

Mistras Group, Inc.
Form 10-Q
April 09, 2013
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2013

Or

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

For the transition period to

Commission file number 001- 34481

Mistras Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

22-3341267

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

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

08550
(Zip Code)

(609) 716-4000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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 April 1, 2013, the registrant had 28,194,980 shares of common stock outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements (unaudited)****Mistras Group, Inc. and Subsidiaries****Unaudited Consolidated Balance Sheets****(in thousands, except share and per share data)**

	February 28, 2013	May 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 8,903	\$ 8,410
Accounts receivable, net	108,686	104,515
Inventories, net	12,126	12,492
Deferred income taxes	1,891	1,885
Prepaid expenses and other current assets	12,763	6,321
Total current assets	144,369	133,623
Property, plant and equipment, net	69,846	63,527
Intangible assets, net	56,428	34,469
Goodwill	125,532	96,819
Other assets	739	1,378
Total assets	\$ 396,914	\$ 329,816
LIABILITIES, PREFERRED STOCK AND EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 7,730	\$ 5,971
Current portion of capital lease obligations	6,714	5,951
Accounts payable	8,298	11,944
Accrued expenses and other current liabilities	43,411	39,334
Income taxes payable	1,997	1,119
Total current liabilities	68,150	64,319
Long-term debt, net of current portion	65,210	34,258
Obligations under capital leases, net of current portion	11,859	13,094
Deferred income taxes	14,582	4,901
Other long-term liabilities	21,447	19,996
Total liabilities	181,248	136,568
Commitments and contingencies		
Preferred stock, 10,000,000 shares authorized		
Equity		
Common stock, \$0.01 par value, 200,000,000 shares authorized, 28,194,980 and 28,025,507 shares issued and outstanding as of February 28, 2013 and May 31, 2012, respectively	282	280
Additional paid-in capital	193,512	188,443
Retained earnings	23,531	7,336
Accumulated other comprehensive loss	(1,928)	(3,047)
Total Mistras Group, Inc. stockholders' equity	215,397	193,012

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Noncontrolling interest		269		236
Total equity		215,666		193,248
Total liabilities, preferred stock and equity	\$	396,914	\$	329,816

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

Table of Contents**Mistras Group, Inc. and Subsidiaries****Unaudited Consolidated Statements of Operations**

(in thousands, except per share data)

	Three months ended		Nine months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Revenues:				
Services	\$ 124,510	\$ 94,253	\$ 351,466	\$ 281,097
Products	9,151	9,865	33,311	28,688
Total revenues	133,661	104,118	384,777	309,785
Cost of revenues:				
Cost of services	91,209	66,336	248,769	194,270
Cost of products sold	3,527	4,238	13,022	12,094
Depreciation related to services	4,465	3,760	12,565	10,639
Depreciation related to products	254	200	593	563
Total cost of revenues	99,455	74,534	274,949	217,566
Gross profit	34,206	29,584	109,828	92,219
Selling, general and administrative expenses	27,209	20,806	74,063	59,565
Research and engineering	754	578	1,801	1,769
Depreciation and amortization	2,473	1,805	6,535	4,787
Acquisition-related expense, net (See Note 5)	(1,212)	973	(1,006)	1,009
Income from operations	4,982	5,422	28,435	25,089
Other expenses				
Interest expense	882	690	2,458	2,121
Loss on extinguishment of long-term debt		113		113
Income before provision for income taxes	4,100	4,619	25,977	22,855
Provision for income taxes	1,349	1,548	9,749	8,672
Net income	2,751	3,071	16,228	14,183
Net (income) loss attributable to noncontrolling interests, net of taxes		(34)	(33)	38
Net income attributable to Mistras Group, Inc.	\$ 2,751	\$ 3,037	\$ 16,195	\$ 14,221
Earnings per common share (see Note 4):				
Basic	\$ 0.10	\$ 0.11	\$ 0.58	\$ 0.51
Diluted	\$ 0.09	\$ 0.11	\$ 0.56	\$ 0.50
Weighted average common shares outstanding:				
Basic	28,175	27,921	28,121	27,794
Diluted	29,101	28,829	29,078	28,563

