Mistras Group, Inc.
Form 10-Q
January 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2012

Or

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

For the transition period to

Commission file number 001- 34481

Mistras Group, Inc.

(Exact name of registrant as specified in its charter)

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

(609) 716-4000
(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

As of January 1, 2013, the registrant had 28,161,857 shares of common stock outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

Mistras Group, Inc. and Subsidiaries
Unaudited Consolidated Balance Sheets

(in thousands, except share and per share data)

	November 30, 2012	May 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 7,985	$ 8,410
Accounts receivable, net	105,901	104,515
Inventories, net	11,542	12,492
Deferred income taxes	1,876	1,885
Prepaid expenses and other current assets	7,650	6,321
Total current assets	134,954	133,623
Property, plant and equipment, net	69,796	63,527
Intangible assets, net	58,201	34,469
Goodwill	117,326	96,819
Other assets	750	1,378
Total assets	$ 381,027	$ 329,816
LIABILITIES, PREFERRED STOCK AND EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 7,948	$ 5,971
Current portion of capital lease obligations	6,893	5,951
Accounts payable	8,937	11,944
Accrued expenses and other current liabilities	41,591	39,334
Income taxes payable	4,570	1,119
Total current liabilities	69,939	64,319
Long-term debt, net of current portion	51,717	34,258
Obligations under capital leases, net of current portion	12,763	13,094
Deferred income taxes	13,902	4,901
Other long-term liabilities	23,350	19,996
Total liabilities	171,671	136,568
Commitments and contingencies		
Preferred stock, 10,000,000 shares authorized		
Equity		
Common stock, $0.01 par value, 200,000,000 shares authorized, 28,161,857 and 28,025,507 shares issued and outstanding as of November 30, 2012 and May 31, 2012, respectively	282	280
Additional paid-in capital	191,586	188,443
Retained earnings	20,780	7,336
Accumulated other comprehensive loss	(3,561)	(3,047)
Total Mistras Group, Inc. stockholders equity	209,087	193,012
Noncontrolling interest	269	236

Total equity		209,356		193,248
Total liabilities, preferred stock and equity	$	381,027	$	329,816

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

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

(in thousands, except per share data)

	Three months ended November 30,		Six months ended November 30,	
	2012	**2011**	**2012**	**2011**
Revenues:				
Services	$ 127,731	$ 103,942	$ 226,956	$ 186,844
Products	9,998	10,278	24,160	18,823
Total revenues	137,729	114,220	251,116	205,667
Cost of revenues:				
Cost of services	87,044	71,047	157,560	127,934
Cost of products sold	4,485	4,216	9,495	7,856
Depreciation related to services	4,124	3,556	8,100	6,879
Depreciation related to products	171	186	339	363
Total cost of revenues	95,824	79,005	175,494	143,032
Gross profit	41,905	35,215	75,622	62,635
Selling, general and administrative expenses	23,362	19,378	46,854	38,759
Research and engineering	530	602	1,047	1,191
Depreciation and amortization	2,167	1,503	4,062	2,982
Acquisition-related expense (See Note 5)	(160)	(339)	(339)	(339)
Income from operations	16,006	14,071	23,998	20,042
Other expenses				
Interest expense	1,075	1,145	2,121	1,806
Income before provision for income taxes	14,931	12,926	21,877	18,236
Provision for income taxes	5,745	5,008	8,400	7,124
Net income	9,186	7,918	13,477	11,112
Net (income) loss attributable to noncontrolling interests, net of taxes	(23)	38	(33)	72
Net income attributable to Mistras Group, Inc.	$ 9,163	$ 7,956	$ 13,444	$ 11,184
Earnings per common share (see Note 4):				
Basic	$ 0.33	$ 0.29	$ 0.48	$ 0.40
Diluted	$ 0.32	$ 0.28	$ 0.46	$ 0.39
Weighted average common shares outstanding:				
Basic	28,144	27,786	28,094	27,731
Diluted	29,008	28,600	29,036	28,417

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

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Mistras Group, Inc. and Subsidiaries
Unaudited Consolidated Statements of Comprehensive Income

(in thousands)

