

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2023**

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:

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

ý Yes o 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).

ý Yes o No

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

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

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 November 1, 2023, the registrant had 30,353,100 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)

	September 30, 2023	December 31, 2022
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 12,752	\$ 20,488
Accounts receivable, net	136,363	123,657
Inventories	15,780	13,556
Prepaid expenses and other current assets	18,259	10,181
Total current assets	183,154	167,882
Property, plant and equipment, net	79,762	77,561
Intangible assets, net	44,468	49,015
Goodwill	185,519	199,635
Deferred income taxes	2,229	779
Other assets	41,558	40,032
Total assets	\$ 536,690	\$ 534,904
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 14,628	\$ 12,532
Accrued expenses and other current liabilities	81,853	77,844
Current portion of long-term debt	8,402	7,425
Current portion of finance lease obligations	5,253	4,201
Income taxes payable	1,025	1,726
Total current liabilities	111,161	103,728
Long-term debt, net of current portion	185,466	183,826
Obligations under finance leases, net of current portion	12,375	10,045
Deferred income taxes	8,542	6,283
Other long-term liabilities	33,362	32,273
Total liabilities	350,906	336,155
Commitments and contingencies (Note 14)		
Equity		
Preferred stock, 10,000,000 shares authorized	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 30,353,100 and 29,895,487 shares issued and outstanding	302	298
Additional paid-in capital	246,075	243,031
Accumulated deficit	(26,436)	(11,489)
Accumulated other comprehensive loss	(34,463)	(33,390)
Total Mistras Group, Inc. stockholders' equity	185,478	198,450
Non-controlling interests	306	299
Total equity	185,784	198,749
Total liabilities and equity	\$ 536,690	\$ 534,904

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

Mistras Group, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Income (Loss)
(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 179,354	\$ 178,462	\$ 523,399	\$ 519,155
Cost of revenue	118,812	119,110	355,304	354,848
Depreciation	6,160	5,568	17,914	17,074
Gross profit	54,382	53,784	150,181	147,233
Selling, general and administrative expenses	39,537	40,767	123,844	123,545
Bad debt provision for troubled customers, net of recoveries	—	—	—	289
Reorganization and other costs	2,702	130	6,017	65
Goodwill Impairment Charges	13,799	—	13,799	—
Loss on Debt Modification	—	693	—	693
Legal settlement and insurance recoveries, net	—	—	150	(994)
Research and engineering	438	450	1,428	1,523
Depreciation and amortization	2,588	2,629	7,556	8,058
Acquisition-related expense, net	—	1	5	63
Income (loss) from operations	(4,682)	9,114	(2,618)	13,991
Interest expense	4,167	2,735	12,093	6,790
Income (loss) before provision (benefit) for income taxes	(8,849)	6,379	(14,711)	7,201
Provision for income taxes	1,489	1,985	229	3,494
Net Income (Loss)	(10,338)	4,394	(14,940)	3,707
Less: net income (loss) attributable to noncontrolling interests, net of taxes	(40)	21	7	54
Net Income (Loss) attributable to Mistras Group, Inc.	<u>\$ (10,298)</u>	<u>\$ 4,373</u>	<u>\$ (14,947)</u>	<u>\$ 3,653</u>
Earnings (loss) per common share				
Basic	\$ (0.34)	\$ 0.15	\$ (0.49)	\$ 0.12
Diluted	\$ (0.34)	\$ 0.14	\$ (0.49)	\$ 0.12
Weighted-average common shares outstanding:				
Basic	30,402	29,965	30,277	29,879
Diluted	30,402	30,245	30,277	30,209

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 Loss
(in thousands)

	Three months ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net Income (loss)	\$ (10,338)	\$ 4,394	\$ (14,940)	\$ 3,707
Other comprehensive loss:				
Foreign currency translation adjustments	(5,428)	(12,995)	(1,073)	(20,971)
Comprehensive Loss	(15,766)	(8,601)	(16,013)	(17,264)
Less: net income attributable to noncontrolling interest	(40)	21	7	54
Comprehensive loss attributable to Mistras Group, Inc	<u>\$ (15,726)</u>	<u>\$ (8,622)</u>	<u>\$ (16,020)</u>	<u>\$ (17,318)</u>

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

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

	Three months ended							
	Common Stock		Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total Mistras Group, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Amount						
Balance at June 30, 2023	30,302	\$ 302	\$ 245,058	\$ (16,138)	\$ (29,035)	\$ 200,187	\$ 346	\$ 200,533
Net income	—	—	—	(10,298)	—	(10,298)	(40)	(10,338)
Other comprehensive loss, net of tax	—	—	—	—	(5,428)	(5,428)	—	(5,428)
Share-based compensation	—	—	1,017	—	—	1,017	—	1,017
Net settlement of restricted stock units	51	—	—	—	—	—	—	—
Balance at September 30, 2023	<u>30,353</u>	<u>\$ 302</u>	<u>\$ 246,075</u>	<u>\$ (26,436)</u>	<u>\$ (34,463)</u>	<u>\$ 185,478</u>	<u>\$ 306</u>	<u>\$ 185,784</u>
Balance at June 30, 2022	29,807	\$ 297	\$ 240,697	\$ (18,708)	\$ (28,287)	\$ 193,999	\$ 262	\$ 194,261
Net income	—	—	—	4,373	—	4,373	21	4,394
Other comprehensive income, net of tax	—	—	—	—	(12,995)	(12,995)	—	(12,995)
Share-based compensation	—	—	1,396	—	—	1,396	—	1,396
Net settlement of restricted stock units	35	—	—	—	—	—	—	—
Balance at September 30, 2022	<u>29,842</u>	<u>\$ 297</u>	<u>\$ 242,093</u>	<u>\$ (14,335)</u>	<u>\$ (41,282)</u>	<u>\$ 186,773</u>	<u>\$ 283</u>	<u>\$ 187,056</u>

	Nine months ended							
	Common Stock		Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total Mistras Group, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Amount						
Balance at December 31, 2022	29,895	\$ 298	\$ 243,031	\$ (11,489)	\$ (33,390)	\$ 198,450	\$ 299	\$ 198,749
Net income (loss)	—	—	—	(14,947)	—	(14,947)	7	(14,940)
Other comprehensive loss, net of tax	—	—	—	—	(1,073)	(1,073)	—	(1,073)
Share-based compensation	—	—	3,985	—	—	3,985	—	3,985
Net settlement of restricted stock units	458	4	(941)	—	—	(937)	—	(937)
Balance at September 30, 2023	<u>30,353</u>	<u>\$ 302</u>	<u>\$ 246,075</u>	<u>\$ (26,436)</u>	<u>\$ (34,463)</u>	<u>\$ 185,478</u>	<u>\$ 306</u>	<u>\$ 185,784</u>
Balance at December 31, 2021	29,546	\$ 295	\$ 238,687	\$ (17,988)	\$ (20,311)	\$ 200,683	\$ 229	\$ 200,912
Net income	—	—	—	3,653	—	3,653	54	3,707
Other comprehensive income, net of tax	—	—	—	—	(20,971)	(20,971)	—	(20,971)
Share-based compensation	—	—	4,166	—	—	4,166	—	4,166
Net settlement of restricted stock units	296	2	(760)	—	—	(758)	—	(758)
Balance at September 30, 2022	<u>29,842</u>	<u>\$ 297</u>	<u>\$ 242,093</u>	<u>\$ (14,335)</u>	<u>\$ (41,282)</u>	<u>\$ 186,773</u>	<u>\$ 283</u>	<u>\$ 187,056</u>

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

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

	Nine months ended September 30,	
	2023	2022
Cash flows from operating activities		
Net loss	\$ (14,940)	\$ 3,707
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	25,470	25,132
Goodwill impairment charges	13,799	—
Deferred income taxes	816	1,790
Share-based compensation expense	3,985	4,166
Bad debt provision for troubled customers, net of recoveries	—	289
Change in provision for doubtful accounts	346	—
Fair value adjustments to contingent consideration	—	45
Foreign currency (gain) loss	149	(924)
Payment of finance costs	—	(448)
Other	(147)	969
Changes in operating assets and liabilities		
Accounts receivable	(13,393)	(27,692)
Inventories	(2,425)	(1,146)
Prepaid expenses and other assets	(7,572)	2,105
Accounts payable	2,094	578
Accrued expenses and other liabilities	4,165	2,539
Income taxes payable	(725)	(46)
Payment of contingent consideration liability in excess of acquisition-date fair value	(938)	(533)
Net cash provided by operating activities	10,684	10,531
Cash flows from investing activities		
Purchase of property, plant and equipment	(14,403)	(9,050)
Purchase of intangible assets	(1,868)	(580)
Acquisition of business, net of cash acquired	—	—
Proceeds from sale of equipment	1,101	753
Net cash used in investing activities	(15,170)	(8,877)
Cash flows from financing activities		
Repayment of finance lease obligations	(3,812)	(3,173)
Proceeds from borrowings of long-term debt	—	125,000
Repayment of long-term debt	(5,684)	(79,519)
Proceeds from revolver	66,110	168,000
Repayment of revolver	(57,851)	(213,750)
Payment of financing costs	—	(148)
Payment of contingent consideration for business acquisitions	—	(405)
Taxes paid related to net share settlement of share-based awards	(602)	(758)
Net cash used in financing activities	(1,839)	(4,753)
Effect of exchange rate changes on cash and cash equivalents	(1,411)	(2,927)
Net change in cash and cash equivalents	(7,736)	(6,026)
Cash and cash equivalents at beginning of period	20,488	24,110
Cash and cash equivalents at end of period	\$ 12,752	\$ 18,084
Supplemental disclosure of cash paid		
Interest, net	\$ 12,683	\$ 5,354
Income taxes, net of refunds	\$ 3,704	\$ (3,764)
Noncash investing and financing		
Equipment acquired through finance lease obligations	\$ 7,169	\$ 3,373

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

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

1. Description of Business and Basis of Presentation

Description of Business

Mistras Group, Inc., 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 ("IIoT")-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. During the first quarter of 2023, the Company renamed the Services segment to the North America segment to more closely align to the geographical area in which the Services segment operates. We did not recast the corresponding financial information for the historical periods presented, as there was no change in the manner which our chief operating decision maker reviews the financial results of each segment and allocates resources. Our Segments, with the updated naming convention, are as follows:

- *North America (Referred to as "Services" in prior filings).* 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

During 2022, the Company experienced unfavorable foreign currency exchange impacts as it relates to the Company's European operations. Additionally, the Russian-Ukrainian war 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)

In 2022, the Company eliminated substantially all of the COVID related cost reduction initiatives undertaken in 2020, including re-instatement of the savings plan employer match and increasing wages back to pre-pandemic amounts.

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 which resulted in an impairment within the reporting unit of \$13.8 million. Refer to Note 9- *Goodwill*.

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, 2023 and December 31, 2022.

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 2022 Annual Report on Form 10-K ("2022 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 2022 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 2022 Annual Report, there have been no material changes to the Company's significant accounting policies.

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

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 September 30, 2023, 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 (16.8)% and 31.1% for the three months ended September 30, 2023 and 2022, respectively. The Company's effective income tax rate was approximately (1.6)% and 48.5% for the nine months ended September 30, 2023 and 2022, respectively.

The effective income tax rate for the three months ended September 30, 2023 was lower than the statutory rate primarily due to the impact of permanent tax adjustments related to executive compensation and goodwill impairments. The effective income tax rate for the three months ended September 30, 2022 was higher than the statutory rate primarily due to various permanent tax adjustments and a \$0.1 million valuation allowance recorded on a foreign jurisdiction.

The effective income tax rate for the nine months ended September 30, 2023 was lower than the statutory rate primarily due to the impact of permanent tax adjustments related to executive compensation and goodwill impairments. The effective income tax rate for the nine months ended September 30, 2022 was higher than the statutory rate due primarily to various permanent tax adjustments and a \$0.9 million valuation allowance recorded during the period which was related to a foreign jurisdiction.

