	December 31, 2019
Assets			
ROU assets	Other Assets	\$ 45,497	\$ 45,817
Liabilities			
ROU - current	Accrued and other current liabilities	\$ 9,944	\$ 10,133
ROU liability - long-term	Other liabilities	36,821	36,750
Total ROU liabilities		<u>\$ 46,765</u>	<u>\$ 46,883</u>

Included within the balance of operating leases is a lease for the Company's headquarters which is with a related party. The ROU liability for this facility was approximately \$4.0 million and \$4.5 million as of September 30, 2020 and December 31, 2019, respectively. Total rent payments for this facility were approximately \$0.1 million and \$0.2 million for the three months

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

ended September 30, 2020 and September 30, 2019, respectively. Total rent payments for this facility were approximately \$0.5 million and \$0.7 million for the nine months ended September 30, 2020 and September 30, 2019, respectively. An agreement was reached with the related party to reduce rental payments by 20% and defer payments for 90 days for the lease of the Company's headquarters, starting in June 2020 through December 2020 as part of COVID-19 related vendor concessions.

The total ROU assets attributable to finance leases were approximately \$16.0 million and \$19.2 million as of September 30, 2020 and December 31, 2019, respectively, which is included in Property, plant, and equipment, net on the Condensed Consolidated Balance Sheets.

As described in Note 9-*Intangible Assets*, the Company performed an analysis to determine whether there was any impairment of long-lived assets, which included the ROU assets, within the Services, International, and Products and Systems operating segments as well as Corporate. The result of the analysis was a \$0.2 million impairment of a ROU asset in an asset group within the Services segment which is included in Impairment charges on the Condensed Consolidated Statements of Income (Loss) for the nine months ended September 30, 2020.

The components of lease costs were as follows:

	Classification	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Finance lease expense					
Amortization of ROU assets	Depreciation and amortization	\$ 1,081	\$ 1,205	\$ 3,495	\$ 3,605
Interest on lease liabilities	Interest expense	207	194	650	578
Operating lease expense	Cost of revenue; Selling, general & administrative expenses	3,341	3,230	9,970	9,453
Short-term lease expense	Cost of revenue; Selling, general & administrative expenses	11	12	60	18
Variable lease expense	Cost of revenue; Selling, general & administrative expenses	(4)	282	441	828
Total		\$ 4,636	\$ 4,923	\$ 14,616	\$ 14,482

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

Additional information related to leases was as follows:

	Nine months ended September 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities for finance and operating leases		
Finance - financing cash flows	\$ 3,078	\$ 3,338
Finance - operating cash flows	\$ 650	\$ 578
Operating - operating cash flows	\$ 9,819	\$ 9,361
ROU assets obtained in the exchange for lease liabilities		
Finance leases	\$ 1,607	\$ 5,536
Operating leases	\$ 6,919	\$ 12,766
Weighted-average remaining lease term (in years)		
Finance leases	5.9	6.0
Operating leases	5.9	6.1
Weighted-average discount rate		
Finance leases	5.8 %	6.2 %
Operating leases	5.8 %	6.0 %

Maturities of lease liabilities as of September 30, 2020 were as follows:

	Finance	Operating
Remainder of 2020	\$ 2,034	\$ 3,316
2021	4,621	11,889
2022	3,776	9,818
2023	2,897	8,284
2024	1,971	6,578
Thereafter	1,159	16,084
Total	16,458	55,969
Less: Present value discount	(1,516)	(9,204)
Lease liability	\$ 14,942	\$ 46,765

14. 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 possible liabilities that could arise 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.

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

Litigation and Commercial Claims

The Company was contracted to perform inspections of welds on various pipeline projects in Texas for a customer. As of September 30, 2020, approximately \$1.4 million of past due receivables were outstanding from this customer. The customer provided the Company with notice in December 2019, alleging that the Company's inspection of 66 welds (out of over 16,000 welds inspected) were not in compliance with the contract, claimed approximately \$7.6 million in damages, and requested that the Company pay these damages and any other damages incurred. The Company has filed a lawsuit in the District Court of Bexar County, Texas, 37th Judicial District, in an action captioned Mistras Group, Inc. v. Epic Y-Grade Pipeline LP, to recover the \$1.4 million and other amounts due to the Company. The customer filed a counterclaim, alleging breach of contract and seeking recovery of its alleged damages. The Company believes that any successful claim by the customer regarding the Company's workmanship will be covered by insurance, subject to payment of a deductible. 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. The Company recorded a full reserve in the amount of \$1.4 million during the second half of 2019 for these past due receivables. See Note 6—*Accounts Receivable, net*.

Pension Related Contingencies

The workforce of certain of the Company's subsidiaries are unionized and the terms of employment for these workers are governed by collective bargaining agreements, or CBAs. Under these CBAs, the Company's subsidiaries are required to contribute to the national pension funds for the unions representing these employees, which are multi-employer pension plans. The Company was notified that a significant project was awarded to another contractor in January 2018, and as a result, one of the Company's subsidiaries experienced a significant reduction in the number of its employees covered by one of the CBAs. Under certain circumstances, such a reduction in the number of employees participating in multi-employer pension plans pursuant to this CBA could result in a complete or partial withdrawal liability to these multi-employer pension plans under the Employee Retirement Income Security Act of 1974 ("ERISA"). Management explored options to retain a level of union work that would avoid withdrawal liability to the pension plans but concluded during the third quarter of 2018 that the Company's subsidiaries probably would not obtain sufficient union work to avoid withdrawal liability. Therefore, the Company determined that it is probable that its subsidiary would incur a withdrawal liability related to these multi-employer pension plans. Accordingly, the Company recorded a charge of \$5.9 million during 2018 and \$0.8 million during 2019 for this potential withdrawal liability. The Company's subsidiary reached an agreement with one of the pension funds in September 2019 and made a final payment of \$0.9 million in complete satisfaction of the withdrawal liability of the subsidiary. Excluding the settlement payment, the Company made monthly payments totaling \$3.3 million through the time of the final settlement payment, for total payments of \$4.2 million. The balance of the estimated total amount of this potential liability as of September 30, 2020 is approximately \$2.5 million.

