JAKKS PACIFIC INC
Form S-3
December 08, 2017

**As filed with the Securities and Exchange Commission on December 7, 2017**

**Registration No. 333-_______**

**U.S. SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form S-3**

**REGISTRATION STATEMENT**

**UNDER THE SECURITIES ACT OF 1933**

**JAKKS Pacific, Inc.**

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Delaware** | **95-4527222** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |

**2951 28th Street**

**Santa Monica, California 90405**

**(424) 268-9444**

*(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)*

**Stephen G. Berman**

**Chief Executive Officer**

**JAKKS Pacific, Inc.**

**2951 28th Street**

**Santa Monica, California 90405**

**(424) 268-9444**

*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

***Copy to:***

**Irving Rothstein, Esq.**

**Feder Kaszovitz LLP**

**845 Third Avenue**

**New York, New York 10022-6601**

**(212) 888-8200**

**Fax: (212) 888-7776**

Approximate date of commencement of proposed sale to the public: **From time to time after the effective date of this registration statement at the discretion of the selling security holder.**

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

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 ¨ | Accelerated filer þ | Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ | Emerging growth compa |

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 7(a)(2)(B) of the Securities Act. ¨

**CALCULATION OF REGISTRATION FEE**

Proposed Maximum Proposed Maximum

| Title of Each Class of Securities to be Registered | Amount to be Registered | Offering Price per Unit(2) | Aggregate Offering Price(2) | Amount of Registration Fee |
|---|---|---|---|---|
| Common Stock, par value $.001 per share | 9,185,250 Shares (1) | $ 2.45 (3) | $ 22,503,863 | $ 2,801.73 |

(1) All common stock offered hereby is for the account of the selling security holder and pursuant to Rule 416 under the Securities Act of 1933, as amended ("Securities Act") includes such indeterminate number of shares of common stock as may be issuable with respect to the common stock being registered hereunder as a result of stock splits, stock dividends or similar transactions.
(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c).
(3) Pursuant to Rule 457(c), represents the average of the high and low sales prices of our common stock for any of the five business preceding the date hereof.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING SECURITY HOLDER MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING ANY OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

**SUBJECT TO COMPLETION, DATED DECEMBER 7, 2017**

**PROSPECTUS**

**9,185,250 Shares**

**JAKKS Pacific, Inc.**

**Common Stock**

This prospectus relates to 9,185,250 shares of our common stock, par value $0.001 per share, underlying a convertible note owned by the selling security holder listed under the caption "Selling Security Holder" on page 13.  The shares may be sold from time to time by the selling security holder. None of the shares registered herein will be sold for our account and we will not receive any proceeds from the sale of the common stock. See "Use of Proceeds."

The selling security holder may determine the prices at which it will sell the common stock, which prices may be at market prices prevailing at the time of such sale or some other price.  The selling security holder may sell these shares through underwriters, brokers-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions.  See "Plan of Distribution" for a more complete description of the ways in which the common stock may be sold.

Our common stock is traded on the Nasdaq Global Select Market under the symbol "JAKK." On December 5, 2017, the last reported sale price of our common stock on the Nasdaq Global Select Market was $2.70 per share.

**INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" ON PAGE 6.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.**

The date of this Prospectus is , 2017

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**ABOUT THIS PROSPECTUS**

This prospectus constitutes part of a registration statement on Form S-3 that we filed with the SEC through what is known as the shelf registration process. Under this process, the selling security holder may sell the securities described in the prospectus in one or more offerings. This prospectus provides you with a general description of the securities the selling security holder may offer. A prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading “Where You Can Find More Information.”

In connection with this offering, no person is authorized to give any information or to make any representations not contained or incorporated by reference in this prospectus. If information is given or representations are made, you may not rely on that information or representations as having been authorized by us. This prospectus is neither an offer to sell nor a solicitation of an offer to buy any securities other than those registered by this prospectus, nor is it an offer to sell or a solicitation of an offer to buy securities where an offer or solicitation would be unlawful. You may not imply from the delivery of this prospectus, nor from any sale made under this prospectus, that our affairs are unchanged since the date of this prospectus or that the information contained in this prospectus is correct as of any time after the date of this prospectus. The information contained and incorporated by reference in this prospectus and any accompanying prospectus supplement is accurate only as of the date of this prospectus or the prospectus supplement or the date of the document incorporated by reference, as the case may be, regardless of the time of delivery of the prospectus.

You should not consider any information in this prospectus to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in our securities.

**SUMMARY**

*This summary highlights information contained elsewhere in this prospectus and in filings with the Securities and Exchange Commission ("SEC") incorporated by reference. You should carefully read the entire prospectus, including "Risk Factors" beginning on page 6, as well as any accompanying prospectus supplement and the documents incorporated by reference herein and therein, before investing in the common stock. When we use the terms "JAKKS," "we," "us," or "our," we are referring to JAKKS Pacific, Inc. and its subsidiaries, unless the context requires otherwise or we expressly state otherwise in this prospectus.*

**JAKKS Pacific, Inc.**

**Company Overview**

We are a leading multi-line, multi-brand toy company that designs, produces, markets and distributes toys and related products, pet toys, consumables and related products, electronics and related products, kids indoor and outdoor furniture, and other consumer products. We focus our business on acquiring or licensing well-recognized trademarks and brand names, most with long product histories ("evergreen brands"). We seek to acquire these evergreen brands because we believe they are less subject to market fads or trends. We also develop proprietary products marketed under our own trademarks and brand names, and have historically acquired complementary businesses to further grow our portfolio. For accounting purposes, our products have been divided into three segments: (i) U.S. and Canada, (ii) International and (iii) Halloween. Segment information with respect to revenues, assets and profits or losses attributable to each segment is contained in Note 3 to the audited consolidated financial statements incorporated by reference herein. Our products include:

**Traditional Toys and Electronics**

Action figures and accessories, including licensed characters, principally based on *Batman*®, *Star Wars*® and *Nintendo* ® franchises;

Toy vehicles, including *Max Tow*™, *Road Champs*®, *Fly Wheels*® and *MXS*® toy vehicles and accessories;

Electronics products, including *Spy Net*® spy products, *Plug It In & Play TV Games*™ video games based on popular brands;

Dolls and accessories, including small dolls, large dolls, fashion dolls and baby dolls based on licenses, including *Disney's Frozen*, *Disney Princess, Disney Fairies,* infant and pre-school toys based on PBS's *Daniel Tiger's Neighborhood*®;

Private label products as "exclusives" for a myriad of retail customers in many product categories; and

Foot-to-floor ride-on toys based on, among others, Fisher Price®, Kawasaki®, and DC Comics®, inflatable environments, tents and wagons

**Role Play, Novelty and Seasonal Toys**

Role play, dress-up, pretend play and novelty products for boys and girls based on well-known brands and entertainment properties such as *Disney's Frozen, Black & Decker*®, *Disney Princess*, *Disney Fairies* and *Dora the Explorer*®, as well as those based on our own proprietary brands;

Indoor and outdoor kids' furniture, activity trays and tables and room décor; kiddie pools, seasonal and outdoor products, including those based on *Crayola*®, *Disney* characters and more, and *Funnoodle*® pool floats;

Halloween and everyday costumes for all ages based on licensed and proprietary non-licensed brands, including *Spiderman®, Toy Story, Sesame Street®, Power Rangers®¸Hasbro*® brands and *Disney's Frozen, Disney Princess* and related Halloween accessories; and

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Junior sports and outdoor activity toys including *Skyball*® hyper-charged balls and sport sets and *Wave Hoops*® toy hoops marketed under our Maui Toys® brand.

We continually review the marketplace to identify and evaluate popular and evergreen brands and product categories that we believe have the potential for growth. We endeavor to generate growth within these lines by:

creating innovative products under our established licenses and brand names;

adding new items to the branded product lines that we expect will enjoy greater popularity;

infusing innovation and technology when appropriate to make them more appealing to today's kids; and

focusing our marketing efforts to enhance consumer recognition and retailer interest.

**Our Business Strategy**

In addition to developing our own proprietary brands and marks, licensing popular trademarks enables us to use these high-profile marks at a lower cost than we would incur if we purchased these marks or developed comparable marks on our own. By licensing trademarks, we have access to a far greater range of marks than would be available for purchase. We also license technology developed by unaffiliated inventors and product developers to enhance the design and functionality of our products.

We sell our products through our in-house sales staff and independent sales representatives to toy and mass-market retail chain stores, department stores, office supply stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. Our three largest customers are Wal-Mart, Target and Toys 'R' Us, which accounted for approximately 23.4%, 15.6% and 9.4%, respectively, of our net sales in 2016 and 22.8%, 16.3% and 7.1%, respectively, in the first three quarters of 2017. No other customer accounted for more than 10.0% of our net sales in 2016 or during the first three quarters of 2017. On September 18, 2017, Toys "R" Us, Inc. announced that certain of its U.S. subsidiaries and its Canadian subsidiary voluntarily filed for relief under Chapter 11 of the Bankruptcy Code in the U.S. and that its Canadian subsidiary also began parallel proceedings under the Companies' Creditors Arrangement Act ("CCAA") in Canada. On September 25, 2017, Toys "R" Us, Inc. announced that it had closed on $3.1 billion of debtor-in-possession financing to support its ongoing liquidity needs. While the Company believes there was an impact to sales in the third quarter due to the uncertainty caused by the filing, it is not able to estimate an amount. The Company has resumed shipping to Toys "R" Us for the 2017 holiday season and continues to monitor the Toys "R" Us bankruptcy reorganization progress and its overall credit exposure to this customer.

**Our Growth Strategy**

In 2015 and 2016, we generated net sales of $745.7 million and $706.6 million, respectively, and net income of $23.2 million in 2015 and $1.2 million in 2016. Approximately 8.6% and 9.5% of our net sales in 2015 and 2016, respectively, were attributable to our acquisitions since 2011. Key elements of our growth strategy include:

***Expand Core Products.*** We manage our existing and new brands through strategic product development initiatives, including introducing new products, modifying existing products and extending existing product lines to maximize their longevity. Our marketing teams and product designers strive to develop new products or product lines to offer added technological, aesthetic and functional improvements to our extensive portfolio.

***Enter New Product Categories.*** We use our extensive experience in the toy and other consumer product industries to evaluate products and licenses in new product categories and to develop additional product lines. We began marketing licensed classic video games for simple plug-in use with television sets and expanded into several related categories by infusing additional technologies such as motion gaming and through the licensing of this category from our current licensors, such as Disney and Viacom which owns Nickelodeon®.

***Pursue Strategic Acquisitions.*** We supplement our internal growth with selected strategic acquisitions. In October 2016, we acquired the operating assets of the *C'est Moi*™ performance makeup and youth skincare product lines whose distribution is limited primarily to Asia. We expect to launch a full line of makeup and skincare products branded under the *C'est Moi*™ name in the U.S. and Canada in the first quarter of 2018. We will continue focusing our acquisition strategy on businesses or brands that we believe have compatible product lines and/or offer valuable trademarks or brands.

***Acquire Additional Character and Product Licenses.*** We have acquired the rights to use many familiar brand and character names and logos from third parties that we use with our primary trademarks and brands. Currently we have license agreements with Nickelodeon®, Disney and Warner Bros.®, as well as with the licensors of the many popular licensed children's characters previously mentioned, among others. We intend to continue to pursue new licenses from these entertainment and media companies and other licensors. We also intend to continue to purchase additional inventions and product concepts through our existing network of inventors and product developers.

***Expand International Sales.*** We believe that foreign markets, especially Europe, Australia, Canada, Latin America and Asia, offer us significant growth opportunities. In 2016, our sales generated outside the United States were approximately $162.5 million, or 23.0% of total net sales. We intend to continue to expand our international sales and in 2016 and 2017 opened sales offices and further expanded distribution agreements in Europe to capitalize on our experience and our relationships with foreign distributors and retailers. We expect these initiatives to contribute to our international growth in 2018.

***Capitalize On Our Operating Efficiencies.*** We believe that our current infrastructure and operating model can accommodate growth without a proportionate increase in our operating and administrative expenses, thereby increasing our operating margins.