Recent Accounting Pronouncements

In March 2020 and updated in January 2021, the FASB issued Accounting Standards Update ("ASU") 2020-04 and 2021-01, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The amendments provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The guidance provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another rate that is expected to be discontinued. The amendments in ASU 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2024. The Company is currently evaluating applicable contracts and the available expedients provided by the new guidance.

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*.

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

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 ("MSAs") 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.

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

Revenue by Category

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

Revenue by industry was as follows:

Three Months Ended September 30, 2023	North America	International	Products	Corp/Elim	Total
Oil & Gas	\$ 94,390	\$ 8,827	\$ 35	\$ —	\$ 103,252
Aerospace & Defense	14,240	5,778	47	—	20,065
Industrials	10,325	6,018	310	—	16,653
Power Generation & Transmission	7,388	1,653	696	—	9,737
Other Process Industries	6,933	2,864	(5)	—	9,792
Infrastructure, Research & Engineering	6,042	2,383	1,070	—	9,495
Petrochemical	3,313	586	—	—	3,899
Other	6,183	2,871	676	(3,269)	6,461
Total	\$ 148,814	\$ 30,980	\$ 2,829	\$ (3,269)	\$ 179,354

Three Months Ended September 30, 2022	North America	International	Products	Corp/Elim	Total
Oil & Gas	\$ 90,578	\$ 6,418	\$ 35	\$ —	\$ 97,031
Aerospace & Defense	16,784	4,397	112	—	21,293
Industrials	9,728	5,834	436	—	15,998
Power Generation & Transmission	10,378	1,946	456	—	12,780
Other Process Industries	10,283	3,033	8	—	13,324
Infrastructure, Research & Engineering	4,936	1,784	1,150	—	7,870
Petrochemical	3,427	280	—	—	3,707
Other	6,664	2,001	881	(3,087)	6,459
Total	\$ 152,778	\$ 25,693	\$ 3,078	\$ (3,087)	\$ 178,462

Nine Months Ended September 30, 2023	North America	International	Products	Corp/Elim	Total
Oil & Gas	\$ 281,663	\$ 26,291	\$ 87	\$ —	\$ 308,041
Aerospace & Defense	41,516	15,894	275	—	57,685
Industrials	30,693	18,274	1,336	—	50,303
Power Generation & Transmission	17,834	4,840	3,189	—	25,863
Other Process Industries	24,906	10,567	73	—	35,546
Infrastructure, Research & Engineering	12,696	6,547	2,759	—	22,002
Petrochemical	10,027	887	—	—	10,914
Other	11,960	7,364	2,178	(8,457)	13,045
Total	\$ 431,295	\$ 90,664	\$ 9,897	\$ (8,457)	\$ 523,399

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Nine Months Ended September 30, 2022	North America	International	Products	Corp/Elim	Total
Oil & Gas	\$ 270,289	\$ 22,018	\$ 212	\$ —	\$ 292,519
Aerospace & Defense	49,106	14,455	246	—	63,807
Industrials	28,529	17,868	1,271	—	47,668
Power Generation & Transmission	22,578	6,505	1,979	—	31,062
Other Process Industries	32,217	10,305	23	—	42,545
Infrastructure, Research & Engineering	10,625	6,016	2,489	—	19,130
Petrochemical	10,056	413	—	—	10,469
Other	11,851	5,861	2,446	(8,203)	11,955
Total	\$ 435,251	\$ 83,441	\$ 8,666	\$ (8,203)	\$ 519,155

Revenue per key geographic location was as follows:

Three Months Ended September 30, 2023	North America	International	Products	Corp/Elim	Total
United States	\$ 126,239	\$ 120	\$ 1,032	\$ (849)	\$ 126,542
Other Americas	21,907	3,703	49	(1,659)	24,000
Europe	465	26,764	510	(701)	27,038
Asia-Pacific	203	393	1,238	(60)	1,774
Total	\$ 148,814	\$ 30,980	\$ 2,829	\$ (3,269)	\$ 179,354

Three Months Ended September 30, 2022	North America	International	Products	Corp/Elim	Total
United States	\$ 130,206	\$ 240	\$ 1,523	\$ (1,098)	\$ 130,871
Other Americas	21,649	2,064	154	(1,274)	22,593
Europe	631	22,648	362	(622)	23,019
Asia-Pacific	292	741	1,039	(93)	1,979
Total	\$ 152,778	\$ 25,693	\$ 3,078	\$ (3,087)	\$ 178,462

Nine Months Ended September 30, 2023	North America	International	Products	Corp/Elim	Total
United States	\$ 369,811	\$ 709	\$ 4,478	\$ (1,718)	\$ 373,280
Other Americas	57,218	11,013	673	(3,565)	65,339
Europe	3,159	75,421	1,275	(2,693)	77,162
Asia-Pacific	1,107	3,521	3,471	(481)	7,618
Total	\$ 431,295	\$ 90,664	\$ 9,897	\$ (8,457)	\$ 523,399

Nine Months Ended September 30, 2022	North America	International	Products	Corp/Elim	Total
United States	\$ 370,426	\$ 747	\$ 4,366	\$ (2,319)	\$ 373,220
Other Americas	62,254	4,781	338	(2,988)	64,385
Europe	1,790	75,921	1,456	(2,501)	76,666
Asia-Pacific	781	1,992	2,506	(395)	4,884
Total	\$ 435,251	\$ 83,441	\$ 8,666	\$ (8,203)	\$ 519,155

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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 nine months ended September 30, 2023 and 2022 that was included in the contract liability balance at the beginning of such year was \$5.7 million and \$4.0 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 relating 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 two equity incentive plans: (i) the 2009 Long-Term Incentive Plan (the "2009 Plan") and (ii) the 2016 Long-Term Incentive Plan (the "2016 Plan"). No awards have been granted under the 2009 Plan since the 2016 Plan was approved by shareholders in 2016, and the remaining stock option award granted under the 2009 Plan expired during the three months ended March 31, 2022. Awards granted under the 2016 Plan may be in the form of stock options, restricted stock units and other forms of share-based incentives, including performance restricted stock units, stock appreciation rights and deferred stock rights. At the annual shareholders meeting on May 23, 2022, the Company's shareholders approved an amendment to increase the total number of shares that may be issued under the 2016 Plan by 1.2 million, for a total of 4.9 million shares that are authorized for issuance under the 2016 Plan, of which approximately 1,300,000 shares were available for future grants as of September 30, 2023.

Stock Options

During the three months ended March 31, 2022, all remaining outstanding stock options expired. For each of the three and nine months ended September 30, 2023 and 2022, the Company did not recognize any share-based compensation expense related to stock option awards.

Restricted Stock Unit Awards

For the three months ended September 30, 2023 and September 30, 2022, the Company recognized share-based compensation expense related to restricted stock unit awards of \$0.7 million and \$0.9 million, respectively. For the nine months ended September 30, 2023 and 2022, the Company recognized share-based compensation expense related to restricted stock unit awards of \$2.5 million and \$2.8 million, respectively. As of September 30, 2023, there was \$8.1 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 2.7 years. Upon vesting, restricted stock units are generally net share-settled to cover the required withholding tax and the remaining amount is converted into an equivalent number of shares of common stock.

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

	Nine months ended September 30,	
	2023	2022
Restricted stock awards vested	430	326
Fair value of awards vested	\$ 2,639	\$ 2,164

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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:

	Nine months ended September 30,	
	2023	2022
Awards issued	99	70
Grant date fair value of awards issued	\$ 550	\$ 450

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

	Nine months ended September 30,			
	2023		2022	
	Units	Weighted Average Grant-Date Fair Value	Units	Weighted Average Grant-Date Fair Value
Outstanding at beginning of period:	1,415	\$ 7.96	1,208	\$ 7.96
Granted	591	\$ 8.37	675	\$ 7.65
Vested	(430)	\$ 6.14	(326)	\$ 10.03
Forfeited	(120)	\$ 7.96	(42)	\$ 8.19
Outstanding at end of period:	1,456	\$ 7.71	1,515	\$ 7.37

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 2022, the Compensation Committee utilized the same performance metrics for the Company's PRSUs awarded in 2022 as it utilized for the 2021 PRSUs. The three metrics were:

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. *Total Shareholder Return ("TSR")* measures the total return to shareholders of the Company during 2021 versus the total return to the shareholders of a predefined peer group of companies that provide inspection, testing, certification or similar industrial services. The return will be measured by the year over year percent change in share price. The share prices used to calculate the return are the average share price during the 20-trading day period ending on the initial measurement date (the last 20 trading days of 2021), compared to the average share price during the 20-trading day period ending on the final measurement date (the last 20 trading days of 2022). Any cash dividends or distributions paid in 2022 were added to calculate the return to shareholders during the year. TSR is considered a market condition for which the fair value of PRSUs with this condition is determined using a Monte Carlo valuation model. Key assumptions in the Monte Carlo valuation model included:
 - a. *Expected Volatility*. Expected volatility of the Company's common stock at the date of grant was estimated based on a historical average volatility rate for the approximate 1-year performance period.
 - b. *Dividend Yield*. The dividend yield assumption was based on historical and anticipated dividend payouts (assumed at zero).
 - c. *Risk-Free Interest Rate*. The risk-free interest rate assumption was based on observed interest rates consistent with the approximate 1-year performance measurement period.

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For 2023, the Compensation Committee used different performance metrics for PRSUs approved in that year. The three metrics are:

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*

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 on each of the first four anniversary dates following completion of the performance period, for a total requisite service period of up to five years and have no dividend rights.

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

	Nine months ended September 30,			
	2023		2022	
	Units	Weighted Average Grant-Date Fair Value	Units	Weighted Average Grant-Date Fair Value
Outstanding at beginning of period:	280	\$ 9.96	388	\$ 10.07
Granted	282	\$ 8.50	341	\$ 6.55
Performance condition adjustments	(314)	\$ 8.34	(269)	\$ 7.71
Vested	(64)	\$ 5.58	(17)	\$ 6.85
Forfeited	(84)	\$ (6.95)	—	\$ —
Outstanding at end of period:	100	\$ 9.83	443	\$ 9.74

During the nine months ended September 30, 2023, the Compensation Committee approved the final calculation of the award metrics for calendar year 2022. As a result, the calendar year 2023 PRSUs decreased by approximately 314,000 units during the nine months ended September 30, 2023 as a result of the final calculation of award metrics for 2022 awards and based on forecasted results for 2023 as compared to performance metrics determined by the Compensation Committee.

For the three months ended September 30, 2023 and September 30, 2022, the Company recognized aggregate share-based compensation expense related to the awards described above of approximately \$0.1 million and \$0.3 million, respectively. For the nine months ended September 30, 2023 and September 30, 2022, the Company recognized aggregate share-based compensation expense related to the awards described above of approximately \$0.6 million and \$0.9 million, respectively. At September 30, 2023, there was \$ 0.7 million of total unrecognized compensation costs related to approximately 100,000 non-vested PRSUs, which is expected to be recognized over a remaining weighted-average period of 1.0 year.

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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.

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Basic earnings (loss) per share				
Numerator:				
Net income (loss) attributable to Mistras Group, Inc.	\$ (10,298)	\$ 4,373	\$ (14,947)	\$ 3,653
Denominator:				
Weighted average common shares outstanding	30,402	29,965	30,277	29,879
Basic earnings (loss) per share	\$ (0.34)	\$ 0.15	\$ (0.49)	\$ 0.12
Diluted earnings (loss) per share:				
Numerator:				
Net income (loss) attributable to Mistras Group, Inc.	\$ (10,298)	\$ 4,373	\$ (14,947)	\$ 3,653
Denominator:				
Weighted average common shares outstanding	30,402	29,965	30,277	29,879
Dilutive effect of restricted stock units outstanding ⁽¹⁾	—	280	—	330
	30,402	30,245	30,277	30,209
Diluted earnings (loss) per share	\$ (0.34)	\$ 0.14	\$ (0.49)	\$ 0.12

⁽¹⁾ For the three and nine months ended September 30, 2023, 1,508,255 and 926,224 shares related to restricted stock, respectively, were excluded from the calculation of diluted EPS due to the net loss for the period.