Severance and labor disputes

The Company's German subsidiary provides employees to customers under temporary staff leasing arrangements. In April 2017, the German Labor Lease Act was passed in Germany limiting the duration of temporary workers to eighteen months, or longer as subsequently agreed with by a customer appropriate authority. Since the passing of the German Labor Lease Act, the Company explored selling its staff leasing services and concluded during the third quarter of 2018 that a sale would not be probable. As a result, the Company decided that it would not renew several of these leasing services contracts when they expired beginning in 2019. Due to the limit on the length of service allowed under the German Labor Lease Act, employees are being transitioned off the customer contracts. The German subsidiary has terminated, or will terminate, some these employees, creating a severance obligation to the terminated employees, and has transitioned, or will transition other employees to the Company's other customers. During December 2019, the Company executed an agreement to sell the rights of certain customer contracts for total consideration of approximately \$0.1 million, effective January 1, 2020. No other assets or liabilities other than those employee benefits related to employees working on the customer contracts were included in the sale. As of September 30, 2020, the Company has approximately \$0.3 million of accrued estimated severance payment obligations, which takes into account the Company's estimate with respect to the employees that have been or will be transitioned to the German subsidiaries' other customers. The \$0.3 million of estimated obligations is net of \$0.4 million in payments made and \$0.9 million in reversals due to employees being transitioned to customer contracts.

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

Acquisition and disposition related contingencies

The Company is liable for contingent consideration in connection with certain of its acquisitions. As of September 30, 2020, total potential acquisition-related contingent consideration ranged from zero to approximately \$4.3 million and would be payable upon the achievement of specific performance metrics by certain of the acquired companies over the next 2.0 years.

During 2018, the Company sold a subsidiary in the Products and Systems segment. As part of the sale, the Company entered into a three-year agreement to purchase products from the buyer, with a cumulative commitment of \$2.3 million, of which \$1.3 million is remaining as of September 30, 2020. The agreement is based on third-party pricing and the Company's planned purchase requirements over the three-year purchase period to meet the minimum contractual purchases.

15. Segment Disclosure

The Company's three operating segments are:

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue				
Services	\$ 119,721	\$ 152,572	\$ 349,271	\$ 454,079
International	26,477	37,050	76,887	109,302
Products and Systems	3,932	5,521	10,746	13,222
Corporate and eliminations	(2,236)	(2,951)	(5,110)	(7,008)
	\$ 147,894	\$ 192,192	\$ 431,794	\$ 569,595

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Gross profit				
Services	\$ 37,603	\$ 43,330	\$ 103,780	\$ 127,903
International	8,197	11,695	21,612	33,113
Products and Systems	1,628	2,739	3,834	5,803
Corporate and eliminations	(44)	5	(40)	(105)
	<u>\$ 47,384</u>	<u>\$ 57,769</u>	<u>\$ 129,186</u>	<u>\$ 166,714</u>

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Income (loss) from operations				
Services	\$ 13,599	\$ 15,757	\$ (57,058)	\$ 40,715
International	(66)	2,921	(22,422)	5,155
Products and Systems	(160)	509	(1,936)	(1,224)
Corporate and eliminations	(7,631)	(8,408)	(24,453)	(22,844)
	<u>\$ 5,742</u>	<u>\$ 10,779</u>	<u>\$ (105,869)</u>	<u>\$ 21,802</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Depreciation and amortization				
Services	\$ 6,315	\$ 6,882	\$ 19,601	\$ 21,360
International	2,216	2,027	6,433	6,158
Products and Systems	248	312	756	901
Corporate and eliminations	(17)	50	(31)	121
	<u>\$ 8,762</u>	<u>\$ 9,271</u>	<u>\$ 26,759</u>	<u>\$ 28,540</u>

	September 30, 2020	December 31, 2019
Intangible assets, net		
Services	\$ 59,397	\$ 98,284
International	8,748	9,814
Products and Systems	1,101	1,181
Corporate and eliminations	143	258
	<u>\$ 69,389</u>	<u>\$ 109,537</u>

	September 30, 2020	December 31, 2019
Total assets		
Services	\$ 416,532	\$ 537,518
International	127,381	153,380
Products and Systems	14,273	16,028
Corporate and eliminations	22,589	12,952
	<u>\$ 580,775</u>	<u>\$ 719,878</u>

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

Refer to Note 2–*Revenue*, for revenue by geographic area for the three and nine months ended September 30, 2020 and September 30, 2019.

Mistras Group, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations
(tabular dollars are in thousands)

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

The following Management's Discussion and Analysis ("MD&A") provides a discussion of our results of operations and financial position for the three and nine months ended September 30, 2020 and September 30, 2019. The MD&A should be read together with our Unaudited 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 Annual Report on Form 10-K for the year ended December 31, 2019, filed with the Securities and Exchange Commission on March 27, 2020 ("2019 Annual 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 the following sections:

- 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 2019 Annual Report as well as those discussed in this Quarterly Report on Form 10-Q and in our other filings with the SEC.

