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Thermon Group Holdings, Inc.  
Form 10-K  
June 01, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For The Fiscal Year Ended March 31, 2015

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-35159  
THERMON GROUP HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

27-2228185  
(IRS Employer Identification No.)

100 Thermon Drive, San Marcos, Texas  
(Address of principal executive offices)  
(512) 396-5801

78666  
(Zip Code)

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
x Yes " No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. " Yes x No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

x Yes " No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer  
Smaller reporting company

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

The aggregate market value of the registrant's common equity held by non-affiliates as of September 30, 2014 was \$768,652,516 based on the closing price of \$24.42 as reported on the New York Stock Exchange. Solely for the purposes of this calculation, directors and officers of the registrant are deemed to be affiliates.

As of May 26, 2015, the registrant had 32,090,640 shares of common stock, par value \$0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

As permitted by General Instruction G of Form 10-K, certain portions, as expressly described in this report, of the registrant's Definitive Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the SEC are incorporated by reference into Part III of this Annual Report on Form 10-K.

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THERMON GROUP HOLDINGS, INC.

ANNUAL REPORT  
FOR THE FISCAL YEAR ENDED MARCH 31, 2015

TABLE OF CONTENTS

	Page
PART I	
<u>ITEM 1 BUSINESS</u>	<u>1</u>
<u>ITEM 1A RISK FACTORS</u>	<u>9</u>
<u>ITEM 1B UNRESOLVED STAFF COMMENTS</u>	<u>19</u>
<u>ITEM 2 PROPERTIES</u>	<u>19</u>
<u>ITEM 3 LEGAL PROCEEDINGS</u>	<u>20</u>
<u>ITEM 4 MINE SAFETY DISCLOSURES</u>	<u>21</u>
PART II	
<u>ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	<u>21</u>
<u>ITEM 6 SELECTED FINANCIAL DATA</u>	<u>23</u>
<u>ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>27</u>
<u>ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>44</u>
<u>ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	<u>46</u>
<u>ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	<u>79</u>
<u>ITEM 9A CONTROLS AND PROCEDURES</u>	<u>80</u>
<u>ITEM 9B OTHER INFORMATION</u>	<u>80</u>
PART III	
<u>ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	<u>81</u>
<u>ITEM 11 EXECUTIVE COMPENSATION</u>	<u>81</u>
<u>ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>81</u>
<u>ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	<u>82</u>
<u>ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>82</u>
PART IV	
<u>ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	<u>82</u>
<u>SIGNATURES</u>	<u>83</u>

## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K ("this annual report") includes forward-looking statements within the meaning of the U.S. federal securities laws in addition to historical information. These forward looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are included throughout this annual report, including in the sections entitled "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and include, without limitation, statements regarding our industry, business strategy, plans, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. When used in this discussion, the words "anticipate", "assume", "believe", "budget", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "will", "future" and similar phrases are intended to identify forward-looking statements in this annual report.

Forward-looking statements reflect our current expectations regarding future events, results or outcomes. These expectations may or may not be realized. Some of these expectations may be based upon assumptions, data or judgments that prove to be incorrect. In addition, our business and operations involve numerous risks and uncertainties, many of which are beyond our control, which could result in our expectations not being realized or otherwise materially affect our financial condition, results of operations and cash flows. The statements include but are not limited to statements regarding: (i) our plans to strategically pursue emerging growth opportunities in diverse regions and across industry sectors; (ii) our plans to secure more new facility, or Greenfield, project bids; (iii) our ability to generate more facility maintenance, repair and operations or upgrades or expansions, or MRO/UE, revenue from our existing and future installed base; (iv) our ability to timely deliver backlog; (v) our ability to respond to new market developments and technological advances; (vi) our expectations regarding energy consumption and demand in the future and its impact on our future results of operations; (vii) our plans to develop strategic alliances with major customers and suppliers; (viii) our expectations that our revenues will continue to increase; and (ix) our belief in the sufficiency of our cash flows to meet our needs for the next year.

Actual events, results and outcomes may differ materially from our expectations due to a variety of factors. Although it is not possible to identify all of these factors, they include, among others, (i) general economic conditions and cyclicity in the markets we serve; (ii) future growth of energy and chemical processing capital investments; (iii) our ability to deliver existing orders within our backlog; (iv) our ability to bid and win new contracts; (v) competition from various other sources providing similar heat tracing products and services, or alternative technologies, to customers; (vi) changes in relevant currency exchange rates; (vii) potential liability related to our products as well as the delivery of products and services; (viii) our ability to comply with the complex and dynamic system of laws and regulations applicable to international operations; (ix) a material disruption at any of our manufacturing facilities; (x) our dependence on subcontractors and suppliers; (xi) our ability to obtain standby letters of credit, bank guarantees or performance bonds required to bid on or secure certain customer contracts; (xii) our ability to attract and retain qualified management and employees, particularly in our overseas markets; (xiii) our ability to continue to generate sufficient cash flow to satisfy our liquidity needs; and (xiv) the extent to which federal, state, local, and foreign governmental regulations of energy, chemical processing and power generation products and services limits or prohibits the operation of our business. Any one of these factors or a combination of these factors could materially affect our future results of operations and could influence whether any forward-looking statements contained in this annual report ultimately prove to be accurate. See also Item 1A, "Risk Factors" for information regarding the additional factors that have impacted or may impact our business and operations.

Our forward-looking statements are not guarantees of future performance, and actual results and future performance may differ materially from those suggested in any forward-looking statements. We do not intend to update these statements unless we are required to do so under applicable securities laws.



## PART I

References in this annual report to “we”, “our”, “us” or the “Company” mean Thermon Group Holdings, Inc. and its consolidated subsidiaries taken together as a combined entity. A particular fiscal year is the twelve months ended on March 31 of the given calendar year ( e.g. “fiscal 2015”, “fiscal 2014” and “fiscal 2013” mean the Company's fiscal years ended March 31, 2015, March 31, 2014 and March 31, 2013, respectively). We are a holding company that conducts all of our business through our subsidiaries. Our common stock is listed on the New York Stock Exchange under the symbol “THR”.

### ITEM 1. BUSINESS

#### Business Overview

We are one of the largest providers of highly engineered thermal solutions for process industries. For 61 years, we have served a diverse base of thousands of customers around the world in attractive and growing markets, including energy, chemical processing and power generation. We are a global leader and one of the few thermal solutions providers with a global footprint and a full suite of products (heating cables, tubing bundles and control systems) and services (design optimization, engineering, installation and maintenance services) required to deliver comprehensive solutions to complex projects. We serve our customers locally through a global network of sales and service professionals and distributors in more than 30 countries and through our four manufacturing facilities on three continents. These global capabilities and longstanding relationships with some of the largest multinational energy, chemical processing, power and engineering, procurement and construction, or "EPC", companies in the world have enabled us to diversify our revenue streams and opportunistically access high growth markets worldwide. For fiscal 2015, approximately 63% of our revenues were generated outside of the United States. Recently, we have begun to execute a strategy to acquire products and businesses that offer complementary products and services to our core thermal solution offerings.

Our thermal solutions, also referred to as heat tracing, provide an external heat source to pipes, vessels and instruments for the purposes of freeze protection, temperature and flow maintenance, environmental monitoring, and surface snow and ice melting. Customers typically purchase our products when constructing a new facility, which we refer to as Greenfield projects, or when performing maintenance, repair and operations on a facility's existing heat-traced pipes or upgrading or expanding a current facility, which we refer to collectively as "MRO/UE". A large processing facility may require our thermal solutions for a majority of its pipes, with the largest facilities containing hundreds of thousands of feet of heat-tracing cable and thousands of control points. Our products are low in cost relative to the total cost of a typical processing facility, but critical to the safe and profitable operation of the facility. These facilities are often complex, with numerous classified areas that are inherently hazardous and where product safety concerns are paramount. We believe that our strong brand and established reputation for safety, reliability and customer service are critical contributors to our customers' purchasing decisions.

Our customers' need for MRO/UE solutions provides us with an attractive recurring revenue stream. Customers typically use the incumbent heat tracing provider for MRO/UE projects to avoid complications and compatibility problems associated with switching providers. We typically begin to realize meaningful MRO/UE revenue from new Greenfield installations one to three years after completion of the project as customers begin to remove and replace our products during routine and preventative maintenance on in-line mechanical equipment, such as pipes and valves. As a result, our growth has been driven by new facility construction, as well as by servicing our continually growing base of solutions installed around the world, which we refer to as our installed base. Approximately 59% of our revenues for fiscal 2015 were derived from such MRO/UE activities.

Beginning in April 2015, we expanded our product offerings beyond our core heat tracing products and now offer temporary electrical power distribution products through our Sumac product line. Sumac products are sold in many of the same markets as our thermal solution offerings, which we believe will provide an attractive complementary offering to our customers that engage in new facility construction as well as maintenance, turnaround and expansion activities.

Our corporate offices are located at 100 Thermon Drive, San Marcos, TX 78666. Our telephone number is (512) 396-5801. Our website address is [www.thermon.com](http://www.thermon.com). Copies of the charters of the committees of our board of directors, our code of business conduct and ethics and our corporate governance guidelines are available on our Investor Relations website located at <http://ir.thermon.com>. All reports that we have filed with the Securities and Exchange Commission ("SEC"), including this Annual Report on Form 10-K and our Current Reports on Form 8-K, can be obtained free of charge from the SEC's website at [www.sec.gov](http://www.sec.gov) or through our Investor Relations website. In addition, all reports filed with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549-1090. Information regarding the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0330. None of the information on our

website or any other website identified herein is incorporated by reference in this annual report and should not be considered a part of this annual report.

