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 June 30, 2024

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

(609) 716-4000

(Registrant's telephone number, including area code)

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

Title of each class	*Trading Symbol(s)*	*Name of each exchange on which registered*
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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging Growth Company	☐

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

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

☐ Yes ☒ No

As of July 30, 2024, the registrant had 30,977,420 shares of common stock outstanding.

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PART I—FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	June 30, 2024	December 31, 2023
ASSETS		
Current Assets		
Cash and cash equivalents	$ 17,177	$ 17,646
Accounts receivable, net	149,958	132,847
Inventories	14,944	15,283
Prepaid expenses and other current assets	11,384	14,580
Total current assets	193,463	180,356
Property, plant and equipment, net	78,785	80,972
Intangible assets, net	41,712	43,994
Goodwill	184,988	187,354
Deferred income taxes	3,657	2,316
Other assets	45,542	39,784
Total assets	$ 548,147	$ 534,776
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$ 13,759	$ 17,032
Accrued expenses and other current liabilities	85,727	84,331
Current portion of long-term debt	10,021	8,900
Current portion of finance lease obligations	4,645	5,159
Income taxes payable	394	1,101
Total current liabilities	114,546	116,523
Long-term debt, net of current portion	189,692	181,499
Obligations under finance leases, net of current portion	10,864	11,261
Deferred income taxes	2,571	2,552
Other long-term liabilities	37,000	32,438
Total liabilities	354,673	344,273
Commitments and contingencies (Note 14)		
Equity		
Preferred stock, 10,000,000 shares authorized	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized, 30,977,420 and 30,597,633 shares issued and outstanding	385	305
Additional paid-in capital	248,524	247,165
Accumulated deficit	(21,578)	(28,942)
Accumulated other comprehensive loss	(34,181)	(28,336)
Total Mistras Group, Inc. stockholders’ equity	193,150	190,192
Non-controlling interests	324	311
Total equity	193,474	190,503
Total liabilities and equity	$ 548,147	$ 534,776

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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Revenue	$ 189,773	$ 176,030	$ 374,215	$ 344,046
Cost of revenue	127,760	120,442	255,179	236,493
Depreciation	5,897	5,866	11,831	11,754
Gross profit	56,116	49,722	107,205	95,799
Selling, general and administrative expenses	40,957	41,484	82,144	84,305
Reorganization and other costs	518	1,240	2,075	3,316
Legal settlement and insurance recoveries, net	60	150	60	150
Research and engineering	231	511	575	991
Depreciation and amortization	2,391	2,443	4,839	4,969
Acquisition-related expense, net	—	1	1	3
Income from operations	11,959	3,893	17,511	2,065
Interest expense	4,413	3,858	8,842	7,927
Income (loss) before provision (benefit) for income taxes	7,546	35	8,669	(5,862)
Provision (benefit) for income taxes	1,173	(341)	1,292	(1,260)
Net Income (Loss)	6,373	376	7,377	(4,602)
Less: net income attributable to noncontrolling interests, net of taxes	4	39	13	47
Net Income (Loss) attributable to Mistras Group, Inc.	$ 6,369	$ 337	$ 7,364	$ (4,649)
Earnings (loss) per common share				
Basic	$ 0.21	$ 0.01	$ 0.24	$ (0.15)
Diluted	$ 0.20	$ 0.01	$ 0.23	$ (0.15)
Weighted-average common shares outstanding:				
Basic	30,979	30,368	30,842	30,214
Diluted	31,293	30,660	31,358	30,214

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)

	Three months ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net Income (loss)	$ 6,373	$ 376	$ 7,377	$ (4,602)
Other comprehensive loss:				
Foreign currency translation adjustments	(1,616)	3,082	(5,845)	4,355
Comprehensive Income (loss)	4,757	3,458	1,532	(247)
Less: net income attributable to noncontrolling interest	4	39	13	47
Comprehensive Income (loss) attributable to Mistras Group, Inc	$ 4,753	$ 3,419	$ 1,519	$ (294)

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 Shares	Common Stock Amount	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total Mistras Group, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at March 31, 2024	30,911	$ 328	$ 247,329	$ (27,947)	$ (32,565)	$ 187,145	$ 320	$ 187,465
Net income	—	—	—	6,369	—	6,369	4	6,373
Other comprehensive loss, net of tax	—	—	—	—	(1,616)	(1,616)	—	(1,616)
Share-based compensation	—	—	1,536	—	—	1,536	—	1,536
Net settlement of restricted stock units	66	57	(341)	—	—	(284)	—	(284)
Balance at June 30, 2024	30,977	$ 385	$ 248,524	$ (21,578)	$ (34,181)	$ 193,150	$ 324	$ 193,474
Balance at March 31, 2023	30,230	$ 302	$ 244,131	$ (16,475)	$ (32,117)	$ 195,841	$ 307	$ 196,148
Net income	—	—	—	337	—	337	39	376
Other comprehensive income, net of tax	—	—	—	—	3,082	3,082	—	3,082
Share-based payments	—	—	1,091	—	—	1,091	—	1,091
Net settlement of restricted stock units	72	—	(164)	—	—	(164)	—	(164)
Balance at June 30, 2023	30,302	$ 302	$ 245,058	$ (16,138)	$ (29,035)	$ 200,187	$ 346	$ 200,533

Six months ended

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total Mistras Group, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2023	30,598	$ 305	$ 247,165	$ (28,942)	$ (28,336)	$ 190,192	$ 311	$ 190,503
Net income	—	—	—	7,364	—	7,364	13	7,377
Other comprehensive loss, net of tax	—	—	—	—	(5,845)	(5,845)	—	(5,845)
Share-based compensation	—	—	2,764	—	—	2,764	—	2,764
Net settlement of restricted stock units	379	80	(1,405)	—	—	(1,325)	—	(1,325)
Balance at June 30, 2024	30,977	$ 385	$ 248,524	$ (21,578)	$ (34,181)	$ 193,150	$ 324	$ 193,474
Balance at December 31, 2022	29,895	$ 298	$ 243,031	$ (11,489)	$ (33,390)	$ 198,450	$ 299	$ 198,749
Net income (loss)	—	—	—	(4,649)	—	(4,649)	47	(4,602)
Other comprehensive income, net of tax	—	—	—	—	4,355	4,355	—	4,355
Share-based compensation	—	—	2,968	—	—	2,968	—	2,968
Net settlement of restricted stock units	407	4	(941)	—	—	(937)	—	(937)
Balance at June 30, 2023	30,302	$ 302	$ 245,058	$ (16,138)	$ (29,035)	$ 200,187	$ 346	$ 200,533

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)

	Six months ended June 30,	
	2024	2023
Cash flows from operating activities		
Net income (loss)	$ 7,377	$ (4,602)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	16,670	16,722
Deferred income taxes	(1,513)	3,441
Share-based compensation expense	2,764	2,968
Change in provision for doubtful accounts	414	—
Foreign currency (gain) loss	(789)	875
Other	(306)	(513)
Changes in operating assets and liabilities		
Accounts receivable	(19,103)	5,856
Inventories	(88)	(2,402)
Prepaid expenses and other assets	(6,064)	(7,420)
Accounts payable	(2,920)	4,261
Accrued expenses and other liabilities	8,537	1,202
Income taxes payable	136	(1,129)
Payment of contingent consideration liability in excess of acquisition-date fair value	—	(938)
Net cash provided by operating activities	5,115	18,321
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,599)	(9,801)
Purchase of intangible assets	(2,404)	(822)
Proceeds from sale of equipment	786	812
Net cash used in investing activities	(11,217)	(9,811)
Cash flows from financing activities		
Repayment of finance lease obligations	(2,832)	(2,528)
Repayment of long-term debt	(3,831)	(3,808)
Proceeds from revolver	33,500	46,194
Repayment of revolver	(20,250)	(50,100)
Taxes paid related to net share settlement of share-based awards	(1,326)	(945)
Net cash provided by (used in) financing activities	5,261	(11,187)
Effect of exchange rate changes on cash and cash equivalents	372	188
Net change in cash and cash equivalents	(469)	(2,489)
Cash and cash equivalents at beginning of period	17,646	20,488
Cash and cash equivalents at end of period	$ 17,177	$ 17,999
Supplemental disclosure of cash paid		
Interest, net	$ 8,349	$ 8,899
Income taxes, net of refunds	$ 1,508	$ 3,429
Noncash investing and financing		
Equipment acquired through finance lease obligations	$ 2,099	$ 5,764

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

1. Description of Business and Basis of Presentation

Description of Business

Mistras Group, Inc., together with its 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 with asset-intensive infrastructure in the oil and gas, aerospace and defense, industrials, power generation and transmission (including alternative and renewable energy), other process industries and infrastructure, research and engineering and other 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 systems to help avoid catastrophic incidents, 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 Internet of Things ("IoT")-connected digital software and monitoring solutions, including OneSuite™, which serves as an ecosystem platform, pulling together all of the Company’s software and data services capabilities, for the benefit of its customers.