At the time of this report, the COVID-19 pandemic is continuing to have a negative impact on us and our key markets and is causing significant economic disruption worldwide. Our discussion below is qualified by the unknown impact that the COVID-19 pandemic will continue to have on our business and the economy in general, including the duration of the health risk the COVID-19 pandemic will cause and the resulting economic disruption.

Overview

The Company is a leading "one source" multinational provider of integrated technology-enabled asset protection solutions, helping to maximize the safety and operational uptime for civilization's most critical industrial and civil assets.

Backed by an innovative, data-driven asset protection portfolio, proprietary technologies, and decades-long legacy of industry leadership, the Company leads clients in the oil and gas, aerospace and defense, power generation, infrastructure, and manufacturing industries towards achieving and maintaining operational excellence. By supporting these organizations that help fuel our vehicles and power our society; inspecting components that are trusted for commercial, defense, and space craft; and building real-time monitoring equipment to enable safe travel across bridges, the Company helps the world at large.

The Company enhances value for its clients by integrating asset protection throughout supply chains and centralizing integrity data through a suite of Industrial IoT-connected digital software and monitoring solutions. The company's core capabilities also

Mistras Group, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations
(tabular dollars are in thousands)

include non-destructive testing (“NDT”) field inspections enhanced by advanced robotics, laboratory quality control and assurance testing, sensing technologies and NDT equipment, asset and mechanical integrity engineering services, and light mechanical maintenance and access services.

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, followed by Canada, 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 and commercial aerospace components. PCMS software and pipeline related software and data analysis solutions are included in this segment.
- *International* offers services, products and systems similar to those of the other segments to select markets within 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 enhancing the safe and efficient operation of infrastructure, we have historically provided a majority of our solutions to our customers on a regular, recurring basis. We perform these services largely at our customers’ facilities, while primarily servicing our aerospace customers at our network of state-of-the-art, in-house laboratories. These solutions typically include NDT and inspection services, and can also include a wide range of mechanical services, including heat tracing, pre-inspection insulation stripping, coating applications, re-insulation, engineering assessments and long-term condition-monitoring. Under this business model, many customers outsource their inspection to us on a “run and maintain” basis. We have established long-term relationships as a critical solutions provider to many of the leading companies with asset-intensive infrastructure in our target markets. These markets include oil and gas (downstream, midstream, upstream and petrochemical), commercial aerospace and defense, power generation (fossil, nuclear, alternative, renewable, and transmission and distribution), public infrastructure, chemicals, transportation, primary metals and metalworking and research and engineering institutions.

We have focused on providing 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 numerous acquisitions in an effort to grow our base of experienced, certified personnel, expand our service lines and technical capabilities, increase our geographical reach, complement our existing offerings, 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.

We believe long-term growth can be realized in all of our target markets. We expect the timing of our oil and gas customers inspection spend to be impacted by oil price fluctuations.

Recent Developments

In March 2020, the World Health Organization declared the outbreak of the COVID-19 coronavirus (COVID-19) as a pandemic, which continues to infect the population throughout the United States and most other parts of the world. The COVID-19 pandemic has caused significant volatility in domestic and international markets. There is on-going uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. In addition, oil prices have dropped significantly, and airline traffic has experienced a significant decline. In response to various factors surrounding the COVID-19 pandemic and, in the case of the oil and gas market, other macroeconomic events, companies within the oil and gas and aerospace industries (including our customers) have reduced spending and/or slowed down (or temporarily ceased) production. This, in turn, resulted in decreases in awards of new contracts or adjustments, reductions, suspensions or cancellations of existing contracts.

The COVID-19 pandemic, significant volatility in oil prices and decreased traffic in the aerospace industry have adversely affected our workforce and operations, as well as the operations of our customers, suppliers and contractors. These negative

Mistras Group, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations
(tabular dollars are in thousands)

factors have also resulted in significant volatility and uncertainty in the markets in which we operate. To successfully navigate through this unprecedented period, we continue to focus on the following key priorities:

- Ensuring the health and safety of our employees and those of our customers and suppliers;
- Maintaining business continuity and financial strength and stability; and
- Serving our customers as they provide essential products and services to the world.

While we cannot fully assess the impact that the COVID-19 pandemic or the significant volatility in oil prices will continue to have on our operations at this time, there are certain impacts that we have identified:

- The financial market volatility that resulted from COVID-19 and the drop in oil prices required that we reassess the goodwill we had recorded related to various prior acquisitions under the guidance of ASC 350 during the first quarter of 2020. We determined that the fair values of various reporting units were less than their carrying values (including goodwill). As a result, we recorded an impairment charge related to goodwill of approximately \$77.1 million during the first quarter of 2020. See Note 8-*Goodwill* in the Unaudited Condensed Consolidated Financial Statements.
- These same events required that we reassess the tangible and intangible assets recorded under the guidance of ASC 360 during the first quarter of 2020. We determined that the fair values of certain asset groups were less than their carrying values (excluding goodwill). As a result, we recorded impairment charges related to intangible assets of approximately \$28.8 million and a right-of-use asset of approximately \$0.2 million during the first quarter of 2020. See Note 9-*Intangible Assets* and Note 13-*Leases* in the Unaudited Condensed Consolidated Financial Statements.