## Company History

Thermon Manufacturing Company, historically our principal operating subsidiary, was founded as a partnership in October 1954 and later incorporated in Texas in 1960. At that time, our primary product was a thermally conductive heat transfer compound invented by our founder, Richard Burdick. Under Mr. Burdick's leadership, we experienced steady growth by diversifying our products and expanding our geographic reach. Mr. Burdick and his family maintained a controlling interest in us until August 2007, when the controlling interest was sold to an affiliate of the Audax Group private equity firm in the Audax Transaction. During Audax's tenure as our majority owner, we positioned ourselves to take advantage of rising demand in the energy end market and secured significant capital projects. Over the last eight years, our management team has focused on significant organic growth opportunities, particularly in high growth markets such as the Canadian oil sands region, the U.S. gulf coast and Russia.

On April 30, 2010, an investor group led by entities affiliated with CHS Capital LLC and two other private equity firms, which we refer to collectively as our former private equity sponsors acquired Audax's controlling interest in us. The acquisition and related transaction fees and expenses were financed through (i) the issuance of \$210.0 million aggregate principal amount of our senior secured notes and (ii) a \$129.3 million equity investment by our private equity sponsors and certain members of our current and former management team. As used in this annual report, the "CHS Transactions" refer collectively to such acquisition, the equity investment in us by CHS, our other former private equity sponsors and certain members of our management team and related financing transactions.

In May 2011, we completed the initial public offering of our common stock (or "IPO"), and our common stock became listed on The New York Stock Exchange under the ticker symbol "THR." Our former private equity sponsors sold shares of our common stock in both the IPO and a secondary public offering in September 2012. As of March 31, 2013, our former private equity sponsors had sold or otherwise disposed of all of their shares of common stock in the Company.

Recently, we have begun executing on a strategy to grow our Company through the acquisition of businesses that are either already in the heat tracing solutions industry or provide complementary products and solutions for the markets and customers we serve. On March 2, 2015, we acquired substantially all of the operating assets and assumed certain operating liabilities of Unitemp CC ("Unitemp") located in Cape Town, South Africa in a \$3.9 million (based on the South African to U.S. Dollar exchange rate on March 2, 2015) cash transaction. Unitemp had previously been a valued distributor of Thermon's thermal solutions for the South African market. In addition, Unitemp offers heating, sensing, portable instruments, monitoring and control solutions to industrial customers throughout Sub-Saharan Africa. On April 1, 2015, we acquired a 75% controlling interest in the business previously operated by Sumac Fabrication Company Limited ("Sumac") for approximately \$16.8 million (based on the Canadian Dollar to U.S. Dollar exchange rate on April 1, 2015) in cash and potential contingent cash consideration. Sumac based in Fort McMurray, Alberta, Canada is a designer and fabricator of temporary electrical power distribution equipment that is used in hazardous-location and general purpose areas within industrial facilities.

## Industry Overview

Alvarez & Marsal Private Equity Performance Improvement Group, LLC, or "A&M", estimated in 2012 that the market for industrial electric heat tracing is approximately \$1.2 billion in annual revenues and estimates that it is growing its share of the overall heat tracing market as end users appear to continue to favor electric heat tracing solutions over steam heat tracing solutions for new installations. When revenues for steam heat tracing parts are included, A&M estimated in 2012 the overall addressable market for heat tracing to be approximately \$2.8 billion in



annual revenues. The industrial electric heat tracing industry is fragmented and consists of more than 30 companies that typically only serve discrete local markets with manufactured products and provide a limited service offering. Heat tracing providers differentiate themselves through the quality and reputation of their products, the length and quality of their customer relationships and their ability to provide comprehensive solutions. Large multinational companies drive the majority of spending for the types of major industrial facilities that require heat tracing, and we believe that they prefer providers who have a global footprint and a comprehensive suite of products and services. We believe we are one of only a few companies that meet these criteria.

The major end markets that drive demand for heat tracing include energy, chemical processing and power generation. We believe that there are attractive near-to medium-term trends in each of these end markets. In addition, we believe that the growth rate of the electric heat tracing market is accelerating as end-users continue to favor electric-based heat tracing solutions over steam-based heat tracing solutions for new installations.

Energy. Heat tracing is used to facilitate the processing, transportation and freeze protection of energy products in both upstream and downstream oil and gas applications. In order to meet growing demand and offset natural declines in existing oil and gas production, a significant increase in capital expenditures in upstream infrastructure will be required, with a particular focus on reservoirs that are in harsher climates, are deeper or have other complex characteristics that magnify the need for heat tracing. A&M estimated in 2012 that the oil and gas end market accounted for approximately 67% of the total market for electric heat tracing in 2012, or approximately \$800 million.

Chemical Processing. Heat tracing is required for temperature maintenance and freeze protection in a variety of chemical processing applications. Factors that may impact heat tracing demand in chemicals end markets include the rapid industrialization of the developing world, a shift in base chemical processing operations to low-cost feedstock regions, a transition of Western chemical processing activities from commodity products to specialty products and environmental compliance. A&M estimated in 2012 that the chemicals end market accounted for approximately 10% of the total market for electric heat tracing in 2012, or approximately \$123 million.

Power Generation. Heat tracing is required in high-temperature processes, freeze protection and environmental regulation compliance in coal and gas facilities and for safety injection systems in nuclear facilities. An important driver of demand for heat tracing solutions for power generation is increasing demand for electricity worldwide. A&M estimated in 2012 that the power generation end market accounted for approximately 20% of the total market for electric heat tracing in 2012, or approximately \$243 million. The U.S. Energy Information Administration, or "EIA", projects that global net electricity generation will increase 24% between 2013 and 2040. We believe capital spending on new and existing power generation infrastructure will be required to meet this demand.

Continuing selection of electric-based heat tracing solutions over steam-based solutions. Beginning in the 1960s, electric heat tracing products entered the market as an alternative to steam heat tracing products. While steam-based products are still used today for heavy oil, chemical and processing applications, electric-based products generally offer greater cost savings and operating efficiencies. As a consequence, Greenfield projects commissioned in recent years are increasingly designed to incorporate electric heat tracing.

## Segments

We operate in one reportable segment, thermal engineered solutions. We have further defined our reportable segment based on four geographic countries or regions; United States, Canada, Europe and Asia. See Note 16, "Geographic Information" to our consolidated financial statements for fiscal 2015 contained elsewhere in this annual report for geographic financial data relating to our business.

## Products and Services

Our products include a wide range of electric heat tracing cables, steam tracing components, tubing bundles, and instrument and control products, as well as complementary product lines acquired in recent acquisitions including:

- self-regulating and power limiting heating cables, which automatically increase or decrease heat output as pipe temperature changes as well as constant wattage heating cables;

- mineral insulated, or "MI", cable, which is a high performance heat tracing cable for generating high temperatures that is typically used in harsh environments;

- skin effect trace heater, which can heat lines up to 15 miles long from a single power point;

heat traced tube bundles for environmental gas sampling systems;

heat transfer compounds and steam tracers for comprehensive steam tracing solutions;

control and monitoring systems for electric tracing of pipes, tanks, hoppers and instrument sampling systems;

turnkey solutions that provide customers with complete solutions for heat tracing, including design, optimization, installation and ongoing maintenance;

3

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products and services from the Unitemp acquisition, which include heating, sensing, monitoring, controlling and calibration tools; and

products from the Sumac acquisition, which include for temporary electric power distribution and lighting products used in energy infrastructure construction projects and maintenance/turnaround projects.

### Electric Heat Tracing Applications

We manufacture critical components of an electric heat tracing system, including heating cables, control and monitoring systems and heating systems for tanks and hoppers. We customize these products to fit the specific design parameters for each client's installation. We offer various electric heating cables, including conductive polymer self-regulating heating cables, power limiting cables, constant wattage heating cables and MI high temperature heating cables.

Self-regulating heating cables- Our self-regulating heating cables are flexible and engineered to automatically increase or decrease heat output as pipe or vessel temperature changes. BSX™ self-regulating cables are designed to provide freeze protection or process temperature maintenance to metallic and non-metallic piping, vessels and equipment. HTSX™ self-regulating heating cable is suitable for heat tracing applications involving crude oil and most chemicals. VSX™ premium self-regulating cable is rated for maintenance temperatures of 300°F/149°C and exposure temperatures of up to 450°F/232°C and has among the highest self-regulating temperature ratings in the industry.

Power-limiting and constant watt heating cables- Power limiting and constant watt heating cables are flexible parallel resistance cables used to heat trace piping in lengths longer than 500 feet. Such intermediate lengths of pipe are commonly found in pipe racks that connect process units within a plant. These heaters allow longer lengths between power supply points than self-regulating cables. HPT cables offer a power limiting feature along with larger power bus wires to allow delivery of an increased heat output over that found with self-regulating cables.

TEK™ HTEK™ and MIQ™ cables- The TEK™ and HTEK™ series resistance, constant watt heating cables are used where circuit lengths exceed the limitations of parallel resistance heating cables. By using series constant watt heating cables, a single power supply point can energize circuit lengths up to 12,000 feet. MIQ™ high performance mineral insulated heating cables are used for high temperature maintenance, high temperature exposure and/or high watt density applications that exceed the limitations of thermoplastic insulated cables. MIQ™ cables are composed of a high nickel/chromium alloy sheath, which is well-suited for high temperature service and offers high resistance to stress corrosion in chloride, acid, salt and alkaline environments.