5. Acquisitions

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Acquisition-Related Expense

In the course of its acquisition activities, the Company incurs costs in connection with due diligence, such as professional fees, and other expenses. Additionally, the Company adjusts the fair value of acquisition-related contingent consideration liabilities on a quarterly basis. These amounts are reported as Acquisition-related expense, net on the Unaudited Condensed Consolidated Statements of Income (Loss) and were as follows for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Due diligence, professional fees and other transaction costs	\$ —	\$ 1	\$ 5	\$ 18
Adjustments to fair value of contingent consideration liabilities		—		45
Acquisition-related expense, net	\$ —	\$ 1	\$ 5	\$ 63

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

6. Accounts Receivable, net

Accounts receivable consisted of the following:

	September 30, 2023	December 31, 2022
Trade accounts receivable	\$ 138,286	\$ 127,767
Allowance for credit losses	(1,923)	(4,110)
Accounts receivable, net	\$ 136,363	\$ 123,657

The Company had \$27.8 million and \$13.5 million of unbilled revenue accrued as of September 30, 2023 and December 31, 2022, 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.

The Company was contracted to perform inspections of welds on various pipeline projects in Texas for a customer. As of December 31, 2019, approximately \$1.4 million of past due receivables were outstanding from this customer. The Company received notice from the customer in December 2019, alleging that the work performed was not in compliance with the contract. The Company filed a lawsuit to recover the \$1.4 million and other amounts due to the Company and the customer filed a counterclaim, alleging breach of contract and seeking its damages. The Company recorded a full reserve for this receivable during 2019. The parties agreed to a settlement in the quarter ending June 30, 2023 with releases executed in July 2023, whereby the Company released its claim for the \$1.4 million of outstanding receivables. Accordingly, the receivable has been written off. See Note 14-**Commitments and Contingencies** for additional details.

7. Inventory

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Inventories consist of the following (in thousands):

	September 30, 2023	December 31, 2022
Raw materials and consumable supplies	\$ 8,694	\$ 7,745
Work in progress and finished goods	7,086	5,811
Inventories	<u>\$ 15,780</u>	<u>\$ 13,556</u>

8. Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	Useful Life (Years)	September 30, 2023	December 31, 2022
Land		\$ 2,438	\$ 2,529
Buildings and improvements	30-40	25,671	24,800
Office furniture and equipment	5-8	21,318	18,057
Machinery and equipment	5-7	262,370	251,282
		<u>311,797</u>	<u>296,668</u>
Accumulated depreciation and amortization		(232,035)	(219,107)
Property, plant and equipment, net		<u>\$ 79,762</u>	<u>\$ 77,561</u>

Depreciation expense for the three months ended September 30, 2023 and 2022 was approximately \$ 6.6 million and \$5.9 million, respectively.

Depreciation expense for the nine months ended September 30, 2023 and 2022 was \$ 19.0 million and \$18.3 million, respectively.

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, 2022	\$ 185,710	\$ 13,925	\$ —	\$ 199,635
Foreign currency translation	(191)	(126)	—	(317)
Impairment charges	—	(13,799)	—	(13,799)
Balance at 30, September 30, 2023	<u>\$ 185,519</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 185,519</u>

The Company reviews goodwill for impairment on a reporting unit basis on October 1 of each year and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable.

During the 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

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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 estimated using a terminal value calculation, which incorporates historical and forecasted trends, including an estimate of long-term future growth rates, based on the Company's most recent views of the long-term outlook for each reporting unit. The internal forecasts include assumptions about future 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 internally developed forecasts, updated for recent events. Increased interest rates in the current period increased the discount rate associated with the reporting units which contributed in 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 and is included in Goodwill impairment charges on the condensed consolidated statements of income (loss) for the three and nine months ended September 30, 2023. 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.

10. Intangible Assets

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

	Useful Life (Years)	September 30, 2023			December 31, 2022		
		Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	5-18	\$ 109,409	\$ (87,977)	\$ 21,432	\$ 109,683	\$ (84,130)	\$ 25,553
Software/Technology	3-15	53,199	(31,082)	22,117	51,028	(28,669)	22,359
Covenants not to compete	2-5	12,483	(12,429)	54	12,488	(12,416)	72
Other	2-12	10,379	(9,514)	865	10,389	(9,358)	1,031
Total		\$ 185,470	\$ (141,002)	\$ 44,468	\$ 183,588	\$ (134,573)	\$ 49,015

Amortization expense for the three months ended September 30, 2023 and 2022 was approximately \$ 2.2 million and \$2.3 million, respectively.

Amortization expense for the nine months ended September 30, 2023 and September 30, 2022 was \$ 6.5 million and \$6.9 million, respectively.

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11. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2023	December 31, 2022
Accrued salaries, wages and related employee benefits	\$ 27,749	\$ 26,684
Contingent consideration, current portion	—	937
Accrued workers' compensation and health benefits	3,954	3,660
Deferred revenue	7,523	7,521
Pension accrual	2,458	2,519
Right-of-use liability - Operating	10,777	10,376
Other accrued expenses	29,392	26,147
Total	<u>\$ 81,853</u>	<u>\$ 77,844</u>

12. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2023	December 31, 2022
Senior credit facility	\$ 72,118	\$ 65,250
Senior secured term loan, net of unamortized debt issuance costs of \$ 0.4 million and \$0.5 million, respectively	117,572	121,399
Other	4,178	4,602
Total debt	193,868	191,251
Less: Current portion	(8,402)	(7,425)
Long-term debt, net of current portion	<u>\$ 185,466</u>	<u>\$ 183,826</u>

Senior Credit Facility

Prior to entering into the Credit Agreement (defined and described below), the Company had a credit agreement with its banking group (the "Prior Credit Agreement") which provided the Company with a \$150 million revolving credit facility and a \$100 million term loan. The Prior Credit Agreement was most recently amended on May 19, 2021 and had a maturity date of December 12, 2023.

On August 1, 2022, the Company entered into a new credit agreement (the "Credit Agreement") which replaced the Prior Credit Agreement and provides the Company with a \$190 million 5-year committed revolving credit facility and a \$125 million term loan with a balance of \$118 million as of September 30, 2023. 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.

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- 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 New 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.
- 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.

The Credit Agreement was accounted for as a modification and the Company expensed \$ 0.8 million in unamortized capitalized debt issuance costs and fees during the three months ended September 30, 2022, which was included in selling, general and administrative expenses on the Consolidated Statements of Income (Loss). The Company incurred \$1.6 million in financing costs for the Credit Agreement, of which \$ 0.2 million of third party costs were expensed and included in selling, general and administrative expenses on the Consolidated Statements of Income (Loss) during the three months ended September 30, 2022.

As of September 30, 2023, the Company had borrowings of \$ 189.7 million and a total of \$ 2.9 million of letters of credit outstanding under the Credit Agreement. The Company has capitalized costs associated with debt modifications of \$1.2 million as of September 30, 2023, 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 September 30, 2023, 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.

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 September 30, 2023, there was an aggregate of approximately \$4.2 million outstanding, payable at various times through 2030. Monthly payments range from \$1.0 thousand to \$18.0 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

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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:

	Nine months ended September 30,	
	2023	2022
Beginning balance	\$ 938	\$ 1,831
Payments	(938)	(938)
Revaluation	—	45
Ending balance	<u>\$ —</u>	<u>\$ 938</u>

Financial instruments not measured at fair value on a recurring basis

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

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. The Company cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against it. Except for possible losses from the matters described below, 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 was contracted to perform inspections of welds on various pipeline projects in Texas for a customer. As of September 30, 2023, approximately \$1.4 million of past due receivables were outstanding from this customer. The customer provided the Company with notice in December 2019, alleging that the Company's inspection of 66 welds (out of approximately 16,000 welds inspected) were not in compliance with the contract, claimed approximately \$7.6 million in damages, and requested that the Company pay these damages and any other damages incurred. The Company filed a lawsuit in the District Court of Bexar County, Texas, 37th Judicial District on December 17, 2019, in an action captioned Mistras Group, Inc. v. Epic Y-Grade Pipeline LP, to recover the \$1.4 million and other amounts due to the Company. The customer filed a counterclaim on March 6, 2020, alleging breach of contract and seeking recovery of its alleged damages. On April 25, 2023, the parties agreed to settle all claims, and in July 2023, the parties executed a settlement agreement. As part of the settlement, the Company paid \$0.3 million in July 2023 (which the Company estimates is significantly less than the cost of going to trial) and released its claim of \$1.4 million for associated past due receivables which were fully reserved for in prior periods. In the year ended December 31, 2022, the Company recorded a charge of \$0.1 million for a potential loss from this matter. The Company recorded a reserve in the amount of \$1.4 million during the twelve months ended December 31, 2019 for these past due receivables.

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Two proceedings were filed in California Superior Court for the County of Los Angeles regarding alleged violations of the California Labor Code. Both cases were captioned *Justin Price v. Mistras Group, Inc.*, one being a purported class action lawsuit on behalf of current and former Mistras employees in California, filed on June 10, 2020, and the other was filed on September 18, 2020, on behalf of the State of California under the California Private Attorney General Act on the basis of the same alleged violations. The two cases were consolidated and payment was demanded for all damages, including unpaid wages, and various fines and penalties available under California law. On May 4, 2021, the Company agreed to a settlement of all claims in the cases, which was more formally documented pursuant to a settlement agreement completed October 5, 2021, as amended as of May 3, 2022. Pursuant to the settlement, the Company agreed to pay \$2.3 million to resolve the allegations in these proceedings and to be responsible for the employer portion of payroll taxes on the amount of the settlement allocated to wages. The settlement as agreed upon by the parties received final court approval on September 26, 2022, and the Company paid the settlement proceeds and related payroll taxes to the claims administrator in the fourth quarter of 2022. The Company recorded expense of approximately \$1.6 million during the three months ended March 31, 2021 related to this settlement, which is in addition to expense of \$0.8 million the Company recorded during the three months ended December 31, 2020.

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 the subsidiary 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 September 30, 2023 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.
- *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

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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 September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenue				
North America	\$ 148,814	\$ 152,778	\$ 431,295	\$ 435,251
International	30,980	25,693	90,664	83,441
Products and Systems	2,829	3,078	9,897	8,666
Corporate and eliminations	(3,269)	(3,087)	(8,457)	(8,203)
	<u>\$ 179,354</u>	<u>\$ 178,462</u>	<u>\$ 523,399</u>	<u>\$ 519,155</u>
Gross profit				
North America	\$ 44,773	\$ 44,869	\$ 121,088	\$ 118,348
International	8,481	7,694	24,247	25,324
Products and Systems	1,096	1,189	4,773	3,514
Corporate and eliminations	32	32	73	47
	<u>\$ 54,382</u>	<u>\$ 53,784</u>	<u>\$ 150,181</u>	<u>\$ 147,233</u>
Income (loss) from operations				
North America	\$ 18,004	\$ 16,700	\$ 39,719	\$ 35,315
International	(12,970)	814	(13,031)	2,678
Products and Systems	(557)	(333)	(78)	(1,334)
Corporate and eliminations	(9,159)	(8,067)	(29,228)	(22,668)
	<u>\$ (4,682)</u>	<u>\$ 9,114</u>	<u>\$ (2,618)</u>	<u>\$ 13,991</u>
Depreciation and amortization				
North America	\$ 6,603	\$ 6,168	\$ 19,329	\$ 18,927
International	1,915	1,858	5,663	5,835
Products and Systems	183	221	526	559
Corporate and eliminations	47	(50)	(48)	(189)
	<u>\$ 8,748</u>	<u>\$ 8,197</u>	<u>\$ 25,470</u>	<u>\$ 25,132</u>

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	September 30, 2023	December 31, 2022
Intangible assets, net		
North America	\$ 38,619	\$ 43,260
International	3,265	4,422
Products and Systems	1,260	1,208
Corporate and eliminations	1,324	125
	<u>\$ 44,468</u>	<u>\$ 49,015</u>
	September 30, 2023	December 31, 2022
Total assets		
North America	\$ 414,190	\$ 407,779
International	93,951	104,531
Products and Systems	13,557	12,408
Corporate and eliminations	14,992	10,186
	<u>\$ 536,690</u>	<u>\$ 534,904</u>

Refer to Note 2—**Revenue**, for revenue by geographic area for the three and nine months ended September 30, 2023 and 2022.