To respond to the economic downturn resulting from the factors discussed above, in March 2020 we initiated a cost reduction and efficiency program. As part of this program, our named executive officers took voluntarily temporary salary reductions ranging from 25% to 45% of their base salary. In addition, we instituted a reduction for certain other salaried employees, at lower percentages, and suspended our voluntary match under our sponsored savings plans for our U.S. and Canadian employees. These reductions became effective at the beginning of the second quarter of 2020 and, except for the salary reductions for certain lower salaried employees, continued through the end of the third quarter of 2020. In addition, our non-employee directors voluntarily agreed to a \$3,750 reduction in their second and third quarter 2020 director's fee payments. Beginning in the fourth quarter of 2020, all salary and director fees reductions were removed and pay levels were returned to first quarter levels, though certain other cost reduction measures have remained in place.

We are currently unable to predict with certainty the overall impact that the COVID-19 pandemic and volatility in oil prices may have on our business, results of operations, liquidity or in other ways which we cannot yet determine. We will continue to monitor market conditions and respond accordingly. Refer to Item 1A. Risk Factors in Part I of our 2019 Annual Report.

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, (c) impairment charges, (d) reorganization and other costs, which includes items such as severance, labor relations matters and asset and lease termination costs and (e) other special items. These adjustments have been excluded from the GAAP measure because these expenses and credits are not related to our or any individual segment's core business operations. The acquisition related costs and special items can be a net expense or credit in any given period. Our management uses "Income (loss) before special items" for each of our three segments, the Corporate segment and the Total Company as a measure of operating performance and liquidity to assist in comparing performance from period to period on a consistent basis, as a measure for planning and forecasting overall expectations and for evaluating actual results against such expectations.

We believe investors and other users of our financial statements benefit from the presentation of "Income (loss) before special items" for each of our three segments, the Corporate segment and the Total Company in evaluating our performance. Income (loss) before special items excludes the identified adjustments, which provides additional tools to compare our core business operating performance on a consistent basis and measure underlying trends and results in our business. Income (loss) before

Mistras Group, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations
(tabular dollars are in thousands)

special items is not used to determine incentive compensation for executives or employees, nor is it a replacement for the reported GAAP financial performance and/or necessarily comparable to the non-GAAP financial measures of other companies.

Results of Operations

Condensed consolidated results of operations for the nine months ended September 30, 2020 and September 30, 2019 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 147,894	\$ 192,192	\$ 431,794	\$ 569,595
Gross profit	47,384	57,769	129,186	166,714
<i>Gross profit as a % of Revenue</i>	32.0 %	30.1 %	29.9 %	29.3 %
Income (loss) from operations	5,742	10,779	(105,869)	21,802
<i>Income (loss) from Operations as a % of Revenue</i>	3.9 %	5.6 %	(24.5)%	3.8 %
Income (loss) before provision (benefit) for income taxes	2,097	7,820	(115,279)	11,737
Net income (loss)	1,553	3,087	(99,634)	5,244
Net income (loss) attributable to Mistras Group, Inc.	\$ 1,523	\$ 3,093	\$ (99,642)	\$ 5,231

Revenue

Revenue was \$147.9 million for the three months ended September 30, 2020, a decrease of \$44.3 million, or 23.0%, compared with the three months ended September 30, 2019. Revenue for the nine months ended September 30, 2020 was \$431.8 million, a decrease of \$137.8 million, or 24.2%, compared with the nine months ended September 30, 2019.

Revenue by segment for the three and nine months ended September 30, 2020 and 2019 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue				
Services	\$ 119,721	\$ 152,572	\$ 349,271	\$ 454,079
International	26,477	37,050	76,887	109,302
Products and Systems	3,932	5,521	10,746	13,222
Corporate and eliminations	(2,236)	(2,951)	(5,110)	(7,008)
	<u>\$ 147,894</u>	<u>\$ 192,192</u>	<u>\$ 431,794</u>	<u>\$ 569,595</u>

Three Months

In the three months ended September 30, 2020, total revenue decreased 23.0% versus the prior year comparable period due predominantly to a double-digit organic decline offset by low single-digit favorable impact of foreign exchange rates and acquisition growth. The decrease in revenue across all our segments was primarily the result of the impact of COVID-19, which disrupted the timing of projects or purchases for many of our customers. Services segment revenue decreased 21.5%, driven predominantly by a double-digit organic decline and, to a lesser extent, low single-digit unfavorable impact of foreign exchange rates, partially offset by low single-digit acquisition growth. International segment revenue decreased 28.5%, due predominantly to the organic decline partially offset by low single-digit favorable impact of foreign exchange rates. Products and Systems segment revenue decreased by 28.8%, due to organic decline.

Oil and gas customer revenue comprised approximately 55% and 59% of total revenue for the three months ended September 30, 2020 and 2019, respectively. Aerospace and defense customer revenue comprised approximately 10% and 12% of total revenue for the three months ended September 30, 2020 and 2019, respectively. The Company's top ten customers comprised

Mistras Group, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations
(tabular dollars are in thousands)

approximately 29% of total revenue for the three months ended September 30, 2020, as compared to 34% for the three months ended September 30, 2019, with no customer accounting for 10% or more of total revenue in either three-month period.

Nine Months

In the nine months ended September 30, 2020, total revenue decreased 24.2% versus the prior year comparable period due predominantly to a double-digit organic decline and, to a lesser extent, low single-digit unfavorable impact of foreign exchange rates, partially offset by low single-digit acquisition growth. The decrease in revenue across all our segments was primarily the result of the impact of COVID-19, which disrupted the timing of projects or deferral of purchases for many of our customers. Services segment revenue decreased 23.1%, driven predominantly by a double-digit organic decline and, to a lesser extent, low single-digit unfavorable impact of foreign exchange rates, partially offset by low single-digit acquisition growth. International segment revenue decreased 29.7%, due predominantly to the organic decline and, to a lesser extent, low single-digit unfavorable impact of foreign exchange rate. Products and Systems segment revenue decreased by 18.7%, due to the organic decline.

