

Mistras Group, Inc.
Form 10-Q
April 09, 2012
Table of Contents

**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 29, 2012

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 2, 2012, the registrant had 27,938,173 shares of common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	PAGE
<u>PART I FINANCIAL INFORMATION</u>	
<u>ITEM 1.</u>	
<u>Financial Statements</u>	2
<u>Unaudited Consolidated Balance Sheets as of February 29, 2012 and May 31, 2011</u>	2
<u>Unaudited Consolidated Statements of Operations for the three and nine months ended February 29, 2012 and February 28, 2011</u>	3
<u>Unaudited Consolidated Statements of Stockholders' Equity for the nine months ended February 29, 2012 and February 28, 2011</u>	4
<u>Unaudited Consolidated Statements of Cash Flows for the nine months ended February 29, 2012 and February 28, 2011</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>ITEM 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>ITEM 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	33
<u>ITEM 4.</u>	
<u>Controls and Procedures</u>	34
<u>PART II OTHER INFORMATION</u>	
<u>ITEM 1.</u>	
<u>Legal Proceedings</u>	35
<u>ITEM 1.A.</u>	
<u>Risk Factors</u>	35
<u>ITEM 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>ITEM 3.</u>	
<u>Defaults Upon Senior Securities</u>	36
<u>ITEM 5.</u>	
<u>Other Information</u>	36
<u>ITEM 6.</u>	
<u>Exhibits</u>	36
<u>SIGNATURES</u>	37

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 data)

	February 29, 2012	May 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,931	\$ 10,879
Accounts receivable, net	95,257	78,031
Inventories, net	13,173	9,830
Deferred income taxes	1,324	1,278
Prepaid expenses and other current assets	9,354	6,761
Total current assets	127,039	106,779
Property, plant and equipment, net	58,570	49,168
Intangible assets, net	33,559	27,304
Goodwill	80,053	64,146
Other assets	1,511	1,240
Total assets	\$ 300,732	\$ 248,637
LIABILITIES, PREFERRED STOCK AND EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 5,963	\$ 7,226
Current portion of capital lease obligations	6,644	5,853
Accounts payable	7,142	6,656
Accrued expenses and other current liabilities	40,332	28,028
Income taxes payable	466	2,825
Total current liabilities	60,547	50,588
Long-term debt, net of current portion	34,645	14,625
Obligations under capital leases, net of current portion	12,847	9,623
Deferred income taxes	2,425	2,863
Other long-term liabilities	5,197	3,452
Total liabilities	115,661	81,151
Commitments and contingencies		
Preferred stock, 10,000,000 shares authorized		
Equity		
Common stock, \$0.01 par value, 200,000,000 shares authorized, 27,938,173 and 27,667,122 shares issued and outstanding as of February 29, 2012 and May 31, 2011, respectively		
	279	277
Additional paid-in capital	185,984	180,594
Retained earnings (accumulated deficit)	204	(14,017)
Accumulated other comprehensive (loss) income	(1,675)	303
Total Mistras Group, Inc. stockholders' equity	184,792	167,157
Noncontrolling interest	279	329
Total equity	185,071	167,486
Total liabilities, preferred stock and equity	\$ 300,732	\$ 248,637

Edgar Filing: Mistras Group, Inc. - Form 10-Q

The accompanying notes are an integral part of these 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 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Revenues:				
Services	\$ 94,253	\$ 72,411	\$ 281,097	\$ 216,616
Products	9,865	6,802	28,688	19,844
Total revenues	104,118	79,213	309,785	236,460
Cost of revenues:				
Cost of services	66,336	50,696	194,270	147,754
Cost of products sold	4,238	2,460	12,094	7,804
Depreciation related to services	3,760	3,307	10,639	9,252
Depreciation related to products	200	153	563	467
Total cost of revenues	74,534	56,616	217,566	165,277
Gross profit	29,584	22,597	92,219	71,183
Selling, general and administrative expenses	20,806	16,005	59,565	47,099
Research and engineering	578	514	1,769	1,638
Depreciation and amortization	1,805	1,385	4,787	3,889
Acquisition-related costs	849		510	
Legal reserve				351
Income from operations	5,546	4,693	25,588	18,206
Other expenses				
Interest expense	814	596	2,620	1,957
Loss on extinguishment of long-term debt	113		113	
Income before provision for income taxes	4,619	4,097	22,855	16,249
Provision for income taxes	1,548	1,690	8,672	6,562
Net income	3,071	2,407	14,183	9,687
Net (income) loss attributable to noncontrolling interests, net of taxes	(34)	36	38	26
Net income attributable to Mistras Group, Inc.	\$ 3,037	\$ 2,443	\$ 14,221	\$ 9,713
Earnings per common share (see Note 4):				
Basic	\$ 0.11	\$ 0.09	\$ 0.51	\$ 0.36
Diluted	\$ 0.11	\$ 0.09	\$ 0.50	\$ 0.36
Weighted average common shares outstanding:				
Basic	27,921	26,667	27,794	26,665
Diluted	28,829	26,919	28,563	26,824