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16. Subsequent Events

On October 9, 2023, Sotirios Vahaviolos retired as Executive Chairman of the Board (the “Board”) of Mistras Group, Inc., but remains employed as a Senior Advisor to the Chief Executive Officer. In addition, Dr. Vahaviolos continues to serve as a member of the Board and as Chairman Emeritus. On the same day, the Board elected Manuel N. Stamatakis to serve as Chairman of the Board to succeed Dr. Vahaviolos in that role.

On October 9, 2023, the Board also approved the termination without cause of Dennis Bertolotti as the Company’s President and Chief Executive Officer. In connection with his termination as President and Chief Executive Officer, Mr. Bertolotti resigned as a director, effective immediately. The Board appointed Mr. Stamatakis to serve as interim President and Chief Executive Officer until a permanent President and Chief Executive Officer is appointed. The Company expects to record approximately \$2.6 million during the fourth quarter of 2023 related to the termination.

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

The following Management's Discussion and Analysis ("MD&A") provides a discussion of our results of operations and financial position for the three and nine months ended September 30, 2023 and 2022. The MD&A should be read together with our Unaudited Condensed Consolidated Financial Statements and related notes included in Item 1 in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2022, ("2022 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 report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act"). Such forward-looking statements include those that express plans, anticipation, intent, contingency, goals, targets or future development and/or otherwise are not statements of historical fact. These forward-looking statements are based on our current expectations and projections about future events and they are subject to risks and uncertainties known and unknown that could cause actual results and developments to differ materially from those expressed or implied in such statements.

In some cases, you can identify forward-looking statements by terminology, such as "goals," or "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "may," "could," "should," "would," "predicts," "appears," "projects," or the negative of such terms or other similar expressions. You are urged not to place undue reliance on any such forward-looking statements, any of which may turn out to be wrong due to inaccurate assumptions, various risks, uncertainties or other factors known and unknown. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those discussed in the "Business—Forward-Looking Statements," and "Risk Factors" sections of our 2022 Annual Report as well as those discussed in this Quarterly Report on Form 10-Q 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

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 ("IIoT")-connected digital software and monitoring solutions, including

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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.

Our operations consist of three reportable segments: North America (which we previously referred to as our Services segment), 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 is creating disruption 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.

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Earlier in 2022, the Company eliminated substantially all of the COVID related cost reduction initiatives undertaken in 2020, including re-installment of the savings plan employer match and increasing wages back to pre-pandemic amounts. Our cash position and liquidity remains strong. As of September 30, 2023, the cash balance was approximately \$12.8 million and our Credit Agreement provides us with significant liquidity.

In April 2021, the Biden Administration announced aggressive initiatives to battle climate change, which includes potential plans for 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 an impairment was recorded during the quarter ended September 30, 2023 related to the Company's European reporting units. 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. 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.

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Results of Operations

Condensed consolidated results of operations for the three and nine months ended September 30, 2023 and 2022 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenues	\$ 179,354	\$ 178,462	\$ 523,399	\$ 519,155
Gross profit	54,382	53,784	150,181	147,233
<i>Gross profit as a % of Revenue</i>	30.3 %	30.1 %	28.7 %	28.4 %
Income from operations	(4,682)	9,114	(2,618)	13,991
<i>Income from Operations as a % of Revenue</i>	(2.6)%	5.1 %	(0.5)%	2.7 %
Income before provision (benefit) for income taxes	(8,849)	6,379	(14,711)	7,201
Net Income (loss)	(10,338)	4,394	(14,940)	3,707
Net Income (loss) attributable to Mistras Group, Inc.	\$ (10,298)	\$ 4,373	\$ (14,947)	\$ 3,653

Revenue

Revenue was \$179.4 million for the three months ended September 30, 2023, an increase of \$0.9 million, or 0.5%, compared with the three months ended September 30, 2022. Revenue for the nine months ended September 30, 2023 was \$523.4 million, an increase of \$4.2 million, or 0.8%, compared with the nine months ended September 30, 2022.

Revenue by segment for the three and nine months ended September 30, 2023 and 2022 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenue				
North America	\$ 148,814	\$ 152,778	\$ 431,295	\$ 435,251
International	30,980	25,693	90,664	83,441
Products and Systems	2,829	3,078	9,897	8,666
Corporate and eliminations	(3,269)	(3,087)	(8,457)	(8,203)
	<u>\$ 179,354</u>	<u>\$ 178,462</u>	<u>\$ 523,399</u>	<u>\$ 519,155</u>

Three Months

In the three months ended September 30, 2023, total revenue increased 0.5% versus the prior year comparable period due predominantly to increased sales volume as compared to the prior period. North America segment revenue decreased 2.6% due to decreases in sales volume in our aerospace and defense and power generation & transmission end markets, amongst others. International segment revenue increased 20.6%, due predominantly to low double-digit organic growth and mid single-digit favorable foreign exchange rates impact. Products and Systems segment revenue decreased 8.1%, due to decreased sales volume as compared to the prior period.

Oil and gas customer revenue comprised approximately 58% and 54% of total revenue for the three months ended September 30, 2023 and 2022, respectively. Aerospace and defense customer revenue comprised approximately 11% and 12% of total revenue for the three months ended September 30, 2023 and 2022, respectively. The Company's top ten customers comprised approximately 36% of total revenue for the three months ended September 30, 2023, as compared to 32% for the three months ended September 30, 2022, with no customer accounting for 10% or more of total revenue in either three-month period.

Nine months

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In the nine months ended September 30, 2023, total revenue increased 0.8% versus the comparable prior period. The increase was due to organic growth in our core business, partially offset by an unfavorable revenue impact from foreign exchange rates. Our North America segment revenue decreased 0.9% due primarily to decreases in sales volume in our aerospace and defense and other process industries end markets which was partially offset by increased sales volume in our oil and gas end market. International segment revenue increased 8.7% due to mid single-digit organic growth and offset by low single-digit unfavorable revenue impact from foreign exchange rates. Products and Systems segment revenue increased by 14.2% due to increased sales volume within the power generation & transmission end market, as compared to the prior period.

Oil and gas customer revenue comprised approximately 59% and 56% of total revenue for the nine months ended September 30, 2023 and 2022, respectively. Aerospace and defense customer revenue comprised approximately 11% and 12% of total revenue for the nine months ended September 30, 2023 and 2022, respectively. The Company's top ten customers comprised approximately 35% of total revenue for the nine months ended September 30, 2023, as compared to 33% for the nine months ended September 30, 2022, with no customer accounting for 10% or more of total revenue in either nine-month period.

The Company has retrospectively reclassified certain Oil and Gas sub-category revenues for each quarterly period in 2022 in order to conform the classification with the current year presentation. Total Oil and Gas sub-category revenues were unchanged in total in each quarterly period and for the full year ended December 31, 2022. The table below presents the reclassified balances for each quarterly period in the prior year.

2022 Quarterly Revenues				
	Three months ended March 31,	Three months ended June 30,	Three months ended September 30,	Three months ended December 31,
Oil and Gas Revenue by sub-category				
Upstream	\$ 36,397	\$ 38,051	\$ 35,173	\$ 36,435
Midstream	20,427	27,153	25,885	23,540
Downstream	37,399	36,061	35,973	35,258
Total	<u>\$ 94,223</u>	<u>\$ 101,265</u>	<u>\$ 97,031</u>	<u>\$ 95,233</u>

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Oil and Gas Revenue by sub-category					
Upstream	\$	38,041	\$ 35,173	\$ 116,941	\$ 109,621
Midstream		26,215	25,885	74,739	73,465
Downstream		38,996	35,973	116,361	109,433
Total	\$	<u>103,252</u>	<u>\$ 97,031</u>	<u>\$ 308,041</u>	<u>\$ 292,519</u>

Oil and gas upstream customer revenue increased approximately \$7.3 million, or 7%, for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, and \$2.9 million, or 8%, for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022 due to increased exploration operations and market share gains compared to the prior period.

Midstream customer revenues increased approximately \$1.3 million, or 2%, for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, and \$0.3 million, or 1%, for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022 due to comparable pipe inspection services performed in both years.

Downstream customer revenue increased \$6.9 million, or 6%, for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, and \$3.0 million, or 8%, for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022 due to increased sales volume at customer refineries and increased customer turnarounds.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue by type				
Field Services	\$ 122,717	\$ 118,526	\$ 348,501	\$ 345,385
Shop Laboratories	14,840	12,528	42,216	35,533
Data Analytical Solutions	17,997	17,151	52,916	45,786
Other	23,800	30,257	79,766	92,451
Total	\$ 179,354	\$ 178,462	\$ 523,399	\$ 519,155

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 \$3.1 million for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, and increased \$4.2 million, for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022. The increase in both periods was due to increased sales volume in our oil and gas end market for our North America and International segments.

Shop Laboratory revenues are comprised of quality assurance inspections of components and materials at our Mistras in house laboratory facilities. Shop revenues increased by \$6.7 million for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, and increased \$2.3 million for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022. Shop revenues increased in both periods as compared to the prior year quarter due to increased sales volume related to our commercial aerospace and industrials end markets.

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 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 Solutions revenue increased by \$7.1 million for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, and increased \$0.8 million, for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022 due primarily to increased sales volume within PCMS, Onstream and other Data Solutions offerings within our North America segment.

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 \$12.7 million for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, and decreased \$6.5 million, for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022. Other revenues decreased primarily due to decreased sales within the aerospace and defense sector and due to declines in our other end markets within the North America and International segments.

Gross Profit

Gross profit increased by \$0.6 million, or 1.1%, in the three months ended September 30, 2023 versus the prior year comparable period, on an increase in revenue of 0.5%.

Gross profit increased by \$2.9 million, or 2.0%, in the nine months ended September 30, 2023 on an increase in revenue of 0.8%.

Gross profit by segment for the three and nine months ended September 30, 2023 and 2022 was as follows:

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	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Gross profit				
North America	\$ 44,773	\$ 44,869	\$ 121,088	\$ 118,348
% of segment revenue	30.1 %	29.4 %	28.1 %	27.2 %
International	8,481	7,694	24,247	25,324
% of segment revenue	27.4 %	29.9 %	26.7 %	30.3 %
Products and Systems	1,096	1,189	4,773	3,514
% of segment revenue	38.7 %	38.6 %	48.2 %	40.5 %
Corporate and eliminations	32	32	73	47
	<u>\$ 54,382</u>	<u>\$ 53,784</u>	<u>\$ 150,181</u>	<u>\$ 147,233</u>
% of total revenue	30.3 %	30.1 %	28.7 %	28.4 %

Three Months

Gross profit margin was 30.3% and 30.1% for the three-month periods ended September 30, 2023 and 2022, respectively. North America segment realized an increase of 0.7% in gross profit margin to 30.1% during the three months ended September 30, 2023. This was primarily due to reduced overhead costs associated with lower revenues, as compared to the prior year period. International segment realized a decrease of (2.5)% in gross profit margin to 27.4% during the three months ended September 30, 2023 due primarily to increased inflationary costs as compared to the prior year period. Products and Systems segment realized an increase of 0.1% in gross profit margin to 38.7% during the three months ended September 30, 2023 due to favorable sales mix.

Nine months

Gross profit margin was 28.7% and 28.4% for the nine months ended September 30, 2023 and 2022, respectively. Gross profit margin increased due to favorable sales mix.