The execution of our growth strategy, however, is subject to several risks and uncertainties and we cannot assure you that we will continue to experience growth in, or maintain our present level of net sales (see "Risk Factors," beginning on page 6). For example, our growth strategy will place additional demands upon our management, operational capacity and financial resources and systems. The increased demand upon management may necessitate our recruitment and retention of additional qualified management personnel. We cannot assure you that we will be able to recruit and retain qualified personnel or expand and manage our operations effectively and profitably. To effectively manage future growth, we must continue to expand our operational, financial and management information systems and to train, motivate and manage our work force. While we believe that our operational, financial and management information systems will be adequate to support our future growth, no assurance can be given they will be adequate without significant investment in our infrastructure. Failure to expand our operational, financial and management information systems or to train, motivate or manage employees could have a material adverse effect on our business, financial condition and results of operations.

Moreover, implementation of our growth strategy is subject to risks beyond our control, including competition, market acceptance of new products, changes in economic conditions, our ability to obtain or renew licenses on commercially reasonable terms and our ability to finance increased levels of accounts receivable and inventory necessary to support our sales growth, if any.

Furthermore, we cannot assure you that we can identify attractive acquisition candidates or negotiate acceptable acquisition terms, and our failure to do so may adversely affect our results of operations and our ability to sustain growth.

Finally, our acquisition strategy involves a number of risks, each of which could adversely affect our operating results, including difficulties in integrating acquired businesses or product lines, assimilating new facilities and personnel and harmonizing diverse business strategies and methods of operation; diversion of management attention from operation of our existing business; loss of key personnel from acquired companies; and failure of an acquired business to achieve targeted financial results.

**Exchange Transaction**

On November 7, 2017 we consummated a transaction (the “Exchange Transaction”) with Oasis Investments II Master Fund Ltd. (“Oasis”), a holder of $21.55 million face amount of our 4.25% Convertible Senior Notes due in 2018 to exchange such notes for an equal principal amount of a new Convertible Senior Note due 2020 (the “New Note”) which extended the maturity date to November 2020 and reduced the interest rate to 3.25%, if paid in cash (or 5.0% if interest is paid in shares of our common stock).

The New Note is convertible at the option of the holder. The initial conversion rate of 327.8689 shares of common stock per $1,000 principal amount of the New Note which is based upon 117.25% of the closing market price on the day preceding consummation of the exchange. The conversion rate is subject to two resets in November 2018 and November 2019 based upon 105% of the 5-day volume weighted average closing market price, subject to a floor equal to 30% of the initial conversion price and certain other adjustments. The New Note limits the number of shares into which the holder can elect to convert the New Note, when combined with any other shares of the Company’s common stock beneficially owned by the holder on the conversion date, to 9.99% of the Company’s issued and outstanding shares of common stock. In addition, without approval of the Company’s shareholders, the aggregate number of shares into which the New Note can be converted cannot exceed 19.9% of the Company’s issued and outstanding shares of common stock on the closing date of the New Note exchange. We are seeking such shareholder approval at our Annual Meeting which is currently scheduled for December 22, 2017. Upon conversion, the Company will satisfy its conversion obligation by paying or delivering, at its election, cash, shares of its common stock or a combination of cash and shares of its common stock, provided that any payment in stock is contingent upon the satisfaction of certain equity conditions. The shares issuable pursuant to the terms of the New Note may be offered for sale from time to time through this prospectus by Oasis.

**Our Corporate Information**

We were formed as a Delaware corporation in 1995. Our principal executive offices are located at 2951 28$^{th}$ Street, Santa Monica, California 90405. Our telephone number is (424) 268-9444. Our Internet website address is www.jakks.com. The content of the website are not part of this prospectus, nor is any of its content incorporated herein.

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**The Offering**

| | |
|---|---|
| Issuer | JAKKS Pacific, Inc. |
| Seller | The selling security holder. For information about the selling security holder, see "Selling Security Holder." We are not selling the securities to the public. |
| Securities Offered | 9,185,250 shares of our common stock, par value $.001. |
| Common Stock Outstanding (1) | 26,987,430 shares. |
| Registration Rights | We are agreeing to use our best efforts to keep the registration statement, of which this prospectus forms a part, effective until the earlier to occur of (i) the date on which the registered shares are disposed of or (ii) the date when the registered shares can be immediately sold to the public without registration or restriction and without the requirement of the Issuer to be current in its public filings. |
| Trading | Our common stock trades on the Nasdaq Global Select Market under the symbol "JAKK." |
| Risk Factors | See "Risk Factors" beginning on page 6 for a discussion of factors you should carefully consider before deciding to invest in our common stock. |
| Use of Proceeds | We will not receive any of the proceeds from the sale by the selling security holder of the shares of common stock. |

(1) As of the date of this Prospectus. Does not include 21,216,151 shares underlying our convertible notes.

## RISK FACTORS

*An investment in the shares of our common stock involves significant risks. In addition to reviewing other information in this prospectus and any prospectus supplement and the documents incorporated herein and therein, you should carefully consider the following factors before deciding to purchase the shares of our common stock offered hereby, as well as the risk factors referred in any accompanying prospectus supplement and the documents incorporated herein and therein. If any of these risks actually occur, our business, results of operations and financial condition could be materially adversely affected and you might lose all or part of your investment.*

***Our inability to redesign, restyle and extend our existing core products and product lines as consumer preferences evolve, and to develop, introduce and gain customer acceptance of new products and product lines, may materially and adversely impact our business, financial condition and results of operations.***

Our business and operating results depend largely upon the appeal of our products. Our continued success in the toy industry will depend upon our ability to redesign, restyle and extend our existing core products and product lines as consumer preferences evolve, and to develop, introduce and gain customer acceptance of new products and product lines. Several trends in recent years have presented challenges for the toy industry, including:

*the phenomenon of children outgrowing toys at younger ages, particularly in favor of interactive and high technology products;*

*increasing use of technology;*

*shorter life cycles for individual products; and*

*higher consumer expectations for product quality, functionality and value.*

We cannot assure you that:

*our current products will continue to be popular with consumers;*

*the products that we introduce will achieve any significant degree of market acceptance;*

*the life cycles of our products will be sufficient to permit us to recover licensing, design, manufacturing, marketing and other costs associated with those products.*

*our inclusion of new technology will result in higher sales or increased profits.*

Our failure to achieve any or all of the foregoing benchmarks may adversely affect our business, financial condition and results of operations.

***The failure of our character-related and theme-related products to become and/or remain popular with children may materially and adversely impact our business, financial condition and results of operations.***

The success of many of our character-related and theme-related products depends upon the popularity of characters in movies, television programs, live sporting exhibitions, and other media and events. We cannot assure you that:

*media associated with our character-related and theme-related product lines will be released at the times we expect or will be successful;*

*the success of media associated with our existing character-related and theme-related product lines will result in substantial promotional value to our products;*

*we will be successful in renewing licenses upon expiration on terms that are favorable to us; or*

*we will be successful in obtaining licenses to produce new character-related and theme-related products in the future.*

Our failure to achieve any or all of the foregoing benchmarks may cause the infrastructure of our operations to fail, thereby adversely affecting our business, financial condition and results of operations.

***There are risks associated with our license agreements.***

*Our current licenses require us to pay minimum royalties*

Sales of products under trademarks or trade or brand names licensed from others account for substantially all of our net sales. Product licenses allow us to capitalize on characters, designs, concepts and inventions owned by others or developed by toy inventors and designers. Our license agreements generally require us to make specified minimum royalty payments, even if we fail to sell a sufficient number of units to cover these amounts. In addition, under certain of our license agreements, if we fail to achieve certain prescribed sales targets, we may be unable to retain or renew these licenses.

*Some of our licenses are restricted as to use*

Under the majority of our license agreements, the licensors have the right to review and approve our use of their licensed products, designs or materials before we may make any sales. If a licensor refuses to permit our use of any licensed property in the way we propose, or if their review process is delayed, our development or sale of new products could be impeded.

*New licenses are difficult and expensive to obtain*

Our continued success will substantially depend upon our ability to obtain additional licenses. Intense competition exists for desirable licenses in our industry. We cannot assure you that we will be able to secure or renew significant licenses on terms acceptable to us. In addition, as we add licenses, the need to fund additional royalty advances and guaranteed minimum royalty payments may strain our cash resources.

*A limited number of licensors account for a large portion of our net sales*

We derive a significant portion of our net sales from a limited number of licensors. If one or more of these licensors were to terminate or fail to renew our license or not grant us new licenses, our business, financial condition and results of operations could be adversely affected.

***The toy industry is highly competitive and our inability to compete effectively may materially and adversely impact our business, financial condition and results of operations.***

The toy industry is highly competitive. Globally, certain of our competitors have financial and strategic advantages over us, including:

*greater financial resources;*

*larger sales, marketing and product development departments;*

*stronger name recognition;*

*longer operating histories; and*

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*greater economies of scale.*

In addition, the toy industry has no significant barriers to entry. Competition is based primarily upon the ability to design and develop new toys, procure licenses for popular characters and trademarks and successfully market products. Many of our competitors offer similar products or alternatives to our products. Our competitors have obtained and are likely to continue to obtain licenses that overlap our licenses with respect to products, geographic areas and markets. We cannot assure you that we will be able to obtain adequate shelf space in retail stores to support our existing products, expand our products and product lines or continue to compete effectively against current and future competitors.

***We may not be able to sustain or manage our product line growth, which may prevent us from increasing our net revenues.***

Historically, we have experienced growth in our product lines through acquisitions of businesses, products and licenses. This growth in product lines has contributed significantly to our total revenues over the last few years. For example, revenues associated with companies we acquired since 2011 were approximately $64.0 million and $67.2 million, in 2015 and 2016, respectively, representing approximately 8.6% and 9.5%, respectively, of our total revenues for those periods. As a result, even though we had no significant acquisitions since 2012, comparing our future period-to-period operating results may not be meaningful and results of operations from prior periods may not be indicative of future results. We cannot assure you that we will continue to experience growth in, or maintain our present level of, net sales.

Our growth strategy calls for us to continuously develop and diversify our toy business by acquiring other companies, entering into additional license agreements, refining our product lines and expanding into international markets, which will place additional demands upon our management, operational capacity and financial resources and systems. The increased demand upon management may necessitate our recruitment and retention of qualified management personnel. We cannot assure you that we will be able to recruit and retain qualified personnel or expand and manage our operations effectively and profitably. To effectively manage future growth, we must continue to expand our operational, financial and management information systems and to train, motivate and manage our work force. There can be no assurance that our operational, financial and management information systems will be adequate to support our future operations. Failure to expand our operational, financial and management information systems or to train, motivate or manage employees could have a material adverse effect on our business, financial condition and results of operations.

In addition, implementation of our growth strategy is subject to risks beyond our control, including competition, market acceptance of new products, changes in economic conditions, our ability to obtain or renew licenses on commercially reasonable terms, our ability to identify acquisition candidates and conclude acquisitions on acceptable terms, and our ability to finance increased levels of accounts receivable and inventory necessary to support our sales growth, if any. Accordingly, we cannot assure you that our growth strategy will be successful.

***If we are unable to acquire and integrate companies and new product lines successfully, we will be unable to implement a significant component of our growth strategy.***

Our growth strategy depends, in part, upon our ability to acquire companies and new product lines. Future acquisitions, if any, may succeed only if we can effectively assess characteristics of potential target companies and product lines, such as:

*attractiveness of products;*

*suitability of distribution channels;*

*management ability;*

*financial condition and results of operations; and*

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*the degree to which acquired operations can be integrated with our operations.*

We cannot assure you that we can identify attractive acquisition candidates or negotiate acceptable acquisition terms, and our failure to do so may adversely affect our results of operations and our ability to sustain growth. Our acquisition strategy involves a number of risks, each of which could adversely affect our operating results, including:

*difficulties in integrating acquired businesses or product lines, assimilating new facilities and personnel and harmonizing diverse business strategies and methods of operation;*

*diversion of management attention from operation of our existing business;*

*loss of key personnel from acquired companies;*

*failure of an acquired business to achieve targeted financial results; and*

*limited capital to finance acquisitions.*

***A limited number of customers account for a large portion of our net sales, so that if one or more of our major customers were to experience difficulties in fulfilling their obligations to us, cease doing business with us, significantly reduce the amount of their purchases from us or return substantial amounts of our products, it could have a material adverse effect on our business, financial condition and results of operations.***

Our three largest customers accounted for 46.2% of our net sales for the nine months ended September 30, 2017 and 48.4% of our net sales for the year ended December 31, 2016. Except for outstanding purchase orders for specific products, we do not have written contracts with or commitments from any of our customers and pursuant to the terms of certain of our vendor agreements, even some purchase orders may be cancelled without penalty up until delivery. A substantial reduction in or termination of orders from any of our largest customers could adversely affect our business, financial condition and results of operations. In addition, pressure by large customers seeking price reductions, financial incentives, and changes in other terms of sale or for us to bear the risks and the cost of carrying inventory could also adversely affect our business, financial condition and results of operations. If one or more of our major customers were to experience difficulties in fulfilling their obligations to us, cease doing business with us, significantly reduce the amount of their purchases from us or return substantial amounts of our products, it could have a material adverse effect on our business, financial condition and results of operations. In addition, the bankruptcy or other lack of success of one or more of our significant retailers could negatively impact our revenues and bad debt expense.

