

STERLING BANCORP
Form 8-K
February 09, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 8-K
CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported) February 9, 2007
Commission File Number: 1-5273-1
Sterling Bancorp**

(Exact name of Registrant as specified in its charter)

New York

13-2565216

**(State of other jurisdiction
of incorporation)**

**(IRS Employer
Identification No.)**

650 Fifth Avenue, New York, New York

10019-6108

(Address of principal executive offices)

(Zip Code)

(212) 757- 3300

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)**
 - o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)**
 - o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))**
 - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))**
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RESULTS OF OPERATIONS AND FINANCIAL CONDITION AND REGULATION FD DISCLOSURE

On February 9, 2007 the Company announced its financial results for the quarter and fiscal year ended December 31, 2006. The Company's press release announcing these results and containing certain other information is included as Exhibit 99.1

ITEM 9.01

FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

99.1 Press release dated February 9, 2007. The press release is furnished pursuant to Items 2.02 and 7.01, except that the unaudited consolidated balance sheet as of December 31, 2006 and unaudited consolidated statements of income, comprehensive income and changes in shareholders' equity for the three and twelve months ended December 31, 2006 on pages 8, 9, 10 and 11 of the press release shall be deemed filed for purposes of the Securities Exchange Act of 1934 rather than furnished pursuant to General Instruction B.2 of Form 8-K.

SIGNATURE

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 hereunto duly authorized.

DATE: February 9, 2007

BY: /s/ JOHN W. TIETJEN
JOHN W. TIETJEN
Executive Vice President
and Chief Financial Officer

yle="font-family:inherit;font-size:8pt;font-weight:bold;">Useful Life

(Years)

Gross
Amount

Accumulated
Amortization

Net
Carrying
Amount

Gross
Amount

Accumulated
Amortization

Impairment

Net
Carrying
Amount

Customer relationships

5-14

\$
112,847

\$
(60,862
)

\$
51,985

\$
113,299

\$
(58,107
)

\$
(170
)

\$
55,022

Software/Technology

3-15

17,267

(14,675
)

2,592

19,523

(14,133
)

(2,411
)

2,979

Covenants not to compete
2-5

12,338

(10,773
)

1,565

12,510

(10,438
)

—

2,072

Other
2-12

9,971

(6,942
)

3,029

10,109

(6,411
)

(32
)

3,666

Total

\$
152,423

\$
(93,252
)

\$
59,171

\$
155,441

\$
(89,089
)

\$
(2,613
)

\$
63,739

Amortization expense for the three months ended June 30, 2018 and June 30, 2017 was \$2.5 million and \$2.3 million, respectively.

Amortization expense for the six months ended June 30, 2018 and June 30, 2017 was \$5.0 million and \$4.4 million, respectively.

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	June 30, 2018	December 31, 2017
Accrued salaries, wages and related employee benefits	\$28,930	\$ 27,185
Contingent consideration, current portion	1,669	3,430
Accrued workers' compensation and health benefits	4,808	5,181
Deferred revenue	5,560	6,338
Legal settlement accrual	—	1,600
Other accrued expenses	22,955	21,827

Total accrued expenses and other current liabilities \$63,922 \$ 65,561

11. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2018	December 31, 2017
Senior credit facility	\$142,595	\$156,948
Notes payable	142	228
Other	9,512	9,702
Total debt	152,249	166,878
Less: Current portion	(2,225)	(2,358)
Long-term debt, net of current portion	\$150,024	\$164,520

Senior Credit Facility

The Company's revolving credit agreement with its banking group ("Credit Agreement") provides the Company with a \$250.0 million revolving line of credit, which, under certain circumstances, can be increased to \$300.0 million. The Company may

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borrow up to \$30.0 million in non-U.S. Dollar currencies and use up to \$10.0 million of the credit limit for the issuance of letters of credit. The Credit Agreement has a maturity date of December 7, 2022. As of June 30, 2018, the Company had borrowings of \$142.6 million and a total of \$5.4 million of letters of credit outstanding under the Credit Agreement.