Oil and gas customer revenue comprised approximately 56% and 59% of total revenue for the nine months ended September 30, 2020 and 2019, respectively. Aerospace and defense customer revenue comprised approximately 13% and 13% of total revenue for the nine months ended September 30, 2020 and 2019, respectively. The Company's top ten customers comprised approximately 30% of total revenue for the nine months ended September 30, 2020, as compared to 35% for the nine months ended September 30, 2019, with no customer accounting for 10% or more of total revenue in either nine-month period.

Gross Profit

Gross profit decreased by \$10.4 million, or 18.0%, in the three months ended September 30, 2020 versus the prior year comparable period, on a decrease in revenue of 23.0%. Gross profit decreased by \$37.5 million, or 22.5%, in the nine months ended September 30, 2020, on a decrease in sales of 24.2%.

Gross profit by segment for the three and nine months ended September 30, 2020 and September 30, 2019 was as follows:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Gross profit				
Services	\$ 37,603	\$ 43,330	\$ 103,780	\$ 127,903
<i>% of segment revenue</i>	31.4 %	28.4 %	29.7 %	28.2 %
International	8,197	11,695	21,612	33,113
<i>% of segment revenue</i>	31.0 %	31.6 %	28.1 %	30.3 %
Products and Systems	1,628	2,739	3,834	5,803
<i>% of segment revenue</i>	41.4 %	49.6 %	35.7 %	43.9 %
Corporate and eliminations	(44)	5	(40)	(105)
	<u>\$ 47,384</u>	<u>\$ 57,769</u>	<u>\$ 129,186</u>	<u>\$ 166,714</u>
<i>% of total revenue</i>	32.0 %	30.1 %	29.9 %	29.3 %

Three Months

Gross profit margin was 32.0% and 30.1% for the three-month periods ended September 30, 2020 and 2019, respectively. COVID-19, the significant drop in oil prices and a decrease in aerospace production have had a significant unfavorable impact on sales volume; however, gross profit margin improved due primarily to better employee utilization and, to a lesser extent, the favorable impact of mix of sales. Services segment gross profit margins had a year-on-year increase of 300 basis points to 31.4% during the three months ended September 30, 2020, due primarily to better employee utilization, favorable mix of sales on lower sales volume and Canadian wage subsidies. International segment gross margins had a year-on-year decline of 60 basis points to 31.0% during the three months ended September 30, 2020, due primarily to reduced volumes and unfavorable sales mix. Products and Systems segment gross margin had a year-on-year decrease of 820 basis points to 41.4% during the three months ended September 30, 2020 due to unfavorable sales mix.

Mistras Group, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations
(tabular dollars are in thousands)

Nine Months

Gross profit margin was 29.9% and 29.3% for the nine months ended September 30, 2020 and 2019, respectively. Services segment gross profit margins had a year-on-year increase of 150 basis points to 29.7% in the nine months ended September 30, 2020, due primarily to better employee utilization, favorable mix of sales on lower sales volume and Canadian wage subsidies. International segment gross margins had a year-on-year decline of 220 basis points to 28.1% in the nine months ended September 30, 2020 due to lower levels of employee utilization and sales mix. Products and Systems segment gross margin had a year-on-year decline of 820 basis points to 35.7% in the nine months ended September 30, 2020, due to unfavorable sales volume and mix.

Operating Expenses

Operating expenses for the three and nine months ended September 30, 2020 and 2019 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Operating Expenses				
Selling, general and administrative expenses	\$ 37,473	\$ 42,328	\$ 116,638	\$ 126,014
Bad debt provision for troubled customers, net of recoveries	—	—	—	2,798
Impairment charges	—	—	106,062	—
Pension withdrawal expense	—	(45)	—	489
Research and engineering	638	650	2,170	2,261
Depreciation and amortization	3,182	4,089	10,359	12,380
Legal settlement	(360)	—	(360)	—
Acquisition-related expense (benefit), net	709	(32)	186	970

Three Months

Operating expenses decreased \$5.3 million, or 11%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, due predominantly to the Company's cost reduction and efficiency program initiated during the first quarter of 2020 in response to COVID-19 as more fully described in *Recent Developments* under the Overview of this section. These reductions were partially offset during the three months ended September 30, 2020 by an additional \$0.2 million additive selling, general and administration expenses related to the Company's most recent acquisition in September 2019. During the three months ended September 30, 2020, there was approximately \$0.7 million additional foreign currency exchange losses as compared with the prior period due to volatility in certain foreign currencies.

Nine Months

Operating expenses increased \$90.1 million, or 62%, for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, due predominantly to impairment charges of \$106.1 million in 2020 as more fully described in Note 8-*Goodwill* and Note 9-*Intangible Assets* to the Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report. Excluding the 2020 impairment charges, operating expenses decreased due to the Company's cost reduction and efficiency program initiated during the first quarter of 2020 in response to COVID-19 as more fully described in *Recent Developments* under the Overview of this section. Operating expenses for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 also decreased due to lower bad debt, pension withdrawal, depreciation and amortization, and net acquisition-related expenses. These decreases in expense were partially offset by approximately \$3.0 million foreign currency exchange losses during the nine months ended September 30, 2020 as compared with the prior period due to volatility in certain foreign currencies, as well as approximately an incremental \$1.1 million in selling, general and administration expenses related to the Company's most recent acquisition in September 2019.