	Three months ended November 30, 2012	Three months ended November 30, 2011	Six months ended November 30, 2012	Six months ended November 30, 2011
Net income	$ 9,186	$ 7,918	$ 13,477	$ 11,112
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	1,517	(1,062)	(514)	(1,375)
Other comprehensive income (loss)	1,517	(1,062)	(514)	(1,375)
Comprehensive income	10,703	6,856	12,963	9,737
Comprehensive (income) loss attributable to noncontrolling interests	(23)	38	(33)	72
Foreign currency translation adjustments		4		7
Comprehensive income attributable to Mistras Group, Inc.	$ 10,680	$ 6,898	$ 12,930	$ 9,816

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

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Mistras Group, Inc. and Subsidiaries
Unaudited Consolidated Statements of Changes in Stockholders Equity

(in thousands)

	Common Stock							
	Shares	**Amount**	**Additional paid-in capital**	**Retained earnings (accumulated deficit)**	**Accumulated other comprehensive income (loss)**	**Total Mistras Group, Inc. Stockholders Equity**	**Noncontrolling Interest**	**Total Equity**
Six months ended November 30, 2011:								
Balance at May 31, 2011	27,667	$ 277	$ 180,594	$ (14,017)	$ 303	$ 167,157	$ 329	$ 167,486
Net income				11,184		11,184	(72)	11,112
Other comprehensive income, net of tax					(1,368)	(1,368)	(7)	(1,375)
Stock compensation	14		2,547			2,547		2,547
Net settlement on vesting of restricted stock units	36		(281)			(281)		(281)
Excess tax benefit from stock compensation			370			370		370
Exercise of stock options	199	2	1,323			1,325		1,325
Balance at November 30, 2011	27,916	$ 279	$ 184,553	$ (2,833)	$ (1,065)	$ 180,934	$ 250	$ 181,184
Six months ended November 30, 2012:								
Balance at May 31, 2012	28,026	$ 280	$ 188,443	$ 7,336	$ (3,047)	$ 193,012	$ 236	$ 193,248
Net income				13,444		13,444	33	13,477
Other comprehensive income, net of tax					(514)	(514)		(514)
Stock compensation	13		3,206			3,206		3,206
Net settlement on vesting of restricted stock units	85	1	(807)			(806)		(806)
Excess tax benefit from stock compensation			393			393		393
Exercise of stock options	38	1	351			352		352
Balance at November 30, 2012	28,162	$ 282	$ 191,586	$ 20,780	$ (3,561)	$ 209,087	$ 269	$ 209,356

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

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Mistras Group, Inc. and Subsidiaries

Unaudited Consolidated Statements of Cash Flows
(in thousands)

	Six months ended November 30,	
	2012	**2011**
Cash flows from operating activities		
Net income attributable to Mistras Group, Inc.	$ 13,444	$ 11,184
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	12,501	10,224
Deferred income taxes	713	141
Provision for doubtful accounts	133	256
Loss (gain) on sale of assets	28	(82)
Amortization of deferred financing costs	62	85
Stock compensation expense	3,206	2,547
Noncontrolling interest	33	(72)
Foreign currency loss (gain)	(61)	235
Changes in operating assets and liabilities, net of effect of acquisitions of businesses		
Accounts receivable	6,207	(20,392)
Inventories	1,460	(922)
Prepaid expenses and other current assets	(651)	(1,224)
Other assets	655	(44)
Accounts payable	(4,535)	(1,292)
Income taxes payable	1,829	(864)
Accrued expenses and other current liabilities	(7,628)	641
Net cash provided by operating activities	27,396	421
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,223)	(3,840)
Purchase of intangible assets	(482)	(265)
Acquisition of businesses, net of cash acquired	(27,033)	(10,695)
Change in restricted cash		(3,700)
Proceeds from sale of equipment	435	301
Net cash used in investing activities	(32,303)	(18,199)
Cash flows from financing activities		
Repayment of capital lease obligations	(3,381)	(3,391)
Repayment of notes payable and other long-term debt	(3,093)	(2,819)
Net borrowings from current revolver	12,349	
Net borrowings from former revolver		18,950
Net repayments of other short-term borrowings		(1,868)
Proceeds from borrowings of long-term debt	127	
Payment of contingent consideration for business acquisitions	(1,295)	
Taxes paid related to net share settlement of equity awards	(807)	(281)
Excess tax benefit from stock compensation	393	370
Proceeds from the exercise of stock options	351	1,325
Net cash provided by financing activities	4,644	12,286
Effect of exchange rate changes on cash and cash equivalents	(162)	(68)
Net change in cash and cash equivalents	(425)	(5,560)
Cash and cash equivalents		
Beginning of period	8,410	10,879
End of period	$ 7,985	$ 5,319
Supplemental disclosure of cash paid		
Interest	$ 1,361	$ 1,335
Income taxes	$ 4,673	$ 7,571