The Company’s core capabilities also include non-destructive testing (“NDT”) field inspections enhanced by advanced robotics, laboratory quality control, laboratory materials services, shop laboratory assurance testing, sensing technologies and NDT equipment, asset and mechanical integrity engineering services, and light mechanical maintenance and access services.

The Company has three operating segments. Our segments are as follows:

- *North America* 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. Software, digital and data services 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.

Recent Developments

Overall, the Company has taken actions to help ensure the health and safety of Company employees and those of its customers and suppliers; maintain business continuity and financial strength and stability; and serve customers as they provide essential products and services to the world.

The Russian-Ukrainian war and the conflict in the Middle East between Israel and Hamas continues to create disruptions in the oil and gas market and the supply chain in general, which is resulting in some disruption to our business operations. The Company's European operations are currently experiencing increased costs associated with higher energy costs, among others, due in part to the Russian-Ukrainian war.

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

The Company is currently unable to predict with certainty the overall impact that the factors discussed above and the effect of inflationary pressures 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") and Securities and Exchange Commission ("SEC") guidance allowing for reduced disclosure for interim periods. 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 statement of the results for the interim periods of the years ending December 31, 2024 and December 31, 2023.

Certain items included in these statements are based on management's estimates. Actual results may differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results expected for the year. The accompanying Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the notes to the Audited Consolidated Financial Statements contained in the Company's 2023 Annual Report on Form 10-K ("2023 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 variable interest entities (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. The results of operations of companies acquired are included from the date of acquisition.

Reclassification

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

Significant Accounting Policies

The Company's significant accounting policies are disclosed in Note 1–***Summary of Significant Accounting Policies and Practices*** in the 2023 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 2023 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. We recognize deferred tax assets and liabilities at enacted income tax rates for the temporary differences between the financial reporting bases and the tax bases of our assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. Our net deferred tax assets primarily consist of net operating loss carryforwards, or NOLs. 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. A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current and prior years.

As of June 30, 2024, management concluded that it is more likely than not that a substantial portion of the Company’s deferred tax assets will be realized.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

The Company’s effective income tax rate was approximately 15.5% and (974.3)% for the three months ended June 30, 2024 and 2023, respectively. The Company’s effective income tax rate was approximately 14.9% and 21.5% for the six months ended June 30, 2024 and 2023, respectively.

The effective income tax rate for the three months ended June 30, 2024 was lower than the statutory rate primarily due to the impact of a reversal of a valuation allowance which was a favorable discrete item in the period. The effective income tax rate for the six months ended June 30, 2023 was higher than the statutory rate due primarily to a $0.7 million valuation allowance recorded during the period related to a foreign jurisdiction.

The effective income tax rate for the six months ended June 30, 2024 was lower than the statutory rate primarily due to the reversal of valuation allowances. The effective income tax rate for the six months ended June 30, 2023 was lower than the statutory rate due primarily to an unfavorable discrete item related to stock compensation.

Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, Segment Reporting (Topic 280) to expand the disclosures about a public entity's reportable segments and address requests from investors for additional, more detailed information about a reportable segment's expenses. The new standard is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. We are currently evaluating the impact of ASU 2023-07 on our financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740) to enhance the transparency and decision usefulness of income tax disclosures, primarily related to the rate reconciliation and income taxes paid disclosures. The new standard is effective for fiscal years beginning after December 15, 2024. We are currently evaluating the impact of ASU 2023-09 on our financial statements.

2. Revenue

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

Performance Obligations

The Company provides highly integrated and bundled inspection services to its customers. 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. For contracts with multiple performance obligations, the Company allocates the contract’s transaction price to each performance obligation using the Company’s 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’s 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 is recognized over time as work progresses for the Company’s service deliverables, which includes providing testing, inspection and mechanical services to our 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. For these arrangements, revenue is recognized on a cost-to-cost method tracked on an input basis.

The majority of our 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 revenues are short-term in nature. The Company enters into master service agreements ("MSA"s) with customers that specify an overall framework and contract terms. The actual contracting to provide services or furnish products are 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 longer-term contracts, which can range from several months to several years. Revenue on certain 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 revenues, thus creating a loss, a provision for the total estimated loss is recorded in that period.

(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 June 30, 2024	North America	International	Products	Corp/Elim	Total
Oil & Gas	$ 96,356	$ 12,735	$ 165	$ —	$ 109,256
Aerospace & Defense	16,596	5,697	47	—	22,340
Industrials	11,853	5,878	563	—	18,294
Power Generation & Transmission	7,332	1,254	447	—	9,033
Other Process Industries	10,368	4,504	37	—	14,909
Infrastructure, Research & Engineering	5,125	2,813	695	—	8,633
Petrochemical	3,848	171	—	—	4,019
Other	4,916	1,212	1,419	(4,258)	3,289
Total	$ 156,394	$ 34,264	$ 3,373	$ (4,258)	$ 189,773

Three Months Ended June 30, 2023	North America	International	Products	Corp/Elim	Total
Oil & Gas	$ 97,500	$ 8,609	$ 15	$ —	$ 106,124
Aerospace & Defense	13,665	5,136	217	—	19,018
Industrials	11,066	6,203	468	—	17,737
Power Generation & Transmission	5,459	1,530	1,167	—	8,156
Other Process Industries	8,864	4,466	51	—	13,381
Infrastructure, Research & Engineering	4,171	2,028	547	—	6,746
Petrochemical	1,577	156	—	—	1,733
Other	3,248	2,149	864	(3,126)	3,135
Total	$ 145,550	$ 30,277	$ 3,329	$ (3,126)	$ 176,030

Six Months Ended June 30, 2024	North America	International	Products	Corp/Elim	Total
Oil & Gas	$ 199,383	$ 22,801	$ 237	$ —	$ 222,421
Aerospace & Defense	31,971	12,429	58	—	44,458
Industrials	20,762	11,731	1,000	—	33,493
Power Generation & Transmission	10,924	2,936	1,025	—	14,885
Other Process Industries	18,296	8,437	76	—	26,809
Infrastructure, Research & Engineering	9,097	5,018	1,104	—	15,219
Petrochemical	7,661	702	—	—	8,363
Other	8,649	3,257	3,083	(6,422)	8,567
Total	$ 306,743	$ 67,311	$ 6,583	$ (6,422)	$ 374,215

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

Six Months Ended June 30, 2023	North America	International	Products	Corp/Elim	Total
Oil & Gas	$ 187,273	$ 17,464	$ 52	$ —	$ 204,789
Aerospace & Defense	27,276	10,116	228	—	37,620
Industrials	20,368	12,256	1,026	—	33,650
Power Generation & Transmission	10,446	3,187	2,493	—	16,126
Other Process Industries	17,973	7,703	78	—	25,754
Infrastructure, Research & Engineering	6,654	4,164	1,689	—	12,507
Petrochemical	6,714	301	—	—	7,015
Other	5,778	4,493	1,502	(5,188)	6,585
Total	$ 282,482	$ 59,684	$ 7,068	$ (5,188)	$ 344,046