Loans under the Credit Agreement bear interest at LIBOR plus an applicable LIBOR margin ranging from 1% to 2%, or a base rate less a margin of 1.25% to 0.375%, at the option of the Company, based upon the Company's Funded Debt Leverage Ratio. Funded Debt Leverage Ratio is defined as the ratio of (1) all outstanding indebtedness for borrowed money and other interest-bearing indebtedness as of the date of determination to (2) EBITDA (which is (a) net income, less (b) income (or plus loss) from discontinued operations and extraordinary items, plus (c) income tax expenses, plus (d) interest expense, plus (e) depreciation, depletion, and amortization (including non-cash loss on retirement of assets), plus (f) stock compensation expense, less (g) cash expense related to stock compensation, plus (h) certain amounts of EBITDA of acquired business for the prior twelve months, plus (i) certain expenses related to the closing of the Credit Agreement, plus (j) non-cash expenses which do not (in the current or any future period) represent a cash item (excluding non-cash gains which increase net income), plus (k) non-recurring charges (not to exceed \$5.0 million in the four consecutive fiscal quarters immediately preceding the date of determination) for items such as severance, lease termination charges, asset write-offs and litigation settlements paid during the period, all determined for the period of four consecutive fiscal quarters immediately preceding the date of determination. The Company has the benefit of the lowest margin if its Funded Debt Leverage Ratio is equal to or less than 0.5 to 1, and the margin increases as the ratio increases, to the maximum margin if the ratio is greater than 2.75 to 1. The Company will also bear additional costs for market disruption, regulatory changes effecting the lenders' funding costs, and default pricing of an additional 2% interest rate margin on any amounts not paid when due. Amounts borrowed under the Credit Agreement are secured by liens on substantially all of the assets of the Company and is guaranteed by some of our subsidiaries.

The Credit Agreement contains financial covenants requiring that the Company maintain a Funded Debt Leverage Ratio of no greater than 3.5 to 1 and an Interest Coverage Ratio of at least 3.0 to 1. Interest Coverage Ratio is defined as the ratio, as of any date of determination, of (a) EBITDA for the 12 month period immediately preceding the date of determination, to (b) all interest, premium payments, debt discount, fees, charges and related expenses of the Company and its subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, paid during the 12 month period immediately preceding the date of determination. The Company can elect to increase the Funded Debt Leverage Ratio to 3.75 to 1 temporarily for four fiscal quarters immediately following the fiscal quarter in which the Company acquires another business. The Company can make this election twice during the term of the Credit Agreement.

The Credit Agreement also limits the Company's ability to, among other things, create liens, make investments, incur more indebtedness, merge or consolidate, make dispositions of property, pay dividends and make distributions to stockholders or repurchase 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, if the acquired business is a separate subsidiary, in certain circumstances the lenders will receive the benefit of a guaranty of the subsidiary and liens on its assets or a pledge of its stock.

The Company was in compliance with the terms of the Credit Agreement as of June 30, 2018, and will continuously monitor its compliance with the covenants contained in its Credit Agreement.

Notes Payable and Other

In connection with certain of its acquisitions, the Company issued subordinated notes payable to the sellers. The maturity of the notes that remain outstanding are three years from the date of acquisition and bear interest at the prime rate for the Bank of Canada, currently 3.45% as of June 30, 2018. Interest expense is recorded in the condensed consolidated statements of income.

The Company's other debt includes local bank financing provided at the local subsidiary levels used to support working capital requirements and fund capital expenditures. At June 30, 2018, there was approximately \$9.5 million outstanding, payable at various times from 2018 to 2029. Monthly payments range from \$1 thousand to \$18 thousand. Interest rates range from 0.5% to 6.2%.

12. Fair Value Measurements

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

Financial instruments measured at fair value on a recurring basis

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

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

	Six months ended June 30,	
	2018	2017
Beginning balance	\$5,508	\$3,094
Acquisitions	—	2,508
Payments	(1,506)	(547)
Accretion of liability	108	148
Revaluation	(1,098)	(780)
Foreign currency translation	(105)	22
Ending balance	\$2,907	\$4,445

Financial instruments not measured at fair value on a recurring basis

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

13. Commitments and Contingencies

Legal Proceedings and Government Investigations

The Company is subject to periodic lawsuits, investigations and claims that arise in the ordinary course of business. The Company cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against it. Except possibly for certain of the matters described below, the Company does not believe that any currently pending legal proceeding to which the Company is a party will have a material adverse effect on its business, results of operations, cash flows or financial condition. The costs of defense and amounts that may be recovered against the Company may be covered by insurance for certain matters.