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Operating Expenses

Operating expenses for the three and nine months ended September 30, 2023 and 2022 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Operating Expenses				
Selling, general and administrative expenses	\$ 39,537	\$ 40,767	\$ 123,844	\$ 123,545
Bad debt provision for troubled customers, net of recoveries	—	—	—	289
Loss on debt modification	—	693	—	693
Reorganization and other costs	2,702	130	6,017	65
Goodwill Impairment Charges	13,799	—	13,799	—
Research and engineering	438	450	1,428	1,523
Depreciation and amortization	2,588	2,629	7,556	8,058
Legal settlement and insurance recoveries, net	—	—	150	(994)
Acquisition-related expense, net	—	1	5	63
	<u>\$ 59,064</u>	<u>\$ 44,670</u>	<u>\$ 152,799</u>	<u>\$ 133,242</u>
% of total revenue	32.9 %	25.0 %	29.2 %	25.7 %

Three months

Total operating expenses increased \$14.4 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, due predominantly to impairment charges of \$13.8 million incurred in the third quarter of 2023 as more fully described in Note 9-**Goodwill** of the Notes to the Unaudited Condensed Consolidated Financial Statements. Selling, general and administrative expenses decreased \$1.2 million during the three months ended September 30, 2023 compared to the three months ended September 30, 2022, due mainly to favorable foreign currency exchange. Depreciation and amortization was flat during the three months ended September 30, 2023 compared to the three months ended September 30, 2022. During the three months ended September 30, 2023, \$2.7 million of reorganization and other related costs were incurred, which were due to the Company's on-going efficiency and productivity initiatives.

Nine months

Operating expenses increased \$19.6 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 due predominantly to impairment charges of \$13.8 million incurred in the third quarter of 2023 as more fully described in Note 9-**Goodwill** of the Notes to the Unaudited Condensed Consolidated Financial Statements. Selling, general, and administrative expenses increased \$0.3 million during the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to favorable foreign currency exchange. Reorganization and other costs for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 increased \$6.0 million due to professional fees and restructuring charges associated with changes in the Company's organizational structure. Depreciation and amortization decreased \$0.5 million during the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022.

Income (loss) from Operations

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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 September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
North America:				
Income from operations (GAAP)	\$ 18,004	\$ 16,700	\$ 39,719	\$ 35,315
Bad debt provision for troubled customers, net of recoveries	—	—	—	289
Reorganization and other costs	35	12	574	40
Legal settlement and insurance recoveries, net	—	—	150	(841)
Acquisition-related expense, net	—	—	—	45
Income from operations before special items (non-GAAP)	\$ 18,039	\$ 16,712	\$ 40,443	\$ 34,848
International:				
Income (loss) from operations (GAAP)	\$ (12,970)	\$ 814	\$ (13,031)	\$ 2,678
Goodwill Impairment charges	13,799	—	13,799	—
Reorganization and other costs, net	33	(15)	228	(114)
Income from operations before special items (non-GAAP)	\$ 862	\$ 799	\$ 996	\$ 2,564
Products and Systems:				
Loss from operations (GAAP)	\$ (557)	\$ (333)	\$ (78)	\$ (1,334)
Reorganization and other costs	189	—	189	—
Income (loss) from operations before special items (non-GAAP)	\$ (368)	\$ (333)	\$ 111	\$ (1,334)
Corporate and Eliminations:				
Loss from operations (GAAP)	\$ (9,159)	\$ (8,067)	\$ (29,228)	\$ (22,668)
Loss on debt modification	—	693	—	693
Reorganization and other costs	2,445	133	5,026	139
Acquisition-related expense, net	—	1	5	19
Legal settlement and insurance recoveries, net	—	—	—	(153)
Loss from operations before special items (non-GAAP)	\$ (6,714)	\$ (7,240)	\$ (24,197)	\$ (21,970)
Total Company:				
Income (loss) from operations (GAAP)	\$ (4,682)	\$ 9,114	\$ (2,618)	\$ 13,991
Bad debt provision for troubled customers, net of recoveries	—	—	—	289
Goodwill Impairment charges	13,799	—	13,799	—
Reorganization and other costs	2,702	130	6,017	65
Loss on debt modification	—	693	—	693
Legal settlement and insurance recoveries, net	—	—	150	(994)
Acquisition-related expense, net	—	1	5	64
Income from operations before special items (non-GAAP)	\$ 11,819	\$ 9,938	\$ 17,353	\$ 14,108

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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 September 30, 2023, income from operations (GAAP) decreased \$13.8 million compared with the three months ended September 30, 2022, while income before special items (non-GAAP) increased \$1.9 million for the three months ended September 30, 2023 compared with the three months ended September 30, 2022. As a percentage of revenue, income before special items increased by 100 basis points to 6.6% in the three months ended September 30, 2023 from 5.6% in the three months ended September 30, 2022.

Nine months

For the nine months ended September 30, 2023, income from operations (GAAP) decreased \$16.6 million, compared with the nine months ended September 30, 2022, while income from operations before special items (non-GAAP) increased \$3.2 million for the nine months ended September 30, 2023 compared with the nine months ended September 30, 2022. As a percentage of revenue, income from operations before special items increased by 60 basis points to 3.3% in the nine months ended September 30, 2023 from 2.7% in the nine months ended September 30, 2022. During the nine months ended September 30, 2023, the Company experienced overall organic growth offset by increased reorganization costs.

Interest Expense

Interest expense was approximately \$4.2 million and \$2.7 million for the three months ended September 30, 2023 and 2022, respectively. Interest expense was approximately \$12.1 million and \$6.8 million for the nine months ended September 30, 2023 and 2022, respectively. The increase in the three months ended September 30, 2023 was due to an increase in interest rates compared to the prior year period. The increase in interest expense for the nine months ended September 30, 2023 compared to the prior year period was due to an increase in the interest rates, partially offset by a decrease in outstanding borrowings.

Income Taxes

Our effective income tax rate was approximately (16.8)% and 31.1% for the three months ended September 30, 2023 and 2022, respectively. Our effective income tax rate was approximately (1.6)% and 48.5% for the nine months ended September 30, 2023 and 2022, respectively.

The effective income tax rate for the three months ended September 30, 2023 was lower than the statutory rate primarily due to the impact of permanent tax adjustments related to executive compensation and goodwill impairment. The effective income tax rate for the three months ended September 30, 2022 was higher than the statutory rate primarily due to various permanent tax adjustments and a \$0.1 million valuation allowance recorded on a foreign jurisdiction.

The effective income tax rate for the nine months ended September 30, 2023 was lower than the statutory rate primarily due to the impact of permanent tax adjustments related to executive compensation and goodwill impairment. The effective income tax rate for the nine months ended September 30, 2022 was higher than the statutory rate due primarily to various permanent tax adjustments and a \$0.9 million valuation allowance recorded during the period which was related to a foreign jurisdiction.

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.

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Liquidity and Capital Resources

Cash flows are summarized in the table below:

	Nine months ended September 30,	
	2023	2022
Net cash provided by (used in):		
Operating activities	\$ 10,684	\$ 10,531
Investing activities	(15,170)	(8,877)
Financing activities	(1,839)	(4,753)
Effect of exchange rate changes on cash	(1,411)	(2,927)
Net change in cash and cash equivalents	\$ (7,736)	\$ (6,026)

Cash Flows from Operating Activities

During the nine months ended September 30, 2023, cash provided by operating activities was \$10.7 million, representing a year-on-year increase of \$0.2 million, or 1%. The increase was primarily related to decreased days sales outstanding in the current year period and offset by an increase in prepaid expenses and other assets.

Cash Flows from Investing Activities

During the nine months ended September 30, 2023, cash used in investing activities was \$15.2 million, compared to \$8.9 million net cash used in investing activities for the nine months ended September 30, 2022. 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 used in financing activities was \$1.8 million for the nine months ended September 30, 2023, compared to net cash used in financing activities of \$4.8 million for the nine months ended September 30, 2022. This was primarily due to during the nine months ended September 30, 2023, net repayments of debt were approximately \$2.2 million higher as compared to 2022.

Effect of Exchange Rate Changes on Cash and Cash Equivalents

The effect of exchange rate changes on our cash and cash equivalents was a decrease of \$1.4 million in the nine months ended September 30, 2023, compared to a decrease of \$2.9 million for the nine months ended September 30, 2022. 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 September 30, 2023, we had cash and cash equivalents totaling \$12.8 million and \$114.2 million of unused commitments under our Credit Agreement with borrowings of \$189.7 million and \$2.9 million of letters of credit outstanding. We finance operations primarily through our existing cash balances, cash collected from operations, bank borrowings and capital lease financing. We believe these sources are sufficient to fund our operations for the foreseeable future.

As of September 30, 2023, 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 2022 Annual Report.

Off-balance Sheet Arrangements

During the nine months ended September 30, 2023, 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 2022 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 2022 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 September 30, 2023, 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 September 30, 2023 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 2022 Annual Report, except as disclosed in such Note 14-**Commitments and Contingencies**.

ITEM 1.A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risk factors discussed under the "Risk Factors" section included in our 2022 Annual Report. Except as described below, there have been no material changes to the risk factors previously disclosed in the 2022 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

None

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

During the three months ended September 30, 2023, none of the Company's directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) adopted, terminated or modified a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933).

ITEM 6. Exhibits

Exhibit No.	Description
<u>10.1</u>	<u>Employment Agreement between the Company and Gennaro A. D'Alterio dated September 11, 2023 (filed herewith).</u>
<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	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: November 6, 2023

EMPLOYMENT AGREEMENT

This Employment Agreement (the “**Agreement**”) is dated as of September 11, 2023 (the “**Effective Date**”) by and between Mistras Group, Inc., a Delaware corporation (the “**Company**”), and Gennaro A. D’Alterio (“**Executive**”).

Recital:

WHEREAS, this Agreement sets forth the terms and conditions of the Company’s employment of Executive.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

1. **Employment**. The Company shall employ Executive and Executive shall be employed by the Company upon the terms and conditions set forth in this Agreement.
 2. **Term**. Executive’s employment pursuant to this Agreement will commence on the Effective Date and will continue until terminated in accordance with Section 10 hereof.
 3. **Position and Duties; Full Time Commitment**
 - a. Executive shall serve as the Executive Vice President and Chief Commercial Officer of the Company, and in this position, Executive will report to, and be subject to the control and direction of, the Company’s Senior Executive Vice President and Chief Financial Officer and carry out such duties and responsibilities as are customarily performed by persons in Executive’s position within the industry and such other duties and responsibilities as the Company may reasonably assign to him from time to time. Schedule A attached hereto sets forth some of those duties and responsibilities that the Company currently expects Executive to perform, subject to the Company’s reservation of the right to reasonably change these duties and responsibilities or to reasonably assign to Executive other duties and responsibilities, as well as some of the key expectations of the Company in its hiring of Executive.
 - b. Executive agrees to devote his full business time and best efforts to the performance of his duties and responsibilities hereunder and in furtherance of the Company’s interests and will not engage in any other employment, consulting or business services; provided that Executive may engage in charitable activities so long as such activities do not interfere with the performance of his duties and responsibilities hereunder.
 4. **Company Policies**. Executive will comply with all policies of the Company in effect from time to time, including (without limitation) policies regarding ethics, personal conduct, stock ownership, securities trading, compensation clawbacks and hedging and pledging of securities.
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5. **Place of Performance.** Executive's principal place of employment will be at the Company's offices in Princeton Junction, New Jersey; provided, however, that Executive will be required to travel from time to time for business purposes.
6. **Salary.** Executive's position with the Company is a full-time exempt position. The Company will pay Executive a salary (the "**Base Salary**") at an initial annual rate of \$380,000, payable in accordance with the Company's standard payroll schedule and subject to applicable deductions and withholdings. The amount of the Base Salary shall be reviewed on an annual basis by the Company in conjunction with an annual performance assessment of Executive and may be increased or decreased from time to time by the Company
7. **Annual Incentive Awards.**
- a. For each calendar year (other than calendar year 2023) during his employment, Executive will have the opportunity to earn an annual incentive award under the Company's "Executive annual incentive plan" (sometimes referred to as the "Executive annual bonus plan") applicable to senior executives generally, with Executive's annual incentive target opportunity amount (and range of potential payouts, if any) for each calendar year (other than calendar year 2023) to be set by the Company and to be dependent upon the extent to which performance targets established by the Company are or are not achieved for such year. Any annual incentive award that is earned by Executive will be payable consistent with the Company's regular payroll practices applicable to annual incentive awards for senior executives generally. The Company expects that Executive's annual incentive award opportunity for calendar year 2024 may include performance targets tied to revenue and new business generation. Except as otherwise provided herein or determined by the Company, payment of any otherwise earned annual incentive award will be conditioned on Executive's continued employment through the date that annual incentive awards are paid to senior executives generally with respect to the applicable year.
 - b. For calendar year 2023, Executive will have the opportunity to earn an annual incentive award under the Company's previously established "Executive annual incentive plan" (sometimes, as noted above, referred to as the "Executive annual bonus plan") applicable to senior executives generally for calendar year 2023, but with the amount of amount of any payment on account thereof to be pro-rated and computed as follows: *first*, the target amount (prior to the following proration) shall be equal to 50% of the Base Salary (and with the actual award amount (the "nominal amount"), if any and prior to the following proration, ranging from 0 to 200% of the target amount, depending upon the extent to which performance targets previously established by the Company under the annual incentive plan for calendar year 2023 are or are not achieved, and with the weightings among such performance targets applied in the same manner for Executive); and *second*, the actual payment amount, if any, shall be pro-rated to equal the product of the nominal amount multiplied by a fraction the numerator of which is the number of days from and including the Effective Date to and including December 31, 2023 and the denominator of which is three hundred sixty-five (365).
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8. Long-Term Equity Incentive Grants.