Revenue per key geographic location was as follows:

Three Months Ended June 30, 2024	North America	International	Products	Corp/Elim	Total
United States	$ 130,870	$ 432	$ 1,542	$ (209)	$ 132,635
Other Americas	24,594	1,921	675	(2,787)	24,403
Europe	611	31,183	580	(1,115)	31,259
Asia-Pacific	319	728	576	(147)	1,476
Total	$ 156,394	$ 34,264	$ 3,373	$ (4,258)	$ 189,773

Three Months Ended June 30, 2023	North America	International	Products	Corp/Elim	Total
United States	$ 122,972	$ 280	$ 1,645	$ (271)	$ 124,626
Other Americas	21,041	3,821	298	(1,474)	23,686
Europe	1,282	24,474	504	(1,166)	25,094
Asia-Pacific	255	1,702	882	(215)	2,624
Total	$ 145,550	$ 30,277	$ 3,329	$ (3,126)	$ 176,030

Six Months Ended June 30, 2024	North America	International	Products	Corp/Elim	Total
United States	$ 260,328	$ 728	$ 3,142	$ (1,724)	$ 262,474
Other Americas	41,721	4,216	852	(3,027)	43,762
Europe	1,764	59,846	1,231	(1,461)	61,380
Asia-Pacific	2,930	2,521	1,358	(210)	6,599
Total	$ 306,743	$ 67,311	$ 6,583	$ (6,422)	$ 374,215

Six Months Ended June 30, 2023	North America	International	Products	Corp/Elim	Total
United States	$ 243,572	$ 589	$ 3,446	$ (869)	$ 246,738
Other Americas	35,311	7,310	624	(1,906)	41,339
Europe	2,694	48,657	765	(1,992)	50,124
Asia-Pacific	905	3,128	2,233	(421)	5,845
Total	$ 282,482	$ 59,684	$ 7,068	$ (5,188)	$ 344,046

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 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 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 six months ended June 30, 2024 and 2023 that was included in the contract liability balance at the beginning of such year was $4.8 million and $4.6 million, respectively, for each period. Changes in the contract asset and liability balances during these periods were not materially impacted by any other factors. The Company applies the practical expedient to expense incremental costs incurred related to obtaining a contract when the amortization period of the asset that the Company otherwise would have recognized is one year or less.

3. Share-Based Compensation

The Company grants share-based incentive awards to its eligible employees and non-employee directors under its 2016 Long-Term Incentive Plan (the "2016 Plan"). 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-based restricted stock units, stock appreciation rights and deferred stock rights. At the annual shareholders meeting on May 14, 2024, the Company’s shareholders approved an amendment to the 2016 Plan, including an increase to the total number of shares that may be issued under the 2016 Plan by 1.3 million, for a total of 6.2 million shares that are authorized for issuance under the 2016 Plan, of which approximately 1,600,000 shares were available for future grants as of June 30, 2024.

Stock Options

On October 11, 2023, Mr. Stamatakis was granted an award of stock options to purchase 250,000 shares of common stock of the Company, with an exercise price of $5.36, the closing price of the Company's common stock as quoted on the New York Stock Exchange on the grant date (the "Options"). The Options were granted as an inducement for Mr. Stamatakis to accept the position of Interim President and CEO of the Company and were therefore granted outside the 2016 Plan, as permitted by the rules of the NYSE. The Options can be exercised any time after the grant date until its expiration date, which is the earlier of 10 years from the grant date or one year following the date Mr. Stamatakis is no longer serving as an officer, director or in any other capacity of the Company.

The following table sets forth a summary of the stock option activity, weighted-average exercise prices and options outstanding as of June 30, 2024 as follows (in thousands, except per share amounts and years):

	Six months ended June 30,			
	2024		2023	
	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year:	250	$ 5.36	—	$ —
Granted	—	$ —	—	$ —
Exercised	—	$ —	—	$ —
Expired or forfeited	—	$ —	—	$ —
Outstanding at end of year:	250	$ 5.36	—	$ —

The Company recognized all share-based compensation expense related to the stock options granted in the fourth quarter of 2023 and no further unrecognized share-based compensation expense remains as of June 30, 2024.

Stock Issuances to Non-Employee Directors

As part of its compensation program for non-employee directors, the Company makes semi-annual issuances of fully-vested common stock to its non-employee directors. A summary of the fully-vested common stock the Company issued to its non-employee directors, in connection with its non-employee director compensation, is as follows (in thousands):

	Six months ended June 30,	
	2024	2023
Awards issued	31	48
Grant date fair value of awards issued	$ 274	$ 275

Restricted Stock Unit Awards

For the three months ended June 30, 2024 and June 30, 2023, the Company recognized share-based compensation expense related to restricted stock unit awards of $1.3 million and $0.8 million, respectively. For the six months ended June 30, 2024 and 2023, the Company recognized share-based compensation expense related to restricted stock unit awards of $2.3 million and $1.8 million, respectively. As of June 30, 2024, there was $10.7 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 2.6 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.

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

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

	Six months ended June 30,	
	2024	2023
Restricted stock awards vested	461	430
Fair value of awards vested	$ 4,184	$ 2,616

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

	Six months ended June 30,			
	2024		2023	
	Units	Weighted Average Grant-Date Fair Value	Units	Weighted Average Grant-Date Fair Value
Outstanding at beginning of period:	1,184	$ 8.07	1,415	$ 6.66
Granted	726	$ 8.52	581	$ 8.42
Vested	(461)	$ 9.08	(430)	$ 6.09
Forfeited	(56)	$ 8.49	(98)	$ 7.94
Outstanding at end of period:	1,393	$ 8.38	1,468	$ 7.62

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 may vary between zero and 200% of the target award, 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 2023, the Compensation Committee used the following three performance metrics for PRSUs approved in that year.

1. *Free Cash Flow* defined as net cash provided by operating activities less purchases of property, plant, equipment and intangible assets and is subject to adjustments approved by the Compensation Committee.
2. *Adjusted EBITDA* defined as net income attributable to the Company 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.
3. *Revenue*

For PRSUs awarded in 2024, the Compensation Committee utilized the same metrics as 2023 PRSUs, but with revised performance goals.

PRSUs are equity-classified and compensation costs related to PRSUs with performance conditions are initially measured using the fair value of the underlying stock at the date of grant. Compensation costs related to the PRSUs with performance conditions are subsequently adjusted for changes in the expected outcomes of the performance conditions. Compensation cost related to the PRSUs with a market condition is not reversed if the market condition is not achieved, provided the employee requisite service has been rendered. Earned PRSUs generally vest ratably in four equal annual installments over the four years following completion of the performance period, for a total requisite service period of up to five years, and have no dividend rights.

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

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

	Six months ended June 30,			
	2024		2023	
	Units	Weighted Average Grant-Date Fair Value	Units	Weighted Average Grant-Date Fair Value
Outstanding at beginning of period:	60	$ 9.33	280	$ 9.96
Granted	295	$ 8.76	282	$ 8.50
Performance condition adjustments	—	$ —	(215)	$ 8.27
Vested	—	$ —	(64)	$ 5.58
Forfeited	—	$ —	(84)	$ 6.95
Outstanding at end of period:	355	$ 8.97	199	$ 9.45

Performance condition adjustments during the six months ended June 30, 2023 were attributable to the Compensation Committee's final calculation of the award metrics for calendar year 2022. As a result, the calendar year 2022 PRSUs decreased by approximately 215,000 units during the six months ended June 30, 2023.

For the three months ended June 30, 2024 and June 30, 2023, the Company recognized aggregate share-based compensation expense related to the awards described above of approximately $0.3 million and $0.2 million, respectively. For the six months ended June 30, 2024 and June 30, 2023, the Company recognized aggregate share-based compensation expense related to the awards described above of approximately $0.3 million and $0.6 million, respectively. At June 30, 2024, there was $2.5 million of total unrecognized compensation costs related to approximately 355,000 non-vested PRSUs, which is expected to be recognized over a remaining weighted-average period of 2.8 years.