***We depend upon our Chief Executive Officer and any loss or interruption of his services could adversely affect our business, financial condition and results of operations.***

Our success has been largely dependent upon the experience and continued services of Stephen G. Berman, our President and Chief Executive Officer. We cannot assure you that we would be able to find an appropriate replacement for Mr. Berman should the need arise, and any loss or interruption of the services of Mr. Berman could adversely affect our business, financial condition and results of operations.

***We depend upon third-party manufacturers, and if our relationship with any of them is harmed or if they independently encounter difficulties in their manufacturing processes, we could experience product defects, production delays, cost overruns or the inability to fulfill orders on a timely basis, any of which could adversely affect our business, financial condition and results of operations.***

We depend upon many third-party manufacturers who develop, provide and use the tools, dyes and molds that we generally own to manufacture our products. However, we have limited control over the manufacturing processes themselves. As a result, any difficulties encountered by the third-party manufacturers that result in product defects, production delays, cost overruns or the inability to fulfill orders on a timely basis could adversely affect our business, financial condition and results of operations.

We do not have long-term contracts with our third-party manufacturers. Although we believe we could secure other third-party manufacturers to produce our products, our operations would be adversely affected if we lost our relationship with any of our current suppliers or if our current suppliers' operations or sea or air transportation with our overseas manufacturers were disrupted or terminated even for a relatively short period of time. Our tools, dyes and molds are located at the facilities of our third-party manufacturers.

Although we do not purchase the raw materials used to manufacture our products, we are potentially subject to variations in the prices we pay our third-party manufacturers for products, depending upon what they pay for their raw materials.

***We have substantial sales and manufacturing operations outside of the United States, subjecting us to risks common to international operations.***

We sell products and operate facilities in numerous countries outside the United States. Sales to our international customers comprised approximately 23.0% of our net sales for both the nine months ended September 30, 2017 and the year ended December 31, 2016 and approximately 27.3% of our net sales for the year ended December 31, 2015. We expect our sales to international customers to account for a greater portion of our revenues in future fiscal periods. Additionally, we utilize third-party manufacturers, located principally in China, and are subject to the risks normally associated with international operations, including:

*currency conversion risks and currency fluctuations;*

*limitations, including taxes, on the repatriation of earnings;*

*political instability, civil unrest and economic instability;*

*greater difficulty enforcing intellectual property rights and weaker laws protecting such rights;*

*complications in complying with laws in varying jurisdictions and changes in governmental policies;*

*greater difficulty and expenses associated with recovering from natural disasters, such as earthquakes, hurricanes and floods;*

*transportation delays and interruption;*

*work stoppages;*

*the potential imposition of tariffs; and*

*the pricing of intercompany transactions may be challenged by taxing authorities in both Hong Kong and the United States, with potential increases in income taxes.*

Our reliance upon external sources of manufacturing can be shifted, over a period of time, to alternative sources of supply, should such changes be necessary. However, if we were prevented from obtaining products or components for a material portion of our product line due to medical, political, labor or other factors beyond our control, our operations would be disrupted while alternative sources of products were secured. Also, the imposition of trade sanctions by the United States against a class of products imported by us from, or the loss of "normal trade relations" status by, China could significantly increase our cost of products imported from that nation. Because of the importance of international sales and international sourcing of manufacturing to our business, our financial condition and results of operations could be significantly and adversely affected if any of the risks described above were to occur.

***Our business is subject to extensive government regulation and any violation by us of such regulations could result in product liability claims, loss of sales, diversion of resources, damage to our reputation, increased warranty costs or removal of our products from the market, and we cannot assure you that our product liability insurance for the foregoing will be sufficient.***

Our business is subject to various laws, including the Federal Hazardous Substances Act, the Consumer Product Safety Act, the Flammable Fabrics Act and the rules and regulations promulgated under these acts. These statutes are administered by the CPSC, which has the authority to remove from the market products that are found to be defective and present a substantial hazard or risk of serious injury or death. The CPSC can require a manufacturer to recall, repair or replace these products under certain circumstances. We cannot assure you that defects in our products will not be alleged or found. Any such allegations or findings could result in:

*product liability claims;*

*loss of sales;*

*diversion of resources;*

*damage to our reputation;*

*increased warranty and insurance costs; and*

*removal of our products from the market.*

Any of these results may adversely affect our business, financial condition and results of operations. There can be no assurance that our product liability insurance will be sufficient to avoid or limit our loss in the event of an adverse outcome of any product liability claim.

***We depend upon our proprietary rights and our inability to safeguard and maintain the same, or claims of third parties that we have violated their intellectual property rights, could have a material adverse effect on our business, financial condition and results of operations.***

We rely upon trademark, copyright and trade secret protection, nondisclosure agreements and licensing arrangements to establish, protect and enforce our proprietary rights in our products. The laws of certain foreign countries may not protect intellectual property rights to the same extent or in the same manner as the laws of the United States. We cannot assure you that we or our licensors will be able to successfully safeguard and maintain our proprietary rights. Further, certain parties have commenced legal proceedings or made claims against us based upon our alleged patent infringement, misappropriation of trade secrets or other violations of their intellectual property rights. We cannot assure you that other parties will not assert intellectual property claims against us in the future. These claims could divert our attention from operating our business or result in unanticipated legal and other costs, which could adversely affect our business, financial condition and results of operations.

***Market conditions and other third-party conduct could negatively impact our margins and implementation of other business initiatives.***

Economic conditions, such as decreased consumer confidence, may adversely impact our margins. In addition, general economic conditions were significantly and negatively affected by the September 11th terrorist attacks and could be similarly affected by any future attacks. Such a weakened economic and business climate, as well as consumer uncertainty created by such a climate, could adversely affect our sales and profitability. Other conditions, such as the unavailability of electronics components, may impede our ability to manufacture, source and ship new and continuing products on a timely basis. Significant and sustained increases in the price of oil could adversely impact the cost of the raw materials used in the manufacture of our products, such as plastic.

***We may not have the funds necessary to purchase our outstanding convertible senior notes upon a fundamental change or other purchase date, as required by the indenture governing the notes.***

In June 2014, the Company sold an aggregate of $115.0 million principal amount of 4.875% convertible senior notes due on June 1, 2020, of which $113.0 million are outstanding as of September 30, 2017 (the “2020 Notes”). Holders of the 2020 Notes may require us to repurchase for cash all or some of their notes upon the occurrence of a fundamental change (as defined in the 2020 Notes). Holders of the 2020 Notes may convert their notes upon the occurrence of specified events. Upon conversion, the 2020 Notes will be settled in shares of the Company’s common stock. In July 2013, the Company sold an aggregate of $100.0 million principal amount of 4.25% convertible senior notes due on August 1, 2018, of which $21.15 million are outstanding as of September 30, 2017 (the “2018 Notes”) excluding the $21.55 million exchanged with Oasis for the New Note in the Exchange Transaction. Holders of the 2018 Notes may require us to repurchase for cash all or some of their notes upon the occurrence of a fundamental change (as defined in the 2018 Notes). Holders of the 2018 Notes may convert their notes upon the occurrence of specified events. Upon conversion, the 2018 Notes will be settled in shares of the Company’s common stock. Restrictions on borrowings under or loss of our credit facility could have a material adverse effect on our financial condition including an adverse impact on our ability to pay the 2018 and 2020 Notes when due. The 2020 and 2018 Notes described above are in addition to the $21.55 million New Note issued to Oasis, the selling security holder in the Exchange Transaction, which New Note is described elsewhere herein.

***Restrictions under or the loss of availability under our credit facility could adversely impact our financial condition and our ability to pay our convertible senior notes when due***.

In March 2014, we obtained a $75.0 million revolving line of credit. Any amounts borrowed under the revolving credit line are our senior secured obligations. All outstanding borrowings under the revolving credit line are accelerated and become immediately due and payable (and the revolving credit line terminates) in the event of a default which includes, among other things, failure to comply with financial ratio covenants if minimum excess availability levels are not maintained or breach of representations contained in the credit line documents, defaults under other loans or obligations, involvement in bankruptcy proceedings, an occurrence of a change of control or an event constituting a material adverse effect on us (as such terms are defined in the credit line documents). We are also subject to negative covenants which, during the life of the credit line, prohibit and/or limit us from, among other things, incurring certain types of other debt, acquiring other companies, making certain expenditures or investments, changing the character of our business, and certain changes to our executive officers.

***We have a full valuation allowance on the entire balance of net deferred taxes on our books since their future realization is uncertain.***

Deferred tax assets are realized by prior and future taxable income of appropriate character. Current accounting standards require that a valuation allowance be recorded if it is not likely that sufficient taxable income of appropriate character will be generated to realize the deferred tax assets. We currently believe that based on the available information, it is more likely than not that our deferred tax assets will not be realized, and accordingly we have recorded a valuation allowance against our US federal and state deferred tax assets. Our net operating losses and tax credit carry-forwards can expire if unused, and their utilization could be substantially limited in the event of an "ownership change," as defined in Section 382 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code.

***An adverse decision in litigation in which we have been named as a defendant could have a material adverse effect on our financial condition and results of operations.***

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***Transactions with Related Persons***

There are no family relationships between or among any of our directors, nominees and executive officers.

The following are transactions with related persons requiring approval under our policy. We entered into most of these transactions prior to our initial public offering, or IPO, in October 2009. Since our IPO, the Corporate Governance Committee has reviewed all of these transactions and has either pre-approved or ratified each transaction which required the committee s approval or ratification.

We lease our headquarters, located at 195 Clarksville Road, Princeton Junction, New Jersey, from an entity majority-owned by Dr. Vahaviolos, our Chairman, CEO and President. The lease currently provides for monthly payments of approximately $68,000 (which increases annually to a maximum of approximately $72,000) and terminates on October 31, 2014.

Our French subsidiary leases office space located at 27 Rue Magellan, Sucy-en-Brie, France, which is partly owned by Dr. Vahaviolos. The lease provides for monthly payments of approximately $19,000 and terminates January 12, 2016.

Our subsidiary in Greece entered into an employment agreement with the daughter of Dr. Vahaviolos pursuant to which she serves as its Vice President and Managing Director. The employment agreement provides for a monthly salary and other compensation, including incentive bonuses, plus reimbursement of certain expenses. During fiscal 2012, Dr. Vahaviolos daughter received approximately $179,000 in total compensation and benefits. At the landlord s request, Dr. Vahaviolos daughter personally guaranteed payments on a four year lease at approximately $6,700 per month for office space for our Greek subsidiary. We have agreed to indemnify Dr. Vahaviolos daughter should she make any payments or incur any costs or loss on account of her guaranty.

In connection with our Class B Convertible Redeemable Preferred Stock financing prior to our IPO, we entered into an investor rights agreement with our preferred stockholders, including Dr. Vahaviolos, whereby we granted Dr. Vahaviolos registration rights with respect to shares of our common stock which were issued to him at the time of our IPO resulting from the conversion of his shares of preferred stock.

## STOCK OWNERSHIP AND SECTION 16 COMPLIANCE

**Stock Ownership**

The following table sets forth information regarding the beneficial ownership of our common stock as of July 31, 2012, by (1) each of our directors, (2) each of the executive officers named in the summary compensation table, (3) all of our directors and executive officers as a group, and (4) all other shareholders known by us to own beneficially more than five percent of our common stock.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Shares of common stock that may be acquired by an individual or group within 60 days of July 31, 2012 (September 29, 2012), pursuant to the exercise of options or warrants, are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not for the purpose of computing the percentage ownership of any other person shown in the table. As of July 31, 2012, we had 28,038,007 shares of common stock outstanding.

Except as indicated in footnotes to this table, we believe that the shareholders named in this table have sole voting and investment power with respect to all shares of common stock shown to be beneficially owned by them, based on information provided to us by such shareholders. The address for the directors and executive officers listed below is c/o Mistras Group, 195 Clarksville Road, Princeton Junction, NJ 08550.