Litigation and Commercial Claims

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

The Company was a defendant in the lawsuit AGL Services Company v. Mistras Group, Inc., in U.S. District Court for the Northern District of Georgia, filed November 2016. The case involved radiography work performed by the Company in 2012

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on the construction of a pipeline project in the U.S. At a trial concluded on October 26, 2017, the jury awarded the plaintiff its damages plus interest, which was fully covered and paid by insurance.

The Company's subsidiary in France has been involved in a dispute with a former owner of a business purchased by the Company's French subsidiary. The former owner received a judgment in his favor in the amount of \$0.4 million for payment of the contingent consideration portion of the purchase price for the business. The Company recorded an accrual for this judgment during 2016. The Company's subsidiary appealed the judgment and the entire judgment was overturned on appeal. The appeal process was completed in July 2018 in the Company's favor, and accordingly, the Company reversed the accrual as of June 30, 2018.

The Company was a defendant in a lawsuit, Triumph Aerostructures, LLC d/b/a Triumph Aerostructures-Vought Aircraft Division v. Mistras Group, Inc., pending in Texas State district court, 193rd Judicial District, Dallas County, Texas, filed September 2016. The plaintiff alleged that in 2014 Mistras delivered a defective Ultrasonic inspection system and alleged damages of approximately \$2.3 million, the amount it paid for the system. In January 2018, the Company agreed to settle this matter for a payment of \$1.6 million and the return of the underlying ultrasonic inspection components. A charge for \$1.6 million was recorded in 2017 and payment was made in February 2018.

Government Investigations

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

Other Potential Contingencies

The workforce of certain of the Company's subsidiaries are unionized and the terms of employment for these workers are governed by collective bargaining agreements, or CBAs. Under these CBAs, the Company's subsidiaries are required to contribute to the national pension funds for the unions representing these employees, which are multi-employer pension plans. The Company was notified that a significant project was awarded to another contractor in January 2018, and as a result, one of the Company's subsidiaries may experience a significant reduction in the number of its employees covered by one of the CBAs. Under certain circumstances, such a reduction in the number of employees participating in multi-employer pension plans pursuant to this CBA could result in a complete or partial

withdrawal liability to these multi-employer pension plans under ERISA. Presently, the Company is uncertain when or whether its subsidiary will incur withdrawal liability and is currently evaluating the materiality of a potential withdrawal liability under various scenarios.

Acquisition-related contingencies

The Company is liable for contingent consideration in connection with certain of its acquisitions. As of June 30, 2018, total potential acquisition-related contingent consideration ranged from zero to approximately \$6.7 million and would be payable upon the achievement of specific performance metrics by certain of the acquired companies over the next 2.0 years of operations. See Note 5 - Acquisitions to these condensed consolidated financial statements for further discussion of the Company's acquisitions.

14. Segment Disclosure

The Company's three operating segments are:

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Services. This segment provides asset protection solutions predominantly in North America, with the largest concentration in the United States, followed by Canada, consisting primarily of NDT and inspection and engineering services that are used to evaluate the structural integrity and reliability of critical energy, commercial aerospace components, industrial and public infrastructure.

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

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

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

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

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues				
Services	\$147,718	\$134,043	\$293,313	\$260,372
International	41,111	33,904	79,567	68,160
Products and Systems	5,386	5,107	11,570	10,657
Corporate and eliminations	(2,422)	(2,615)	(5,027)	(5,432)
	\$191,793	\$170,439	\$379,423	\$333,757

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Gross profit				
Services	\$40,127	\$35,490	\$74,837	\$65,703
International	12,689	8,828	23,396	19,288
Products and Systems	2,213	1,966	5,103	4,560

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Corporate and eliminations	54	59	(108)	(55)
	\$55,083	\$46,343	\$103,228		\$89,496	

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Income (loss) from operations				
Services	\$16,328	\$12,132	\$28,603	\$19,513
International	2,455	(190)	3,375	2,843
Products and Systems	(656)	(892)	(384)	(1,340)
Corporate and eliminations	(7,823)	(6,047)	(14,892)	(12,763)
	\$10,304	\$5,003	\$16,702	\$8,253