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

Table of Contents**Mistras Group, Inc. and Subsidiaries****Unaudited Consolidated Statements of Stockholders' Equity**

(in thousands)

	Common Stock Shares	Stock Amount	Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	Total Mistras Group, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity
Nine months ended								
February 28, 2011:								
Balance at May 31, 2010	26,664	\$ 267	\$ 162,054	\$ (30,448)	\$ (1,587)	\$ 130,286	\$ 268	\$ 130,554
Net income				9,713		9,713	(26)	9,687
Other comprehensive income, net of tax:								
Foreign currency translation adjustment					880	880	5	885
Comprehensive Income						10,593	(21)	10,572
Stock compensation	1		2,680			2,680		2,680
Exercise of stock options	5		30			30		30
Noncontrolling interest in subsidiary							117	117
Balance at February 28, 2011	26,670	\$ 267	\$ 164,764	\$ (20,735)	\$ (707)	\$ 143,589	\$ 364	\$ 143,953
Nine months ended								
February 29, 2012:								
Balance at May 31, 2011	27,667	\$ 277	\$ 180,594	\$ (14,017)	\$ 303	\$ 167,157	\$ 329	\$ 167,486
Net income				14,221		14,221	(38)	14,183
Other comprehensive income, net of tax:								
Foreign currency translation adjustment					(1,978)	(1,978)	(12)	(1,990)
Comprehensive Income						12,243	(50)	12,193
Stock compensation	14		3,791			3,791		3,791
Net settlement on vesting of restricted stock units	36		(281)			(281)		(281)
Excess tax benefit from stock compensation			405			405		405
Exercise of stock options	221	2	1,475			1,477		1,477
Balance at February 29, 2012	27,938	\$ 279	\$ 185,984	\$ 204	\$ (1,675)	\$ 184,792	\$ 279	\$ 185,071

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

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

(in thousands)

	Nine months ended	
	February 29, 2012	February 28, 2011
Cash flows from operating activities		
Net income attributable to Mistras Group, Inc.	\$ 14,221	\$ 9,713
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	15,989	13,608
Deferred income taxes	(479)	171
Provision for doubtful accounts	189	45
Loss on extinguishment of long-term debt	113	
(Gain) loss on sale of assets	(40)	38
Amortization of deferred financing costs	116	127
Stock compensation expense	3,791	2,680
Interest rate swap		(210)
Noncontrolling interest	(38)	(26)
Foreign currency loss (gain)	231	(310)
Changes in operating assets and liabilities, net of effect of acquisitions of businesses		
Accounts receivable	(10,160)	(6,620)
Inventories	(2,624)	(1,377)
Prepaid expenses and other current assets	(1,386)	(1,743)
Other assets	(42)	971
Accounts payable	(1,310)	410
Income taxes payable	(2,302)	(302)
Accrued expenses and other current liabilities	4,703	1,468
Net cash provided by operating activities	20,972	18,643
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,407)	(6,051)
Purchase of intangible assets	(437)	(398)
Acquisition of businesses, net of cash acquired	(26,273)	(18,301)
Proceeds from sale of equipment	301	170
Net cash used in investing activities	(32,816)	(24,580)
Cash flows from financing activities		
Repayment of capital lease obligations	(5,136)	(4,631)
Repayment of long-term debt	(4,420)	