Noncash investing and financing				
Equipment acquired through capital lease obligations	$	2,460	$	6,464
Issuance of notes payable and other debt obligations primarily related to acquisitions	$	7,715	$	

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

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Mistras Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

1. Description of Business & Basis of Presentation

Description of Business

Mistras Group, Inc., together with its subsidiaries (the Company), is a leading one source global provider of technology-enabled asset protection solutions used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure. The Company combines industry-leading products and technologies, expertise in mechanical integrity (MI) and non-destructive testing (NDT) services and proprietary data analysis software to deliver a comprehensive portfolio of customized solutions, ranging from routine inspections to complex, plant-wide asset integrity assessments and management. These mission critical solutions enhance customers ability to extend the useful life of their assets, increase productivity, minimize repair costs, comply with governmental safety and environmental regulations, manage risk and avoid catastrophic disasters. Given the role the services of the Company play in ensuring the safe and efficient operation of infrastructure, the Company has historically provided a majority of its services to its customers on a regular, recurring basis. The Company serves a global customer base of companies with asset-intensive infrastructure, including companies in the oil and gas, fossil and nuclear power, alternative and renewable energy, public infrastructure, chemicals, aerospace and defense, transportation, primary metals and metalworking, pharmaceuticals and food processing industries.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included. Operating results for the three and six months ended November 30, 2012 are not necessarily indicative of the results that may be expected for the year ending May 31, 2013. The balance sheet at May 31, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. You should read these unaudited consolidated financial statements together with the historical consolidated financial statements of the Company as filed with the Securities and Exchange Commission.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Mistras Group, Inc. and its wholly or majority-owned subsidiaries. Where the Company s ownership interest is less than 100%, the noncontrolling interests are reported in stockholders equity in the accompanying consolidated balance sheets. The noncontrolling interest in net income, net of tax, is classified separately in the accompanying consolidated statements of operations.

All significant intercompany accounts and transactions have been eliminated in consolidation. Mistras Group, Inc. s and its subsidiaries fiscal years end on May 31 except for the companies in the International segment, which end on April 30. The effect of this difference in timing of

reporting foreign operations on the consolidated results of operations and consolidated financial position is not significant.

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.

2. Summary of Significant Accounting Policies

Revenue Recognition

Revenue recognition policies for the various sources of revenues are as follows:

Services

The Company predominantly derives revenues by providing its services on a time and material basis and recognizes revenues when services are rendered. At the end of any reporting period, there may be earned but unbilled revenues that are accrued. Payments received in advance of revenue recognition are reflected as deferred revenues.

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Software

Revenues from the sale of perpetual licenses are recognized upon the delivery and acceptance of the software. Revenues from term licenses are recognized ratably over the period of the license. Revenues from maintenance, unspecified upgrades and technical support are recognized ratably over the period such items are delivered. For multiple-element arrangement software contracts that include non-software elements, and where the software is essential to the functionality of the non-software elements (collectively referred to as software multiple-element arrangements), the Company applies the rules as noted below.

Products

Revenues from product sales are recognized when risk of loss and title passes to the customer. The exceptions to this accounting treatment would be for multiple-element arrangements (described below) or those situations where specialized installation or customer acceptance is required. Payments received in advance of revenue recognition are reflected as deferred revenues.