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

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Depreciation and amortization				
Services	\$5,970	\$5,468	\$11,941	\$10,787
International	2,260	1,888	4,541	3,732
Products and Systems	366	585	729	1,153
Corporate and eliminations	(5)	(57)	28	(123)
	\$8,591	\$7,884	\$17,239	\$15,549

	June 30, 2018	December 31, 2017
Intangible assets, net		
Services	\$44,134	\$ 46,864
International	12,428	13,899
Products and Systems	2,029	2,261
Corporate and eliminations	580	715
	\$59,171	\$ 63,739

	June 30, 2018	December 31, 2017
Total assets		
Services	\$368,912	\$ 377,585
International	148,928	150,779
Products and Systems	12,669	12,733
Corporate and eliminations	13,480	13,344
	\$543,989	\$ 554,441

Revenues by geographic area for the three and six months ended June 30, 2018 and 2017, respectively, were as follows:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues				

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United States	\$ 125,125	\$ 119,029	\$ 251,116	\$ 230,560
Other Americas	24,166	17,895	47,680	33,368
Europe	39,624	30,706	73,872	61,366
Asia-Pacific	2,878	2,809	6,755	8,463
	\$ 191,793	\$ 170,439	\$ 379,423	\$ 333,757

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15. Repurchase of Common Stock

The Company's Board of Directors approved a \$50 million stock repurchase plan in 2015. As part of this plan, on August 17, 2016, the Company entered into an agreement with its then CEO, Dr. Sotirios Vahaviolos, to purchase up to 1 million of his shares, commencing in October 2016. Pursuant to the agreement, in general, the Company purchased from Dr. Vahaviolos up to \$2 million of shares each month, at a 2% discount to the average daily closing price of the Company's common stock for the preceding month. From the inception of the plan through December 31, 2017, the Company purchased 1,000,000 shares from Dr. Vahaviolos at an average price of \$21.92 per share for an aggregate cost of approximately \$21.9 million and approximately 146,000 shares in the open market at an average price of \$20.48 per share, for an aggregate cost of approximately \$3.0 million.

The Company retired all its repurchased shares during the fourth quarter of 2017 and they are not included in common stock issued and outstanding as of June 30, 2018 and December 31, 2017. There were no repurchases of common stock during the six months ended June 30, 2018. As of June 30, 2018, approximately \$25.1 million remained available to repurchase shares under the stock repurchase plan.

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

The following Management's Discussion and Analysis ("MD&A") includes a narrative explanation and analysis of our results of operations and financial condition for the three and six months ended June 30, 2018 and June 30, 2017. The MD&A should be read together with our condensed consolidated financial statements and related notes included in Item 1 in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2017, filed March 14, 2018 ("2017 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 disclosure in the following areas:

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

Forward-Looking Statements

This report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act"). Such forward-looking statements include those that express plans, anticipation, intent, contingency, goals, targets or future development

and/or otherwise are not statements of historical fact. These forward-looking statements are based on our current expectations and projections about future events and they are subject to risks and uncertainties known and unknown that could cause actual results and developments to differ materially from those expressed or implied in such statements.

In some cases, you can identify forward-looking statements by terminology, such as “goals,” or “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “may,” “could,” “should,” “would,” “predicts,” “appears,” “projects,” or the like, 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 2017 Annual Report as well as those discussed in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission (“SEC”).

Overview

We offer our customers “one source for asset protection solutions”[®] and are a leading global provider of technology-enabled asset protection solutions used to evaluate the structural integrity and reliability of critical energy, commercial aerospace and defense, industrial and public infrastructure. We combine industry-leading products and technologies, expertise in mechanical

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integrity (MI), Non-Destructive Testing (NDT), Destructive Testing (DT), mechanical and predictive maintenance (PdM) services, process and fixed asset engineering and consulting services, proprietary data analysis and our world class enterprise inspection database management and analysis software, PCMS, to deliver a comprehensive portfolio of customized solutions, ranging from routine inspections to complex, plant-wide asset integrity management and assessments. These mission critical solutions enhance our customers' ability to comply with governmental safety and environmental regulations, extend the useful life of their assets, increase productivity, minimize repair costs, manage risk and avoid catastrophic disasters. Our comprehensive "OneSource" portfolio of customized solutions, utilizing a proven systematic method that creates a closed-loop lifecycle for addressing continuous asset protection and improvement, helps us to deliver value to our customers.