4. Earnings (loss) per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) 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.

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

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Basic earnings (loss) per share				
Numerator:				
Net income (loss) attributable to Mistras Group, Inc.	$ 6,369	$ 337	$ 7,364	$ (4,649)
Denominator:				
Weighted average common shares outstanding	30,979	30,368	30,842	30,214
Basic earnings (loss) per share	$ 0.21	$ 0.01	$ 0.24	$ (0.15)
Diluted earnings (loss) per share:				
Numerator:				
Net income (loss) attributable to Mistras Group, Inc.	$ 6,369	$ 337	$ 7,364	$ (4,649)
Denominator:				
Weighted average common shares outstanding	30,979	30,368	30,842	30,214
Dilutive effect of stock options outstanding	97	—	93	—
Dilutive effect of restricted stock units outstanding [1]	217	292	423	—
	31,293	30,660	31,358	30,214
Diluted earnings (loss) per share	$ 0.20	$ 0.01	$ 0.23	$ (0.15)

[1] For the six months ended June 30, 2023, 1,106,595 shares related to restricted stock, respectively, were excluded from the calculation of diluted EPS due to the net loss for the period.

5. Acquisitions

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 six months ended June 30, 2024 and 2023:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Due diligence, professional fees and other transaction costs	$ —	$ 1	$ 1	$ 3
Adjustments to fair value of contingent consideration liabilities	—	—	—	—
Acquisition-related expense, net	$ —	$ 1	$ 1	$ 3

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:

	June 30, 2024	December 31, 2023
Trade accounts receivable	$ 151,945	$ 134,495
Allowance for credit losses	(1,987)	(1,648)
Accounts receivable, net	$ 149,958	$ 132,847

The Company had $29.7 million and $18.5 million of unbilled revenue accrued as of June 30, 2024 and December 31, 2023, 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. The Company considers unbilled receivables as short-term in nature as they are normally converted to trade receivables within 90 days, thus future changes in economic conditions will not have a significant effect on the credit loss estimate.

7. Inventories

Inventories consisted of the following (in thousands):

	June 30, 2024	December 31, 2023
Raw materials	$ 5,679	$ 6,099
Work in progress	938	839
Finished goods	5,629	5,740
Consumable supplies	2,698	2,605
Inventories	$ 14,944	$ 15,283

8. Property, Plant and Equipment, net

Property, plant and equipment, net consisted of the following:

	Useful Life (Years)	June 30, 2024	December 31, 2023
Land		$ 2,441	$ 2,453
Buildings and improvements	30-40	27,117	26,663
Office furniture and equipment	5-8	21,836	21,334
Machinery and equipment	5-7	272,658	269,306
		324,052	319,756
Accumulated depreciation and amortization		(245,267)	(238,784)
Property, plant and equipment, net		$ 78,785	$ 80,972

Depreciation expense for the three months ended June 30, 2024 and 2023 was approximately $6.4 million and $6.2 million, respectively.

Depreciation expense for the six months ended June 30, 2024 and 2023 was $12.8 million and $12.4 million, respectively.

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

9. Goodwill

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

	North America	International	Products and Systems	Total
Balance at December 31, 2023	$ 187,354	$ —	$ —	$ 187,354
Foreign currency translation	(2,366)	—	—	(2,366)
Impairment charges	—	—	—	—
Balance at June 30, 2024	$ 184,988	$ —	$ —	$ 184,988

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 third quarter of 2023, a triggering event was identified within the Company's reporting units within the International segment due to decreased gross margin in the current period as a result of inflationary pressures and rising energy costs impacting the International reporting units' operations. As a result, the Company performed an interim quantitative goodwill impairment test.

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 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 Company's internal forecasts include assumptions about future profitability, 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 Company's internally developed forecasts and which are updated for recent events. Increased interest rates in the current period increased the discount rate associated with the reporting units which contributed to an unfavorable decrease in the reporting units value.

The market approach valuation was 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, the Company recorded an impairment charge of $13.8 million within the International reporting units. The impairment was calculated based on the difference between the estimated fair value and the carrying value of the reporting units. Any significant adverse changes in future periods to the Company’s internal forecasts or the external market conditions, if any, could reasonably be expected to negatively affect its key assumptions and may result in future goodwill impairment charges which could be material.

The Company performed a quantitative annual impairment test as of October 1, 2023 and the Company did not identify any changes in circumstances that would indicate the carrying value of goodwill may not be recoverable. Additionally, through June 30, 2024, 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.

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

10. Intangible Assets

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

		June 30, 2024			December 31, 2023		
	Useful Life (Years)	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	5-18	$ 109,091	$ (91,356)	$ 17,735	$ 110,780	$ (90,506)	$ 20,274
Software/Technology	3-15	56,361	(33,204)	23,157	55,053	(32,230)	22,823
Covenants not to compete	2-5	12,477	(12,445)	32	12,536	(12,488)	48
Other	2-12	10,338	(9,550)	788	10,466	(9,617)	849
Total		$ 188,267	$ (146,555)	$ 41,712	$ 188,835	$ (144,841)	$ 43,994

Amortization expense for the three months ended June 30, 2024 and 2023 was approximately $1.9 million and $2.2 million, respectively.

Amortization expense for the six months ended June 30, 2024 and 2023 was $3.9 million and $4.3 million, respectively.

11. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	June 30, 2024	December 31, 2023
Accrued salaries, wages and related employee benefits	$ 29,567	$ 27,372
Accrued workers' compensation and health benefits	4,645	4,385
Deferred revenue	8,296	7,136
Pension accrual	2,458	2,458
Right-of-use liability - Operating	11,408	10,686
Other accrued expenses	29,353	32,294
Total	$ 85,727	$ 84,331

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

12. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2024	December 31, 2023
Senior credit facility	$ 82,836	$ 71,150
Senior secured term loan, net of unamortized debt issuance costs of $0.3 million and $0.4 million, respectively	113,744	115,253
Other	3,133	3,996
Total debt	199,713	190,399
Less: Current portion	(10,021)	(8,900)
Long-term debt, net of current portion	$ 189,692	$ 181,499

Senior Credit Facility

On August 1, 2022, the Company entered into a new credit agreement (the “Credit Agreement”) which provides the Company with a $190 million 5-year committed revolving credit facility and a $125 million term loan with a balance of $113.7 million as of June 30, 2024. The Credit Agreement permits the Company to borrow up to $100 million in non-U.S. dollar currencies and to use up to $20 million of the credit limit for the issuance of letters of credit. Both the revolving line of credit and the term loan under the Credit Agreement have a maturity date of July 30, 2027.

The Credit Agreement has the following key terms, conditions and financial covenants:

- Borrowings bear interest at Secured Overnight Financing Rate ("SOFR") plus a credit spread adjustment and applicable SOFR margin ranging from 1.25% to 2.75%, based upon our Total Consolidated Debt Leverage Ratio (defined below); under the Prior Credit Agreement, the margin was based upon the LIBOR margin.
  - Total Consolidated Debt Leverage Ratio means the ratio of (a) Total Consolidated Debt to (b) EBITDA (as defined in the Credit Agreement) for the trailing four consecutive fiscal quarters.
  - Total Consolidated Debt means all indebtedness (including subordinated debt) of the Company on a consolidated basis.

- The Company has the benefit of the lowest SOFR margin if its Total Consolidated Debt Leverage Ratio is equal to or less than 1.25 to 1.0, and the margin increases as the ratio increases, to the maximum margin if the ratio is greater than 3.75 to 1.0. The Credit Agreement is secured by liens on substantially all the assets of the Company and certain of its U.S. subsidiaries and is guaranteed by those U.S. subsidiaries.