Mistras Group, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations
(tabular dollars are in thousands)

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 our three segments and for the Company in total:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Services:				
Income (loss) from operations (GAAP)	\$ 13,599	\$ 15,757	\$ (57,058)	\$ 40,715
Bad debt provision for troubled customers, net of recoveries	—	—	—	2,778
Impairment charges	—	—	86,200	—
Pension withdrawal expense (benefit)	—	(45)	—	489
Reorganization and other costs	58	125	125	202
Legal settlement	(360)	—	(360)	—
Acquisition-related expense (benefit), net	709	(125)	186	577
Income before special items (non-GAAP)	\$ 14,006	\$ 15,712	\$ 29,093	\$ 44,761
International:				
Income (loss) from operations (GAAP)	\$ (66)	\$ 2,921	\$ (22,422)	\$ 5,155
Bad debt provision for troubled customers, net of recoveries	—	—	—	20
Impairment charges	—	—	19,862	—
Reorganization and other costs	21	90	313	355
Income (loss) before special items (non-GAAP)	\$ (45)	\$ 3,011	\$ (2,247)	\$ 5,530
Products and Systems:				
Income (loss) from operations (GAAP)	\$ (160)	\$ 509	\$ (1,936)	\$ (1,224)
Reorganization and other costs	5	218	5	218
Loss before special items (non-GAAP)	\$ (155)	\$ 727	\$ (1,931)	\$ (1,006)
Corporate and Eliminations:				
Loss from operations (GAAP)	\$ (7,631)	\$ (8,408)	\$ (24,453)	\$ (22,844)
Loss on debt modification	—	—	645	—
Reorganization and other costs	14	44	137	104
Acquisition-related expense, net	—	93	—	393
Loss before special items (non-GAAP)	\$ (7,617)	\$ (8,271)	\$ (23,671)	\$ (22,347)
Total Company:				
Income (loss) from operations (GAAP)	\$ 5,742	\$ 10,779	\$ (105,869)	\$ 21,802
Bad debt provision for troubled customers, net of recoveries	—	—	—	2,798
Impairment charges	—	—	106,062	—
Pension withdrawal expense (benefit)	—	(45)	—	489
Reorganization and other costs	98	477	580	879
Loss on debt modification	—	—	645	—
Legal settlement	(360)	—	(360)	—
Acquisition-related expense (benefit), net	709	(32)	186	970
Income (loss) before special items (non-GAAP)	\$ 6,189	\$ 11,179	\$ 1,244	\$ 26,938

See section *Note About Non-GAAP Measures* in this report for an explanation of the use of non-GAAP measurements.

Mistras Group, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations
(tabular dollars are in thousands)

Three Months

For the three months ended September 30, 2020, income (loss) from operations (GAAP) decreased \$5.0 million or 47%, compared with the three months ended September 30, 2019, while income (loss) before special items (non-GAAP) decreased \$5.0 million, or 45%. As a percentage of revenue, income (loss) before special items decreased by 160 basis points to 4.2% in the three months ended September 30, 2020 from 5.8% in the three months ended September 30, 2019. The COVID-19 outbreak and significant drop in oil prices has adversely affected our workforce and operations, as well as the operations of our customers, suppliers and contractors. These negative factors have resulted in significant volatility and uncertainty in the markets in which we operate. We are currently unable to predict or determine the overall impact that the COVID-19 pandemic and drop in oil prices may have on our business, results of operations, or liquidity. Refer to Item 1A. Risk Factors in Part I of our 2019 Form 10-K, and the additional risk factors included in Part II, Item 1.A. of this Form 10-Q for further discussion.

Nine Months

For the nine months ended September 30, 2020, income (loss) from operations (GAAP) decreased \$127.7 million, compared with the nine months ended September 30, 2019, while income (loss) before special items (non-GAAP) decreased \$25.7 million, or 95%. As a percentage of revenue, income (loss) before special items decreased by 440 basis points to 0.3% in the nine months ended September 30, 2020 from 4.7% in the nine months ended September 30, 2019. During the nine months ended September 30, 2020, the COVID-19 outbreak and significant drop in oil prices has adversely affected our workforce and operations, as well as the operations of our customers, suppliers and contractors and was the primary reason for the impairment charges. These negative factors have resulted in significant volatility and uncertainty in the markets in which we operate. We are currently unable to predict or determine the overall impact that the COVID-19 pandemic and drop in oil prices may have on our business, results of operations, or liquidity. Refer to Item 1A. Risk Factors in Part I of our 2019 Form 10-K, and the additional risk factors included in Part II, Item 1.A. of this Form 10-Q for further discussion.

Interest Expense

Interest expense was approximately \$3.6 million and \$3.0 million for the three months ended September 30, 2020 and 2019, respectively. The increase was due to an increase in the base borrowing rate during the second quarter as a result of the May 2020 amendment to our Credit Agreement. Interest expense was approximately \$9.4 million and \$10.1 million for the nine months ended September 30, 2020 and 2019, respectively. The decrease was due to lower average level of borrowings on our Credit Agreement attributable primarily to payments on borrowings for the acquisition completed during the fourth quarter of 2018, partially offset by an increase in the base borrowing rate during the second quarter as a result of the May 2020 amendment to our Credit Agreement.