ThermTrac™ cables - A ThermTrac skin effect system provides a cost-effective alternative to conventional resistance heat tracing on long pipelines by eliminating the need for an extensive power distribution system. A ThermTrac system is designed to heat a pipeline up to 15 miles long from a single power point. The versatility of the system makes it well-suited for temperature maintenance, freeze protection and heat-up applications. The system generates heat by the resistance of the electrical current flowing through both the conductor and the inner skin of a heat tube.

### Steam Heat Tracing

In 1954, we began manufacturing heat transfer compounds that greatly improved the heat delivery of steam tracing systems. Today, in addition to the broad range of heat transfer compounds, we also offer steam tracers and tubing bundles that provide our customers with comprehensive steam tracing solutions. We manufacture our heat transfer compounds in various configurations so that they can be applied to different surfaces, which increases the heat transfer rate of steam or fluid tracers.

Our heat transfer compounds create an efficient thermal connection between the heat tracing system and the process equipment. Through the elimination of air voids, heat is directed into the pipe wall primarily through conduction rather than convection and radiation. This requires fewer tracing pipes to maintain specified temperature requirements, substantially reducing operating and investment cost. Steam tracing offers the most cost effective solution for certain heavy oil and natural gas processing applications. We have also patented our SafeTrace™ steam tracing products for use in applications with stringent temperature requirements.

### Temperature Controls and Monitoring

We supply a wide range of control and monitoring products, from simple mechanical thermostats to sophisticated microprocessor-based systems that control and monitor the status of electric heat tracing systems. We provide individual units for smaller projects, as well as multi-point controllers that can be integrated into and communicate with a plant's central data management and control system.

The TraceNet™ TCM18, our newest temperature control monitoring system, is an extension of our TraceNet™ family of controllers. TraceNet™ controllers allow the operator to assess operating control parameters and operating conditions throughout the heat tracing system network utilizing our TraceView control system software. TraceNet™ TCM18 can communicate with up to 4,096 controllers over 32 channels, allowing up to 15,000 heat trace circuits to be monitored within the same network.

### Instrumentation

We specialize in pre-insulated and heat-traced tubing bundles with accessories that offer a complete instrument heating system. Our complete range of products includes both electric- and steam-heated bundles containing various types of tubing (such as copper, stainless steel and polymer) to meet the needs of process and environmental applications. Such applications include transporting samples of gas or liquid in our customized, temperature-controlled tubing bundles to an instrument that typically performs an analysis for purposes of process management or ensuring compliance with internal requirements or applicable environmental laws and regulations.

### Hopper Heating

The HT Hopper Heating Module is a self-contained heater designed for operation on surfaces prone to vibration. In cement plants and fossil fuel power facilities, hoppers facilitate the filtering of a facility's ash emissions. Hopper heaters maintain the walls of the hopper at a temperature above the dew point to prevent moisture from combining with ash, thus clogging the filtering equipment. We engineer each system based on the heating requirements of the specific application. The HT Hopper Heating Module has multiple flow paths for electrical current, which eliminates the burnout potential common with series wire-based designs. Protection of the heating element from vibration is accomplished with a cushion layer of insulation that also directs the flow of heat from the module to the surface being heated. The module provides mechanical protection during handling, installation and operation, and its low profile design helps facilitate installation.

### Turnkey Services

We provide customers with complete turnkey solutions for their heat tracing needs. Turnkey services include project planning, product supply, engineering services, system integration, installation, commissioning and maintenance. Specialized, turnkey heat tracing services meet the needs of many of our industrial customers who have downsized and outsourced their non-core competencies and are requiring their vendor base to have multi-service and multi-site capabilities.

Our turnkey business in the United States is based in Houston, Texas and Baton Rouge, Louisiana. During the fiscal year ended March 31, 2015, we worked on more than 185 turnkey projects and the largest turnkey project accounted for approximately \$3.7 million in revenue. Engineering and construction companies in the United States often subcontract their heat tracing projects to outside parties, including us, because of the field's highly specialized nature.

### Design and Engineering Services

We offer heat tracing design and engineering services during every stage of a project. Providing design services within the quote process is a core element of our business strategy. By delivering design drawings in conjunction with early project specifications, we can determine the customer's heat tracing requirements, which leads to subsequent sales of heat tracing products for that project.

We are focused on providing comprehensive solutions to fulfill the heat tracing needs of our customers. As a manufacturer of a wide range of heat tracing products, we believe that we are well-positioned to evaluate and optimize a system for a customer without bias towards a particular product, and rely on more than 60 years of experience to craft the most appropriate heat tracing solution for a customer's specifications and needs.

We provide design and engineering services to our customers through our full-time staff of engineers and technicians. Through the design and engineering process, our engineers and technicians located throughout the world provide our customers

with design optimization studies, product selection assistance, computer-generated drawing packages and detailed wiring diagrams.

#### Sumac Temporary Power Products

Subsequent to the end of fiscal 2015, we acquired a 75% controlling interest in the business previously operated by Sumac Fabrication Company Limited ("Sumac"). Sumac's line of products and solutions are designed to provide a safe and efficient means of supplying temporary electrical power distribution and lighting at energy infrastructure facilities for new construction and during maintenance and turnaround projects at operating facilities. Sumac products include power distribution panels, master/slave sub-panels, power cords and lighting fixtures. A number of Sumac's products are engineered-to-order based on proprietary designs. Products are designed around the "plug and play" concept and also integrate unique safety features including arc flash protection for making and breaking connections under electrical load as well as ground fault protection on circuits. Certain products are certified to safely operate in hazardous areas such as live plant environments that process combustible chemicals and materials. Sumac's suite of products is designed to allow for quick reconfigurations of electrical power distribution panels to meet the changing needs of contractors as work moves from one phase to the next during construction and facility maintenance operations. This allows customers to save time and money. Sumac products are sold to end-users operating in many of the same markets as our core thermal solutions, including heavy industrial settings, oil and gas refining and upgrading, power generation plants, petrochemical production facilities and mining operations. We believe we will be able to leverage our existing global sales force to further expand the reach of Sumac's product offerings.

#### Manufacturing and Operations

We have four manufacturing facilities on three continents. We manufacture the products that generate a majority of our total sales at our principal facility in San Marcos, Texas including flexible heating cables, heat tracing compound and tubing bundles. Our facilities are highly automated, which reduces labor costs. Our facilities incorporate numerous manufacturing processes that utilize computer-controlled equipment and laser technology. We maintain a ready supply of spare parts and have on-site personnel trained to repair and perform preventative maintenance on our specialized equipment, reducing the likelihood of long term interruptions at our manufacturing facilities. Our manufacturing facilities are equipped to provide us with maximum flexibility to manufacture our products efficiently and with short lead times. This in turn allows for lower inventory levels and faster responses to customer demands.

Our flexible heat cable products are manufactured in San Marcos, Texas. The manufacturing building has approximately 48,000 square feet of floor space, including offices. We currently estimate that the facility, when operating at full capacity, will support revenue levels of up to \$400 to \$500 million. This should satisfy our core cable growth needs for the next several years, assuming that current trends in product mix continue.

Our electronic cross-linking facility, which we refer to as our "ECLF", is also located at the San Marcos facility. Cross-linking enhances the thermal, chemical and electrical stability of our low-temperature self-regulating heater cables. By performing cross-linking in-house, we condense the overall manufacturing cycle by approximately six weeks. This enhances our ability to ensure a high level of product quality and to better control the production process.

Our pre-insulated tubing products are manufactured in our facilities in San Marcos and the Netherlands. The majority of our pre-insulated tubing product is custom ordered and made to customers' specifications in a two-part process. The thermal insulation is first applied over the heating cable and process tubing, and a protective plastic outer jacket is extruded onto the bundle to protect the insulation.

During fiscal 2015, we invested in the expansion of our primary pre-insulated tubing product manufacturing plant located in San Marcos, Texas. The expansion, which is expected to be operational in July 2015, is expected to



significantly increase our production capacity for our instrumentation tube-bundle product line. We estimate the total cost of the expanded facility including the purchase of new capital equipment will total \$3.7 million.

Our MI cable manufacturing facility in Calgary, Canada gives us adequate capacity to service the demands of clients in the oil sands projects of Western Canada in a time efficient manner. The facility's strategic location has enabled us to expand our sale of MI cable, which is well-suited for high temperature applications and harsh, arctic environments, into a global business.

Sumac's products are currently fabricated at a facility in Fort McMurray, Alberta, Canada. Sumac's customer base has primarily been in the oil sands region of Alberta, Canada, which is a remote location. We anticipate that future growth of this product line will likely be serviced at our primary manufacturing facility in San Marcos, Texas.

We maintain quality control testing standards in all of our manufacturing operations and perform various quality control checks on our products during the manufacturing process. We believe that our highly automated manufacturing process and multiple quality control checkpoints create high levels of operational efficiency.