Percentage of Completion

A portion of the Company s revenues are generated from engineering and manufacturing of custom products under long-term contracts that may last from several months to several years, depending on the contract. Revenues from long-term contracts are recognized on the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting revenues are recognized as work is performed. The percentage of completion at any point in time is based on total costs or total labor dollars incurred to date in relation to the total estimated costs or total labor dollars estimated at completion. The percentage of completion is then applied to the total contract revenue to determine the amount of revenue to be recognized in the period. Application of the percentage-of-completion method of accounting requires the use of estimates of costs to be incurred for the performance of the contract. Contract costs include all direct materials, direct labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and all costs associated with operation of equipment. The cost estimation process is based upon the professional knowledge and experience of the Company s engineers, project managers and financial professionals. Factors that are considered in estimating the work to be completed include the availability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in project performance and the recoverability of any claims. Whenever revisions of estimated contract costs and 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.

Multiple-element Arrangements

The Company occasionally enters into transactions that represent multiple-element arrangements, which may include any combination of services, software, and hardware. When a sales arrangement contains multiple elements, such as hardware and services and/or software products, the Company allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. The Company has historically utilized the VSOE due to the nature of its products. In software multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements. The more significant estimates include valuation of goodwill and intangible assets, useful lives of long-lived assets, allowances for doubtful accounts, inventory valuation, reserves for self-insured workers compensation and health benefits, contingent consideration liabilities, and provision for income taxes. Actual results could differ from those estimates.

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Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of the acquired business at the date of acquisition. The Company tests for impairment annually, in its fiscal fourth quarter. The most recent annual test for impairment performed for fiscal 2012 did not identify any instances of impairment and there were no events through November 30, 2012 that warranted a reconsideration of the impairment test results.

Intangible assets are recorded at cost. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. At times, cash deposits may exceed the limits insured by the Federal Deposit Insurance Corporation. The Company believes it is not exposed to any significant credit risk or risk of nonperformance of financial institutions.

The Company sells primarily to large companies, extends reasonably short collection terms, performs credit evaluations and does not require collateral. The Company maintains reserves for potential credit losses.

The Company has one customer, BP plc. (BP), which accounted for 10% and 17% of revenues for the three months ended November 30, 2012 and 2011, respectively, and 11% and 16% of revenues for the six months ended November 30, 2012 and 2011, respectively. Accounts receivable from this customer were approximately 9% of total accounts receivable, net as of November 30, 2012 and May 31, 2012. The relationship with BP is comprised of separate contracts for non-destructive testing and inspection services with multiple affiliated entities within the broad BP organization. The Company conducts business with various divisions or affiliates of the BP organization through numerous contracts covering many segments of BP s business including downstream (refinery), midstream (pipelines) and upstream (exploration). These contracts are typically negotiated locally with the specific BP division or affiliate, are of varying lengths, have different start and end dates and differ in terms of the scope of work and nature of services provided. Most contracts are based on time and materials.

Equity-based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based upon the grant-date fair value of the award. The Company uses the straight-line attribution method for allocating compensation costs and recognizes the fair value of each equity award on a straight-line basis over the vesting period of the related awards.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of the stock option awards as of the grant date. The Black-Scholes model, by its design, is highly complex and dependent upon key data inputs estimated by management. The primary data inputs with the greatest degree of judgment are the expected term of stock option awards and the estimated volatility of the Company s common stock price. The Black-Scholes model is sensitive to changes in these two variables. Since the Company s initial public offering (IPO), the expected term of the Company s stock options is generally determined using the mid-point between the vesting period and the end of the contractual term. Expected stock price volatility is typically based on the daily historical trading data for a period equal to the expected term. Because the Company s historical trading data only dates back to October 8, 2009, the first trading date after its IPO, the Company has estimated expected volatility using an analysis of the stock price volatility of comparable peer companies. Prior to the Company s IPO, the exercise price equaled the estimated fair market value of the Company s common stock, as determined by its board of directors. Since the Company s IPO, the exercise price of stock option grants is determined using the closing market price of the Company s common stock on the date of grant.

Recent Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, that is intended to reduce the cost and complexity of the impairment test for indefinite-lived intangible assets by providing an entity with the option to first assess qualitatively whether it is necessary to perform the quantitative impairment test that is currently in place. An entity would not be required to quantitatively calculate the fair value of an indefinite-lived intangible asset unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. ASU 2012-02 is effective for annual and interim impairment tests beginning after September

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15, 2012. Early adoption is permitted. The Company does not expect that the adoption of this pronouncement will have a material impact on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 allows an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This authoritative guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 does not change the items that must be reported in other comprehensive income, when an item of other comprehensive income must be reclassified to net income, or the Company s option to present components of other comprehensive income either net of related tax effects or before related tax effects, nor does it affect how earnings per share is calculated or presented. Effective June 1, 2012, the Company adopted the provisions of this updated accounting standard related to comprehensive income. The adoption of this pronouncement did not have a material impact on the Company s consolidated financial statements.