- a. Reference is hereby made to hereby to the Company's 2016 Long-Term Incentive Plan (as amended from time to time, the "**LTIP**"). On the Effective Date, Executive shall be granted, on a one-time basis, Restricted Stock Units (as defined in the LTIP) that represents the right to receive up to ten thousand (10,000) Shares (as defined in the LTIP) in the future (collectively, the "**Initial RSUs**"), provided that the Initial RSUs shall vest in three (3) equal installments on each of the first three anniversary dates of the Effective Date, conditioned upon the continued employment of Executive on such vesting dates and except as otherwise provided in Section 11 below. Except as provided for in this Section 8(a) and in Section 11 below, the Initial RSUs shall be subject to the terms of the LTIP, including Article 6 and Article 9 thereof.
 - b. For each calendar year (other than calendar year 2023) during his employment, Executive will be eligible to receive a grant of performance-based equity, which, as of the Effective Date, is contemplated to be in the form of Restricted Stock Unit Awards ("**Performance-Based RSUs**") under the LTIP or a successor plan. Executive's performance-based target equity opportunity amount (and range of potential payouts, if any) for each calendar year (other than calendar year 2023) will be set by the Company and will be dependent upon the extent to which performance targets established by the Company are or are not achieved for such year. The Company expects that Executive's performance-based equity in the form of Performance-Based RSUs for calendar year 2024 may include performance targets tied to revenue and new business generation.
 - c. For calendar year 2023, Executive will be eligible to receive a number of performance-based Restricted Stock Units under the LTIP as follows: *first*, any issuance of Restricted Stock Units to Executive for calendar year 2023 ("**2023 RSUs**") will be contingent upon, and a direct function of, the extent to which the previously established performance targets applicable to performance-based equity for senior executives generally for calendar year 2023 are or are not achieved (and with the weightings among such performance targets applied in the same manner for Executive); *second*, the target dollar amount of the 2023 RSUs (prior to the following proration) shall be equal to 80% of the Base Salary (and with the actual award amount, if any and prior to proration, ranging from 0 to 200% of the target dollar amount, depending upon the extent to which such previously established performance targets for calendar year 2023 are or are not achieved); *third*, the actual award amount (the "nominal amount"), if any, shall be pro-rated to equal the product of the nominal amount multiplied by a fraction the numerator of which is the number of days from and including the Effective Date to and including December 31, 2023 and the denominator of which is three hundred sixty-five (365); and *fourth*, the resulting dollar amount shall be converted into a number of earned 2023 RSUs using the Company's valuation methodology for conversions generally applicable to other senior executives.
 - d. Any earned 2023 RSUs shall vest in four equal installments on each of the first four anniversary dates of the Earned Date (as defined below), subject to the
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continued employment of Executive on such vesting dates and except as otherwise provided in Section 11 and the LTIP. Except as provided for in this Section 8(d) and in Section 11 below, the Performance-Based RSUs and 2023 RSUs shall be subject to the terms of the LTIP, including Article 6 and Article 9 thereof. The “**Earned Date**” in respect of Performance-Based RSUs and 2023 RSUs, as applicable, shall be the date on which the Committee (as defined in the LTIP) or its designee has determined the achievement levels in respect thereof.

- e. Each equity award described herein will be subject to additional terms and conditions, not inconsistent with this Agreement, as specified by the administrator of the applicable equity plan and memorialized in a separate award agreement.

9. **Benefits; Business Expenses.**

- a. Executive shall be entitled to participate in Company benefit plans that are generally available to other employees of the Company of similar rank and tenure, in accordance with and subject to the terms and conditions of such plans, as in effect from time to time. These benefits include opportunities to enroll in the Company’s medical, dental, vision, supplemental life insurance and dependent life insurance plans. Moreover, on the first day of the month following three (3) months of continuous employment, Executive may elect to participate in the Company’s 401(k) Salary Savings plan. Executive will be eligible for vacation under the Paid Time Off Policy for other Company executives. In addition, as of the date of this Agreement, the Company offers eligible employees basic life insurance, accidental death and dismemberment (AD&D) insurance, short-term and long-term disability insurance and identity theft protection at no additional cost.
 - b. The Company will pay or reimburse Executive for all reasonable business expenses incurred or paid by Executive in the performance of his duties and responsibilities for the Company in accordance with the expense reimbursement policies of the Company, as may be amended from time to time.
 - c. For each calendar year during his employment, Executive shall receive an annual vehicle allowance of \$10,100, which shall be paid ratably in accordance with the Company’s standard payroll schedule and subject to applicable deductions and withholdings; provided that the annual vehicle allowance will be pro-rated for calendar year 2023. Executive acknowledges that (except for “excess business mileage” and parking and toll expenses incurred in business travel-related outside of normal commuting, which shall be reimbursable in accordance with Section 9(b)) the annual vehicle allowance is inclusive of all fuel, insurance, maintenance and other costs and expenses associated with his acquisition (whether by lease or otherwise) and maintenance of his selected vehicle and that payments on account of the annual vehicle allowance may result in his receipt of additional taxable income.
 - d. The Company will reimburse Executive for his out-of-pocket costs of continuing healthcare benefits with his prior employer under the Consolidated Omnibus
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Budget Reconciliation Act of 1985 (“**COBRA**”), less the amount Executive would contribute for healthcare benefits for comparable coverage under the Company’s plans, until Executive is eligible to enroll in the Company’s healthcare benefit plans, subject to his continued employment by the Company until the first day of the applicable month.

10. **Termination**.

- a. Executive’s employment hereunder shall terminate on the earliest of: (i) on the date set forth in a written notice to Executive from the Company that Executive’s employment with the Company has been or will be terminated, (ii) on the date not less than 30 days following written notice from Executive to the Company that Executive is resigning from the Company, (iii) on the date of Executive’s death, or (iv) on the date set forth in a written notice to Executive from the Company that Executive’s employment is terminated on account of Executive’s Disability, as determined by the Company. Notwithstanding the foregoing, in the event that Executive gives notice of termination to the Company, the Company may unilaterally accelerate the date of termination and such acceleration shall not constitute a termination by the Company for purposes of this Agreement.
 - b. Upon cessation of Executive’s employment for any reason, unless otherwise consented to in writing by the Company, Executive will resign immediately from any and all officer, director and other positions Executive then holds with the Company and its affiliates and agrees to execute such documents as may be requested by the Company to confirm that resignation.
 - c. Upon any cessation of Executive’s employment with the Company, Executive will be entitled only to such compensation and benefits as described in Section 11 below.
 - d. Executive agrees that, following any cessation of his employment and subject to reimbursement of his reasonable expenses, he will cooperate with the Company and its counsel with respect to any matter (including litigation, investigations, or governmental proceedings) in which Executive was in any way involved during his employment with the Company. Executive agrees to render such cooperation in a timely manner on reasonable notice from the Company, provided the Company exercises reasonable efforts to limit and schedule the need for Executive’s cooperation so as not to materially interfere with his other professional obligations.
 - e. Executive agrees that, upon any cessation of his employment, he will deliver to the Company (and will not retain in his possession or control, or deliver to anyone else) all property and equipment of the Company, including without limitation (i) all keys, books, records, computer hardware, software, cellphones, access cards, credit cards and identification, and (ii) all other Company materials (including copies thereof), including without limitation any records, data, notes, reports, proposals, lists or correspondence.
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11. Rights Upon Termination.

- a. **Termination without Cause or Resignation for Good Reason** If Executive's employment by the Company ceases due to a termination by the Company without Cause (as defined in Section 14) or a resignation by Executive for Good Reason (as defined in Section 14):
- i. the Company shall pay to Executive all accrued and unpaid Base Salary through the date of such cessation of employment at the time such Base Salary would otherwise be paid according to the Company's usual payroll practices;
 - ii. the Company shall pay to Executive any business expenses that were incurred prior to the date of such cessation of employment but not reimbursed and that are otherwise eligible for reimbursement;
 - iii. to the extent then unpaid, the Company shall pay to Executive the annual incentive award (if any) earned with respect to the calendar year ended immediately prior to the date of such cessation of employment;
 - iv. the Company shall make twelve (12) monthly severance payments to Executive, with each payment equal to one-twelfth (1/12) of the Base Salary as in effect immediately prior to such cessation of employment (or, if such cessation is due to the Good Reason described in clause (ii) of that definition, the Base Salary in effect immediately prior to such material diminution); provided, however, that if the cessation of Executive's employment with the Company due to a termination by the Company without Cause or a resignation by Executive for Good Reason occurs within ninety (90) days preceding or twelve (12) months after the date of a Change in Control (as defined in Section 14), then, in lieu of the foregoing, the number of monthly severance payments shall be changed to eighteen (18), with each payment equal to one-eighteenth (1/18) of 150% of the Base Salary as in effect immediately prior to such cessation of employment (or, if such cessation is due to the Good Reason described in clause (ii) of that definition, the Base Salary in effect immediately prior to such material diminution);
 - i. the Company shall pay to Executive a lump sum cash payment equal to a pro rata portion of the annual incentive award, if any, that Executive would have earned for the calendar year of his termination based on achievement of the applicable performance targets for such year (the "**Terminal Award**") and, for the avoidance of doubt, if and to the extent that any portion of such achievement is based on subjective or judgmental factors, the Company's determination of the extent of such achievement (if any) shall be final and binding. The pro-rated portion of the Terminal Award shall be determined by multiplying the Terminal Award by a fraction, the numerator of which is the number of days during which Executive was employed by the Company in the calendar year of his
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termination of employment and the denominator of which is three hundred sixty-five (365). Notwithstanding the foregoing, if the cessation of Executive's employment with the Company due to a termination by the Company without Cause or a resignation by Executive for Good Reason occurs within ninety (90) days preceding or twelve (12) months after the date of a Change in Control, then in lieu of the foregoing, Executive shall receive 1.50 times his "base amount," which "base amount" for Executive as of the Effective Date shall mean Executive's annual incentive award target amount for the calendar year of Executive's termination of employment; provided, however, that the formulation of the "base amount" is subject to change if the formulation for the base amount for similarly situated executives who experience a qualifying termination within an specified time window of a Change in Control is hereafter changed to something other than "annual incentive award target amount" for the calendar year of employment termination. Unless the payment is required to be delayed pursuant to Section 12 below, the payment shall be made on the date that annual incentive awards are paid to similarly situated executives (or if later, the Settlement Date (as defined below)), but in no event later than two-and-a-half months following the end of the calendar year in which Executive's termination date occurs;