- The Company has to maintain a Total Consolidated Debt Leverage Ratio of no more than 4.0 to 1.0 at the end of each quarter through June 30, 2023 and stepping down to a maximum permitted ratio of no more than 3.75 to 1.0 for the remainder of the term.

- The Company has to maintain a Fixed Charge Coverage Ratio of 1.25 to 1.0 for the duration of the Credit Agreement, as defined in the Credit Agreement.

- The Credit Agreement 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, make distributions to stockholders or repurchase our stock, enter into a new line of business, enter into transactions with affiliates and enter into burdensome agreements.

- The Credit Agreement does not limit the Company’s ability to acquire other businesses or companies except that the acquired business or company must be in the Company's line of business, the Company must be in compliance with the financial covenants on a pro forma basis after taking into account the acquisition, and the Company must provide written notice at least five business days prior to the date of an acquisition of $10 million or more.

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

- Quarterly payments on the term loan of $1.56 million through June 30, 2024, then increasing to $2.34 million through June 30, 2025, and to $3.12 million for each quarterly payment thereafter through maturity.

As of June 30, 2024, the Company had borrowings of $196.6 million and a total of $3.2 million of letters of credit outstanding under the Credit Agreement. The Company has capitalized costs associated with debt modifications of $1.0 million as of June 30, 2024, which is included in Other assets on the Condensed Consolidated Balance Sheets and will be amortized into interest expense over the remaining term of the Credit Agreement through July 30, 2027.

As of June 30, 2024, the Company was in compliance with the terms of the Credit Agreement. The Company continuously monitors compliance with the covenants contained in its Credit Agreement. The Company believes that it is probable that the Company will be able to comply with the financial covenants in the Credit Agreement and that sufficient credit remains available under the Credit Agreement to meet the Company's liquidity needs. However, such matters cannot be predicted with certainty.

Other debt

The Company’s other debt includes bank financing provided at the local subsidiary level used to support working capital requirements and fund capital expenditures. At June 30, 2024, there was an aggregate of approximately $3.1 million outstanding, payable at various times through 2030. Monthly payments range from $1.0 thousand to $15.0 thousand and interest rates range from 0.4% to 3.5%.

13. 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. It also establishes a three level hierarchy that prioritizes the inputs used to measure fair value.

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.

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

	Six months ended June 30,	
	2024	2023
Beginning balance	$ —	$ 938
Payments	—	(938)
Revaluation	—	—
Ending balance	$ —	$ —

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.

14. Commitments and Contingencies

Legal Proceedings and Government Investigations

The Company is periodically involved in lawsuits, investigations and claims that arise in the ordinary course of business. While the Company cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against it, the Company does not believe that any currently pending or threatened legal proceeding to which the Company is or is likely to become a party will have a material adverse effect on its business, results of operations, cash flows or financial condition. The costs incurred by the Company to defend lawsuits, investigations and claims and amounts the Company pays to other parties because of these matters may be covered by insurance in some circumstances.

Litigation and Commercial Claims

The Company and a subsidiary of the Company, Mistras Arizona Inspection Services LLC (“Mistras Arizona”), are subject to a lawsuit filed by the Arizona Department of Environmental Quality (“DEQ”). The lawsuit, captioned State of Arizona v. Mistras Group, Inc., Mistras Arizona Inspection Services, LLC and Naiman Phoenix, Ltd., was originally filed on February 27, 2024, in the Superior Court of the State of Arizona for Maricopa County, CV 2024-003866. The Complaint alleges various violations of the Arizona environmental laws and regulations in connection with the operation of the Mistras Arizona testing facility in Phoenix, Arizona. The complaint seeks injunctive relief, the closing of a chromic acid plating line and air scrubber, implementation of a site assessment plan approved by the DEQ, corrective and remedial action to bring the facility in compliance, and costs and penalties. Mistras Arizona and the Company have also received notice of violations from the DEQ for alleged violations of Arizona environmental laws and regulations and from the Maricopa County Department of Air Quality for alleged violations of various regulations regarding air quality. This matter is in the early stages but it is probable that remediation costs will be incurred, and it is possible fines and penalties may be imposed related to this lawsuit, but the Company is unable to assess the range of loss the Company, or Mistras Arizona may incur.

In addition, Mistras Arizona’s operations in Phoenix are located within a leased site within the footprint of the Motorola 52nd Street Superfund Site (the “Motorola Site”). Mistras Arizona received a General Notice Letter from the US Environmental Protection Agency (the "EPA"), dated May 21, 2024, informing Mistras Arizona that the EPA has identified it as a potentially responsible party in relation to the Motorola Site.

Pension Related Contingencies

Certain of the Company’s subsidiaries had significant reductions in their unionized workers in 2018. The collective bargaining agreements for the employees of these subsidiaries required contributions for these employees to two national multi-employer pension funds. The reduction in employees resulted in one of the Company's subsidiaries incurring a complete withdrawal to one of the pension funds under the Employee Retirement Income Security Act of 1974 ("ERISA"), which was fully satisfied in 2019. The Company has determined that the subsidiary is likely to incur partial or complete withdrawal liability to the other pension fund. The balance of the estimated total amount of this potential liability as of June 30, 2024 is approximately $2.5 million, which were incurred in 2018 and 2019.

15. Segment Disclosure

The Company’s three operating segments are:

- *North America.* 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. Software, digital and data services are included in this segment.

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

- *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 North America and International segments by the Products and Systems segment are reflected in the operating performance of each segment.

The accounting policies of the reportable segments are the same as those described in Note 1-***Description of Business and Basis of Presentation***. Segment income from operations is one of the primary performance measures used by the chief operating decision maker, to assess the performance of each segment and make resource allocation decisions. Certain general and administrative costs such as human resources, information technology and training are allocated to the segments. Segment income from operations excludes interest and other financial charges and income taxes. Corporate and other assets are comprised principally of cash, deposits, property, plant and equipment, domestic deferred taxes, deferred charges and other assets. Corporate loss from operations consists of administrative charges related to corporate personnel and other charges that cannot be readily identified for allocation to a particular segment.

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Revenue				
North America	$ 156,394	$ 145,550	$ 306,743	$ 282,482
International	34,264	30,277	67,311	59,684
Products and Systems	3,373	3,329	6,583	7,068
Corporate and eliminations	(4,258)	(3,126)	(6,422)	(5,188)
	$ 189,773	$ 176,030	$ 374,215	$ 344,046

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Gross profit				
North America	$ 44,336	$ 39,679	$ 84,326	$ 76,316
International	10,072	8,398	19,530	15,766
Products and Systems	1,687	1,614	3,300	3,676
Corporate and eliminations	21	31	49	41
	$ 56,116	$ 49,722	$ 107,205	$ 95,799

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

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Income (loss) from operations				
North America	$ 18,727	$ 12,338	$ 32,287	$ 21,715
International	1,647	507	2,771	(61)
Products and Systems	495	94	809	478
Corporate and eliminations	(8,910)	(9,046)	(18,356)	(20,067)
	$ 11,959	$ 3,893	$ 17,511	$ 2,065

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Depreciation and amortization				
North America	$ 6,130	$ 6,370	$ 12,348	$ 12,727
International	1,911	1,889	3,823	3,748
Products and Systems	169	87	333	343
Corporate and eliminations	78	(37)	166	(96)
	$ 8,288	$ 8,309	$ 16,670	$ 16,722

	June 30, 2024	December 31, 2023
Intangible assets, net		
North America	$ 34,260	$ 37,622
International	2,131	2,998
Products and Systems	1,095	1,168
Corporate and eliminations	4,226	2,206
	$ 41,712	$ 43,994

	June 30, 2024	December 31, 2023
Total assets		
North America	$ 418,363	$ 402,782
International	100,505	99,398
Products and Systems	12,187	13,259
Corporate and eliminations	17,092	19,337
	$ 548,147	$ 534,776

Refer to Note 2–***Revenue****,* for revenue by geographic area for the three and six months ended June 30, 2024 and 2023.