3. Capitalization

Common Stock

Dividends on common stock will be paid when, and if, declared by the board of directors. Each holder of common stock is entitled to vote on all matters and is entitled to one vote for each share held.

Equity Awards

In September 2009, the Company s board of directors and shareholders adopted and approved the 2009 Long-Term Incentive Plan (the 2009 Plan), which became effective upon the closing of the IPO. Awards may be in the form of stock options, restricted stock units and other forms of stock-based incentives, including stock appreciation rights and deferred stock rights. The term of each incentive and non-qualified stock option is ten years. Vesting generally occurs over a period of four years, the expense for which is recorded on a straight-line basis over the requisite service period. The 2009 Plan allows for the grant of awards of up to approximately 2,286,000 shares of common stock, of which 1,440,000 shares were available for future grants as of November 30, 2012. Prior to the Company s IPO in October 2009, the Company had two stock option plans: (i) the 1995 Incentive Stock Option and Restricted Stock Purchase Plan (the 1995 Plan), and (ii) the 2007 Stock Option Plan (the 2007 Plan). No additional awards may be granted from these two plans. As of November 30, 2012, there was an aggregate of approximately 2,504,000 stock options outstanding and approximately 566,000 unvested restricted stock units outstanding under the 2009 Plan, the 2007 Plan, and the 1995 Plan.

No stock options were granted during the three or six month periods ended November 30, 2012 or 2011.

The Company recognized stock-based compensation expense related to stock option awards of approximately $0.8 million and $0.9 million for the three months ended November 30, 2012 and 2011. For the six months ended November 30, 2012 and 2011, the Company recognized stock-based compensation expense related to stock options of $1.6 million and $1.7 million, respectively. As of November 30, 2012, there was approximately $2.2 million of unrecognized compensation costs, net of estimated forfeitures, related to stock option awards, which are expected to be recognized over a remaining weighted average period of approximately 0.7 years. Cash proceeds from and the aggregate intrinsic value of stock options exercised during the three and six months ended November 30, 2012 and 2011 were as follows:

	Three months ended November 30,		Six months ended November 30,	
	2012	2011	2012	2011
Cash proceeds from options exercised	$ 252	$ 1,268	$ 351	$ 1,325
Aggregate intrinsic value of options exercised	$ 359	$ 3,026	$ 485	$ 3,062

The Company also recognized approximately $0.8 million and $0.5 million during the three months ended November 30, 2012 and 2011, respectively, in stock-based compensation expense related to restricted stock unit awards. For the six months ended November 30, 2012 and 2011, the Company recognized stock-based compensation expense related to restricted stock unit awards of $1.4 million and $0.7 million, respectively. As of November 30, 2012, there was

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approximately $9.5 million of unrecognized compensation costs, net of estimated forfeitures, related to restricted stock unit awards, which are expected to be recognized over a remaining weighted average period of 3.0 years.

In June 2012, the Company granted approximately 13,000 shares of fully-vested common stock to its five non-employee directors, in connection with its non-employee director compensation plan. These shares had a grant date fair value of approximately $0.3 million, which was recorded as stock-based compensation expense during the six months ended November 30, 2012. In October 2011, the Company granted approximately 9,000 shares of fully-vested common stock to its five non-employee directors, in connection with its non-employee director compensation plan. These shares had a grant date fair value of approximately $0.2 million, which was recorded as stock-based compensation expense during the three and six months ended November 30, 2011.

During the six months ended November 30, 2012 and 2011, approximately 123,000 and 52,000 restricted stock units vested, respectively. The fair value of these units was $1.9 million and $0.5 million, respectively. 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. The restricted stock units that vested in the first six months of fiscal 2013 and 2012 were net-share settled such that the Company withheld shares with value equivalent to the employees minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The Company withheld approximately 37,000 and 16,000 shares in the first six months of fiscal 2013 and 2012, respectively. The shares withheld were based on the value of the restricted stock units on their vesting date as determined by the Company s closing stock price. Total payments for the employees tax obligations to the taxing authorities were $0.8 million and $0.3 million and are reflected as a financing activity within the consolidated statements of cash flows for the six months ended November 30, 2012 and 2011, respectively. These net-share settlements had the effect of share repurchases by the Company as they reduced and retired the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to the Company.