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

Services provides asset protection solutions predominantly in North America with the largest concentration in the United States, followed by Canada, consisting primarily of NDT and inspection, mechanical and engineering services that are used to evaluate the structural integrity and reliability of critical energy, commercial aerospace components, industrial and public infrastructure.

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 growing 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 engineering assessments, heat tracing, pre-inspection insulation stripping, inspections, coating applications, re-insulation, and long-term condition-monitoring. Under this business model, many customers outsource their inspection to us on a "run and maintain" basis. We have established long-term relationships as a critical solutions provider to many of the leading companies with asset-intensive infrastructure in our target markets. These markets include oil and gas (downstream, midstream, upstream and petrochemical), commercial aerospace and defense, power generation (natural gas, fossil, nuclear, alternative, renewable, and transmission and distribution), public infrastructure, chemicals, transportation, primary metals and metalworking and research and engineering institutions.

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

Demand for outsourced asset protection solutions has generally increased over the last ten years, creating demand from which our entire industry has benefited. We believe continued growth can be realized in all of our target markets. During the first half of 2017, market conditions were soft, driven by lower oil prices which caused many of the Company's oil and gas customers to curtail spending for our services and products. However, during the second half of 2017, market conditions strengthened and continued to improve in the first half of 2018, with oil and gas customer spending patterns rebounding from low prior year levels described above. These improved conditions led to a catch-up from the pent-up demand of deferred work during the Spring of 2018 as well as a healthier level of market activity for projects and turnarounds. We expect that the present range for petroleum prices to persist for the foreseeable future and result in relatively stable oil and gas customer spend for inspection services throughout the remainder of the year. In addition, demand for our services in the aerospace industry are strong and we are focused on expanding our capabilities to service this market.

Results of Operations

Condensed consolidated results of operations for the three and six months ended June 30, 2018 and June 30, 2017 were as follows:

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	Three months ended		Six months ended		
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	
	(\$ in thousands)		(\$ in thousands)		
Revenues	\$191,793	\$170,439	\$379,423	\$333,757	
Gross profit	55,083	46,343	103,228	89,496	
Gross profit as a % of Revenue	28.7	% 27.2	% 27.2	% 26.8	%
Total operating expenses	44,779	41,340	86,526	81,243	
Operating expenses as a % of Revenue	23.3	% 24.3	% 22.8	% 24.3	%
Income from operations	10,304	5,003	16,702	8,253	
Income from Operations as a % of Revenue	5.4	% 2.9	% 4.4	% 2.5	%
Interest expense	1,895	1,015	3,686	2,033	
Income before provision for income taxes	8,409	3,988	13,016	6,220	
Provision for income taxes	2,409	1,770	4,096	2,304	
Net income	6,000	2,218	8,920	3,916	
Less: net income attributable to non-controlling interests, net of taxes	—	1	12	7	
Net income attributable to Mistras Group, Inc.	\$6,000	\$2,217	\$8,908	\$3,909	

Note About Non-GAAP Measures

In this MD&A under the heading "Income (loss) from Operations", the non-GAAP financial performance measure "Income before special items" is used for each of our three segments, the Corporate segment and the "Total Company", with tables reconciling the measure to a financial measure under GAAP. This non-GAAP measure excludes from the GAAP measure "Income 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 related costs, which includes items such as severance 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 the Company's or Segment's core business operations. The acquisition related costs and special items can be a net expense or credit in any given period.

We believe investors and other users of our financial statements benefit from the presentation of "Income before special items" for each of our three segments, the Corporate segment and the Total Company in evaluating our performance. Income 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 before special items is not used to determine incentive compensation for executives or employees, nor is it a replacement for GAAP and /or comparable to other companies non-GAAP financial measures.

Revenue

Revenues for the three months ended June 30, 2018 were \$191.8 million, an increase of \$21.4 million, or 13%, compared with the three months ended June 30, 2017. Revenues for the six months ended June 30, 2018 were \$379.4 million, an increase of \$45.7 million, or 14%, compared with the six months ended June 30, 2017.