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 six months ended June 30, 2024 and 2023. 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 (the "Quarterly Report") and our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2023, (“2023 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
- Note about Non-GAAP Measures
- Consolidated Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies and Estimates

Forward-Looking Statements

This Quarterly Report 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 2023 Annual Report as well as those discussed in this Quarterly Report and in our other filings with the SEC. In addition, there are various developments discussed below which could create risks and uncertainty about our business, results of operations or liquidity.

Overview

We are 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 with asset-intensive infrastructure in the oil and gas, aerospace and defense, industrials, power generation and transmission (including alternative and renewable energy), other process industries and infrastructure, research and engineering and other 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 systems to help avoid catastrophic incidents, 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 Internet of Things ("IoT")-connected digital software and monitoring solutions, including

OneSuite™, which serves as an ecosystem platform, pulling together all of the Company’s software and data services capabilities, for the benefit of its customers.

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.

Our operations consist of three reportable segments: North America, International, and Products and Systems.

- *North America* 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. Software, digital and data services 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 companies in the oil and gas, aerospace and defense, industrials, power generation and transmission (including alternative and renewable energy), other process industries and infrastructure, research and engineering and other industries.

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 which we believe will enhance our advantages over our competition.

We believe long-term growth can be realized in our target markets. Our level of business and financial results are impacted by world-wide macro- and micro-economic conditions generally, as well as those within our target markets. Among other things, we expect the timing of our oil and gas customers inspection spend to be impacted by oil price fluctuations.

We have continued providing our customers with an innovative asset protection software ecosystem through our MISTRAS OneSuite platform. The software platform offers functions of MISTRAS' popular software and services brands as integrated apps on a cloud environment. OneSuite serves as a single access portal for customers' data activities and provides access to 90 plus applications being offered on one centralized platform.

Recent Developments

The Russian-Ukrainian war and the conflict in the Middle East between Israel and Hamas are creating disruptions in the oil and gas market and the supply chain in general, which is resulting in some disruption to our business operations primarily in Europe due to increased energy costs.

Our cash position and liquidity remains strong. As of June 30, 2024, the cash balance was approximately $17.2 million, and with our Credit Agreement, provides us with significant liquidity.

In April 2021, the Biden Administration announced aggressive initiatives to battle climate change, which includes a significant reduction in the use of fossil fuels and a transition to electric vehicles and increased use of alternative energy. Any legislation or regulations that may be adopted to implement these measures may negatively impact our customers in the oil and gas market over the long-term, which presently is our largest market, although this initiative will likely benefit the alternative energy market, such as wind energy, for which we provide products and services. At this time, it is difficult to determine the magnitude and timing of the impact that climate change initiatives and legislation, if any, will have on these markets and the resulting impact on our business and operational results.

The Company is currently unable to predict with certainty the overall impact that the factors discussed above and the effect of inflationary pressures may have on its business, results of operations or liquidity or in other ways which the Company cannot yet determine. The Company’s European operations are currently experiencing higher energy costs, among other increased costs, due in part to the Russian-Ukrainian war and the conflict in the Middle East between Israel and Hamas. The Company will continue to monitor market conditions and respond accordingly.

Note About Non-GAAP Measures

The Company prepares its consolidated financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"). In this MD&A under the heading "Income (loss) from Operations", the non-GAAP financial performance measure "Income (loss) from operations before special items” is used for each of our three operating segments, the Corporate segment and the "Total Company", with tables reconciling the measure to a financial measure under GAAP. This presentation excludes from "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 this non-GAAP measure 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 this non-GAAP measure 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 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. Any measure that eliminates the foregoing items has material limitations as a performance or liquidity measure and should not be considered alternatives to net income (loss) or any other measures derived in accordance with GAAP. Because Income (loss) from operations before special items may not be calculated in the same manner by all companies, this measure may not be comparable to other similarly titled measures used by other companies.

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

Results of Operations

Condensed consolidated results of operations for the three and six months ended June 30, 2024 and 2023 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Revenues	$ 189,773	$ 176,030	$ 374,215	$ 344,046
Gross profit	56,116	49,722	107,205	95,799
Gross profit as a % of Revenue	*29.6 %*	*28.2 %*	28.6 %	27.8 %
Income from operations	11,959	3,893	17,511	2,065
Income from Operations as a % of Revenue	*6.3 %*	*2.2 %*	4.7 %	0.6 %
Income before provision (benefit) for income taxes	7,546	35	8,669	(5,862)
Net Income (loss)	6,373	376	7,377	(4,602)
Net Income (loss) attributable to Mistras Group, Inc.	$ 6,369	$ 337	$ 7,364	$ (4,649)

Revenue

Revenue was $189.8 million for the three months ended June 30, 2024, an increase of $13.7 million, or 7.8%, compared with the three months ended June 30, 2023. Revenue for the six months ended June 30, 2024 was $374.2 million, an increase of $30.2 million, or 8.8%, compared with the six months ended June 30, 2023.

Revenue by segment for the three and six months ended June 30, 2024 and 2023 was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Revenue				
North America	$ 156,394	$ 145,550	$ 306,743	$ 282,482
International	34,264	30,277	67,311	59,684
Products and Systems	3,373	3,329	6,583	7,068
Corporate and eliminations	(4,258)	(3,126)	(6,422)	(5,188)
	$ 189,773	$ 176,030	$ 374,215	$ 344,046

Three Months

In the three months ended June 30, 2024, total revenue increased 7.8% versus the prior year comparable period due predominantly to increased sales volume as compared to the prior period. North America segment revenue increased 7.5% due to an increase in sales volume in our aerospace and defense and power generation & transmission end markets, amongst others. International segment revenue increased 13.2%, due predominantly to increased turnaround projects and low double digit aerospace and defense growth. Products and Systems segment revenue increased 1.3%, due to increased sales volume as compared to the prior period.

Oil and gas customer revenue comprised approximately 58% and 60% of total revenue for the three months ended June 30, 2024 and 2023, respectively. Aerospace and defense customer revenue comprised approximately 12% and 11% of total revenue for the three months ended June 30, 2024 and 2023, respectively. The Company’s top ten customers comprised approximately 35% of total revenue for the three months ended June 30, 2024, as compared to 36% for the three months ended June 30, 2023, with no customer accounting for 10% or more of total revenue in either three-month period.

Six months

(tabular dollars are in thousands)

In the six months ended June 30, 2024, total revenue increased 8.8% versus the comparable prior period. The increase was due predominantly to increased sales volume as compared to the prior period. Our North America segment revenue increased 8.6% due primarily to increased sales volume in our oil and gas and aerospace and defense end markets. International segment revenue increased 12.8% due to low double-digit organic growth and low single-digit favorable revenue impact from foreign exchange rates. Products and Systems segment revenue decreased 6.9% due to decreased sales volumes within the majority of end markets, as compared to the prior period.

Oil and gas customer revenue comprised approximately 59% and 60% of total revenue for the six months ended June 30, 2024 and 2023, respectively. Aerospace and defense customer revenue comprised approximately 12% and 11% of total revenue for the six months ended June 30, 2024 and 2023, respectively. The Company's top ten customers comprised approximately 35% of total revenue for the six months ended June 30, 2024, as compared to 35% for the six months ended June 30, 2023, with no customer accounting for 10% or more of total revenue in either nine-month period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Oil and Gas Revenue by sub-category				
Upstream	$ 42,349	$ 41,961	$ 84,116	$ 78,900
Midstream	25,292	27,293	46,684	48,524
Downstream	41,615	36,870	91,621	77,365
Total	$ 109,256	$ 106,124	$ 222,421	$ 204,789

Oil and gas upstream customer revenue increased approximately $5.2 million, or 7%, for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023, and $0.4 million, or 1%, for the three months ended June 30, 2024 as compared to the three months ended June 30, 2023, due to increased exploration operations and market share gains compared to the prior period.

Midstream customer revenues decreased approximately $1.8 million, or 4%, for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023, and $2.0 million, or 7%, for the three months ended June 30, 2024 as compared to the three months ended June 30, 2023, due to decreased pipe inspection services as compared to the prior period.