- ii. if, immediately before the cessation of Executive's employment, Executive participates (other than pursuant to COBRA) in a Company group health plan, then, for the twelve (12) months following the date of such cessation (or, if sooner, if executive becomes eligible to obtain coverage under another employer plan), the Company will provide COBRA continuation coverage under such plan to Executive and his spouse at the Company's expense, if and to the extent they or either of them shall have elected and shall be entitled to receive COBRA continuation coverage; and Executive shall provide immediate notice to the Company of such election and the date of such entitlement. The Company may impute income to Executive in an amount determined by the Company, in its sole discretion, to the extent the Company determines that such imputation of income is necessary to mitigate the risk of penalties and/or taxes to Executive or the Company, or to otherwise comply with applicable law; and
 - iii. Executive will immediately vest solely in (1) all of the Initial RSUs and that have not vested on such cessation date and (2) those Performance-Based RSUs and/or 2023 RSUs earned prior to the date of such cessation of employment and that (but for such cessation of employment) are scheduled to vest during (but not after) the one-year period following such cessation date; and, except as provided in the foregoing clauses (1) and (2), all other unvested and/or unearned Shares and equity-based awards then held by Executive will remain outstanding and held in suspense for ninety (90) days following such termination and (l) if a Change of Control occurs within such ninety (90) day period, then, in such circumstances only, those Shares and equity-based incentive awards shall become fully
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vested, with any performance-based equity awards then otherwise subject to an open performance period (as of the later of the termination or Change in Control) being deemed earned at the target amount established by the Company in connection with the grant of the applicable performance-based equity awards and (II) if a Change of Control does not occur within such ninety (90) day period, those Shares and equity-based awards shall be forfeited on such ninetieth (90th) day.

Except as and solely to the extent otherwise provided in this Section 11(a), all compensation and benefits will cease at the time of Executive's cessation of employment and the Company will have no further liability or obligation by reason of such cessation of employment. The payments and benefits described in this Section 11(a) are in lieu of, and are not in addition to, any other severance arrangements maintained by the Company, including but not limited to severance arrangements in Company plans of applicability to other executives. Notwithstanding any provision of this Agreement, the payments and benefits described in Section 11(a)(iii) - 11(a)(vii) are conditioned on Executive's execution and delivery to the Company and the expiration of all applicable statutory revocation periods, by the 60th day following the effective date of Executive's cessation of employment, of a general release of claims against the Company and its affiliates in a form and manner satisfactory to the Company (the "**Release**") and on Executive's continued compliance with the provisions of Section 15 below.

Subject to Section 12 below (to the extent applicable) and provided the Release requirement described above has been timely satisfied: (x) the payment described in Section 11(a)(iii) will be paid on the later of the sixty-fifth (65th) day following Executive's cessation of employment (the "**Settlement Date**") or the date such annual incentive award would have otherwise been paid, absent Executive's cessation of employment, but in no event later than March 15 of the year following the year to which such annual incentive award relates; and (y) the payments described in Section 11(a)(iv) will commence to be paid on the Settlement Date, provided that the initial payment will include any payments that, but for the above-described timing rule, would have otherwise been paid since the date of Executive's related cessation of employment.

- b. **Other Terminations.** If Executive's employment with the Company ceases for any reason other than as described in Section 11(a) above (including but not limited to (i) termination by the Company for Cause, (ii) resignation by Executive without Good Reason, (iii) termination as a result of Executive's Disability (as defined in Section 14), or (iv) Executive's death), then the Company's obligation to Executive will be limited solely to the payment of accrued and unpaid Base Salary through the date of such cessation of employment and payment of any business expenses that were previously incurred but not reimbursed and are otherwise eligible for reimbursement. Except as otherwise provided by COBRA, all compensation and benefits will cease at the time of such cessation of employment and the Company will have no further liability or obligation by reason of such termination; and, for the avoidance of doubt, all unvested and/or unearned equity and equity-based awards then held by Executive (including, without limitation, Initial RSUs, 2023 RSUs and Performance-Based RSUs) will be forfeited; provided, however, that, notwithstanding the foregoing, but without limiting Section 11(a), if Executive's employment with the Company ceases as a
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result of Executive's Disability or death then (i) any then unvested Initial RSUs shall thereupon vest and (ii) any other unvested and/or unearned equity and equity-based awards then held by Executive shall vest if and to the extent determined by the Committee at or after the time of the grant of the applicable awards. The foregoing will not be construed to limit Executive's right to payment or reimbursement for claims incurred prior to the date of such termination under any insurance contract funding an employee benefit plan or arrangement of the Company in accordance with the terms of such insurance contract.

12. Section 409A.

- a. The parties intend for this Agreement to comply with or be exempt from Section 409A of the Code, and all provisions of this Agreement will be interpreted and applied accordingly. Nonetheless, the Company does not guaranty the tax treatment of any compensation payable to Executive.
 - b. Notwithstanding anything to the contrary in this Agreement, no portion of the benefits or payments to be made under Section 11(a) or 11(b)(ii) above will be payable until Executive has a "separation from service" from the Company within the meaning of Section 409A of the Code. In addition, to the extent compliance with the requirements of Treas. Reg. § 1.409A-3(i)(2) (or any successor provision) is necessary to avoid the application of an additional tax under Section 409A of the Code to payments due to Executive upon or following his "separation from service," then notwithstanding any other provision of this Agreement (or any otherwise applicable plan, policy, agreement or arrangement), any such payments that are otherwise due within six months following Executive's "separation from service" (taking into account the preceding sentence of this paragraph) will be deferred without interest and paid to Executive in a lump sum immediately following that six month period. This paragraph should not be construed to prevent the application of Treas. Reg. § 1.409A-1(b)(9)(iii) (or any successor provision) to amounts payable hereunder. For purposes of the application of Section 409A of the Code, each payment in a series of payments will be deemed a separate payment.
 - c. Notwithstanding anything in this Agreement to the contrary, to the extent an expense, reimbursement or in-kind benefit provided to Executive pursuant to this Agreement or otherwise constitutes a "deferral of compensation" within the meaning of Section 409A of the Code: (i) the amount of expenses eligible for reimbursement or in-kind benefits provided to Executive during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to Executive in any other calendar year, (ii) the reimbursements for expenses for which Executive is entitled to be reimbursed shall be made on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred, and (iii) the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit.
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13. **Section 280G.** Notwithstanding any contrary provision of this Agreement (or any plan, policy, agreement or other arrangement covering Executive), if any payment, right or benefit paid, provided or due to Executive, whether pursuant to this Agreement or otherwise (each, a “**Payment**,” and collectively, the “**Total Payments**”), would subject Executive to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then the Total Payments will be reduced to the minimum extent necessary to avoid the imposition of the Excise Tax, but only if (i) the amount of such Total Payments, as so reduced, is greater than or equal to (ii) the amount of such Total Payments without reduction (in each case, determined by the Company on an after-tax basis). Any reduction of the Total Payments required by this paragraph will be implemented by determining the Parachute Ratio (as defined below and determined by the Company) for each Payment and then by reducing the Payments in order, beginning with the Payment with the highest Parachute Ratio. For Payments with the same Parachute Ratio, later Payments will be reduced before earlier Payments. For Payments with the same Parachute Ratio and the same time of payment, each Payment will be reduced proportionately. For purposes of this paragraph, “**Parachute Ratio**” means a fraction, (x) the numerator of which is the value of the applicable Payment, as calculated for purposes of Section 280G of the Code, and (y) the denominator of which is the economic value of the applicable Payment.

14. **Certain Definitions.** For purposes of this Agreement:

- a. “**Cause**” means any of the following: (i) failure of Executive to perform his duties and responsibilities to the Company (other than by reason of Executive’s physical or mental illness, incapacity or disability) which has continued for more than thirty (30) days following written notice of such non-performance from the Company; (ii) misconduct by Executive in connection with the performance of his duties and responsibilities to the Company, including, without limitation, a breach of fiduciary duties or a misappropriation of funds or property; (iii) the commission by Executive of any felony; (iv) the commission by Executive of a misdemeanor involving moral turpitude, deceit, dishonesty or fraud; (v) any conduct by Executive that would reasonably be expected to result in injury or reputational harm to the Company or any of its subsidiaries and affiliates; (vi) a breach by Executive of any agreement with the Company or its affiliates, which breach is not cured (if curable) within thirty (30) days after the delivery of written notice thereof (provided that if any such agreement includes a cure period and if such cure period is less than thirty (30) days, such shorter cure period shall apply); (vii) a violation by Executive of the Company’s written employment policies, which violation is not cured (if curable) within thirty (30) days after the delivery of written notice thereof (provided that if any such policies include a cure period and if such cure period is less than thirty (30) days, such shorter cure period shall apply); or (viii) Executive’s failure to cooperate with a *bona fide* internal investigation or an investigation by regulatory or law enforcement authorities, after being instructed by the Company to cooperate, or the willful destruction or failure to preserve documents or other materials known to be relevant to such investigation or the inducement of others to fail to cooperate or to produce documents or other materials in connection with such investigation. In regard to each of those clauses in this definition of “Cause” that afford Executive a “cure right,” such cure right shall apply solely to the first failure, breach or violation by
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Executive that gives rise to the cure right and shall not apply to any repeat or subsequent failure, breach or violation involving similar actions or omissions, whether or not related to the first failure, breach or violation. For avoidance of doubt, a termination of Executive's employment due to his Disability will not constitute a termination without Cause.

- b. **"Change in Control"** has the meaning given to this term in the LTIP.
- c. **"Code"** means the Internal Revenue Code of 1986, as amended.
- d. **"Disability"** means a condition entitling Executive to benefits under the Company's long term disability plan, policy or arrangement; provided, however, that if no such plan, policy or arrangement is then maintained by the Company and applicable to Executive, **"Disability"** will mean Executive's inability to perform his duties under this Agreement due to a mental or physical condition (other than alcohol or substance abuse) that can be expected to result in death or that can be expected to last (or has already lasted) for a continuous period of 90 days or more, or for 120 days in any 180 consecutive-day period. Termination as a result of a Disability will not be construed as a termination by the Company "without Cause."
- e. **"Good Reason"** means: (i) a reduction in the Base Salary that exceeds ten percent (10%) of the Base Salary as in effect immediately prior to the reduction (excluding, however, the impact of across-the-board salary reductions similarly affecting other senior executives of the Company); (ii) an annual cash incentive target opportunity amount set at less than 40% of the Base Salary (excluding, however, the impact of across-the-board reductions to annual incentive target opportunity amounts similarly affecting other senior executives of the Company); (iii) an annual equity incentive target opportunity amount (as measured using the same valuation methodology generally applicable to other senior executives) set at less than 70% of the Base Salary (excluding, however, the impact of across-the-board reductions to equity incentive target opportunity amounts similarly affecting other senior executives of the Company); (iv) a Company-mandated relocation of Executive's principal place of employment to a location that is more than 50 miles from Princeton Junction, New Jersey; or (v) the material breach of this Agreement by the Company; provided, however, that no such event will constitute Good Reason unless (x) Executive provides the Company with written objection to such event within 30 days after the initial occurrence thereof, (y) such event is not reversed or corrected by the Company within 30 days of its receipt of such written objection, and (z) Executive separates from service within 30 days following the expiration of that cure period.