Revenues by segment for the three and six months ended June 30, 2018 and June 30, 2017 were as follows:

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	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
	(\$ in thousands)		(\$ in thousands)	
Revenues				
Services	\$ 147,718	\$ 134,043	\$ 293,313	\$ 260,372
International	41,111	33,904	79,567	68,160
Products and Systems	5,386	5,107	11,570	10,657
Corporate and eliminations	(2,422)	(2,615)	(5,027)	(5,432)
	\$ 191,793	\$ 170,439	\$ 379,423	\$ 333,757

Three Months

In the three months ended June 30, 2018, total revenues increased 13% due to a combination of mid-single digit acquisition growth, mid-single digit organic growth and low-single digit favorable impact of foreign exchange rates. Services segment revenues increased 10%, driven by high-single digit acquisition growth and low-single digit organic growth. International segment revenues increased 21%, driven by double digit organic growth and mid-single digit favorable impact of foreign exchange rates. Products and Systems segment revenues increased by 6% driven by higher sales volume.

Oil and gas customer revenues comprised approximately 55% and 57% of total revenues for the three months ended June 30, 2018 and 2017, respectively. Aerospace and defense customer revenues comprised approximately 15% and 13% of total revenues for the three months ended June 30, 2018 and 2017, respectively. The Company's top ten customers comprised approximately 35% of total revenues for the three months ended June 30, 2018, as compared to 40% for the three months ended June 30, 2017. One customer, BP plc., accounted for approximately 12% of total revenues for the three months ended June 30, 2017.

Six months

In the six months ended June 30, 2018, total revenues increased 14% due to a combination of mid-single digit acquisition growth, mid-single digit organic growth and low-single digit favorable impact of foreign exchange rates. Services segment revenues increased 13%, driven by high-single digit acquisition growth and mid-single digit organic growth. International segment revenues increased 17%, driven by high-single digit organic growth and a double digit favorable impact of foreign exchange rates. Products and Systems segment revenues increased by 9% driven by higher sales volume.

Oil and gas customer revenues comprised approximately 57% and 58% of total revenues for the six months ended June 30, 2018 and 2017, respectively. Aerospace and defense customer revenues comprised approximately 15% and 13% of total revenues for the six months ended June 30, 2018 and 2017, respectively. The Company's top ten customers comprised approximately 37% of total revenues for the six months ended June 30, 2018, as compared to 41% for the six months ended June 30, 2017. One customer, BP plc., accounted for approximately 12% of total revenues for the six months ended June 30, 2017.

Gross Profit

Gross profit increased by \$8.7 million, or 19%, in the three months ended June 30, 2018, on a sales increase of 13%. Gross profit increased by \$13.7 million, or 15%, in the six months ended June 30, 2018, on a sales increase of 14%.

Gross profit by segment for the three and six months ended June 30, 2018 and June 30, 2017 was as follows:

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	Three months ended		Six months ended		
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	
	(\$ in thousands)		(\$ in thousands)		
Gross profit					
Services	\$40,127	\$35,490	\$74,837	\$65,703	
% of segment revenue	27.2	% 26.5	% 25.5	% 25.2	%
International	12,689	8,828	23,396	19,288	
% of segment revenue	30.9	% 26.0	% 29.4	% 28.3	%
Products and Systems	2,213	1,966	5,103	4,560	
% of segment revenue	41.1	% 38.5	% 44.1	% 42.8	%
Corporate and eliminations	54	59	(108)	(55)	
	\$55,083	\$46,343	\$103,228	\$89,496	
% of total revenue	28.7	% 27.2	% 27.2	% 26.8	%

Three months

Gross profit margin was 28.7% and 27.2% for the three month periods ended June 30, 2018 and 2017, respectively. Services segment gross profit margins had a year-on-year increase of 70 basis points to 27.2% in the three months ended June 30, 2018, which reflected increased sales volume and an improved sales mix. International segment gross margins had a year-on-year increase of 490 basis points to 30.9% in the three months ended June 30, 2018. This increase was primarily driven by higher utilization of technical labor and overhead as well as a more favorable sales mix. Products and Systems segment gross margin had a year-on-year increase of 260 basis points to 41.1% in the three months ended June 30, 2018. This increase was primarily driven by a more favorable sales mix.