Income Taxes

The Company's effective income tax rate was approximately 26% and 61% for the three months ended September 30, 2020 and 2019, respectively. The Company's effective income tax rate was approximately 14% and 55% for the nine months ended September 30, 2020 and 2019. The effective income tax rate for the three months ended September 30, 2020 was greater than the statutory rate due to the unfavorable impact of taxes in other jurisdictions and other permanent book to tax differences offset by the favorable impact of the CARES act. The effective income tax rate for the nine months ended September 30, 2020 was lower than the statutory rate primarily due to impairments for which the Company will not realize income tax benefits, partially offset by income tax benefits of the CARES Act enacted on March 27, 2020. The CARES Act provides a five-year carryback of net operating losses generated in years 2018 through 2020. As the statutory federal income tax rate applicable to certain years within the carryback period is 35%, carryback to those years of our estimated 2020 annual federal tax loss provides a tax benefit in excess of the current federal statutory rate of 21%, resulting in an increased income tax benefit. We project that the income tax effects of the CARES Act will result in additional income tax benefit recognized throughout the 2020 tax year and a cash refund in 2021 of taxes paid in prior years. The effective income tax rate for the three and nine months ended September 30, 2019 was higher than the statutory rate due to the impact of discrete items, the global intangible low-taxed income, executive compensation, other provisions resulting from the December 22, 2017 passage of the Tax Cuts and Jobs Act and foreign tax rates different than statutory rates in the U.S.

Mistras Group, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations
(tabular dollars are in thousands)

Liquidity and Capital Resources

Cash flows are summarized in the table below:

	Nine months ended	
	2020	2019
Net cash provided by (used in):		
Operating activities	\$ 41,791	\$ 40,476
Investing activities	(10,558)	(21,628)
Financing activities	(25,077)	(29,521)
Effect of exchange rate changes on cash	944	(499)
Net change in cash and cash equivalents	<u>\$ 7,100</u>	<u>\$ (11,172)</u>

Cash Flows from Operating Activities

During the nine months ended September 30, 2020, cash provided by operating activities was \$41.8 million, representing a year-on-year increase of \$1.3 million, or 3%. The increase was primarily attributable to movements in working capital.

Cash Flows from Investing Activities

During the nine months ended September 30, 2020, cash used in investing activities was \$10.6 million, compared with \$21.6 million in 2019. The decrease is primarily attributable to a reduction in capital expenditures to \$11.0 million for the nine months ended September 30, 2020 compared with \$18.0 million in the comparable 2019 period.

Cash Flows from Financing Activities

Net cash used in financing activities was \$25.1 million for the nine months ended September 30, 2020, compared to net cash used of \$29.5 million for the nine months ended September 30, 2019. During the nine months ended September 30, 2020, net repayments of debt was approximately \$3.7 million lower as compared to 2019. In addition, for the nine months ended September 30, 2020 we made payments of \$1.3 million and \$1.5 million for acquisition-related contingent consideration and financing costs, respectively offset by \$2.6 million less taxes paid related to net share settlement of share-based awards.

Effect of Exchange Rate Changes on Cash and Cash Equivalents

The effect of exchange rate changes on our cash and cash equivalents was an increase of \$0.9 million in the nine months ended September 30, 2020, compared to a decrease of \$0.5 million for the nine months ended September 30, 2019.

Cash Balance and Credit Facility Borrowings

The terms of our Credit Agreement are set forth in Part II, Item 7 of our 2019 Annual Report under the Section "Liquidity and Capital Resources", as modified as described in Note 11-*Long-Term Debt* to the Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report, under the heading "*Senior Credit Facility*".

As of September 30, 2020, we had cash and cash equivalents totaling \$22.1 million and available borrowing capacity of \$35.3 million under our Credit Agreement with borrowings of \$226.4 million and \$4.3 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, 2020, we were in compliance with the terms of the Credit Agreement and will continuously monitor our compliance with the covenants contained in the Credit Agreement.

Contractual Obligations

There have been no significant changes in our contractual obligations and outstanding indebtedness as disclosed in the 2019 Annual Report.

Mistras Group, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations
(tabular dollars are in thousands)

Off-balance Sheet Arrangements

During the nine months ended September 30, 2020, 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 2019 Annual Report.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no significant changes to our quantitative and qualitative disclosures about market risk as discussed in Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk,” included in the 2019 Annual Report.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Executive Vice President, Chief Financial Officer and Treasurer, of the effectiveness of the design and operation of our disclosure controls (as defined in Rule 13a-15(e) of the Exchange Act) and procedures. Based upon that evaluation, our President and Chief Executive Officer and our Executive Vice President, Chief Financial Officer and Treasurer concluded that, as of September 30, 2020, our disclosure controls and procedures were not effective, due to material weaknesses in our internal control over financial reporting processes and internal controls related to the accounting for income tax, as discussed below.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management previously disclosed material weaknesses in internal control over financial reporting in our 2019 Annual Report pertaining to financial reporting processes and internal control related to accounting for income taxes. The Company remains committed to an effective internal control environment and management believes that these actions, and the improvements management expects to achieve as a result, will remediate the material weakness. However, the material weaknesses will not be considered remediated until the controls operate for a sufficient period of time and management has concluded through testing that these controls operate effectively. The Company continues to execute on the remediation plans as outlined below.

Remediation Plans

Our management, with oversight from the Audit Committee of the Board of Directors, is actively engaged in remediation efforts to address the identified material weaknesses over income taxes. These efforts include:

- Accelerate the risk assessment process related to changes in the business;
- Enhance the design of controls surrounding the preparation and review of the income tax provision, and enhance the automation of the income tax processes and controls to allow for a timelier completion and review of internal controls; and
- Accelerate all key activities within the income tax accounting and reporting process and controls by further increasing and expanding the capabilities of the income tax accounting resources in order to devote additional time and resources to the consolidated income tax accounting and reporting processes and controls.