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| Name | Shares Beneficially Owned | Percentage of Class |
|---|---|---|
| **Directors and Officers** | | |
| Sotirios J. Vahaviolos (1) | 12,892,092 | 43.6% |
| Daniel M. Dickinson | 8,262 | * |
| James J. Forese | 54,262 | * |
| Richard H. Glanton | 4,610 | * |
| Michael J. Lange (1) | 545,419 | 1.9% |
| Ellen T. Ruff | 4,658 | * |
| Manuel N. Stamatakis | 16,280 | * |
| Francis T. Joyce (1) | 26,769 | * |
| Dennis Bertolotti (1) | 82,490 | * |
| Michael C. Keefe (1) | 17,373 | * |
| Directors and Executive Officers as a Group (1) | 14,073,422 | 47.2% |
| **Other 5% Holders** | | |
| Baron Capital Group, Inc. and related persons (2) | 2,359,800 | 8.4% |

* Indicates beneficial ownership of less than 1% of the total outstanding common stock.

(1) Includes options to purchase common stock exercisable as of July 31, 2012 or within 60 days thereafter and all unvested restricted stock units ( RSUs ) for the following amounts:

| | Options | RSUs | Total |
|---|---|---|---|
| Sotirios J. Vahaviolos | 1,462,500 | 62,801 | 1,525,301 |
| Michael J. Lange | 97,108 | 24,311 | 121,419 |
| Francis T. Joyce | 17,500 | 9,269 | 26,769 |
| Dennis Bertolotti | 19,500 | 18,097 | 37,597 |
| Michael C. Keefe | 4,376 | 12,997 | 17,373 |
| Directors and Officers as a Group | 1,647,165 | 153,194 | 1,800,359 |

(2) Based upon a Schedule 13G filed with the SEC for the year ended December 31, 2011. Baron Capital Group, Inc. and Ronald Baron have reported shared dispositive power with respect to all such shares of common stock and shared voting power with respect to 2,109,800 shares of common stock. BAMCO, Inc. has reported shared voting power with respect to 2,100,000 shares of common stock and shared dispositive power with respect to 2,350,000 shares of common stock. Baron Small Cap Fund has reported shared voting and dispositive power with respect to 1,500,000 shares of common stock. Baron Capital Management, Inc. has reported shared voting and dispositive power with respect to 9,800 shares of common stock. The address of each of the reporting persons in this group is 767 Fifth Avenue, 49th Floor, New York, NY 10153.

**Stock Ownership Guidelines**

In 2012, the Board adopted stock ownership guidelines for all directors and executive officers. Non-employee directors are required to hold all shares awarded during the past three years (excluding shares a director has elected to take in lieu of cash fees). Our CEO is required to hold five times his annual base salary and all other executive officers are required to hold at least two times their annual base salary. Our current executive officers have until January 2017 to meet these guidelines, and future executive officers will have five years from appointment to meet the guidelines. Unexercised options and unearned performance shares or performance RSUs are not counted toward meeting the guidelines.

**Section 16(a) Beneficial Ownership Reporting Compliance**

We believe that during fiscal 2012, all reports for our executive officers and directors that were required to be filed under Section 16(a) of the Securities Exchange Act of 1934 were filed on a timely basis, except Michael Lange was late filing one report on Form 4 for one transaction.

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## PROPOSALS REQUIRING SHAREHOLDER APPROVAL

### ITEM 1: ELECTION OF DIRECTORS

All seven members of our Board of Directors are standing for election for a one-year term expiring at the 2013 annual shareholders meeting or until their successors have been elected and qualified, or until their death or resignation.

The following contains the background, experience and other information about the nominees. Following each nominee s biographical information, we have provided information concerning the particular experience, qualifications, attributes and/or skills that contributed to the determination by the Corporate Governance Committee and the Board that the nominee should serve as a director. In addition, a majority of our independent directors serve or have served on boards and board committees (including, in many cases, as committee chairs) of other public companies, which we believe provides them with additional board leadership and governance experience, exposure to best practices, and substantial knowledge and skills that further enhance the functioning of our Board. In addition, Messrs. Dickinson, Forese, Lange and Stamatakis and Dr. Vahaviolos have been on our Board for over seven years and have a wealth of knowledge about our business, industry and corporate culture that provides great value to the functioning and decision making of the Board.

We believe that each nominee for election as a director will be able to serve if elected. If any nominee is not able to serve, proxies will be voted in favor of the remainder of those nominated and may be voted for substitute nominees, unless the Board of Directors chooses to reduce the number of directors serving on the Board.

**Nominees:**

***Daniel M. Dickinson***

Director since 2003, age 51

Mr. Dickinson is currently a Managing Partner of HCI Equity Partners, a private investment firm located in Washington, DC, where he has been employed since 2001. Prior to joining HCI Equity Partners in 2001, Mr. Dickinson was Co-Head of Global Mergers & Acquisitions at Merrill Lynch. Mr. Dickinson serves as a director and a member of the audit committee of Caterpillar, Inc. as well as a director of several private companies. Mr. Dickinson received a J.D. and M.B.A. from the University of Chicago and a B.S. in Mechanical Engineering and Materials Science from Duke University.

The Board believes that Mr. Dickinson s experience in mergers and acquisitions, private equity business and role as an investment banker provides important insight for the Company s growth strategy, which includes acquisitions. His significant financial expertise and experience, both in the U.S. and internationally, contributes to the Board s understanding and ability to analyze complex issues, particularly as the Company looks to expand its international business. His experience as a director of large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

***James J. Forese***

Director since 2005, age 76

Mr. Forese is an Operating Partner and Chief Operating Officer of HCI Equity Partners, positions he has held since he joined the firm in July 2003. Prior to joining HCI Equity Partners, Mr. Forese served as President and Chief Executive Officer of IKON Office Solutions, Inc. (formerly Alco Standard Corporation) from 1998 to 2002 and retired as Chairman in 2003. Before IKON, Mr. Forese served as Controller and Vice President of Finance at IBM Corporation and Chairman at IBM Credit Corporation. Mr. Forese is a director and chairman of the audit committee of Progressive Waste Solutions, and non-executive chairman since January 2010, and serves on the board of directors of several private companies. Mr. Forese also served as a director, audit committee chair and

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member of the compensation committee of Anheuser-Busch Companies Inc. from April 2003 until November 2008 and was on the Board of Directors of SFN Group (formerly Spherion Corporation) from 2003 until its acquisition by Randstad North America in September 2011, and was its non-executive chairman and chairman of the corporate governance and nominating committee. Mr. Forese was also formerly a director of Lexmark International, NUI Corporation, Southeast Bank Corporation, Unisource Worldwide, Inc. and American Management Systems, Incorporated. Mr. Forese received a B.E.E. in Electrical Engineering from Rensselaer Polytechnic Institute and an M.B.A. from Massachusetts Institute of Technology.

The Board believes Mr. Forese, as a result of his vast experience and demonstrated success as an executive, possesses knowledge and experience in various areas, including business leadership, banking, finance, technology, and public and private company board experience, which strengthens the Board s overall knowledge, capabilities and experience. In addition, Mr. Forese experience with audit committees and his tenure as Vice President of Finance and Controller at IBM provides the Board with an audit committee financial expert which further strengthens some of the Board s and Audit Committee s key functions, such as oversight of financial reporting and internal controls.

***Richard H. Glanton***

Director since 2009, age 65

Mr. Glanton is Chief Executive Officer and Chairman of the Philadelphia Television Network, a privately-held media company and managing member of ElectedFace LLC, an on-line service that connects people to the elected officials. From May 2003 to May 2007, Mr. Glanton served as the Senior Vice President of Corporate Development for Exelon Corporation and from 1986 to 2003, he was a partner in the law firm of Reed Smith LLP in Philadelphia. Mr. Glanton currently is a director of Aqua America, Inc., where he is chairman of the corporate governance committee and serves on the executive committee of the Board; a director of The GEO Group, Inc. where he is chairman of the audit and finance committee and the compensation committee and serves on the nominating and corporate governance committee, executive committee and various other standing committees; and is a member of the Board of Trustees of Lincoln University. Mr. Glanton has more than 25 years of legal experience in law firms, over a decade of executive experience and has close to 30 years of continuous experience serving on boards of publicly traded companies. Mr. Glanton received a B.A. degree in English from West Georgia College and a J.D. from University of Virginia School of Law.

The Board believes Mr. Glanton s experience and knowledge in acquisitions, the power utility industry, legal and general business matters, his extensive experience as a director of publicly traded companies and his demonstrated leadership roles in other business activities are important qualifications, skills and experience that benefits the Board. His extensive corporate finance and legal knowledge also contribute to the Board s collective knowledge, capabilities and experience.

***Michael J. Lange***

Director since 2003, age 52

Mr. Lange is Group Executive Vice President, Services for the Company, overseeing our entire Services division. Mr. Lange joined Mistras when it acquired Quality Services Laboratories in November 2000. Mr. Lange is a well-recognized authority in radiography and has held an American Society for Nondestructive Testing (ASNT) Level III Certificate for over 20 years. Mr. Lange received an Associate of Science degree in NDT from the Spartan School of Aeronautics.

The Board believes that Mr. Lange s extensive knowledge and experience in the NDT field, and the business acumen and leadership he has demonstrated by the growth of the Services segment since he joined the Company in 2000, provides an important operational and industry perspective that is valuable to the Board. In addition, Mr. Lange has been instrumental in the successful integration of numerous NDT services companies Mistras has acquired over the past several years, providing valuable insight and perspective to the Board as it considers strategies for future growth.

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***Ellen T. Ruff***

Director since 2011, age 63

Ms. Ruff is currently a partner in the law firm McGuire Woods, LLP, where she focuses on state and Federal regulation for the firm s energy clients, having joined the firm in July 2011. Previously, Ms. Ruff had a 32 year career with the Duke Energy organization, one of the largest electric power companies in the United States focused on electric power and gas distribution operations, and other energy services in the Americas. Ms. Ruff served as President of Nuclear Development at Duke Energy from December 2008 until her retirement in December 2010. Prior to that position at Duke Energy, Ms. Ruff served as President of Duke Energy Carolinas, an electric utility providing electricity and other services to customers in North Carolina and South Carolina. Ms. Ruff joined the Duke Energy in 1978 and prior to these last two offices, held various positions, including, Vice President and General Counsel of Corporate, Gas and Electric Operations; Senior Vice President and General Counsel for Duke Energy; Senior Vice President of Asset Management for Duke Power; Senior Vice President of Power Policy and Planning; Group Vice President of Power Policy and Planning; and Group Vice President of Planning and External Affairs. Ms. Ruff currently serves on the Board of Directors of Aqua America, Inc., having been first elected to its board in 2006, and is a member of its Executive Compensation Committee. Ms. Ruff has a B.A. in Business from Simmons College and a J.D. from the University of North Carolina Chapel Hill.

The Board believes Ms. Ruff s extensive knowledge and experience in the power industry will provide the Board with unique insight to that industry, in which the Company has many customers and is seeking to increase its presence. Furthermore, Ms. Ruff s significant legal and general business experience, successful leadership, demonstrated by serving in roles such as General Counsel and President of large organizations, and her experience as a director of another public company, are important qualifications, skills and experience that benefit the Board.

***Manuel N. Stamatakis***

Director since 2002, age 64

Mr. Stamatakis is the President and Chief Executive Officer of Capital Management Enterprises, Inc., a financial services and employee benefits consulting company headquartered in Valley Forge, Pennsylvania. Mr. Stamatakis is also a founding member of First Financial Resources, a national financial services organization with over 120 offices nationwide. Over the years, Mr. Stamatakis has served on the boards of numerous not-for-profit and charitable organizations, and currently serves, among others, as Chairman of the Board of Trustees of Drexel University College of Medicine, where he is also a member of the audit and finance committees; Chairman of Philadelphia Shipyard Development Corporation and Chairman of the Pennsylvania Supreme Court Investment Advisory Board. Mr. Stamatakis received a B.S. in Industrial Engineering from Pennsylvania State University and received an honorary Doctorate of Business Administration from Drexel University.

The Board believes that the vast skills, leadership, business experience and success Mr. Stamatakis has demonstrated as a founder and leader of a successful services business provides the Board with important skills, knowledge, and experience, particularly the experience and knowledge gained from starting and leading a substantial business. Mr. Stamatakis also provides the Board with knowledge of employee benefits and related matters and with strategic and leadership skills as a founder, President and CEO and of a substantial business enterprise and as a board member of numerous not-for-profit organizations, some of which are very significant in size and scope.