4. Earnings per Share

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

	Three months ended November 30,		Six months ended November 30,	
	2012	**2011**	**2012**	**2011**

Basic earnings per share								
Numerator:								
Net income attributable to Mistras Group, Inc.	$	9,163	$	7,956	$	13,444	$	11,184
Denominator:								
Weighted average common shares outstanding		28,144		27,786		28,094		27,731
Basic earnings per share	$	0.33	$	0.29	$	0.48	$	0.40
Diluted earnings per share:								
Numerator:								
Net income attributable to Mistras Group, Inc.	$	9,163	$	7,956	$	13,444	$	11,184
Denominator:								
Weighted average common shares outstanding		28,144		27,786		28,094		27,731
Dilutive effect of stock options outstanding		789		741		798		622
Dilutive effect of restricted stock units outstanding		75		73		144		64
		29,008		28,600		29,036		28,417
Diluted earnings per share	$	0.32	$	0.28	$	0.46	$	0.39

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5. Acquisitions

In September 2012, the Company completed an acquisition of an asset protection company in Germany specializing in destructive and non-destructive services and inspection. The company was acquired to complement the service offerings within the International segment and to expand Mistras footprint in Europe. The Company acquired 100% of the common stock of the acquiree in exchange for approximately $28.3 million in cash (excluding cash acquired) and $7.7 million in notes payable over three years. In addition to the cash and debt consideration related to this acquisition, the Company accrued a liability of approximately $7.5 million as of November 30, 2012, which represents the estimated fair value of contingent consideration expected to be payable in the event that the acquired company achieves specific performance metrics over the next five years of operations. The total potential contingent consideration for this acquisition ranges from zero to $12.9 million as of November 30, 2012.

The assets and liabilities of the acquired business were included in the consolidated balance sheet as of November 30, 2012 based on their estimated fair value on the date of acquisition as determined in a purchase price allocation, using available information and making assumptions management believes are reasonable. The Company is still in the process of completing its valuation of the assets acquired, both tangible and intangible, and liabilities assumed, as well as the contingent consideration and deferred tax assets/liabilities. This valuation and the related purchase price allocation is expected to be finalized prior to the end of the Company s third quarter of fiscal 2013. The results of operations for this acquisition are included in the International segment s results of operations from the date of acquisition. The Company s preliminary allocation of purchase price for this acquisition is included in the table below. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition for the Company s fiscal 2013 acquisitions:

Number of entities		1
Cash paid	$	28,289
Subordinated notes issued		7,715
Contingent consideration		7,501
Purchase price	$	43,505
Current liabilities assumed, net	$	(104)
Debt and other long-term liabilities		(4,004)
Property, plant and equipment		8,161
Deferred tax liability		(8,375)
Intangibles, primarily customer relationships		27,000
Goodwill		20,827
Net assets acquired	$	43,505

The amortization period of intangible assets acquired ranges from two to twelve years. The Company has preliminarily recorded approximately $20.8 million of goodwill in connection with its fiscal 2013 acquisition, reflecting the strategic fit and revenue and earnings growth potential of these businesses. Substantially all of the goodwill recognized is expected to be deductible for tax purposes.

The Company also has four acquisitions that were completed in fiscal 2012 for which it is still in the process of completing the allocation of the consideration transferred, including the valuation of the intangible assets acquired. These valuations and related purchase price allocations are expected to be finalized prior to the end of the Company s third quarter of fiscal 2013. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition for the Company s fiscal 2012 acquisitions that have not yet been finalized:

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Number of entities		4
Cash paid	$	9,171
Subordinated notes issued		904
Contingent consideration		1,197
Purchase price	$	11,272
Current assets acquired, net	$	1,025
Debt and other long-term liabilities		(35)
Property, plant and equipment		1,204
Deferred tax liability		(529)
Intangibles, primarily customer relationships		3,446
Goodwill		6,161
Net assets acquired	$	11,272

There have been no significant changes during fiscal 2013 to the initial purchase price allocations for which the final purchase price allocation is not yet complete.