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

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Mistras Group, Inc. and Subsidiaries

Unaudited Consolidated Statements of Comprehensive Income

(in thousands)

	Three months ended		Nine months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Net income	\$ 2,751	\$ 3,071	\$ 16,228	\$ 14,183
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	1,633	(615)	1,119	(1,990)
Other comprehensive income (loss)	1,633	(615)	1,119	(1,990)
Comprehensive income	4,384	2,456	17,347	12,193
Comprehensive (income) loss attributable to noncontrolling interests		(34)	(33)	38
Foreign currency translation adjustments		5		12
Comprehensive income attributable to Mistras Group, Inc.	\$ 4,384	\$ 2,427	\$ 17,314	\$ 12,243

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

Table of Contents**Mistras Group, Inc. and Subsidiaries****Unaudited Consolidated Statements of Changes in Equity**

(in thousands)

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Mistras Group, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity
Nine months ended February 28, 2013:								
Balance at May 31, 2012	28,026	\$ 280	\$ 188,443	\$ 7,336	\$ (3,047)	\$ 193,012	\$ 236	\$ 193,248
Net income				16,195		16,195	33	16,228
Other comprehensive income, net of tax					1,119	1,119		1,119
Stock compensation	13		4,749			4,749		4,749
Net settlement on vesting of restricted stock units	85	1	(807)			(806)		(806)
Excess tax benefit from stock compensation			455			455		455
Exercise of stock options	71	1	672			673		673
Balance at February 28, 2013	28,195	\$ 282	\$ 193,512	\$ 23,531	\$ (1,928)	\$ 215,397	\$ 269	\$ 215,666

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

Table of Contents**Mistras Group, Inc. and Subsidiaries****Unaudited Consolidated Statements of Cash Flows**

(in thousands)

	Nine months ended	
	February 28, 2013	February 29, 2012
Cash flows from operating activities		
Net income	\$ 16,228	\$ 14,183
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	19,693	15,989
Deferred income taxes	1,530	(479)
Provision for doubtful accounts	(345)	189
Loss on extinguishment of long-term debt		113
Loss (gain) on sale of assets	3	(40)
Amortization of deferred financing costs	94	116
Stock compensation expense	4,749	3,791
Foreign currency loss	51	231
Changes in operating assets and liabilities, net of effect of acquisitions of businesses		
Accounts receivable	6,076	(10,160)
Inventories	985	(2,624)
Prepaid expenses and other current assets	(5,625)	(1,386)
Other assets	652	(42)
Accounts payable	(5,772)	(1,310)
Income taxes payable	(743)	(2,302)
Accrued expenses and other liabilities	(10,028)	4,703
Net cash provided by operating activities	27,548	20,972
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,915)	(6,407)
Purchase of intangible assets	(897)	(437)
Acquisition of businesses, net of cash acquired	(33,601)	(26,273)
Proceeds from sale of equipment	1,028	301
Net cash used in investing activities	(42,385)	(32,816)
Cash flows from financing activities		
Repayment of capital lease obligations	(5,054)	(5,136)
Repayment of notes payable and other long-term debt	(4,628)	(4,420)
Net borrowings from current revolver	26,008	19,050
Net repayments of other short-term borrowings		(1,868)
Proceeds from borrowings of long-term debt	309	837
Payment of financing costs		(623)
Payment of contingent consideration for business acquisitions	(1,887)	
Taxes paid related to net share settlement of restricted stock units	(806)	(281)
Excess tax benefit from stock compensation	455	405
Proceeds from the exercise of stock options	673	1,477
Net cash provided by financing activities	15,070	9,441
Effect of exchange rate changes on cash and cash equivalents	260	(545)
Net change in cash and cash equivalents	493	(2,948)
Cash and cash equivalents		
Beginning of period	8,410	10,879
End of period	\$ 8,903	\$ 7,931
Supplemental disclosure of cash paid		
Interest	\$ 2,422	\$ 1,720

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Income taxes	\$	13,605	\$	11,995
Noncash investing and financing				
Equipment acquired through capital lease obligations	\$	2,896	\$	8,613