***Sotirios J. Vahaviolos***

Director since 1978, age 66

Dr. Vahaviolos has been the Chairman, President and Chief Executive Officer since he founded Mistras in 1978 under the name Physical Acoustics Corp. Prior to forming Mistras, Dr. Vahaviolos worked at AT&T Bell

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Laboratories. Dr. Vahaviolos received a B.S. in Electrical Engineering and graduated first in his engineering class from Fairleigh Dickinson University and received a Master of Science (EE), Masters in Philosophy and a Ph.D.(EE) from the Columbia University School of Engineering. During Dr. Vahaviolos career in non-destructive testing, he has been elected Fellow of (1) The Institute of Electrical and Electronics Engineers, (2) The American Society of Nondestructive Testing, and (3) The Acoustic Emission Working Group (AEWG). Dr. Vahaviolos is also a member of The American Society for Nondestructive Testing (ASNT), where he served as its President from 1992-1993 and its Chairman from 1993-1994, a member of AEWG and an honorary life member of the International Committee for Nondestructive Testing. Additionally, he was the recipient of ASNT s Gold Medal in 2001 and AEWG s Gold Medal in 2005. He was also one of the six founders of NDT Academia International in 2008.

Mr. Vahaviolos brings to the Board his detailed knowledge and unique perspective and insights regarding the strategic and operational opportunities and challenges, economic and industry trends, and competitive and financial positioning of our business. In addition, his significant experience as the company s founder, Chairman, President and CEO, his leadership of our Company over three decades during various economic cycles and through its successful initial public offering, and his 43% ownership interest in the Company, position him well to serve as our Chairman.

**Vote Required and Recommendation of the Board.** The seven nominees receiving the greatest number of votes cast for their election as directors will be elected. The Board intends to vote all proxies for the election of each of these nominees, unless you indicate otherwise on your proxy card or pursuant to your voting instructions. **The Board unanimously recommends a vote FOR the election of the above-named nominees as directors.**

**ITEM 2. RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has appointed PricewaterhouseCoopers LLP, or PwC, as our independent registered public accounting firm for the fiscal year 2013. Shareholder ratification of the appointment is not required under the laws of the State of Delaware, but the Board has decided to ascertain the position of the shareholders on the appointment. The Audit Committee will reconsider the appointment of PwC if shareholders do not ratify the appointment. Even if the appointment is ratified, the Audit Committee will still have the discretion to appoint a different independent registered public accounting firm if the committee determines that such a change would be in our and our shareholders best interests.

A representative of PwC is expected to attend the 2012 Annual Meeting and will have the opportunity to make a statement if the PwC representative desires to do so and to respond to appropriate questions presented at the meeting.

**Vote Required and Recommendation of the Board.** The ratification of the appointment of the independent registered public accounting firm requires the approval of a majority of the votes cast for this matter. The Board intends to vote all proxies for the ratification of PwC, unless you indicate otherwise on your proxy card or pursuant to your voting instructions. **The Board unanimously recommends a vote FOR the ratification of the appointment of PwC as our independent registered public accounting firm for fiscal 2013.**

**Audit Committee Report**

The Audit Committee reports to and acts on behalf of the Board of Directors of Mistras Group, Inc. (the Company ) by providing oversight of the financial reporting, accounting policies and procedures and the system of internal controls of the Company. The Company s management is responsible for preparing the Company s financial statements and designing and monitoring a system of internal controls. The Company s independent registered public accounting firm, PricewaterhouseCoopers LLP ( PwC ), is responsible for auditing the Company s financial statements and evaluating the Company s system of internal controls, and expressing its opinion on the financial statements and the effectiveness of internal controls over financial reporting based upon its audit and evaluation. The Audit Committee is responsible for overseeing the conduct of these activities by the Company s management and PwC.

In this context, the Audit Committee has met and held discussions with management, the Company s internal auditors and PwC (including private sessions with the internal auditors, PwC, the Chief Executive Officer, the Chief Financial Officer and other members of management at Audit Committee meetings). Management represented to the Audit Committee that the Company s consolidated financial statements as of and for the fiscal year ended May 31, 2012 were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and PwC.

The Audit Committee has discussed with PwC matters required to be discussed by the Statement on Auditing Standards No. 61 (AICPA, Professional Standards, Vol. 1, AU section 380). In addition, PwC provided to the Audit Committee the written disclosures required by the applicable requirements of the Public Company Accounting Oversight Board regarding PwC s communications with the Audit Committee concerning independence, and the Audit Committee and PwC have discussed PwC s independence from the Company and its management, including the matters in those written disclosures. Additionally, the Audit Committee considered the non-audit services provided by PwC and the fees and costs billed and expected to be billed by PwC for those services in evaluating PwC s independence.

Based upon these reviews and discussions with management and PwC, the Audit Committee recommended to the Board of Directors, and the Board has approved, the inclusion of the Company s consolidated audited financial statements in the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 2012, for filing with the Securities and Exchange Commission.

James J. Forese, Chairman

Ellen T. Ruff

Manuel N. Stamatakis

**Fees of Our Independent Registered Public Accounting Firm**

The following table sets forth the fees billed by PwC for the audits for each of the past two fiscal years for professional services rendered for the audit of our financial statements and the fees billed in each of the past two fiscal years for the other services listed below:

| | **2012** | **2011** |
|---|---|---|
| Audit Fees | $ 1,139,024 | $ 1,190,232 |
| Audit-Related Fees | | 96,000 |
| Tax Fees | 19,705 | 120,800 |
| All Other Fees | 5,715 | 5,073 |
| **Total** | $ 1,164,444 | $ 1,412,105 |

*Audit Fees.* Audit fees for both years consisted of aggregate fees billed for professional services rendered for the audit of our consolidated annual financial statements, review of interim consolidated financial statements, and audits of statutory financial statements for certain international subsidiaries.

*Audit-Related Fees.* Audit-related fees consisted of fees associated with our registration statement on Form S-3 related to our secondary offering in May 2011.

*Tax Fees.* Tax fees consisted primarily of fees associated with tax compliance work.

*All Other Fees*. All other fees consist of subscription fees for technical publications.

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The Audit Committee s charter provides for review and pre-approval by the Audit Committee of all audit services and permissible non-audit services, and related fees, conducted by our independent auditor. The Audit Committee meets annually to approve audit and tax fees for the year. The Audit Committee authorized the engagement of PwC on certain tax matters, provided that PwC reports to the Audit Committee Chairman in a timely manner. All of the fees and services described above under Audit Fees, Audit-Related Fees, and Tax Fees were approved by the Audit Committee and the Audit Committee concluded that the provision of such services by PwC did not impact PwC s independence in the conduct of its auditing functions.

**ITEM 3: ADVISORY VOTE ON EXECUTIVE COMPENSATION**

The Board of Directors is asking our shareholders to cast an advisory vote on the executive compensation paid to our named executive officers as set forth in the Summary Compensation Table and other compensation tables and narratives under the Executive Compensation section of this proxy statement and as described in the Compensation Discussion and Analysis section of this proxy statement.

The Compensation Committee of the Board of Directors recommends, approves and governs all of the compensation policies and actions for all of our named executive officers. The section of this proxy statement captioned Compensation Discussion and Analysis provides an extensive discussion of our executive compensation programs, the role the Compensation Committee plays in overseeing and developing our compensation programs and philosophy, and the reasons for our compensation programs and the compensation provided to our named executive officers. We urge you to read the Compensation Discussion and Analysis and Executive Compensation sections of this proxy statement so you may better understand our compensation programs on which you are being asked to vote.

Shareholders are being asked to approve the adoption of the following resolution:

**RESOLVED, that the shareholders of Mistras Group, Inc. (the Company ) approve, on an advisory basis, the compensation of the Company s named executive officers, as disclosed in the Company s proxy statement for the 2012 annual meeting of shareholders pursuant to rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the compensation tables, narrative disclosures and any other relevant information.**

While the results of the shareholders vote on executive compensation is non-binding, the Compensation Committee and the Board values the opinion of our shareholders and will consider the outcome of the vote when making future compensation decisions.

**Vote Required and Recommendation of the Board.** The advisory vote on executive compensation will be considered approved if a majority of the shares of common stock present or represented by proxy at the annual meeting vote FOR this item. The Board intends to vote all proxies to approve executive compensation, unless you indicate otherwise on your proxy card or pursuant to your voting instructions. **The Board of Directors unanimously recommends that you vote FOR adoption of the resolution approving on an advisory basis the executive compensation for our named executive officers.**

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed with management the following Compensation Discussion and Analysis section of the Company s 2012 Proxy Statement. Based on our review and discussions, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company s Proxy Statement for 2012.

Daniel M. Dickinson, Chairman

Richard H. Glanton

Manuel N. Stamatakis

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## COMPENSATION DISCUSSION AND ANALYSIS

### Executive Summary

Our executive compensation programs and policies have been developed to achieve the following key principles:

- Link incentive compensation to Company performance and increases in shareholder value; and

- Pay amounts that are reasonably competitive, fair and based upon each executive officer s contributions to performance.

Our Compensation Committee and management are continuously reviewing our compensation practices with these key principles in mind.

### Overview and Philosophy

Our executive compensation objective, accomplished through our Compensation Committee, is to have compensation programs and policies that (1) align individual performance with our operational objectives, (2) attract and retain talent that is needed to be successful and achieve our strategic objectives, and (3) pay for performance. Overall, the objectives of our executive compensation programs are to achieve strategic business objectives that are aimed at growing our business and aligning the long-term interests of our executives and shareholders.

Our current compensation programs for our executive officers, which include our named executive officers listed in the Summary Compensation Table below, were implemented in 2011, and some modifications were made in 2012. We have two incentive plans, an annual incentive plan, or AIP , and a long-term plan. The awards for both plans are based primarily on the Company s financial performance, with the AIP being a cash plan, while the long-term plan awards restricted stock units, or RSUs, which vest over four years. The objective of the AIP is to pay executive officers currently in cash based on the Company s and the executives performance that year. The long-term plan offers the opportunity for long-term rewards that will provide incentives for our executive officers to remain with us and enhance the long-term value of the Company for the shareholders.

### Role of Compensation Committee

The Compensation Committee is responsible for the executive compensation program design and decision-making process, with input from the Chairman and CEO and the other named executive officers. The Compensation Committee annually reviews the Chairman and CEO s performance, establishes his compensation, and reviews with the Chairman and CEO his assessment of the other members of senior management and his recommendations for their compensation. The Compensation Committee consists of three directors who meet the independence requirements of the NYSE (Messrs. Dickinson, Glanton and Stamatakis).

The Compensation Committee took an active role in overseeing the design and implementation of the two incentive programs adopted in 2011. In addition, the Compensation Committee worked closely with senior management to develop a peer group for purposes of benchmarking compensation. Also during 2011, the Compensation Committee retained an independent compensation consultant, Pay Governance LLC, to review the new compensation programs and our peer group and to benchmark both executive compensation and the compensation of non-employee directors. Pay Governance has been retained directly by the Compensation Committee and any services rendered for us are as directed by the Compensation Committee.

In 2012, we modified the plans relating to the establishment of target awards for each executive officer and the award potentials if the financial and individual performance is overachieved or underachieved as compared to targets. In addition, we utilized a benchmarking report and other information provided by Pay Governance in establishing incentive compensation targets. The benchmarking is discussed below.

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**Components of Executive Compensation for Fiscal 2012**

The principal components of our current executive compensation program are base salary, the AIP and the long-term equity incentive awards. Although each element of compensation described below is considered separately, our Compensation Committee takes into account the aggregate compensation package for each individual executive officer in its determination of each individual component of that package. We also provide some benefits, such are car allowances, but these are not a significant portion of our compensation program.

Base salary is a fixed compensation amount paid during the course of the fiscal year. Each named executive officer s base salary is reviewed on an annual basis by the Compensation Committee. The Compensation Committee took into account Pay Governance s reports benchmarking our executive officers base salary against a peer group and broader database when determining adjustments to executive officers salaries.

The Compensation Committee believes that our named executive officers should have a meaningful portion of their total compensation opportunity linked to increasing shareholder value through the Company s business strategy of focusing upon growth opportunities and continued improvements in profitability. Reflecting this philosophy, at target levels of awards for the AIP and the long-term plan, more than 50% of total compensation for all of our named executive officers is performance-based, and almost 75% of our Chairman & CEO s compensation is performance-based.