**Purchasing Strategy-** Our critical raw materials include polymer, graphite, copper and stainless steel. For most of these materials, we purchase from multiple suppliers in order to avoid any potential disruption of our manufacturing process. For a small number of raw material items that require specific quality specifications, we have single source supply arrangements. We manage the inherent supply risk through purchase contracts and the maintenance of increased safety stock levels at all times. We evaluate pricing and performance of all suppliers annually. For our low-volume custom-built electronic controller components, we select a single supplier based on past performance reliability and monitor the process closely as volumes are too low to divide this product over multiple suppliers. Our purchase specifications are usually based on industry or manufacturer standards. Testing of the raw materials is performed and documented by our suppliers and is reviewed by us at the time of receipt.

**Distribution-** Our primary distribution centers are located in San Marcos, Texas, Calgary, Alberta and the Netherlands. Inventory is typically shipped directly from these distribution centers to customers, the construction site or our regional sales agents or distributors. Our sales agents may maintain “safety stocks” of core products to service the immediate MRO/UE requirements of customers who are time-sensitive and cannot wait for delivery from one of the central distribution centers. In the United States, a network of agents maintains safety stocks of core products. In Canada, customers are serviced from the central distribution center in Calgary. In Europe, customers are serviced from the central distribution center in the Netherlands. In Asia, safety stock of materials are kept in Yokohama, Japan; Seoul, Korea; Shanghai, China; Pune, India; and Melbourne, Australia. Safety stocks are also warehoused in Moscow, Russia and Rio de Janeiro, Brazil. We expect to utilize warehouses that have been added through the acquisition of Sumac and Unitemp in Fort McMurray, Alberta, Canada and Cape Town and Johannesburg, South Africa, respectively, to store inventory for sales to existing Unitemp and Sumac customers.

In April 2015, we completed the expansion of our primary distribution center located in San Marcos, Texas at a total cost of \$3.9 million including capital equipment. We anticipate the expansion will significantly increase our storage capacity, significantly reduce outside storage costs and consolidate warehouse operations for improved efficiencies.

#### Customers

We serve a broad base of large multinational customers, many of which we have served for more than 60 years. We have a diversified revenue mix with thousands of customers. None of our customers represented more than 10% of total revenues in fiscal 2015.

#### Sales and Marketing

Our direct sales force, consisting of 136 employees, is focused on positioning us with major end-users and EPC companies during the development phase of Greenfield projects with the goal of providing reliable, cost-effective heat tracing solutions. We utilize a network of more than 100 independent sales agents and distributors in over 30 countries to provide local support to customer facilities for MRO/UE. We actively participate in the growth and development of the domestic and international heat tracing standards established in the countries in which we sell products. We believe that we have established credibility as a reliable provider of high quality heat tracing products. In addition, we believe that our 15 registered trademarks in the United States and numerous additional brand names are recognized globally, giving us excellent brand recognition.

Standards and Certifications-We continually test our products to demonstrate that they can withstand harsh operating environments. Our heating cable products and associated design practices are subjected to various tests, including heat output, thermal stability and long-term aging, with the goal of producing products capable of performing at or beyond the expectations of our customers. All products are further tested and certified by various approval agencies to verify compliance with applicable industry standards.

We evaluate our products for electrical safety requirements, environmental assessments and market based assessments for the particular applications and harsh climates that Thermon services. Our products comply with national and international heat tracing industry standards such as ANSI/IEEE-515, ANSI/IEEE, 515.1 and ANSI/IEEE-844 in the United States, Canadian Standards Association 130.03 in Canada; and International Electrical Commission IECx 60079-30-1 and IECEx 60079-30 -2 in international markets. We also hold many product certifications from local country approval agencies and registration bodies around the world.

## Competition

The global industrial electric heat tracing industry is fragmented and consists of more than 30 companies, which typically only serve discrete local markets and provide a limited service offering. We believe that we are the second largest participant in the industrial electric heat tracing market and one of only a few solutions providers with a comprehensive suite of products and services, global capabilities and local on-site presence. Our most significant competitor is the Technical Solutions segment of Pentair Ltd. (NYSE: PNR).

Heat tracing providers differentiate themselves through value-added services, long-term customer relationship management and the ability to provide a full range of solutions. We differentiate ourselves from local providers by a global footprint, a full suite of products and services and a track record with some of the largest multinational energy, chemical processing, power and EPC companies in the world. In addition, we are almost entirely dedicated to providing thermal solutions and complementary products and services whereas some of our competitors' thermal solutions operations constitute only one of numerous operating segments.

## Intellectual Property and Technology

The heat tracing industry, as well as the complementary markets where we intend to expand, are highly competitive and subject to the introduction of innovative techniques and services using new technologies. While we have patented some of our products and processes, we historically have not relied upon patents to protect our design or manufacturing processes or products, and our patents are not material to our operations or business. Instead, we rely significantly on maintaining the confidentiality of our trade secrets, manufacturing know-how and other proprietary rights and other information related to our operations. Accordingly, we require all employees to sign a nondisclosure agreement to protect our trade secrets, business strategy and other proprietary information. We have 15 registered trademarks in the United States and approximately 40 recognized brand names. We also rely on a significant number of unregistered trademarks, primarily abroad, but also in the United States, in the day-to-day operation of our business.

## Research and Development

Our research and development activities are focused on identifying new technologies to enhance our industrial heat tracing solutions through identifying opportunities to maximize product reliability and reduce the customer's total cost of ownership, which consists of capital expenses, maintenance costs and energy costs. Current initiatives include conductive polymer technology research, and the development of advanced medium voltage skin effect conductors, integrated control and monitoring systems and advanced heat tracing network monitoring communication software for our electric heat tracing systems.

## Employees

As of March 31, 2015, we employed approximately 991 persons on a full-time basis worldwide. None of our employees is covered by a collective-bargaining agreement, and we have never experienced any organized work stoppage or strike. We consider our employee relations to be good.

## Governmental Regulation

Due to the international scope of our operations, we are subject to complex United States and foreign laws governing, among others, anti-corruption matters, export controls, economic sanctions, antiboycott rules, currency exchange controls and transfer pricing rules. These laws are administered, among others, the U.S. Department of Justice, the SEC, the Internal Revenue Service, Customs and Border Protection, the Bureau of Industry and Security, or "BIS", the

Office of Antiboycott Compliance, or "OAC", and the Office of Foreign Assets Control, or "OFAC", as well as the counterparts of these agencies in foreign countries. Our policies mandate compliance with these laws. Despite our training and compliance programs, no assurances can be made that we will be found to be operating in full compliance with, or be able to detect every violation of, any such laws. We cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted.

#### Environmental Compliance

Our operations and properties are subject to a variety of federal, state, local and foreign environmental laws and regulations, including those governing the discharge of pollutants into the air or water, the management and disposal of hazardous substances or wastes, the cleanup of contaminated sites, the emission of greenhouse gases, and workplace health and

safety. Certain environmental laws, including the Comprehensive Environmental Response, Compensation, and Liability Act, impose joint and several liability for cleanup costs, without regard to fault, on persons who have disposed of or released hazardous substances into the environment. In addition, we could become liable to third parties for damages resulting from the disposal or release of hazardous substances into the environment. Some of our sites are affected by soil and groundwater contamination relating to historical site operations, which could require us to incur expenses to investigate and remediate the contamination in compliance with environmental laws. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. A failure to obtain, maintain, and comply with these permit requirements could result in substantial penalties, including facility shutdowns. From time to time, we could be subject to requests for information, notices of violation, and/or investigations initiated by environmental regulatory agencies relating to our operations and properties. Violations of environmental and health and safety laws can result in substantial penalties, civil and criminal sanctions, permit revocations, and facility shutdowns. Environmental and health and safety laws may change rapidly and have tended to become more stringent over time. As a result, we could incur costs for past, present, or future failure to comply with all environmental and health and safety laws and regulations. In addition, we could become subject to potential regulations concerning the emission of greenhouse gasses, and while the effect of such future regulations cannot be determined at this time, they could require us to incur substantial costs in order to achieve and maintain compliance. In the ordinary course of business, we may be held responsible for any environmental damages we may cause to our customers' premises.

#### Seasonality

For information on seasonality, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Seasonality", which is hereby incorporated by reference into this Item 1.

#### Backlog

For information on backlog, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations- Overview- Revenue", which is hereby incorporated by reference into this Item 1.

### ITEM 1A. RISK FACTORS

The following risk factors address the material risks concerning our business. If any of the risks discussed in this annual report were to occur, our business, prospects, financial condition, results of operation and our ability to service our debt could be materially and adversely affected and the trading price of our common stock could decline significantly. Some statements in this annual report, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section entitled "Forward-Looking Statements".

#### Risks Related to Our Business and Industry

The markets we serve are subject to general economic conditions and cyclical demand, which could harm our business and lead to significant shifts in our results of operations from quarter to quarter that make it difficult to project long-term performance.

Our operating results have been and may in the future be adversely affected by general economic conditions and the cyclical pattern of certain industries in which our customers and end users operate. Demand for our products and services depends in large part upon the level of capital and maintenance expenditures by many of our customers and end users, in particular those in the energy, chemical processing and power generation industries, and firms that design and construct facilities for these industries. These customers' expenditures historically have been cyclical in nature and vulnerable to economic downturns. Prolonged periods of little or no economic growth could decrease

demand for oil and gas which, in turn, could result in lower demand for our products and a negative impact on our results of operations and cash flows. In addition, this historically cyclical demand may lead to significant shifts in our results of operations from quarter to quarter, which limits our ability to make accurate long-term predictions about our future performance.

A sustained downturn in the energy industry, due to oil and gas prices decreasing or otherwise, could decrease demand for some of our products and services, which could materially and adversely affect our business, financial condition and results of operations.