During the current quarter management has reviewed and enhanced the current processes and controls surrounding the preparation of the income tax provision and engaged a third party accounting firm to assist with the documentation of these enhanced processes and controls. Management is finalizing its design and documentation on quarterly process and controls and finalizing the design of annual controls. However, most controls over accounting for income taxes are annual controls, as such, the material weakness will not be considered remediated until after management has concluded through testing after year end that these controls are designed and operate effectively.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than as set forth in the remediation plan described above.

PART II—OTHER INFORMATION

ITEM 1. Legal Proceedings

See Note 14-*Commitments and Contingencies* to the Notes to Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report for a description of our legal proceedings. There have been no material developments with regard to any matters disclosed under Part I, Item 3 "Legal Proceedings" in our 2019 Annual Report, except as disclosed in such Note 14-*Commitments and Contingencies*.

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 2019 Annual Report. There have been no material changes to the risk factors previously disclosed in the 2019 Annual Report, except for the addition of the following risk factors.

The COVID-19 pandemic has adversely affected and in future periods is expected to continue to adversely affect our business and operations.

The COVID-19 pandemic is adversely affecting, and is expected to continue to adversely affect, our business and operations and the business and operations of our customers. We have experienced and expect to continue to experience, unpredictable reductions in demand for our services and products. In response to the COVID-19 pandemic, companies within the oil and gas and aerospace industries (including our customers) have announced spending cuts and/or slowdowns (or temporary cessation) in production which, in turn, may result in decreases in awards of new contracts or adjustments, reductions, suspensions or cancellations of existing contracts. In addition, as a result of the COVID-19 pandemic, some of our customers have been and could continue to be negatively impacted as a result of disruption in demand, which has led to delays and could lead to defaults on collections of receivables from them. Such continued delays could negatively impact our business, results of operations and financial condition.

The continued spread of COVID-19 may result in a decrease in business and/or cause our customers to be unable to meet existing payment or other obligations to us, particularly in the event of a spread of COVID-19 in our market areas. The continued spread of COVID-19 could also negatively impact the availability of our key personnel necessary to conduct our business. In addition, any significant disruption of global financial markets, reducing our ability to access capital, could negatively affect our liquidity. Because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, rapidly changing and difficult to predict, the impact on our business, financial condition and results of operations remains uncertain and difficult to predict. While we expect the COVID-19 pandemic to have an adverse effect on our business, financial condition, liquidity, cash flow and results of operations, we are unable to predict the extent, nature or duration of these impacts at this time, although we expect such negative impacts for at least the next several quarters.

If the economic disruption caused by the COVID-19 pandemic increases in magnitude or continues longer than expected, we may have difficulty meeting the financial covenants in our credit agreement with our banks.

The Company expected that the economic disruption being caused by the COVID-19 pandemic was likely to cause our results in upcoming quarters to be less than what was required to meet the financial covenants in our then existing credit agreement with our banks. We obtained an amendment to our credit agreement which included, among other terms, modifications to the financial covenants in the credit agreement, and a reduction in our revolving line of credit from \$300 million to \$175 million. We believe it is probable that we will be able to meet the amended financial covenants and that sufficient credit remains available under the amended Credit Facility to meet our liquidity needs. However, due to the uncertainties and risks created by the COVID-19 pandemic, no assurance can be given that we will comply with these amended covenants, particularly if the pandemic increases in intensity or its duration is longer than expected. If we are not able to meet the financial covenants in our credit agreement in future quarters, and cannot obtain a waiver from our lenders or further amend the Credit Agreement, we will be in default, which would give the lenders the right to terminate the agreement, not allow us to borrow on our line of credit, call all of our loans to be due and payable, and exercise any other remedies available to the lenders. If we do default on our credit agreement and the lenders elect to not grant us a waiver or amendment and/or to commence exercising their remedies and we are unable to obtain other funding sources, our operations will be materially impacted and we may not be able to continue operating as a going concern. If we do obtain alternate funding sources, this alternate financing could be on substantially different and adverse terms than our existing credit agreement, materially impacting our operations and profitability, and otherwise could significantly dilute our existing shareholders and have other materially adverse effects on us

and our shareholders. Likewise, any waiver and amendment to our existing credit facility could be on substantially different and adverse terms to those that currently exist, materially impacting our profitability and results of operations.

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 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	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 31, 2020	—	\$ —	—	\$ —
August 31, 2020	11,144	\$ 4.39	—	\$ —
September 30, 2020	—	\$ —	—	\$ —

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

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

Signatures

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

MISTRAS GROUP, INC.

By: /s/ Edward J. Prajzner
Edward J. Prajzner
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer and duly authorized officer)

Date: November 5, 2020

**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 05, 2020

/s/ Dennis Bertolotti

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, Edward J. Prajzner, 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 05, 2020

/s/ Edward J. Prajzner

Edward J. Prajzner

Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

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

Each of the undersigned hereby certifies, for the purposes of section 1350 of chapter 63 of title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Mistras Group, Inc. (the "Company"), that, to his knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2020 (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 05, 2020

/s/ Dennis Bertolotti

Dennis Bertolotti

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Edward J. Prajzner

Edward J. Prajzner

Executive Vice President, Chief Financial Officer and Treasurer

(Principal Financial Officer)