15. **Restrictive Covenants.**

- a. **Access to Secret and Confidential Information** The Company has furnished and shall furnish to Executive secret and confidential information with respect to the Company and its affiliates (collectively **"Secret and Confidential Information"**), to which Executive would not otherwise have access and of
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which Executive would not otherwise have knowledge. Secret and Confidential Information includes, without limitation, technical and business information, whether patentable or not, which is of a confidential, trade secret or proprietary character, and which is either developed by Executive alone, with other or by others; lists of customers; identity of customers; identity of prospective customers; contract terms; bidding information and strategies; pricing methods or information; computer software; computer software methods and documentation; hardware; methods of operation; the procedures, forms and techniques used in servicing accounts; and other information or documents that the Company or any of its affiliates requires to be maintained in confidence for its or their continued business success.

b. Non-Disclosure of Secret and Confidential Information

- i. Executive shall not, during the period of his employment with the Company or at any time thereafter, disclose to anyone, including, without limitation, any person, firm, corporation, or other entity, or publish, or use for any purpose, any Secret and Confidential Information, except as properly required in the ordinary course of the Company's business or as directed and authorized by the Company or as required by court order, law or subpoena, or other legal compulsion to disclose, it being understood that information that is known generally in the industry or is otherwise available to the public (other than as a result of a violation of Executive's obligation under this Section 15) shall not be considered Secret and Confidential Information.
 - ii. Notwithstanding the foregoing, pursuant to 18 U.S.C. Section 1833(b), Executive shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that: (A) is made in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.
 - iii. Similarly, notwithstanding anything herein to the contrary, Executive understands that this Agreement will not (1) prohibit him from making reports of possible violations of federal law or regulation to any governmental agency or entity in accordance with the provisions of and rules promulgated under Section 21F of the Securities Exchange Act of 1934, as amended, or Section 806 of the Sarbanes-Oxley Act of 2002, or of any other whistleblower protection provisions of federal law or regulation, or (2) require notification or prior approval by the Company of any such report; provided that, Executive is not authorized to disclose communications with counsel that were made for the purpose of receiving legal advice or that contain legal advice or that are protected by the attorney work product or similar privilege.
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- c. **Duty to Return Company Documents and Property.** Upon the termination of Executive's employment with the Company for any reason, Executive shall immediately return and deliver to the Company any and all papers, books, records, documents, memoranda and manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, belonging to the Company or relating to its business, in Executive's possession or control, whether prepared by Executive or others. If at any time after the termination of employment, Executive determines that he has any Secret and Confidential Information in his possession or control, Executive shall immediately return to the Company all such Secret and Confidential Information, including all copies and portions thereof.
- d. **Inventions.** Any and all writings, computer software, inventions, improvements, processes, procedures and/or techniques which Executive may make, conceive, discover, or develop, either solely or jointly with any other person or persons, at any time during the term of his employment, whether at the request or upon the suggestion of the Company or otherwise, which relate to or are useful in connection with any business now or hereafter carried on or contemplated by the Company, including developments or expansions of its present fields of operations, shall be the sole and exclusive property of the Company. Executive shall take all actions necessary so that the Company can prepare and present applications for copyright or letters patent therefor, and can secure such copyright or letters patent wherever possible, as well as reissue renewals, and extensions thereof, and can obtain the record title to such copyright or patents. Executive shall not be entitled to any additional or special compensation or reimbursement regarding any such writings, computer software, inventions, improvements, processes, procedures and techniques. Executive acknowledges that the Company from time to time may have agreements with other persons or entities which impose obligations or restrictions on the Company regarding inventions made during the course of work thereunder or regarding the confidential nature of such work. Executive shall be bound by all such obligations and restrictions and take all action necessary to discharge the obligations of the Company.
- e. **Non-Solicitation and Non-Competition Restrictions** To protect the Company's Secret and Confidential Information, and in the event of Executive's termination of employment for any reason whatsoever, whether by Executive or the Company, Executive will be subject to the following restrictive covenants during and for the stated period following the termination of his employment.
- i. **Non-Competition.** For one (1) year following the cessation of Executive's employment with the Company for any reason, Executive shall not, without the prior written consent of the Company, knowingly or intentionally (1) personally engage in Competitive Activities (as defined below) or (2) work for, own, manage, operate, control, or participate in the ownership, management, operation, or control of, or provide consulting or advisory services to, any person, partnership, firm, corporation, institution or other entity engaged in Competitive Activities, or any company or person affiliated with such person or entity engaged in Competitive Activities; provided that Executive's purchase or holding, for investment
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purposes, of securities of a publicly traded company shall not constitute "ownership" or "participation in the ownership" for purposes of this paragraph so long as such equity interest in any such company is not more than 2% of the value of the outstanding stock or 2% of the outstanding voting securities of said publicly traded company. For the avoidance of doubt, this Section 15(e)(i) shall not prohibit Executive from being employed by, or providing services to, a consulting firm, provided that Executive does not personally engage in Competitive Activities or provide consulting or advisory services to any individual, partnership, firm, corporation, institution or other entity engaged in Competitive Activities, or any person entity affiliated with such individual, partnership, firm, corporation, institution or other entity engaged in Competitive Activities.

- ii. **Competitive Activities.** For the purposes hereof, the term "**Competitive Activities**" means activities relating to products or services of the same or similar type as the products or services which are sold (or, pursuant to an existing business plan, will be sold) to paying customers of the Company or any affiliate. Notwithstanding the previous sentence, an activity shall not be treated as a Competitive Activity if the geographic marketing area of the relevant products or services does not overlap with the geographic marketing area for the applicable products and services of the Company and its affiliates.
 - iii. **Interference With Business Relations.** For two (2) years following the termination of Executive's employment with the Company, Executive shall not, without the prior written consent of the Company, knowingly or intentionally, directly or indirectly: (1) recruit, induce or solicit any individual who is or who, within the preceding six (6) months, was a non-clerical employee of the Company (including any of its subsidiaries) for employment or for retention as a consultant or service provider, or hire any such individual; or (2) solicit or induce any client, customer, or prospect of the Company (including any subsidiary of the Company) (x) to cease being, or not to become, a customer of the Company (or any such subsidiary), or (y) to divert any business of such customer or prospect from the Company (or any such subsidiary).
 - f. **Reformation.** If a court concludes that any time period and/or the geographic area specified in Section 15(e) is unenforceable, then the time period will be reduced by the number of months, or the geographic area will be reduced by the elimination of the overbroad portion, or both, as the case may be, so that the restrictions may be enforced in the geographic area and for the time to the fullest extent permitted by law.
 - g. **Remedies.** Executive acknowledges and agrees that, in view of the nature of the Company's business, the restrictions contained in this Section 15 of the Agreement are reasonable and necessary to protect the Company's legitimate business interests and that any violation of these restrictions would result in irreparable injury to the Company. In the event of a breach or a threatened breach
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by Executive of any restrictive covenant contained herein, the Company shall be entitled to a temporary restraining order and injunctive relief restraining Executive from the commission of any breach, and to recover the Company's attorneys' fees, costs and expenses related to the breach or threatened breach. Nothing contained herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation, the other remedies specified in this Agreement and/or the recovery of money damages, attorneys' fees, and costs. These covenants and restrictions shall each be construed as independent of any other provisions in the Agreement, and the existence of any claim or cause of action by Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants and restrictions.

h. **Severability**. Should a court determine that any paragraph or sentence, or any portion of a paragraph or sentence of this Section 15 is invalid, unenforceable or void, this determination shall not have the effect of invalidating the remainder of the paragraph, sentence or any other provision of this Section 15. Further, it is intended that the court should construe this Section 15 by limiting and reducing it only to the extent necessary to be enforceable under then applicable law, taking into account the intent of the parties.

i. **Future Employment**. If, before the expiration of the period covered by Section 15(e)(iii) hereof, Executive seeks or is offered employment or engagement by any other company, firm, person or entity, Executive shall provide a copy of this Section 15 to the prospective service recipient before accepting employment with that prospective employer.

16. **No Duty to Mitigate**. Except as otherwise specifically provided herein, Executive's entitlement to payments or benefits upon or following the termination of his employment will not be subject to mitigation or a duty to mitigate by Executive.

17. **No Conflicting Agreements**. Executive represents and warrants that he is not a party to or otherwise bound by any agreement or restriction that could conflict with, or be violated by, the performance of his duties to the Company or his obligations under this Agreement. Executive will not use or misappropriate any intellectual property, trade secrets or confidential information belonging to any third party.

18. **Taxes**. All compensation payable to Executive is subject to reduction to reflect applicable withholding and payroll taxes and other deductions required by law. Executive hereby acknowledges that the Company does not have a duty to design its compensation policies in a manner that minimizes Executive's tax liabilities, and Executive not make any claim against the Company or its board of directors related to tax liabilities arising from his compensation.

19. **Entire Agreement; Assignment; Amendment**

- a. This Agreement, including the exhibits, schedules and other documents referred to herein, constitutes the final and entire agreement of the parties with respect to the matters covered hereby and supersedes any prior and/or contemporaneous agreements, discussions, negotiations, representations or understandings (whether written, oral or implied) relating to the subject matter hereof.
- b. The rights and obligations of Executive hereunder are personal and may not be assigned. The Company may assign this Agreement, and its rights and obligations hereunder, to any entity to which the Company transfers substantially all of its assets (or an affiliate thereof). Notwithstanding any other provision of this Agreement, any such assignment of this Agreement by the Company will not entitle Executive to severance benefits under Section 11(a) or otherwise, whether or not Executive accepts employment with the assignee.
- c. This Agreement may be amended or modified only by a written instrument signed by a duly authorized officer of the Company and Executive.

20. **Arbitration.** In the event of any dispute under the provisions of this Agreement or otherwise regarding Executive's employment or compensation (other than a dispute in which the primary relief sought is an injunction or other equitable remedy, such as an action to enforce compliance with Section 15), the parties shall be required to have the dispute, controversy or claim settled by arbitration in Princeton Junction, New Jersey in accordance with the National Rules for the Resolution of Employment Disputes then in effect of the American Arbitration Association ("**AAA**"), by one arbitrator mutually agreed upon by the parties (or, if no agreement can be reached within thirty (30) days after names of potential arbitrators have been proposed by the AAA, then by one arbitrator having relevant experience who is chosen by the AAA). Any award or finding will be confidential. The arbitrator may not award attorneys' fees to either party unless a statute or contract at issue specifically authorizes such an award. Any award entered by the arbitrators will be final, binding and non-appealable and judgment may be entered thereon by either party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision will be specifically enforceable. Each party will be responsible for its own expenses relating to the conduct of the arbitration (including reasonable attorneys' fees and expenses) and will share equally the fees of the arbitrator.

21. **Notices.** All notices, demands or other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered in person, by e-mail or fax, by United States mail, certified or registered with return receipt requested, or by a nationally recognized overnight courier service, or otherwise actually delivered: (a) if to Executive, at the most recent address contained in the Company's personnel files; (b) if to the Company, to the attention of its Legal Department at the address of its principal executive office; or (c) or at such other address as may have been furnished by such person in writing to the other party. Any such notice, demand or communication shall be deemed given on the date given, if delivered in person, e-mailed or faxed, on the date received, if given by registered or certified mail, return receipt requested or by overnight delivery service, or three days after the date mailed, if otherwise given by first class mail, postage prepaid.

22. **Headings.** The headings of the sections of this Agreement are inserted for convenience only and shall not affect the meaning of this Agreement.
23. **Governing Law.** This Agreement shall be governed by and construed in accordance with the internal laws of the State of New Jersey, without regard to its choice of law provisions.
24. **Counterparts.** This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

[Signature Page Follows]

This Agreement has been executed and delivered on the date first above written.

MISTRAS GROUP, INC.

By:

Name: Michael C. Keefe

Title: Executive Vice President and
General Counsel

EXECUTIVE

Gennaro A. D'Alterio

**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: November 06, 2023

/s/ Manuel N. Stamatakis

Manuel N. Stamatakis

Chairman and Interim President and Chief Executive Officer

(Principal Executive Officer)

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

I, Edward J. Prajzner, certify that:

1. I have reviewed this report on Form 10-Q of Mistras Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: November 06, 2023

/s/ Edward J. Prajzner

Edward J. Prajzner

Senior Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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

Each of the undersigned hereby certifies, for the purposes of section 1350 of chapter 63 of title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Mistras Group, Inc. (the "Company"), that, to his knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2023 (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: November 06, 2023

/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)