Downstream customer revenue increased $14.3 million, or 18%, for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023, and $4.7 million, or 13%, for the three months ended June 30, 2024 as compared to the three months ended June 30, 2023, due to increased sales volume at customer refineries and increased customer turnarounds.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue by type				
Field Services	$ 134,528	$ 116,104	$ 260,883	$ 225,784
Shop Laboratories	16,938	14,244	34,133	27,376
Data Analytical Solutions	18,342	18,107	33,881	34,919
Other	19,965	27,575	45,318	55,967
Total	$ 189,773	$ 176,030	$ 374,215	$ 344,046

Field Services revenues are comprised of revenue derived primarily by technicians performing asset inspections and maintenance services for our customers at locations other than Mistras properties. Field Services revenue increased by $35.1 million for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023, and increased $18.4 million, for the three months ended June 30, 2024 as compared to the three months ended June 30, 2023. The increase in both periods was due to increased sales volume in our oil and gas end market in our North America and International segments.

(tabular dollars are in thousands)

Shop Laboratory revenues are comprised of quality assurance inspections of components and materials at our Mistras in house laboratory facilities. Shop Laboratory revenues increased by $6.8 million for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023, and increased $2.7 million for the three months ended June 30, 2024 as compared to the three months ended June 30, 2023. Shop Laboratory revenues increased in both periods as compared to the prior year periods due to increased sales volume related to our aerospace and defense end market.

Data Analytical Solutions revenues are comprised of revenue derived from data software sales & subscriptions, implementation services and analytics that offer insights and recommendations to improve asset integrity. Data Analytical Solutions revenue is derived from work performed by Mistras employees in our facilities, or at customer locations, using our proprietary portfolio of software applications. Data Analytical Solutions revenue decreased by $1.0 million for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023, and increased $0.2 million, for the three months ended June 30, 2024 as compared to the three months ended June 30, 2023 due primarily to decreased sales volume within PCMS, Onstream and other Data Analytical Solutions offerings within our North America segment for the three months ended June 30, 2024 and decreased sales volume for the same offerings for the six months ended June 30, 2024.

Other revenues are comprised of locations that perform both asset inspection services and testing of components and materials at in house Mistras laboratories. Other revenues decreased by $10.6 million for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023, and decreased $7.6 million, for the three months ended June 30, 2024 as compared to the three months ended June 30, 2023. Other revenues decreased in both periods primarily due to decreased sales in our other end markets within the North America and International segments.

Gross Profit

Gross profit increased by $6.4 million, or 12.9%, in the three months ended June 30, 2024 versus the prior year comparable period, on an increase in revenue of 7.8%.

Gross profit increased by $11.4 million, or 11.9%, in the six months ended June 30, 2024 on an increase in revenue of 8.8%.

Gross profit by segment for the three and six months ended June 30, 2024 and 2023 was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Gross profit				
North America	$ 44,336	$ 39,679	$ 84,326	$ 76,316
% of segment revenue	*28.3 %*	*27.3 %*	*27.5 %*	*27.0 %*
International	10,072	8,398	19,530	15,766
% of segment revenue	*29.4 %*	*27.7 %*	*29.0 %*	*26.4 %*
Products and Systems	1,687	1,614	3,300	3,676
% of segment revenue	*50.1 %*	*48.5 %*	*50.1 %*	*52.0 %*
Corporate and eliminations	21	31	49	41
	$ 56,116	$ 49,722	$ 107,205	$ 95,799
% of total revenue	*29.6 %*	*28.2 %*	*28.6 %*	*27.8 %*

Three Months

Gross profit margin was 29.6% and 28.2% for the three-month periods ended June 30, 2024 and 2023, respectively. North America segment realized an increase of 1.0% in gross profit margin to 28.3% during the three months ended June 30, 2024. This was primarily due to improved operating leverage, lower healthcare claims expense and growth in our higher margin end markets, as compared to the prior year period. International segment realized an increase of 1.7% in gross profit margin to 29.4% during the three months ended June 30, 2024, due primarily to improved operating leverage and the implementation of strategic price increases. Products and Systems segment realized an increase of 1.5% in gross profit margin to 50.1% during the three months ended June 30, 2023 due to favorable sales mix.

(tabular dollars are in thousands)

Six months

Gross profit margin was 28.6% and 27.8% for the six months ended June 30, 2024 and 2023, respectively. North America segment gross profit increased 0.5% to 27.5% due to favorable sales mix and lower healthcare claims for the six months ended June 30, 2024, as compared to the prior year period. International segment gross profit increased 2.6% to 29.0% due to lower inflationary costs and the implementation of strategic price increases during the six months ended June 30, 2024, as compared to the prior year period. Products and Systems segment gross profit decreased 1.9% during the six months ended June 30, 2024, as compared to the prior year period, due to unfavorable sales mix.

Operating Expenses

Operating expenses for the three and six months ended June 30, 2024 and 2023 was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Operating Expenses				
Selling, general and administrative expenses	$ 40,957	$ 41,484	$ 82,144	$ 84,305
Reorganization and other costs	518	1,240	2,075	3,316
Research and engineering	231	511	575	991
Depreciation and amortization	2,391	2,443	4,839	4,969
Legal settlement and insurance recoveries, net	60	150	60	150
Acquisition-related expense, net	—	1	1	3
	$ 44,157	$ 45,829	$ 89,694	$ 93,734
% of total revenue	*23.3 %*	*26.0 %*	*24.0 %*	*27.2 %*

Three months

Total operating expenses decreased $1.7 million for the three months ended June 30, 2024 compared to the three months ended June 30, 2023, due predominantly to reductions occurring in the prior year period. Selling, general and administrative expenses decreased $0.5 million during the three months ended June 30, 2024 compared to the three months ended June 30, 2023, due predominantly to reductions occurring in the prior year period. Depreciation and amortization was flat during the three months ended June 30, 2024 compared to the three months ended June 30, 2023. During the three months ended June 30, 2024, $0.5 million of reorganization and other related costs were incurred, which were a result of the Company's on-going efficiency and productivity initiatives.

Six months

Operating expenses decreased $4.0 million for the six months ended June 30, 2024 compared to the six months ended June 30, 2023 due predominantly to reductions occurring in the prior year period. Selling, general, and administrative expenses decreased $2.2 million during the six months ended June 30, 2024 compared to the six months ended June 30, 2023, due primarily to reductions occurring in the prior year period and favorable foreign currency exchange. Reorganization and other costs for the six months ended June 30, 2024 compared to the six months ended June 30, 2023 decreased $1.2 million due to reduced professional fees and restructuring charges associated with changes in the Company's organizational structure. Depreciation and amortization decreased $0.1 million during the six months ended June 30, 2024 compared to the six months ended June 30, 2023.

(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, Corporate and Eliminations and the Company in total:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
North America:				
Income from operations (GAAP)	$ 18,727	$ 12,338	$ 32,287	$ 21,715
Reorganization and other costs	92	478	92	539
Legal settlement and insurance recoveries, net	60	150	60	150
Income from operations before special items (non-GAAP)	$ 18,879	$ 12,966	$ 32,439	$ 22,404
International:				
Income (loss) from operations (GAAP)	$ 1,647	$ 507	$ 2,771	$ (61)
Reorganization and other costs, net	161	88	263	195
Income from operations before special items (non-GAAP)	$ 1,808	$ 595	$ 3,034	$ 134
Products and Systems:				
Income from operations (GAAP)	$ 495	$ 94	$ 809	$ 478
Reorganization and other costs	—	—	2	—
Income from operations before special items (non-GAAP)	$ 495	$ 94	$ 811	$ 478
Corporate and Eliminations:				
Loss from operations (GAAP)	$ (8,910)	$ (9,046)	$ (18,356)	$ (20,067)
Reorganization and other costs	265	674	1,718	2,582
Acquisition-related expense, net	—	1	1	3
Loss from operations before special items (non-GAAP)	$ (8,645)	$ (8,371)	$ (16,637)	$ (17,482)
Total Company:				
Income from operations (GAAP)	$ 11,959	$ 3,893	$ 17,511	$ 2,065
Reorganization and other costs	518	1,240	2,075	3,316
Legal settlement and insurance recoveries, net	60	150	60	150
Acquisition-related expense, net	—	1	1	3
Income from operations before special items (non-GAAP)	$ 12,537	$ 5,284	$ 19,647	$ 5,534

See section ***Note About Non-GAAP Measures*** in this Quarterly Report on Form 10-Q for an explanation of the use of non-GAAP measurements.