Six months

Gross profit margin was 27.2% and 26.8% for the six month periods ended June 30, 2018 and 2017, respectively. Services segment gross profit margins had a year-on-year increase of 30 basis points to 25.5% in the six months ended June 30, 2018, which reflected increased sales volume. International segment gross margins had a year-on-year increase of 110 basis points to 29.4% in the six months ended June 30, 2018. This increase was primarily driven by higher utilization of technical labor and overhead. Products and Systems segment gross margin had a year-on-year increase of 130 basis points to 44.1% in the six months ended June 30, 2018. This increase was primarily driven by a more favorable sales mix.

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Income from Operations

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

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(\$ in thousands)		(\$ in thousands)	
Services:				
Income from operations (GAAP)	\$ 16,328	\$ 12,132	\$ 28,603	\$ 19,513
Bad debt provision for a customer bankruptcy	—	—	—	1,200
Reorganization and other related costs	—	437	—	453
Acquisition-related expense (benefit), net	43	201	(990)	78
Income before special items (non-GAAP)	16,371	12,770	27,613	21,244
International:				
Income (loss) from operations (GAAP)	2,455	(190)	3,375	2,843
Reorganization and other related costs	492	63	581	76
Acquisition-related expense (benefit), net	(409)	—	(409)	(501)
Income (loss) before special items (non-GAAP)	2,538	(127)	3,547	2,418
Products and Systems:				
Loss from operations (GAAP)	(656)	(892)	(384)	(1,340)
Reorganization and other related costs	29	—	29	—
Loss before special items (non-GAAP)	(627)	(892)	(355)	(1,340)
Corporate and Eliminations:				
Loss from operations (GAAP)	(7,823)	(6,047)	(14,892)	(12,763)
Acquisition-related expense (benefit), net	—	1	39	82
Loss before special items (non-GAAP)	(7,823)	(6,046)	(14,853)	(12,681)
Total Company				
Income from operations (GAAP)	\$ 10,304	\$ 5,003	\$ 16,702	\$ 8,253
Bad debt provision for a customer bankruptcy	—	—	—	1,200
Reorganization and other related costs	521	500	610	529
Acquisition-related expense (benefit), net	(366)	202	(1,360)	(341)
Income before special items (non-GAAP)	\$ 10,459	\$ 5,705	\$ 15,952	\$ 9,641

Three months

For the three months ended June 30, 2018, income from operations (GAAP) increased \$5.3 million, or 106%, compared with the three months ended June 30, 2017, while income before special items (non-GAAP) increased \$4.8 million, or 83%. As a percentage of revenues, income before special items increased by 220 basis points to 5.5% in the three months ended June 30, 2018 from 3.3% in the three months ended June 30, 2017.

Operating expenses, as a percentage of revenue, decreased to 23% for the three months ended June 30, 2018 from 24% for the three months ended June 30, 2017. Operating expenses increased \$3.4 million during the three months ended June 30, 2018, driven primarily by additional sales volume, operating expenses pertaining to Services segment acquisitions of approximately \$1.9 million and management initiatives.

Six months

For the six months ended June 30, 2018, income from operations (GAAP) increased \$8.4 million, or 102%, compared with the six months ended June 30, 2017, while income before special items (non-GAAP) increased \$6.3 million, or 65%. As a

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percentage of revenues, income before special items increased by 130 basis points to 4.2% in the six months ended June 30, 2018 from 2.9% in the six months ended June 30, 2017.

Operating expenses, as a percentage of revenue, decreased to 23% for the six months ended June 30, 2018 from 24% for the six months ended June 30, 2017. Operating expenses increased \$5.3 million during the six months ended June 30, 2018, driven primarily by increased sales volume, additional operating expenses pertaining to Services segment acquisitions of approximately \$4.4 million and management initiatives.

Interest Expense

Interest expense was approximately \$1.9 million and \$1.0 million for the three months ended June 30, 2018 and 2017, respectively. Interest expense was approximately \$3.7 million and \$2.0 million for the six months ended June 30, 2018 and 2017, respectively. The increases were due to borrowings on the Company's revolving line of credit attributable primarily to acquisitions completed during 2017, and to a lesser extent, from an increase in the base borrowing rate.