Revenues for the acquisition completed in fiscal 2013 for the period subsequent to the closing of the transaction were approximately $6.4 million for both of the three and six months ended November 30, 2012. Income from operations for this acquisition for the period subsequent to the closing of the transaction was approximately $0.6 million for both of the three and six months ended November 30, 2012.

The unaudited pro forma information for the periods set forth below gives effect to the fiscal 2013 and fiscal 2012 acquisitions as if they had occurred at the beginning of the earliest period presented. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time (unaudited, in thousands):

	Three months ended November 30,				Six months ended November 30,			
	2012		2011		2012		2011	
Revenues	$	156,289	$	143,429	$	281,241	$	264,715
Income from operations	$	16,939	$	12,784	$	24,631	$	16,941

During the three and six month periods ended November 30, 2012, the Company incurred costs of $0.2 million and $0.9 million, respectively, in connection with due diligence, professional fees, and other expenses for its acquisition activity. Additionally, the Company adjusted the fair value of certain acquisition-related contingent consideration liabilities. For the three month and six month periods ended November 30, 2012, the adjustments resulted in a net decrease of approximately $0.4 million and $1.2 million, respectively, to the Company s acquisition-related contingent consideration liabilities, which were approximately $18.4 million as of November 30, 2012 and recorded on the balance sheet in

accrued expenses and other long-term liabilities. These adjustments also resulted in a corresponding net increase to income from operations of approximately $0.4 million and $1.2 million for the three and six month periods ended November 30, 2012, respectively. Both the fair value adjustments to acquisition-related contingent consideration liabilities and the acquisition-related costs have been classified as acquisition-related expense in the statement of operations for the three and six months ended November 30, 2012.

During the three and six month periods ended November 30, 2011, the Company adjusted the fair value of certain acquisition-related contingent consideration liabilities. The adjustments resulted in a net decrease of $0.7 million to the Company s acquisition-related contingent consideration liabilities, which were approximately $4.8 million as of November

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30, 2011 and recorded on the balance sheet in accrued expenses and other long-term liabilities. These adjustments also resulted in a corresponding net increase to income from operations of $0.7 million. Additionally, the Company incurred costs of $0.4 million in connection with due diligence, professional fees, and other expenses for its fiscal 2012 acquisition activity. Both the fair value adjustments to acquisition-related contingent consideration liabilities and the acquisition-related costs have been classified as acquisition-related expense in the statement of operations for the three and six months ended November 30, 2011.

6. Accounts Receivable, net

Accounts receivable consist of the following:

	November 30, 2012	May 31, 2012
Trade accounts receivable	$ 108,332	$ 106,821
Allowance for doubtful accounts	(2,431)	(2,306)
Total	$ 105,901	$ 104,515

7. Inventories, net

Inventories consist of the following:

	November 30, 2012	May 31, 2012
Raw materials	$ 3,237	$ 3,054
Work in process	2,342	2,232
Finished goods	3,615	4,287
Supplies	2,348	2,919
Total	$ 11,542	$ 12,492

Inventories are net of reserves for slow-moving and obsolete inventory of approximately $1.4 million and $1.2 million as of November 30, 2012 and May 31, 2012, respectively.

8. Property, Plant and Equipment, net

Property, plant and equipment consist of the following:

	Useful Life (Years)	November 30, 2012	May 31, 2012
Land		$ 2,097	$ 1,892
Building and improvements	30-40	21,633	16,950
Office furniture and equipment	5-8	7,460	6,760
Machinery and equipment	5-7	114,146	105,096
		145,336	130,698
Accumulated depreciation and amortization		(75,540)	(67,171)
Property, plant and equipment, net		$ 69,796	$ 63,527

Depreciation expense for the three months ended November 30, 2012 and 2011 was approximately $4.6 million and $3.9 million, respectively. Depreciation expense for the six months ended November 30, 2012 and 2011 was approximately $9.0 million and $7.5 million, respectively.

9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

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	November 30, 2012	May 31, 2012
Accrued salaries, wages and related employee benefits	$ 21,206	$ 17,195