The AIP and long-term compensation plan for our executive officers are based on our budget and internal plan, as described below. The objective of these plans is to link compensation to our performance, particularly our revenue growth and profitability.

The AIP is a cash bonus plan pursuant to which executive officers can earn a percentage of their base salary based upon our performance against specific metrics. The metrics are given different weightings, and executive officers earn their awards based upon our performance relative to the specific metrics. In addition, each metric has a minimum threshold, below which no bonus can be earned for that metric.

The long-term compensation plan provides executive officers with the opportunity to earn RSUs based upon our performance against specific metrics. Our performance against these metrics determines the dollar value of the award executive officers will receive, which are paid in RSUs. The RSUs executive officers received vest 25% per year on each one-year anniversary date of the issuance of the RSUs.

Each executive has a target award potential he can earn under each plan, which is a percentage of his base salary. If the performance for a specific metric is at the target level, the executive will receive 100% of his target award related to that metric. Each executive officer can earn between 0% and 200% of his target award, based upon performance. The target levels for performance were set at the beginning of the fiscal year based upon management s internal plan, or budget, for 2012, as reviewed with the Board at the beginning of the fiscal year. These metrics did not take into account any acquisitions that may be made during the fiscal year, and the results of any acquisitions made during the year were excluded for purposes of determining our performance against the target for each metric.

The following are the target awards for our named executive officer under each plan.

| | | Percentage of Base Salary | |
|---|---|---|---|
| **Name** | **Title** | **AIP** | **Long-Term** |
| Sotirios J. Vahaviolos | Chairman, President and Chief Executive Officer | 85% | 200% |
| Francis T. Joyce | Executive Vice President, Chief Financial Officer and Treasurer | 45% | 75% |
| Michael J. Lange | Group Executive Vice President, Services | 60% | 100% |
| Dennis Bertolotti | Services President and Chief Operating Officer | 50% | 80% |
| Michael C. Keefe | Executive Vice President, General Counsel and Secretary | 45% | 75% |

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For fiscal 2012, we used the same performance metrics for both the AIP and the long-term plan. The metrics used were (i) EBITDAS, which is net income before interest, taxes, depreciation, amortization, non-cash stock-based compensation expense, acquisition related expenses, and other unusual and/or nonrecurring expenses, and accounted for 50% of the award, and (ii) revenue, which accounted for 30% of the award. The remaining 20% of the award potential was based upon the individual executive officer s performance relative to specific individual objectives. With respect to the Chief Executive Officer, Chief Financial Officer, the General Counsel, and other executive officers who are not responsible for one particular business unit or segment, the Company s overall performance accounted for 100% for these two metrics under the AIP (which comprise 80% of the award opportunity). For the Group Executive Vice Presidents and other executive officers whose primarily responsibilities are to manage a business unit or segment, the EBITDAS and revenue metrics under the AIP were based 75% on their specific business unit s or segment s performance and 25% on the Company s overall performance. Under the long-term plan, the financial metrics for all executive officers were based 100% on the Company s overall performance. The revenue and EBITDAS metrics were selected for both the AIP and the long-term program because these are the two primary metrics management and the Board uses to evaluate our performance, and these have been key metrics for several years.

A minimum of 90% of the target performance level of a metric must be achieved for an executive officer to receive any award for that metric. At 90% of the target performance level, the executive officer will receive 50% of his target award related to that metric. If performance is between 90% and 100% of the target performance level for a metric, the executive officer will receive a percentage of his target award for that metric based upon a straight line interpolation between 50% and 100%, with each 1% increase in performance against target above the 90% performance level equating to a 5% increase in percentage of target award. If the performance for a specific metric exceeds 100% of the target performance level, the executive officer will receive in excess of 100% of his target award related to that metric, to a maximum of 200% of his target award if the performance for the metric equals or exceeds 113.33% of the target performance level. If performance is between 100% and 113.33% of target performance level for a metric, the executive officer will receive a percentage of his target award for that metric based upon a straight line interpolation between 100% and 200%, with each 1% increase in performance against target above the 100% level equating to a 7.5% increase in percentage of target award. The Compensation Committee determines the individual performance portion of the award for the Chairman and Chief Executive Officer. The Chairman and Chief Executive Officer and the Compensation Committee determine the individual performance portion of the awards for the other executive officers.

**Benchmarking and the Role of Compensation Consultant**

To assist in the assessment of the appropriateness and competiveness of our compensation programs, management and the Compensation Committee, with the assistance of Pay Governance, developed a peer group. In deciding the companies to include in the peer group, management, the Compensation Committee and Pay Governance focused on companies that are involved in or related to the asset protection industry, and primarily selected firms that, at that time, were generally in the range of 50% to 200% of our size with respect to revenues and/or market capitalization.

The peer group consisted of the following companies:

| | |
|---|---|
| Badger Meter Inc. | Cal Dive International, Inc. |
| CIRCOR International, Inc. | ENGlobal Corp. |
| Furmanite Corporation | Global Geophysical Services Inc. |
| Insituform Technologies Inc.[1] | Matrix Service Co. |
| National Technical Systems Inc. | OYO Geospace Corp. |
| Team Inc. | T-3 Energy Services Inc.[2] |
| Versar Inc. | |

1. Subsequently acquired by Aegion Corporation

2. Subsequently acquired by Robins & Myers, Inc.

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In 2011, the Compensation Committee retained Pay Governance to perform a benchmarking study of our executive compensation against the peer group. Pay Governance provided the committee with a report comparing our executive compensation against the peer group and against a national executive compensation survey database, focusing on companies of comparable size, which provided a broader sampling of data points for comparison to the proxy data for the industry specific companies in the peer group. The Compensation Committee retained Pay Governance to provide a report at the conclusion of fiscal 2012 comparing our executive compensation to the updated national executive compensation survey database.

The Compensation Committee used these reports to assess the competiveness of our compensation programs and the various components and to assist the committee in making compensation decisions. The Compensation Committee considered base salaries, target award levels, total cash compensation (base salary and AIP awards), long-term equity compensation, and total compensation in this assessment. Furthermore, the reports provide the Compensation Committee and management with information to assist in the continuing development of our executive compensation programs.

**2012 Compensation**

The following is a discussion of the decisions made on the various components of executive compensation for fiscal 2012 for our named executive officers.

*Base Salary*

Executive officers are reviewed and provided with salary treatment, if any, on August 1, after the conclusion of the fiscal year. This enables the Compensation Committee and the Chairman and CEO to make these decisions after reviewing our financial performance during the then just completed fiscal year and evaluating the executive officers performance during that period. Our executive officers were provided with salary treatment effective August 1, 2011, as discussed in our 2011 proxy statement, and their salaries for fiscal 2012 are set forth in the Summary Compensation Table below.

During fiscal 2012, Sotirios Vahaviolos base salary was $425,000. Effective August 1, 2012, the Compensation Committee increased Dr. Vahaviolos base salary to $437,800, a 3% increase. While his salary is at the low end of the benchmark salary range, the Compensation Committee, with Dr. Vahaviolos concurrence, decided to keep his base salary at low end of the range, and provide Dr. Vahaviolos with the opportunity to receive the bulk of his compensation through the performance-based incentive plans.

For our other executive officers, salary increases for fiscal 2013 are generally in line with cost of living increases and are in the range of 3% to 10%, with the high end designed to bring the base salary more in line with the competitive benchmark for the position. The new salaries for our other named executive officers, effective August 1, 2012, are: $255,000 for Francis Joyce; $292,500 for Michael Lange; $240,000 for Dennis Bertolotti; and $230,000 for Michael Keefe.

*Annual Incentive Plan*

The Company achieved above the target level for revenue, achieving 103.9% of target performance, which resulted in a payout of 129.6% of target award for this metric. However, the Company underachieved for EBITDAS, achieving 97.2% of target performance, which resulted in a payout of 85.9% of the target award for this metric. The Services division overachieved on both metrics, on which a portion of Messrs. Bertolotti s and Lange s AIP awards are based. The Services revenues were 109.1% of target performance, which resulted in a payout of 168.3% of target award for this metric, and EBITDAS achieved 104.1% of target performance, which resulted in a payout of 130.6% of target award for this metric. All the named executive officers received awards based upon the performance of these metrics calculated in accordance with the plan.

The awards for individual performance for our named executive officers were generally below the target of 20% of individual performance, with Dr. Vahaviolos receiving the lowest, at 10%, or 50% of his target award. The Compensation Committee, with Dr. Vahaviolos concurrence, awarded these lower amounts because of the lower level of profitability as a percentage of revenue we achieved in fiscal 2012 as compared to fiscal 2011. For both the Company and the Services division, revenue grew but the EBITDAS lagged behind. In addition, the Company s operating income as a percentage of revenue decreased in fiscal 2012 as compared to fiscal 2011. While the Compensation Committee recognized that the Company and Services Division had strong results in fiscal 2012, the reduction in profitability as a percentage of revenue warranted individual awards below target award levels.

The 2012 AIP awards for our named executive officers are set forth in the Summary Compensation Table under the column Non-Equity Incentive Plan Compensation.

*Long-Term Incentives*

As stated above, we used the same performance metrics in 2012 for the long-term plan as we used for the AIP. Accordingly, awards under the long-term plan were awarded in the same manner as the AIP with respect to the Company s overall performance for EBITDAS and revenue. As with the AIP, our named executive officers generally received below the target for individual performance for the same reason as with the AIP awards. Again, Dr. Vahaviolos received the lowest award for individual performance at 50% of target, or 10%.

The value of the 2012 long-term awards granted to the named executive officers and the number of RSUs they received are as follows:

| | Long-Term RSU Awards | |
|---|---|---|
| **Name** | **Value ($)** | **RSUs (#)** |
| Sotirios Vahaviolos | $ 780,632 | 37,244 |
| Francis Joyce | $ 179,576 | 8,568 |
| Michael Lange | $ 274,054 | 13,075 |
| Dennis Bertolotti | $ 179,555 | 8,567 |
| Michael Keefe | $ 159,633 | 7,616 |

These awards were made in August 2012, with the number of RSUs granted being based upon the average of the high and low trading prices of our stock on August 13, 14 and 15, 2012, which was $20.96 per share. These RSUs will vest equally over 4 years, with 25% vesting on each anniversary date of the August 15, 2012 grant. Due to the SEC rules regarding the Summary Compensation Table, these awards are not included in the 2012 Summary Compensation Table because the grants were made in fiscal 2013. However, we consider these awards part of the named executive officers compensation for 2012.

**Overall Compensation for 2012 Performance**

The Compensation Committee reviews compensation awarded to our executive officers based on compensation and awards related to a particular fiscal year, and our performance for that fiscal year. Due to the SEC disclosure rules for the Summary Compensation Table below, the compensation set forth in the table for a particular year does not necessarily align with the actual compensation related to that year. The following table sets forth for fiscal years 2012 and 2011 the compensation decisions related to each of those years. Fiscal 2012 includes the RSUs granted in August 2012 as these awards pertain to and were based upon fiscal 2012 performance. The summary compensation table does not include these amounts, as these awards were made after the end of the fiscal year. The RSUs granted in August 2011 are included in fiscal year 2011 in the table below, as those pertained to fiscal 2011 performance. The summary compensation table includes these grants in fiscal 2012, as these awards were made in fiscal year 2012. Fiscal 2011 below includes the RSUs granted in August 2010, as these were not clearly identified as compensation related to a particular fiscal period. The August 2012 and August 2011 RSU grants are valued at the award amounts determined by the Compensation Committee, which were converted into RSUs using a three day average, as opposed to the value used for stock compensation accounting under FASB ASC Topic 718, as required by the SEC rules for summary compensation table disclosure.