A significant portion of our revenue historically has been generated by end-users in the oil and gas markets where we serve all three major categories of customers in the petroleum industry - upstream exploration/production, midstream transportation and downstream refining. The businesses of most of our customers in the energy industry are, to varying degrees,

cyclical and historically have experienced periodic downturns. Profitability in the energy industry is highly sensitive to supply and demand cycles and commodity prices, which historically have been volatile, and our customers in this industry historically have tended to delay large capital projects, including expensive maintenance and upgrades, during industry downturns. Customer project delays may limit our ability to realize value from our backlog as expected and cause fluctuations in the timing or the amount of revenue earned and the profitability of our business in a particular period. In addition, such delays may lead to significant fluctuations in results of operations from quarter to quarter, making it difficult to predict our financial performance on a quarterly basis.

Demand for a significant portion of our products and services depends upon the level of capital expenditure by companies in the energy industry, which depends, in part, on energy prices. Prices of oil and gas are volatile and within the past year the price of crude oil has dropped nearly 50%. We expect our energy based customers, especially in the upstream exploration and production sector particularly in Canada, will react by delaying large capital projects such as new facility construction. A sustained downturn in the capital expenditures of our customers, whether due to a decrease in the market price of oil and gas or otherwise, may delay projects, decrease demand for our products and services and cause downward pressure on the prices we charge, which, in turn, could have a material adverse effect on our business, financial condition and results of operations. Such downturns, including the perception that they might continue, could have a significant negative impact on the market price of our common stock.

Our backlog may fluctuate and a failure to deliver our backlog on time could affect our future sales and profitability and our relationships with our customers, and if we were to experience a material amount of modifications or cancellations of orders, our sales could be negatively impacted.

Our backlog is comprised of the portion of firm signed purchase orders or other written contractual commitments received from customers that we have not recognized as revenue. Backlog may increase or decrease based on the addition of large multi-year projects and their subsequent completion. For example, we had a large Greenfield project in Canada that recently completed, accounting for a \$5.2 million decline in our backlog at March 31, 2015 as compared to one year earlier. Backlog may also be favorably or unfavorably affected by foreign currency rate fluctuations. The dollar amount of backlog as of March 31, 2015 was \$75.7 million. The timing of our recognition of revenue out of our backlog is subject to a variety of factors that may cause delays, many of which, including fluctuations in our customers' delivery schedules, are beyond our control. Such delays may lead to significant fluctuations in results of operations from quarter to quarter, making it difficult to predict our financial performance on a quarterly basis. Further, while we have historically experienced few order cancellations and the amount of order cancellations has not been material compared to our total contract volume, if we were to experience a significant amount of cancellations of or reductions in purchase orders, it would reduce our backlog and, consequently, our future sales and results of operations.

Our ability to meet customer delivery schedules for our backlog is dependent on a number of factors including, but not limited to, access to raw materials, an adequate and capable workforce, engineering expertise for certain projects, sufficient manufacturing capacity and, in some cases, our reliance on subcontractors. The availability of these factors may in some cases be subject to conditions outside of our control. A failure to deliver in accordance with our performance obligations may result in financial penalties and damage to existing customer relationships, our reputation and a loss of future bidding opportunities, which could cause the loss of future business and could negatively impact our financial performance.

As a global business, we are exposed to economic, political and other risks in a number of countries, which could materially reduce our revenues, profitability or cash flows or materially increase our liabilities. If we are unable to continue operating successfully in one or more foreign countries, it may have a material adverse effect on our business and financial condition.



For fiscal 2015, approximately 63% of our revenues were generated outside of the United States, and approximately 31% were generated outside North America. In addition, one of our key growth strategies is to continue to expand our global footprint in emerging and high growth markets around the world, although we may not be successful in expanding our international business.

Conducting business outside the United States is subject to additional risks, including the following:

• changes in a specific country's or region's political, social or economic conditions, particularly in emerging markets;

• trade relations between the United States and those foreign countries in which our customers and suppliers have operations, including protectionist measures such as tariffs, import or export licensing requirements and trade sanctions;

restrictions on our ability to own or operate subsidiaries in, expand in and, if necessary, repatriate cash from, foreign jurisdictions;

exchange controls and currency restrictions;

the burden of complying with numerous and potentially conflicting laws;

potentially negative consequences from changes in U.S. and foreign tax laws;

difficulty in staffing and managing (including ensuring compliance with internal policies and controls) geographically widespread operations;

different regulatory regimes controlling the protection of our intellectual property;

difficulty in the enforcement of contractual obligations in non-U.S. jurisdictions and the collection of accounts receivable from foreign accounts; and

transportation delays or interruptions.

One or more of these factors could prevent us from successfully expanding our presence in international markets, could have a material adverse effect on our revenues, profitability or cash flows or cause an increase in our liabilities. We may not succeed in developing and implementing policies and strategies to counter the foregoing factors effectively in each location where we do business. In addition, the imposition of trade restrictions, economic sanctions or embargoes by the United States or foreign governments could adversely affect our operations and financial results.

Volatility in currency exchange rates may adversely affect our financial condition, results of operations or cash flows.

We may not be able to effectively manage our exchange rate and/or currency transaction risks. Volatility in currency exchange rates may decrease our revenues and profitability, adversely affect our liquidity and impair our financial condition. While we have entered into hedging instruments to manage our exchange rate risk as it relates to certain intercompany balances with certain of our foreign subsidiaries, these hedging activities do not eliminate this exchange rate risk, nor do they reduce risk associated with total foreign sales.

Our non-U.S. subsidiaries generally sell their products and services in the local currency, but obtain a significant amount of their products from our facilities located elsewhere, primarily the United States, Canada or Europe. In particular, significant fluctuations in the Canadian Dollar, the Russian Ruble, the Euro or the Pound Sterling against the U.S. Dollar could adversely affect our results of operations. In fiscal 2015, the approximate 13% depreciation of the Canadian Dollar relative to the U.S. Dollar has negatively impacted revenues by \$8.0 million and could continue to have a significant negative impact on our results of operations in future periods. We also bid for certain foreign projects in U.S. Dollars or Euros. If the U.S. Dollar or Euro strengthens relative to the value of the local currency, we may be less competitive in bidding for those projects. See Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" for additional information regarding our foreign currency exposure relating to operations.

Because our consolidated financial results are reported in U.S. Dollars, and we generate a substantial amount of our sales and earnings in other currencies, the translation of those results into U.S. Dollars can result in a significant decrease in the amount of those sales and earnings. Fluctuations in currencies relative to the U.S. Dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations. In addition, the net asset values of foreign operations are adjusted upward and downward based on currency exchange rate fluctuations and is reported in our foreign currency translation adjustment as part of other comprehensive income in our consolidated

statements of operations and comprehensive income

Our future revenue depends in part on our ability to bid and win new contracts. Our failure to effectively obtain future contracts could adversely affect our profitability.

Our future revenue and overall results of operations require us to successfully bid on new contracts and, in particular, contracts for large Greenfield projects, which are frequently subject to competitive bidding processes. Our revenue from major projects depends in part on the level of capital expenditures in our principal end markets, including the energy, chemical processing and power generation industries. In addition, if we fail to replace completed or canceled large Greenfield projects with new order volume of the same magnitude, our backlog will decrease and our future revenue and financial results may be adversely affected. The number of such projects we win in any year fluctuates, and is dependent upon the number of projects

11

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available and our ability to bid successfully for such projects. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which is affected by a number of factors, such as competitive position, market conditions, financing arrangements and required governmental approvals. For example, a client may require us to provide a bond or letter of credit to protect the client should we fail to perform under the terms of the contract. If negative market conditions arise, or if we fail to secure adequate financial arrangements or required governmental approvals, we may not be able to pursue particular projects, which could adversely affect our profitability.

We may be unable to compete successfully in the highly competitive markets in which we operate.

We operate in competitive domestic and international markets and compete with highly competitive domestic and international manufacturers and service providers. The fragmented nature of the industrial electric heat tracing industry, which consists of more than 30 companies, makes the market for our products and services highly competitive. A number of our direct and indirect competitors are major multinational corporations, some of which have substantially greater technical, financial and marketing resources than us, and additional competitors may enter these markets. Our competitors may develop products that are superior to our products, develop methods of more efficiently and effectively providing products and services, or adapt more quickly than we do to new technologies or evolving customer requirements. Any increase in competition may cause us to lose market share or compel us to reduce prices to remain competitive, which could result in reduced sales and earnings.

A material disruption at any of our manufacturing facilities could adversely affect our results of operations.

If operations at any of our manufacturing facilities were to be disrupted as a result of significant equipment failures, natural disasters, power outages, fires, explosions, terrorism, adverse weather conditions, labor disputes or other reasons, we may be unable to fill customer orders and otherwise meet customer demand for our products, which could adversely affect our financial performance. For example, our marketing and research & development buildings, located on the same campus as our corporate headquarters and primary manufacturing facility in San Marcos, Texas, were destroyed by a tornado in January 2007.

Interruptions in production, in particular at our manufacturing facilities in San Marcos, Texas, or Calgary, Canada, at which we manufacture the majority of our products, could increase our costs and reduce our sales. Any interruption in production capability could require us to make substantial capital expenditures to fill customer orders, which could negatively affect our profitability and financial condition. We maintain property damage insurance that we believe to be adequate to provide for reconstruction of facilities and equipment, as well as business interruption insurance to mitigate losses resulting from any production interruption or shutdown caused by an insured loss. However, any recovery under our insurance policies may not offset the lost sales or increased costs that may be experienced during the disruption of operations, which could adversely affect our financial performance.