Three Months

For the three months ended June 30, 2024, income from operations (GAAP) increased $8.1 million compared to the three months ended June 30, 2023, while income from operations before special items (non-GAAP) increased $7.3 million for the three months ended June 30, 2024 compared to the three months ended June 30, 2023. As a percentage of revenue, income from operations before special items increased by 360 basis points to 6.6% in the three months ended June 30, 2024 from 3.0% in the three months ended June 30, 2023.

Six months

For the six months ended June 30, 2024, income from operations (GAAP) increased $15.4 million, compared to the six months ended June 30, 2023, while income from operations before special items (non-GAAP) increased $14.1 million for the six months ended June 30, 2024 compared to the six months ended June 30, 2023. As a percentage of revenue, income from operations before special items increased by 370 basis points to 5.3% in the six months ended June 30, 2024 from 1.6% in the six months ended June 30, 2023. During the six months ended June 30, 2024, the Company experienced overall organic growth as well as decreased reorganization costs.

Interest Expense

Interest expense was approximately $4.4 million and $3.9 million for the three months ended June 30, 2024 and 2023, respectively. Interest expense was approximately $8.8 million and $7.9 million for the six months ended June 30, 2024 and 2023, respectively. The increase in the three months ended June 30, 2024 was due to an increase in interest rates compared to the prior year period. The increase in interest expense for the six months ended June 30, 2024 compared to the prior year period was due to an increase in the interest rates.

Income Taxes

Our effective income tax rate was approximately 15.5% and (974.3)% for the three months ended June 30, 2024 and 2023, respectively. Our effective income tax rate was approximately 14.9% and 21.5% for the six months ended June 30, 2024 and 2023, respectively.

The effective income tax rate for the three months ended June 30, 2024 was lower than the statutory rate primarily due to the impact of a favorable discrete item such as the reversal of valuation allowances. The effective income tax rate for the six months ended June 30, 2023 was higher than the statutory rate due primarily to a $0.7 million valuation allowance recorded during the period which was related to a foreign jurisdiction.

The effective income tax rate for the six months ended June 30, 2024 was lower than the statutory rate due primarily to items such as the reversal of valuation allowances. The effective income tax rate for the six months ended June 30, 2023 was lower than the statutory rate due primarily to an unfavorable discrete item related to stock compensation.

Income tax expense varies as a function of pre-tax income and the level of non-deductible expenses, such as certain amounts of meals and entertainment expense, valuation allowances, and other permanent differences. It is also affected by discrete items that may occur in any given year but are not consistent from year to year. Our effective income tax rate may fluctuate over the next few years due to many variables including the amount and future geographic distribution of our pre-tax income, changes resulting from our acquisition strategy, and increases or decreases in our permanent differences.

(tabular dollars are in thousands)

Liquidity and Capital Resources

Cash flows are summarized in the table below:

	Six months ended June 30, 2024	Six months ended June 30, 2023
Net cash provided by (used in):		
Operating activities	$ 5,115	$ 18,321
Investing activities	(11,217)	(9,811)
Financing activities	5,261	(11,187)
Effect of exchange rate changes on cash	372	188
Net change in cash and cash equivalents	$ (469)	$ (2,489)

Cash Flows from Operating Activities

During the six months ended June 30, 2024, net cash provided by operating activities was $5.1 million, representing a year-on-year decrease of $13.2 million, or 72%. The decrease was primarily related to increased working capital in the current period.

Cash Flows from Investing Activities

During the six months ended June 30, 2024, net cash used in investing activities was $11.2 million, compared to $9.8 million net cash used in investing activities for the six months ended June 30, 2023. The change was primarily attributable to capital expenditures related to property, plant and equipment during the current period as compared to the prior period.

Cash Flows from Financing Activities

Net cash provided in financing activities was $5.3 million for the six months ended June 30, 2024, compared to net cash used in financing activities of $11.2 million for the six months ended June 30, 2023. This was a result of higher net repayments of debt of $16.8 million during the six months ended June 30, 2024, as compared to the prior year period.

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 $0.4 million in the six months ended June 30, 2024, compared to an increase of $0.2 million for the six months ended June 30, 2023. The primary driver of the change was foreign currency fluctuations related to the Euro and the US Dollar.

Cash Balance and Credit Facility Borrowings

As of June 30, 2024, we had cash and cash equivalents totaling $17.2 million and $102.5 million of unused commitments under our Credit Agreement with borrowings of $196.6 million and $3.2 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 June 30, 2024, 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.

The terms of our Credit Agreement are described in Note 12-***Long-Term Debt*** of the Notes to the Unaudited Condensed Consolidated Financial Statements, under the heading "*Senior Credit Facility*".

Contractual Obligations

There have been no significant increases in our contractual obligations and outstanding indebtedness as disclosed in the 2023 Annual Report.

Off-balance Sheet Arrangements

During the six months ended June 30, 2024, 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 2023 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 2023 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 Senior Executive Vice President and Chief Financial Officer, 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 Senior Executive Vice President and Chief Financial Officer concluded that, as of June 30, 2024, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2024 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 2023 Annual Report, except as disclosed herein under Note 14-***Commitments and Contingencies*** to the Notes to the Unaudited Consolidated Financial Statements.

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 2023 Annual Report. There have been no material changes to the risk factors previously disclosed in the 2023 Annual Report.

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

(a) Sales of Unregistered Securities

None.

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

None.

(c) *Repurchases of Our Equity Securities*

The following table sets forth the shares of our common stock we acquired during the quarter 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)
April 30, 2024	27,479	$ 9.67
May 31, 2024	2,156	$ 8.76
June 30, 2024	—	$ —

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

During the three months ended June 30, 2024, none of the Company's directors or officers, as defined in Section 16 of the Securities Exchange Act of 1934, adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K, except as noted below.

On June 17, 2024, Michael Lange, one of the Company’s Senior Executive Vice Presidents, adopted a pre-arranged written stock sale plan in accordance with Rule 10b5-1 (the “Lange Rule 10b5-1 Plan”) under the Exchange Act, for the sale of shares of the Company’s common stock. The Lange Rule 10b5-1 Plan was entered into during an open trading window in accordance with the Company’s policies regarding transactions in the Company’s securities and is intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Exchange Act. The Lange Rule 10b5-1 Plan provides for the potential sale of up to 100,000 shares of the Company’s common stock at a price not less than $8.25 per share, between September 13, 2024 and December 31, 2024.

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	Inline XBRL Instance Document
101.SCH	Inline XBRL Schema Document
101.CAL	Inline XBRL Calculation Linkbase Document
101.LAB	Inline XBRL Labels Linkbase Document
101.PRE	Inline XBRL Presentation Linkbase Document
101.DEF	Inline XBRL Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

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
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: August 2, 2024

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13A-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Manuel N. Stamatakis, 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 the 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: August 2, 2024

/s/ Manuel N. Stamatakis
Manuel N. Stamatakis
Chairman and Interim President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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 the 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: August 2, 2024

/s/ Edward J. Prajzner

Edward J. Prajzner
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

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 June 30, 2024 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) 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: August 2, 2024

/s/ Manuel N. Stamatakis
Manuel N. Stamatakis
Chairman and Interim President and Chief Executive Officer
(Principal Executive Officer)

/s/ Edward J. Prajzner
Edward J. Prajzner
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)