Income Taxes

The Company's effective income tax rate was approximately 29% and 44% for the three months ended June 30, 2018 and 2017, respectively. The Company's effective income tax rate was approximately 31% and 37% for the six months ended June 30, 2018 and 2017. The decrease in the income tax rate for these respective periods is due to lower US tax rates on our domestic income as well as a higher proportion of global income taxed at comparatively lower US tax rates, partially offset by the impact of the GILTI and executive compensation provisions resulting from the passage of the Tax Act.

Liquidity and Capital Resources

Cash flows are summarized in the table below:

	Six months ended	
	June 30,	June 30,
	2018	2017
	(\$ in thousands)	
Net cash provided by (used in):		
Operating activities	\$20,095	\$22,972
Investing activities	(10,287)	(14,218)
Financing activities	(19,257)	(2,726)
Effect of exchange rate changes on cash	(562)	1,602
Net change in cash and cash equivalents	\$(10,011)	\$7,630

Cash Flows from Operating Activities

During the six months ended June 30, 2018, cash provided by operating activities was \$20.1 million, representing a year-on-year decrease of \$2.9 million, or 13%. The decrease was primarily attributable to movements in working capital, including the timing of collections on accounts receivable, offset by the increase in net income for these respective periods.

Cash Flows from Investing Activities

During the six months ended June 30, 2018, cash used in investing activities was \$10.3 million, compared with \$14.2 million in 2017. During the first six months of 2018, we did not have any outflows related to acquisitions, compared with \$4.5 million in the comparable six month period. Capital expenditures were \$11.2 million for the first half of 2018, compared with \$10.5 million in the comparable 2017 period.

Cash Flows from Financing Activities

Net cash used by financing activities was \$19.3 million for the six months ended June 30, 2018. The Company paid down \$14.0 million, net, on its Credit Agreement as well as \$3.1 million payments of debt and capital lease obligations. For the comparable period in 2017, net cash used by financing activities was \$2.7 million. The Company borrowed \$10.7 million, net, on its Credit Agreement, to purchase \$12.0 million of treasury stock and \$4.5 million to fund an acquisition.

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Effect of Exchange Rate Changes on Cash and Cash Equivalents

The effect of exchange rate changes on our cash and cash equivalents was a net decrease of \$0.6 million in the first six months of 2018, compared to a \$1.6 million increase for the first six months of 2017.

Cash Balance and Credit Facility Borrowings

The terms of our Credit Agreement have not changed from those set forth in Part II, Item 7 of our 2017 Annual Report under the Section “Liquidity and Capital Resources”, under the heading “Cash Balance and Credit Facility Borrowings,” and in Note 11 - Long-Term Debt to these condensed consolidated financial statements in this Quarterly Report, under the heading “Senior Credit Facility.”

As of June 30, 2018, we had cash and cash equivalents totaling \$17.5 million and available borrowing capacity of \$102.0 million under our Credit Agreement with borrowings of \$142.6 million and \$5.4 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.

We were in compliance with the terms of the Credit Agreement as of June 30, 2018 and will continuously monitor our compliance with the covenants contained in our Credit Agreement.

Contractual Obligations

There have been no significant changes in our contractual obligations and outstanding indebtedness as disclosed in the 2017 Annual Report.

Off-balance Sheet Arrangements

During the six months ended June 30, 2018, 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 2017 Annual Report.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no significant changes to the Company’s quantitative and qualitative disclosures about market risk as discussed in Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk,” included in the 2017 Annual Report.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2018, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Exchange Act. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Control Over Financial Reporting

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There has been no change in the Company's internal control over financial reporting that occurred during the Company's quarter ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

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PART II—OTHER INFORMATION

ITEM 1. Legal Proceedings

See Note 13 - Commitments and Contingencies to the 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 2017 Annual Report, except as disclosed in such Note 13.

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 2017 Annual Report. There have been no material changes to the risk factors previously disclosed in the 2017 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. There were no shares of stock acquired during the quarter pursuant to our publicly announced share repurchase plan.

Month Ending	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
April 30, 2018	8,095	\$ 19.63	—	\$25,081,657
May 31, 2018	23,301	\$ 19.25	—	\$25,081,657
June 30, 2018	203	\$ 19.28	—	\$25,081,657

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

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

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ITEM 6. Exhibits

Exhibit No. Description

<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.</u>
<u>32.1</u>	<u>Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

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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 Vice President, Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer and duly authorized officer)

Date: August 7, 2018