Currency fluctuations and the current geopolitical instability in Russia and Ukraine and related sanctions by the U.S. government against certain companies and individuals may hinder our ability to conduct business with potential or existing customers and vendors in these countries.

We derived approximately 3%, 6% and 5% of our revenue from Russia in the years ended March 31, 2015, 2014 and 2013, respectively. The continuation or escalation of the current geopolitical instability in Russia and Ukraine as well as currency fluctuations in the Russian Ruble could negatively impact our operations, sales, and future growth prospects in that region. Recently, the U.S. government imposed sanctions through several executive orders restricting U.S. companies from conducting business with specified Russian and Ukrainian individuals and companies. While we believe that the executive orders currently do not preclude us from conducting business with our current customers in Russia, the sanctions imposed by the U.S. government may be expanded in the future to restrict us from engaging with

them. If we are unable to conduct business with new or existing customers or pursue opportunities in Russia or Ukraine, our business, including revenue, profitability and cash flows, could be materially adversely affected. In addition, we are currently evaluating the impact of the executive orders on our relationships with vendors. If we are unable to conduct business with certain vendors, our operations in Russia and the Ukraine could be materially adversely affected.

Our business strategy includes acquiring smaller, value-added companies and making investments that complement our existing business. These acquisitions and investments could be unsuccessful or consume significant resources, which could adversely affect our operating results.

Acquisitions and investments may involve cash expenditures, debt incurrence, operating losses and expenses that could have a material adverse effect on our financial condition and operating results. Acquisitions involve numerous other risks, including:

- diversion of management time and attention from daily operations;
- difficulties integrating acquired businesses, technologies and personnel into our business;
- realization of expected synergies and revenue creation or cross-selling opportunities;
- potential loss of key employees, key contractual relationships or key customers of acquired companies or of us; and
- assumption of the liabilities and exposure to unforeseen liabilities of acquired companies.

We have limited experience in acquiring or integrating other businesses or making investments or undertaking joint ventures with others. It may be difficult for us to complete transactions quickly and to integrate acquired operations efficiently into our current business operations. Any acquisitions or investments may ultimately harm our business or financial condition, as such acquisitions may not be successful and may ultimately result in impairment charges.

Our dependence on subcontractors could adversely affect our results of operations.

We often rely on third party subcontractors as well as third party suppliers and manufacturers to complete our projects. To the extent that we cannot engage subcontractors or acquire supplies or materials, our ability to complete a project in a timely fashion or at a profit may be impaired. If the amount we are required to pay for these goods and services exceeds the amount we have estimated in bidding for fixed-price contracts, we could experience losses on these contracts. In addition, if a subcontractor or supplier is unable to deliver its services or materials according to the negotiated contract terms for any reason, including the deterioration of its financial condition or over-commitment of its resources, we may be required to purchase the services or materials from another source at a higher price. This may reduce the profit to be realized or result in a loss on a project for which the services or materials were needed.

We may lose money on fixed-price contracts, and we are exposed to liquidated damages risks in many of our customer contracts.

We often agree to provide products and services under fixed-price contracts, including our turnkey solutions. Under these contracts, we are typically responsible for all cost overruns, other than the amount of any cost overruns resulting from requested changes in order specifications. Our actual costs and any gross profit realized on these fixed-price contracts could vary from the estimated costs on which these contracts were originally based. This may occur for various reasons, including errors in estimates or bidding, changes in availability and cost of labor and raw materials and unforeseen technical and logistical challenges, including with managing our geographically widespread operations and use of third party subcontractors, suppliers and manufacturers in many countries. These variations and the risks inherent in our projects may result in reduced profitability or losses on projects. Depending on the size of a project, variations from estimated contract performance could have a material adverse impact on our operating results. In addition, many of our customer contracts, including fixed-price contracts, contain liquidated damages provisions in the event that we fail to perform our obligations thereunder in a timely manner or in accordance with the agreed terms, conditions and standards.

Due to the nature of our business, we may be liable for damages based on product liability claims. We are also exposed to potential indemnity claims from customers for losses due to our work or if our employees are injured performing services.

We face a risk of exposure to claims in the event that the failure, use or misuse of our products results, or is alleged to result, in death, bodily injury, property damage or economic loss. Although we maintain quality controls and procedures, we cannot be sure that our products will be free from defects. If any of our products prove to be defective, we may be required to replace the product. In addition, we may be required to recall or redesign such products, which could result in significant unexpected costs. Some of our products contain components manufactured by third parties, which may also have defects. In addition, if we are installing our products, we may be subject to claims that our installation caused damage or loss. Our products are often installed in our customers' or end users' complex and capital intensive facilities in inherently hazardous or

dangerous industries, including energy, chemical processing and power generation, where the potential liability from risk of loss could be substantial. Although we currently maintain product liability coverage, which we believe is adequate for the continued operation of our business, we cannot be certain that this insurance coverage will continue to be available to us at a reasonable cost or, if available, will be adequate to cover any potential liabilities. With respect to components manufactured by third-party suppliers, the contractual indemnification that we seek from our third-party suppliers may be insufficient to cover claims made against us. In the event that we do not have adequate insurance or contractual indemnification, product liabilities could have a material adverse effect on our business, financial condition or results of operations.

Under our customer contracts, we often indemnify our customers from damages and losses they incur due to our work or services performed by us, as well as for losses our customers incur due to any injury or loss of life suffered by any of our employees or our subcontractor's personnel occurring on our customer's property. Many, but not all, of our customer contracts include provisions designed to limit our potential liability by excluding consequential damages and lost profits from our indemnity obligations. However, substantial indemnity claims may exceed the amount of insurance we maintain and could have a material adverse effect on our reputation, business, financial condition or results of operations.

If we lose our senior management or other key employees or cannot successfully execute succession plans, our business may be adversely affected.

Our ability to successfully operate and grow our global business and implement our strategies is largely dependent on the efforts, abilities and services of our senior management and other key employees. If we lose the services of our senior management or other key employees and are unable to find qualified replacements with comparable experience in the industry, our business could be negatively affected. One of our senior executives has communicated his intent to retire in less than two years. While his replacement has been identified, the succession plan remains to be fully executed. Our future success will depend on, among other factors, our ability to successfully execute our succession plan and continue to attract and retain qualified personnel, such as engineers and other skilled labor, and in particular management and skilled employees for our foreign operations.

Our international operations and non-U.S. subsidiaries are subject to a variety of complex and continually changing laws and regulations and, in particular, export control regulations or sanctions

Due to the international scope of our operations, we are subject to a complex system of laws and regulations, including regulations issued by the U.S. Department of Justice, or the "DOJ", the SEC, the Internal Revenue Service, or the "IRS", the U.S. Department of Treasury, the U.S. Department of State, Customs and Border Protection, BIS, OAC and OFAC, as well as the counterparts of these agencies in foreign countries. While we believe we are in material compliance with these regulations and maintain programs intended to achieve compliance, we may currently or may in the future be in violation of these regulations. In 2009, we entered into settlement agreements with BIS and OFAC, and in 2010, we entered into a settlement agreement with OAC, in each case with respect to matters we voluntarily disclosed to such agencies.

Any alleged or actual violations may subject us to government scrutiny, investigation and civil and criminal penalties and may limit our ability to export our products or provide services outside the United States. Additionally, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted.

In addition, our geographically widespread operations, coupled with our relatively smaller offices in many countries and our reliance on third party subcontractors, suppliers and manufacturers in the completion of our projects, make it more difficult to oversee and ensure that all our offices and employees comply with our internal policies and control



procedures. We have in the past experienced employee theft, although the amounts involved have not been material, and we cannot assure you that we can ensure compliance with our internal control policies and procedures

We operate in many different jurisdictions and we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar foreign anti-corruption laws.

The U.S. Foreign Corrupt Practices Act, which we refer to as the "FCPA", and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to influence foreign government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by both the DOJ and the SEC resulting in record fines and penalties, increased enforcement activity by non-U.S. regulators, and increases in criminal and civil proceedings brought against companies and individuals. Because many of our customers and end users are involved in

infrastructure construction and energy production, they are often subject to increased scrutiny by regulators. Our internal policies mandate compliance with these anti-corruption laws. We operate in many parts of the world that are recognized as having governmental corruption problems to some degree and where strict compliance with anti-corruption laws may conflict with local customs and practices. Our continued operation and expansion outside the United States, including in developing countries, could increase the risk of such violations in the future. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures always will protect us from unauthorized reckless or criminal acts committed by our employees or agents. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may result in severe criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, business, results of operations or financial condition.

We are subject to numerous environmental and health and safety laws and regulations, as well as potential environmental liabilities, which may require us to make substantial expenditures.