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**Compensation Related to Fiscal 2012 and 2011**

(All amounts in $ except fiscal year)

| Name | Fiscal Year | Salary | AIP (1) | Long-term RSUs (2) | August 2010 RSUs | Option Awards (3) | All Other | Total |
|---|---|---|---|---|---|---|---|---|
| Sotirios Vahaviolos | 2012 | 424,679 | 331,771 | 780,632 | | | 24,038 | 1,561,120 |
| | 2011 | 376,154 | 318,750 | 750,000 | 302,400 | | 26,087 | 1,773,391 |
| Francis Joyce | 2012 | 245,706 | 104,965 | 179,576 | | | 14,799 | 545,046 |
| | 2011 | 203,481 | 150,000 | 172,600 | | 156,475 | 6,716 | 689,172 |
| Michael Lange | 2012 | 283,292 | 204,021 | 274,054 | | | 11,410 | 772,777 |
| | 2011 | 272,250 | 198,000 | 264,000 | 136,080 | | 18,383 | 888,713 |
| Dennis Bertolotti | 2012 | 231,360 | 141,744 | 179,555 | | | 11,569 | 564,228 |
| | 2011 | 222,363 | 140,140 | 183,260 | 110,880 | | 44,700 | 701,343 |
| Michael Keefe | 2012 | 208,889 | 95,780 | 159,633 | | | 13,230 | 477,532 |
| | 2011 | 199,560 | 150,000 | 172,080 | 50,400 | | 11,194 | 583,234 |

(1) The amounts in this column represent the cash payments under the AIP made to each named executive officer after the conclusion of the fiscal year, based upon the Company s performance against financial metrics and the individual performance of the named executive officers during the fiscal year.
(2) The amounts in this column represent the value earned under the long-term plan for performance in that fiscal year. These amounts are ultimately awarded in RSUs after the end of the fiscal year, and are reported in the summary compensation table as compensation for the year the grant is actually award, which is the following fiscal year, based upon the value required for stock compensation pursuant to FASB ASC Topic 718.
(3) Represents grant date fair value of stock options, calculated using the Black-Scholes option valuation model (as reported in the summary compensation table), awarded to Mr. Joyce upon his joining us as our CFO in July 2010.

**Role of Executive Officers in Setting Compensation**

As our founder and Chairman and CEO since inception, Dr. Vahaviolos has traditionally had a role in setting compensation for executive officers. Dr. Vahaviolos has been operating in the NDT and asset protection industry for more than 30 years and possesses a detailed and in-depth knowledge of the industry and our competitors, which enables him to assess the performance of our executive officers as compared to our competitors. In 2012, Dr. Vahaviolos continued to play a role in making recommendations to the Compensation Committee regarding our other executive officers and the level of overall equity awards, but his recommendations are subject to the Compensation Committee s independent review and approval. We expect this practice will continue in the future, as Dr. Vahaviolos input and guidance as to compensation treatment for other executive officers is vital for the Compensation Committee.

**Impact of Tax Treatment**

The Company and the Compensation Committee consider tax, tax deductibility and accounting treatment of various compensation alternatives, and strive to structure all compensation to be fully tax deductible. However, these are not the driving or most influential factors. The Compensation Committee may approve non-deductible compensation arrangements if it believes they are in our best interests and those of our shareholders, taking into account several factors, including our ability to utilize deductions based on projected taxable income.

**Employment Agreements and Severance Arrangements**

Effective September 1, 2009, we entered into an employment agreement with Dr. Vahaviolos for the positions of executive chairman of the board and chief executive officer. The agreement has a term of four years until August 31, 2013, and will automatically renew for successive one-year periods in the absence of an election by either party to terminate. The employment agreement is described further under Vahaviolos Employment

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Agreement and Potential Payments upon Termination of Employment. We currently have no employment agreements or severance arrangements with our other named executive officers, although we may in the future enter into employment agreements or adopt severance or change in control policies.

**Hedging Prohibitions**

Our Insider Trading Compliance Policy prohibits all of our employees, including our executive officers, and directors from (i) trading in options of any kind or other derivatives related to our securities, (ii) selling our securities short or (iii) holding our securities in margin accounts.

**Continuing Review of Compensation Practices**

We continue to review our compensation practices and programs and expect to make changes going forward. One area we expect to address is modifying our metrics to provide additional incentives for profitability. For fiscal 2013, the Compensation Committee has added a metric for the AIP that measures EBITDAS as a percentage of revenue to provide incentives for attaining profitable growth. In addition, the Compensation Committee is changing the metrics for the long-term plan by replacing the existing metrics, which are the same used for the AIP, with metrics such as return on tangible invested capital and earnings per share growth.

**Risk Assessment of Compensation Practices and Programs**

Our Compensation Committee and senior management assessed whether our compensation practices and programs for employees pose any material risk to us and determined that our compensation practices and programs are not reasonably likely to have a material adverse effect on us.

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## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table provides information regarding the compensation of our Chief Executive Officer, our Chief Financial Officer and each of the next three most highly compensated executive officers in fiscal 2012. We refer to these individuals as our named executive officers.

**Summary Compensation Table**

| Name and principal position | Fiscal Year | Salary ($) | Bonus ($) | Stock Awards $(1) | Option Awards ($)(2) | Non-Equity Incentive Plan Compensa- tion ($)(3) | All Other Compensa- tion ($)(4) | Total ($) |
|---|---|---|---|---|---|---|---|---|
| Sotirios J. Vahaviolos | 2012 | 424,679 | | 789,094 | | 331,771 | 24,038 | 1,569,582 |
| Chairman, President and Chief | 2011 | 376,154 | | 302,400 | | 318,750 | 26,087 | 1,023,391 |
| Executive Officer | 2010 | 345,000 | 125,000 | | 9,712,500 | | 22,638 | 10,205,138 |
| Francis T. Joyce | 2012 | 245,706 | | 181,487 | | 104,965 | 14,799 | 546,957 |
| Executive Vice President, Chief | 2011 | 203,481 | | | 156,475 | 150,000 | 6,716 | 516,672 |
| Financial Officer and Treasurer | | | | | | | | |
| Michael J. Lange | 2012 | 283,292 | | 277,762 | | 204,021 | 11,410 | 776,485 |
| Group Executive Vice President, | 2011 | 272,250 | | 136,080 | | 198,000 | 18,383 | 624,713 |
| Services | 2010 | 259,146 | 85,000 | | 841,750 | | 19,938 | 1,205,834 |
| Dennis Bertolotti | 2012 | 231,360 | | 192,804 | | 141,744 | 11,569 | 577,477 |
| President and Chief Operating | 2011 | 222,363 | | 110,880 | | 140,140 | 44,700 | 518,083 |
| Officer, Services | 2010 | 202,464 | 80,000 | | | | 13,608 | 296,072 |
| Michael C. Keefe | 2012 | 208,889 | | 181,056 | | 95,780 | 13,230 | 498,955 |
| Executive Vice President, | 2011 | 199,560 | | 50,400 | | 150,000 | 11,194 | 411,154 |
| General Counsel and Secretary | 2010 | 93,568 | 20,000 | | 189,987 | | 6,094 | 309,649 |

(1) This column represents the fair market value of RSUs based on the closing price on the grant date.

(2) Represents grant date fair value of stock options, calculated using the Black-Scholes option valuation model. The valuation assumptions used to determine these amounts are described under Stock-based compensation in Note 2 to our audited financial statements for the year ended May 31, 2012 included in our Annual Report on Form 10-K filed with the SEC on August 14, 2012.

(3) The amounts in this column represent the cash payments under the annual incentive program made to each named executive officer after the conclusion of the fiscal year, based upon the Company s performance against financial metrics and the individual performance of the named executive officers during the fiscal year.

(4) All Other Compensation in 2012 included the following: $14,158 of vehicle allowance and $8,885 of matching contributions under our 401(k) plan for Dr. Vahaviolos; $5,825 of vehicle allowance and $7,964 of matching contributions under our 401(k) plan for Mr. Joyce; $5,874 of vehicle allowance and $4,377 of matching contributions under our 401(k) plan for Mr. Lange: $5,860 of vehicle allowance and $4,762 of matching contributions under our 401(k) plan for Mr. Bertolotti; and $5,825 of vehicle allowance and $6,552 of matching contributions under our 401(k) plan for Mr. Keefe.

***Note about the Summary Compensation Table:*** The SEC disclosure rules require that the Summary Compensation Table include in each year the aggregate fair value, as of the grant date, of all stock, option or other equity awards granted during that year. In August 2012, subsequent to our May 31, 2012 fiscal year end, we granted RSUs to our named executive officers as part of their 2012 compensation. These grants were based upon our performance in 2012 against financial performance metrics and the performance of the individual named executive officers during

2012. As a result of the grants being made after the end of fiscal 2012, these RSUs do not appear in the table, but will appear in the table next year as 2013 awards. Similarly, in August 2011, after the end of our 2011 fiscal year, we granted RSUs to our named executives as part of their 2011

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compensation. As a result of the grants being made during fiscal 2012, these RSUs do not appear in the table as 2011 awards, but appear in the table as 2012 awards and are part of the total compensation for 2012. Accordingly, the Summary Compensation Table does not fully align certain equity awards with the fiscal years for which equity awards relate. See the Compensation Discussion and Analysis for a discussion about executive compensation decisions for 2012.

**Grants of Plan-Based Awards in Fiscal 2012**

The following table provides information regarding grants of plan-based awards to our named executive officers in fiscal 2012:

| | | | Estimated Future Payouts Under Non-Equity Incentive Plan Awards | | | | |
|---|---|---|---|---|---|---|---|
| **Name** | **Grant date** | | **Threshold ($)** | **Target ($)** | **Maximum ($)** | **All other stock awards: number of shares of stock or units (#)** | **Grant date fair value of stock and option awards ($) (3)** |
| Sotirios J. Vahaviolos. | 8/15/2011 | | | | | 40,301 | 789,094 |
| | | (1) | 180,625 | 361,250 | 722,500 | | |
| | | (2) | 425,000 | 850,000 | 1,700,000 | | |
| Francis T. Joyce | 8/15/2011 | | | | | 9,269 | 181,487 |
| | | (1) | 55,631 | 111,263 | 222,525 | | |
| | | (2) | 92,719 | 185,438 | 370,875 | | |
| Michael J. Lange | 8/15/2011 | | | | | 14,186 | 277,762 |
| | | (1) | 84,900 | 169,800 | 339,600 | | |
| | | (2) | 141,500 | 283,000 | 566,000 | | |
| Dennis Bertolotti | 8/15/2011 | | | | | 9,847 | 192,804 |
| | | (1) | 57,943 | 115,885 | 231,770 | | |
| | | (2) | 92,708 | 185,416 | 370,832 | | |
| Michael C. Keefe. | 8/15/2011 | | | | | 9,247 | 181,056 |
| | | (1) | 47,025 | 94,050 | 188,100 | | |
| | | (2) | 78,375 | 156,750 | 313,500 | | |

(1) Amounts are potential payouts under the Company s annual incentive plan for executive officers for fiscal 2012, which are based on Company and individual performance goals. The threshold assumes minimum corporate performance and individual award, which pays at 50% of target award; maximum assumes corporate performance at or above the levels needed for maximum payout and maximum awards for individual performance, which pays out at 200% of target award level. The actual awards for fiscal 2012 are included under the Non-Equity Incentive Plan Compensation in the Summary Compensation Table for fiscal 2012.

(2) Amounts are potential payouts under the Company s long-term plan for executive officers for fiscal 2012, which are based on Company and individual performance goals. The threshold assumes minimum corporate performance and individual award, which pays at 50% of target award; maximum assumes corporate performance at or above the levels needed for maximum payout and maximum awards for individual performance, which pays out at 200% of target award level. The plan resulted in the award of RSUs which were awarded August 15, 2012, after the end of fiscal 2012. The award are established in dollar values, and the amount of RSUs granted were based on the dollar value of the award, using the average of the high and low trading prices of our common stock on August 13, 14 and 15, 2012, the first three days of the trading period pursuant to our insider trading policy after the release of our fiscal 2012 results. This formula for determining the price used for calculating the number of RSUs granted was part of the approval of the awards by the Compensation Committee. Because the awards are based upon dollar values, not share or unit numbers, these awards are included under non-equity awards. However, as disclosed in the note to the Summary Compensation Table,

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because these awards are paid in equity grants, these are not included in the Summary Compensation Table as the grants were made after the end of fiscal 2012 but instead will be included in the Summary Compensation Table for 2013 as 2013 stock awards. The actual awards granted to our named executive officers are disclosed in the Compensation Discussion and Analysis 2012 Compensation *Long-Term Incentives.*

(3) The amount in this column represents the aggregate grant date fair value under FASB ASC 718, based upon the closing price of our common stock on the August 15, 2011 grant date. However, these grants were made based upon a dollar value each named executive officer earned based upon the Company s performance and accomplishment of individual goals in fiscal 2011. The awards were then made in fiscal 2012 (August 2011), using the dollar value of the award and granting each named executive officer RSUs based upon the average of the high and low trading prices during the three day period of August 11, 12 and 15, 2011, the first three days of the trading period pursuant to our insider trading policy after the release of our fiscal 2011 results. This formula for determining the price used for calculating the number of RSUs granted was part of the approval of the awards by the Compensation Committee. The dollar value earned under the Company s compensation plan for each named executive officer was as follows: Dr. Vahaviolos $750,000; Mr. Joyce $172,500; Mr. Lange $264,000; Mr. Bertolotti $183,260; and Mr. Keefe $172,080. The average stock price used for determining the number of RSUs, based upon the average trading price as describe above, was $18.61, while the closing price on the grant date was $19.58.