Our operations and properties are subject to a variety of federal, state, local and foreign environmental laws and regulations, including those governing the discharge of pollutants into the air or water, the management and disposal of hazardous substances or wastes, the cleanup of contaminated sites and workplace health and safety. As an owner or operator of real property, or generator of waste, we could become subject to liability for environmental contamination, regardless of whether we caused such contamination. Certain environmental laws, including the Comprehensive Environmental Response, Compensation, and Liability Act, impose joint and several liability for cleanup costs, without regard to fault, on persons who have disposed of or released hazardous substances into the environment. In addition, we could become liable to third parties for damages resulting from the disposal or release of hazardous substances into the environment. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. From time to time, we could be subject to requests for information, notices of violation, and/or investigations initiated by environmental regulatory agencies relating to our operations and properties. Violations of environmental and health and safety laws can result in substantial penalties, civil and criminal sanctions, permit revocations, and facility shutdowns. Environmental and health and safety laws may change rapidly and have tended to become more stringent over time. As a result, we could incur costs for past, present, or future failure to comply with all environmental and health and safety laws and regulations. In addition, we could become subject to potential regulations concerning the emission of greenhouse gases, and while the effect of such future regulations cannot be determined at this time, they could require us to incur substantial costs in order to achieve and maintain compliance. In the ordinary course of business, we may be held responsible for any environmental damages we may cause to our customers' premises.

Additional liabilities related to taxes, potential tax adjustments or a change in our policy to permanently reinvest our foreign earnings could adversely impact our financial results, financial condition and cash flow.

We are subject to tax and related obligations in the jurisdictions in which we operate or do business, including state, local, federal and foreign taxes. The taxing rules of the various jurisdictions in which we operate or do business often are complex and subject to varying interpretations. Tax authorities may challenge tax positions that we take or historically have taken, and may assess taxes where we have not made tax filings or may audit the tax filings we have made and assess additional taxes, as they have done from time to time in the past. Some of these assessments may be substantial, and also may involve the imposition of substantial penalties and interest. Significant judgment is required in evaluating our tax positions and in establishing appropriate reserves. The resolutions of our tax positions are unpredictable. The payment of substantial additional taxes, penalties or interest resulting from any assessments could materially and adversely impact our results of operations, financial condition and cash flow.

We have determined that most of our earnings outside the United States are permanently reinvested and will not be repatriated. Accordingly, our current estimated annual effective tax rate reflects the blended tax rates in jurisdictions where we have generated earnings and assumes no repatriation of cash earned by our non-U.S. subsidiaries. That effective rate is lower than the United States statutory rate of 35%. The repatriation of earnings requires that we pay tax at the United States corporate tax rate after accounting for the foreign tax already paid. If we need to repatriate cash into the United States or our needs change, significant tax adjustments may result.

The obligations associated with being a public company require significant resources and management attention.

As a public company with equity securities listed on a national securities exchange, we are required to comply with certain laws, regulations and requirements, including the requirements of the Securities Exchange Act of 1934, as amended, which we refer to the "Exchange Act", certain corporate governance provisions of the Sarbanes-Oxley Act of 2002, which we

refer to as the "Sarbanes-Oxley Act", related regulations of the SEC and requirements of the NYSE. Complying with these statutes, regulations and requirements occupies a significant amount of time of our board of directors and management and results in significant legal, accounting and other expenses. We maintain, and will continue to maintain, internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a public company. However, the measures we take may not be sufficient to satisfy our obligations. In addition, we cannot predict or estimate the amount of additional costs incurred in order to comply with these requirements.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments and attestation by our independent registered public accounting firm of the effectiveness of our internal control over financial reporting. In connection with the necessary procedures and practices related to internal control over financial reporting, we or our independent registered public accounting firm may identify deficiencies that we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. If we fail to comply with Section 404, or if we or our independent registered public accounting firm identify and report a material weakness, it may affect the reliability of our internal control over financial reporting, which could adversely affect the market price of our common stock and subject us to sanctions or investigations by the NYSE, the SEC or other regulatory authorities, which would require additional financial and management resources.

Our current or future indebtedness could impair our financial condition and reduce the funds available to us for other purposes. Our debt agreements impose certain operating and financial restrictions, with which failure to comply could result in an event of default that could adversely affect our results of operations.

We have substantial indebtedness. At March 31, 2015, we had \$108.0 million of outstanding indebtedness. If our cash flows and capital resources are insufficient to fund the interest payments on our outstanding borrowings under our credit facility and other debt service obligations and keep us in compliance with the covenants under our debt agreements or to fund our other liquidity needs, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot ensure that we would be able to take any of these actions, that these actions would permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, which may impose significant operating and financial restrictions on us and could adversely affect our ability to finance our future operations or capital needs; obtain standby letters of credit, bank guarantees or performance bonds required to bid on or secure certain customer contracts; make strategic acquisitions or investments or enter into alliances; withstand a future downturn in our business or the economy in general; engage in business activities, including future opportunities, that may be in our interest; and plan for or react to market conditions or otherwise execute our business strategies.

If we cannot make scheduled payments on our debt, or if we breach any of the covenants in our debt agreements, we will be in default and, as a result, our debt holders could declare all outstanding principal and interest to be due and payable, the lenders under our credit facility could terminate their commitments to lend us money and foreclose against the assets securing our borrowings, and we could be forced into bankruptcy or liquidation.

In addition, we and certain of our subsidiaries may incur significant additional indebtedness, including additional secured indebtedness. Although the terms of our debt agreements contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and additional indebtedness incurred in compliance with these restrictions could be significant. Incurring additional indebtedness could increase the risks associated with our substantial indebtedness, including our ability to service our indebtedness.

We rely heavily on trade secrets to gain a competitive advantage in the market and the unenforceability of our nondisclosure agreements may adversely affect our operations.

The heat tracing industry is highly competitive and subject to the introduction of innovative techniques and services using new technologies. While we have patented some of our products and processes, we historically have not relied upon patents to protect our design or manufacturing processes or products, and our patents are not material to our operations or business. Instead, we rely significantly on maintaining confidential our trade secrets and other information related to our operations. Accordingly, we require all employees to sign a nondisclosure agreement to protect our trade secrets, business strategy and other proprietary information. If the provisions of these agreements are found unenforceable in any jurisdiction in which we operate, the disclosure of our proprietary information may place us at a competitive disadvantage. Even where the provisions are enforceable, the confidentiality clauses may not provide adequate protection of our trade secrets and proprietary information in every such jurisdiction.

We may be unable to prevent third parties from using our intellectual property rights, including trade secrets and know-how, without our authorization or from independently developing intellectual property that is the same as or similar to ours, particularly in those countries where the laws do not protect our intellectual property rights as fully as in the United States. The unauthorized use of our trade secrets or know-how by third parties could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our business or increase our expenses as we attempt to enforce our rights.

Our intellectual property rights may not be successfully asserted in the future or may be invalidated, circumvented or challenged.

We have obtained and applied for some U.S. and, to a lesser extent, foreign trademark registrations and will continue to evaluate the registration of additional trademarks. We cannot guarantee that any of our pending applications will be approved. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge them. In addition, we rely on a number of significant unregistered trademarks, primarily abroad, but also in the United States, in the day-to-day operation of our business. Without the protections afforded by registration, our ability to protect and use our trademarks may be limited and could negatively affect our business.

In addition, while we have not faced intellectual property infringement claims from others in recent years, in the event successful infringement claims are brought against us, particularly claims (under patents or otherwise) against our product design or manufacturing processes, such claims could have a material adverse effect on our business, financial condition or results of operation.

We are exposed to potential regulatory, financial and reputational risks related to certain “conflict minerals.”

The SEC has adopted disclosure requirements related to certain minerals sourced from the Democratic Republic of the Congo or adjoining countries, as required by Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The final rules impose inquiry, diligence and disclosure obligations with respect to “conflict minerals,” defined as tin, tantalum, tungsten and gold, that are necessary to the functionality of a product manufactured, or contracted to be manufactured, by an SEC reporting company. On an annual basis, the company must make disclosures to the SEC regarding products it sold during the calendar year. Certain of these minerals are used extensively in components manufactured by our suppliers (or in components incorporated by our suppliers into components supplied to us) for use in our products. Under the final rules, an SEC reporting company must conduct a country of origin inquiry that is reasonably designed to determine whether any of the “conflict minerals” that are necessary to the functionality of a product manufactured, or contracted to be manufactured, by the company originated in the Democratic Republic of the Congo or an adjoining country. If any such “conflict minerals” originated in the Democratic Republic of the Congo or an adjoining country, the final rules require the issuer to exercise due diligence on the source of such “conflict minerals” and their chain of custody with the ultimate objective of determining whether the “conflict minerals” directly or indirectly financed or benefited armed groups in the Democratic Republic of the Congo or an adjoining country. The issuer must then prepare and file with the SEC a report regarding its diligence efforts. We have incurred and expect to incur significant costs to conduct our country of origin inquiry and, if necessary, to exercise such due diligence.

We have a very large number of suppliers and our supply chain is very complex and multifaceted. While we have no intention to use minerals sourced from the Democratic Republic of the Congo or adjoining countries that are not “conflict free” (meaning that they do not contain “conflict minerals” that directly or indirectly finance or benefit armed groups in the Democratic Republic of the Congo or an adjoining country), a significant number of our suppliers are small businesses, and those small businesses have limited or no resources to track their sources of minerals. As a result, we expect significant difficulty in determining the country of origin or the source and chain of custody for all “conflict minerals” used in our products and disclosing that our products are “conflict free.” We may face reputational

challenges if we are unable to verify the country of origin or the source and chain of custody for all “conflict minerals” used in our products or if we are unable to disclose that our products are “conflict free.” These rules may also affect the sourcing and availability of some minerals necessary to the manufacture of our products and may affect the availability and price of “conflict minerals” capable of certification as “conflict free.” Accordingly, we may incur significant costs as a consequence of these rules, which may adversely affect our business, financial condition or results of operations.