**Outstanding Equity Awards at 2012 Fiscal Year-End**

The following table provides information regarding equity awards granted to our named executive officers that were outstanding as of May 31, 2012:

| | Option Awards | | | | Stock Awards | |
|---|---|---|---|---|---|---|
| **Name** | **Number of securities underlying unexercised options exercisable (#)** | **Number of securities underlying unexercised options unexercisable (#)(1)** | **Option exercise price ($/share)** | **Option expiration date** | **Number of shares or units of stock that have not vested (#)(2)** | **Market Value of shares or units of stock that have not vested ($)** |
| Sotirios J. Vahaviolos | 975,000 | 975,000 | 13.46 | 9/01/2019 | 62,801 | 1,415,535 |
| Francis T. Joyce | 8,750 | 26,250 | 10.03 | 7/13/2020 | 9,269 | 208,923 |
| Michael J. Lange | 97,108 | 42,250 | 13.46 | 7/21/2019 | 24,311 | 547,970 |
| Dennis Bertolotti | 19,500 | 6,500 | 10.00 | 4/09/2019 | 18,097 | 407,906 |
| Michael C. Keefe | 1,459 | 13,854 | 14.67 | 12/28/2019 | 12,997 | 292,952 |

(1) The options vest in four equal annual installments commencing on the first anniversary of the date of the award, except for the options granted to Mr. Keefe, which vest as to 25% of the shares on the first anniversary date of the award and the remaining 75% vest ratably over the following 36 months, until fully vested on the fourth anniversary date of the award.

(2) The RSUs vest in four equal annual installments commencing on the first anniversary of the date of the award.

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**Option Exercises and Stock Vesting in Fiscal 2012**

| | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| **Name** | **Number of shares acquired on exercise (#)** | **Value realized on exercise ($)** | **Number of shares acquired on vesting (#)** | **Value realized on vesting ($)** |
| Sotirios J. Vahaviolos | | | 7,500 | 133,050 |
| Francis T. Joyce | | | | |
| Michael J. Lange | 29,642 | 300,176 | 3,375 | 59,872 |
| Dennis Bertolotti | | | 2,750 | 48,785 |
| Michael C. Keefe | 19,687 | 165,389 | 1,250 | 22,175 |

**Pension Benefits and Non-Qualified Deferred Compensation**

We do not currently provide our named executive officers with pension benefits or nonqualified deferred compensation.

**Potential Payments upon Termination of Employment**

As of the end of fiscal 2012, none of our named executive officers other than Dr. Vahaviolos was entitled to receive any benefits in connection with a termination of employment. The following summarizes the payments and benefits that would be owed by us to Dr. Vahaviolos upon termination under the circumstances described below, in each case assuming termination occurred on May 31, 2012.

| **Event** | **Salary** | **Incentive Bonus (1)** | **Unvested Equity Awards (2)** | **Healthcare and Other Benefits** | **Total** |
|---|---|---|---|---|---|
| Termination by Company without cause/termination by Dr. Vahaviolos for good reason, with no change in control | $ 425,000 | $ 693,021 | $ 10,268,535 | $ 67,205 | $ 11,453,761 |
| Change of control and termination by Company without cause/termination by Dr. Vahaviolos for good reason | $ 850,000 | $ 1,054,271 | $ 10,268,535 | $ 67,205 | $ 12,240,011 |
| Disability or death | $ 212,500 | $ 331,771 | $ 10,268,535 | $ 28,417 | $ 10,841,223 |

(1) All three situations include fiscal 2012 bonus of $331,771. Dr. Vahaviolos is also entitled to one year (two years in case of change in control) of the greater of (a) bonus at 85% of salary or (b) current year s bonus of $331,771 in case of termination by (i) the Company without cause or (ii) Dr. Vahaviolos for good reason.

(2) Dr. Vahaviolos unvested stock options and restricted stock units vest upon the termination of his employment for any of the events listed above. The closing price of our common stock on May 31, 2012 was $22.54 per share, and Dr. Vahaviolos had 975,000 unvested options with an exercise price of $13.46 per share and 62,801 restricted stock units as of May 31, 2012.

Termination without cause occurs if Dr. Vahaviolos is terminated for any reason other than: (1) a conviction of or a *nolo contendre* (uncontested) plea to a felony or an indictment for a felony against Mistras that has a material adverse effect on our business; (2) fraud involving Mistras; (3) willful failure to carry out material employment responsibilities; or (4) willful violation of a material company policy, in each case subject to a 30 day cure period if the act or omission is curable by Dr. Vahaviolos.

Dr. Vahaviolos may terminate his employment for good reason as follows: (1) a material reduction in his status or position, including a reduction in his duties, responsibilities or authority, or the assignment to him of duties or responsibilities that are materially inconsistent with his status or position; (2) a reduction in his base salary or failure to pay such amount; (3) a reduction in his total target incentive award opportunity; (4) a breach by us of any of our material obligations under the employment agreement; (5) a required relocation of his principal place of employment of more than 50 miles; or (6) in connection with a change in control, a failure by the successor company to assume our obligations under his employment agreement.

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Termination in connection with a change in control occurs if we terminate Dr. Vahaviolos employment without cause at the request of an acquirer or otherwise in contemplation of a change in control in the period beginning six months prior to the date of a change in control, or we terminate him without cause or he terminates his employment for good reason within two years after a change in control.

**Vahaviolos Employment Agreement**

We have an employment agreement with Dr. Vahaviolos for the positions of executive chairman of the board and chief executive officer. The agreement has an initial term of four years, until August 31, 2013, and is automatically renewable for successive one-year periods in the absence of an election by either party to terminate. The employment agreement provides for an initial annual base salary of $345,000, subject to annual review by the Compensation Committee. Dr. Vahaviolos is entitled to annual short-term incentive opportunities targeted at 75% of his annual base salary. Under his employment agreement, Dr. Vahaviolos was granted an option to purchase 1,950,000 shares of our common stock with an exercise price equal to $13.46 per share pursuant to our 2007 Stock Option Plan. The options are subject to a four-year vesting schedule, with 25% of the options vesting upon each of the first, second, third and fourth anniversary of the award.

Under his employment agreement, Dr. Vahaviolos is entitled to receive payments and other benefits upon the termination of his employment. These payments and other benefits are described under Potential Payments upon Termination of Employment above. If Dr. Vahaviolos is subject to the federal excise tax on excess parachute payments for benefits to which he is entitled under his employment agreement or otherwise from us, he is entitled to receive an amount necessary to offset the excise taxes and any related income taxes, penalties and interest.

Post-employment payments and benefits under the employment agreement are subject to compliance by Dr. Vahaviolos with the restrictive covenants in the agreement, including non-disclosure, non-competition and non-solicitation covenants. The non-competition and non-solicitation covenants expire on the second anniversary of the termination of Dr. Vahaviolos employment. The non-disclosure covenant does not expire. If Dr. Vahaviolos violates any of these covenants, he will not be entitled to further payments and benefits under the employment agreement and must repay us for the post-employment payments and benefits received under the agreement. All post-employment payments or benefits under the employment agreement are conditioned on the execution of a general release of claims by Dr. Vahaviolos in favor of us, our affiliates, and our officers, directors and employees.

We currently have no employment agreements with our other named executive officers.

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**SHAREHOLDER PROPOSALS AND OTHER MATTERS**

Shareholders may submit proposals on matters appropriate for shareholder action at meetings of the Company s shareholders in accordance with Rule 14a-8 promulgated under the Securities Exchange Act of 1934. If a shareholder wants us to include such a proposal in our proxy statement for presentation at our 2013 annual meeting of shareholders, the proposal must be received by our Corporate Secretary, at 195 Clarksville Road, Princeton Junction, New Jersey 08550, no later than May 20, 2013, and all applicable requirements of Rule 14a-8 must be satisfied. If the shareholder submitting the proposal is not the holder of record, the shareholder will need to submit to us proof of ownership for at least one year. This can generally be obtained from the bank, broker or other nominee holding the shares. We are not required to include any proposal received after May 20, 2013 in our proxy materials for the 2013 annual meeting.

A shareholder may also nominate directors or have other business brought before the 2013 annual meeting by submitting the nomination or proposal to us on or after June 17, 2013, and on or before July 17, 2013, in accordance with Section 2.14 of our bylaws. If, however, our 2013 annual shareholders meeting is held before September 15, 2013 or after December 14, 2013, the time period for a shareholder to submit a nomination or proposal will be modified in accordance with Section 2.14 of our bylaws. The nomination or proposal must be delivered to our Corporate Secretary at 195 Clarksville Road, Princeton Junction, New Jersey 08550, and meet all the requirements of our bylaws. Our bylaws are available on our website at http://investors.mistrasgroup.com/governance.cfm.

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Directions to Mistras Group Headquarters

195 Clarksville Road

Princeton Junction, New Jersey 08550

From Route 1 North from Trenton:

Take exit for Quakerbridge Road (County Road 533) heading south. Merge onto Quakerbridge Road heading south, then make left at traffic light at Clarksville Road (County Road 638). Stay on Clarksville Road for approximately 2 miles, and the entrance to Mistras headquarters will be on the left. Upon entering the parking lot, Mistras headquarters is the building on the right.

From Route 1 South from North Brunswick:

Take the second exit for Alexander Road. Merge onto Alexander Road and take to the traffic circle. Take the first turn off the traffic circle ( $^1/_4$ of the way around the traffic circle) on to North Post Road. Take North Post Road to the first traffic light, and make a right onto Clarksville Road. Take Clarksville Road approximately $^1/_2$ mile to Mistras headquarters on right. Upon entering the parking lot, Mistras headquarters is the building on the right.

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*MISTRAS GROUP, INC.*
*195 CLARKSVILLE ROAD*
*PRINCETON JUNCTION, NJ 08550*

**VOTE BY INTERNET - www.proxyvote.com**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date, October 14, 2012. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date, October 14, 2012. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

| | For All | Withhold All | For All Except | |
|---|---|---|---|---|
| **The Board of Directors recommends you vote FOR ALL the director nominees listed in Proposal 1:** | .. | .. | .. | To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below. |

**1.** Election of Directors

**Nominees**

| | | | | |
|---|---|---|---|---|
| 01 Daniel M. Dickinson | 02 James J. Forese | 03 Richard H. Glanton | 04 Michael J. Lange | 05 Ellen T. Ruff |
| 06 Manuel N. Stamatakis | 07 Sotirios J. Vahaviolos | | | |

**The Board of Directors recommends you vote FOR proposals 2 and 3.** **For** **Against** **Abstain**

| | | | |
|---|---|---|---|
| **2.** To ratify the appointment by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as independent registered public accounting firm of Mistras Group, Inc. for its fiscal year ending May 31, 2013. | ¨ | ¨ | ¨ |
| **3.** Approval of an advisory vote on the compensation of our named executive officers. | ¨ | ¨ | ¨ |

**NOTE:** Such other business as may properly come before the meeting or any adjournment thereof.

For address change / comments, mark here. ¨

(see reverse for instructions)

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

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**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:** The Notice of Annual Meeting & Proxy Statement, and the Annual Report is/are available at www.proxyvote.com.

**MISTRAS GROUP, INC.**
**Annual Meeting of Shareholders**
**October 15, 2012 5:00 PM**
**This proxy is solicited by the Board of Directors**

The shareholder(s) hereby appoints Sotirios Vahaviolos, Michael Keefe, and Francis Joyce and each of them, as proxies, each with the power to appoint his substitute, and hereby authorizes each of them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of common stock of MISTRAS GROUP, INC. that the shareholder(s) is/are entitled to vote at the annual meeting of shareholders to be held at 5:00 PM, Eastern Time on October 15, 2012, at 195 Clarksville Road Princeton Junction, New Jersey 08550, and any adjournment or postponement thereof.

**This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors recommendations.**

**Address change / comments:**

(If you noted any Address Changes and / or Comments above, please mark corresponding box on the reverse side.)

**Continued and to be signed on reverse side**