### Risks Related to Ownership of Our Common Stock

Our quarterly operating results may vary significantly, which could negatively impact the price of our common stock.

Our quarterly results of operations have fluctuated in the past and will continue to fluctuate in the future. You should not rely on the results of any past quarter or quarters as an indication of future performance in our business operations or the price of our common stock. Factors that might cause our operating results to vary from quarter to quarter include, but are not limited to:

- general economic conditions and cyclicalities in the end markets we serve;
- future growth of energy and chemical processing capital investments;
- a material disruption at any of our manufacturing facilities;
- delays in our customers' projects for which our products are a component;
- the timing of completion of large Greenfield projects;
- competition from various other sources providing similar heat tracing products and services, or other alternative technologies, to customers; and
- the seasonality of demand for MRO/UE orders, which is typically highest during the second and third fiscal quarters.

If our results of operations from quarter to quarter fail to meet the expectations of securities analysts and investors, the price of our common stock could be negatively impacted.

The market price of our common stock may fluctuate significantly, and this may make it difficult for holders to resell our common stock when they want or at prices that they find attractive.

The price of our common stock on the NYSE constantly changes. We expect that the market price of our common stock will continue to fluctuate. The market price of our common stock may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly fluctuations in our operating results;
- changes in investors' and analysts' perception of the business risks and conditions of our business or our competitors;
- our ability to meet the earnings estimates and other performance expectations of financial analysts or investors;
- unfavorable commentary or downgrades of our stock by equity research analysts;
- the emergence of new sales channels in which we are unable to compete effectively;
- disruption to our operations;
- fluctuations in the stock prices of our peer companies or in stock markets in general;
- and



general economic or political conditions.

In addition, in recent years, global equity markets have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating results.

Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws could impair a takeover attempt that our stockholders may find beneficial.

Our second amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions:

- authorizing our board of directors, without further action by the stockholders, to issue blank check preferred stock;
- limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- authorizing our board of directors, without stockholder approval, to amend our amended and restated bylaws;
- limiting the determination of the number of directors on our board of directors and the filling of vacancies or newly created seats on our board of directors to our board of directors then in office; and
- subject to certain exceptions, limiting our ability to engage in certain business combinations with an “interested stockholder” for a three-year period following the time that the stockholder became an interested stockholder.

These provisions, alone or together, could delay hostile takeovers and changes in control of our company or changes in our management.

Though we have opted out of the Delaware anti-takeover statute, our second amended and restated certificate of incorporation contains provisions that are similar to the Delaware anti-takeover statute, which may impair a takeover attempt that our stockholders may find beneficial. Any provision of our second amended and restated certificate of incorporation or amended and restated bylaws that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not expect to pay dividends on our common stock. Any future dividend payments are within the discretion of our board of directors or a duly authorized committee of the board of directors and will depend on, among other things, our results of operations, working capital requirements, capital expenditure requirements, financial condition, level of indebtedness, contractual restrictions with respect to payment of dividends, business opportunities, anticipated cash needs, provisions of applicable law and other factors that our board of directors may deem relevant. In particular, our credit facility limits our ability to pay dividends from cash generated from operations. We may not generate sufficient cash from operations in the future to pay dividends on our common stock. See Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities-Dividend Policy”.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters and principal executive offices are located at 100 Thermon Drive, San Marcos, Texas. A summary of our physical properties as of March 31, 2015 follows in the table below. We believe that our facilities are suitable for their purpose and adequate to meet our business operations requirements. We have manufacturing facilities in the United States, Canada, Europe and India. Most of our operations are registered to International Organization for Standardization (ISO) 9001 quality standards.

19

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Location	Country	Approximate Size	Function	Owned/Leased
Corporate Headquarters San Marcos, TX	United States	219,000 sq. ft. on 30 acres	Manufacturing, fabrication, , sales, engineering, marketing, research & development, warehouse and Corporate Headquarters	Owned
McCarty Lane Property San Marcos, TX	United States	9,300 sq. ft. on 6.6 acres	Storage	Owned
Houston, TX	United States	41,000 sq. ft.	Fabrication, engineering, and sales	Leased
Houston, TX	United States	44,000 sq. ft.	Office and warehouse	Owned
Baton Rouge, LA	United States	10,000 sq. ft.	Sales, engineering and warehouse	Owned
Newark, DE	United States	500 sq. ft.	Sales	Leased
Office: Calgary, AB	Canada	34,000 sq. ft.	Fabrication, sales, engineering and warehouse	Leased
MI Plant: Calgary, AB	Canada	46,000 sq. ft.	Manufacturing, fabrication, and warehouse	Leased
Edmonton, AB	Canada	9,800 sq. ft.	Sales and warehouse	Leased
Sarnia, ON	Canada	4,500 sq. ft.	Sales and warehouse	Leased
London, ON	Canada	1,200 sq. ft.	Sales	Leased
Fort McMurray, AB (a)	Canada	4,600 sq. ft.	Fabrication, sales, and warehouse	Leased
Mexico City	Mexico	2,000 sq. ft.	Sales and engineering	Leased
Rio de Janeiro	Brazil	625 sq. ft.	Sales, engineering and warehouse	Leased
Pijnacker	Netherlands	35,000 sq. ft. on 1.5 acres	Manufacturing, fabrication, sales, engineering, warehouse, marketing and European Headquarters	Owned
Moscow	Russia	2,600 sq. ft.	Sales and engineering	Leased
Paris	France	4,300 sq. ft.	Sales and engineering	Leased
Gateshead, Tyne & Wear	United Kingdom	5,000 sq. ft.	Sales, engineering, and warehouse	Leased
Bergisch Gladbach	Germany	2,800 sq. ft.	Sales and engineering	Leased
Cape Town	South Africa	21,250 sq. ft.	Sales, engineering, fabrication and warehouse	Leased
Johannesburg	South Africa	11, 250 sq. ft.	Sales and warehouse	Leased
Manama	Bahrain	1,100 sq. ft.	Sales and engineering	Leased
Shanghai	China	2,500 sq. ft.	Sales and engineering	Leased
Shanghai	China	4,600 sq. ft.	Warehouse	Leased
Shanghai	China	400 sq. ft.	Warehouse	Leased
Beijing	China	1,650 sq. ft.	Sales and engineering	Leased
Mumbai	India	1,500 sq. ft.	Sales and engineering	Leased
Koregon Bhima, Pune	India	15,000 sq. ft. on 3 acres	Manufacturing, fabrication and warehouse	Owned
Noida	India	2,000 sq. ft.	Engineering	Leased
Caringbah, New South Wales	Australia	200 sq. ft.	Sales	Leased

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Bayswater, Victoria	Australia	1,350 sq. ft.	Fabrication, sales, engineering and warehouse	Owned
Kuala Lumpur	Malaysia	475 sq. ft.	Sales and engineering	Leased
Yokohama	Japan	1,500 sq. ft.	Sales and engineering	Leased
Seoul	South Korea	3,500 sq. ft.	Sales and engineering	Leased
Seoul	South Korea	950 sq. ft.	Warehouse	Leased

(a) The Company acquired this facility as part of the Sumac acquisition on April 1, 2015.

ITEM 3. LEGAL PROCEEDINGS

For information on legal proceedings, see Note 12, “Commitments and Contingencies” to our consolidated financial statements contained elsewhere in this annual report, which is hereby incorporated by reference into this Item 3.

20

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## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The common stock of the Company trades on the NYSE under the symbol "THR." The following table sets forth for each period indicated the reported high and low sales prices for the common stock of the Company on the NYSE.

	Thermon Common Stock		
	High	Low	Dividends Paid
For the quarterly period ended:			
June 30, 2013	\$22.25	\$17.99	—
September 30, 2013	\$23.23	\$19.01	—
December 31, 2013	\$29.06	\$22.71	—
March 31, 2014	\$28.63	\$22.70	—
For the quarterly period ended:			
June 30, 2014	\$27.08	\$22.42	—
September 30, 2014	\$28.31	\$24.14	—
December 31, 2014	\$26.73	\$21.19	—
March 31, 2015	\$24.95	\$20.24	—
For the quarterly period ended:			
June 30, 2015 (Through May 26, 2015)	\$24.87	\$21.88	—

On May 26, 2015, the closing sale price of our common stock, as reported by the NYSE, was \$22.87. As of May 26, 2015, there were approximately 48 holders of our common stock of record.

## Stock Performance

The following line graph and table present a comparison of cumulative total returns for our common stock on an annual basis since our IPO, as compared to the (i) the Russell 2000 index, (ii) Russell 3000 Index (iii) Russell 2000 Global Index and (iv) a peer group selected by the Company, in each case over the same period. Our peer group was selected in good faith and is comprised of manufacturing companies who compete in similar industries and possess similar sales and market capitalizations. The returns of each company in the peer group have been weighted according to market capitalization. The plotted points in the line graph are based on the closing price on the last trading date of the fiscal year. The values assume an initial investment of \$100 was made in our common stock and the respective indexes on May 5, 2011, the date our common stock began trading on the NYSE in connection with our IPO, and assumes the reinvestment of dividends. The stock price performance shown below is not necessarily indicative of future price performance.

	May 5, 2011	March 31, 2012	March 31, 2013	March 31, 2014	March 31, 2015
Thermon Group Holdings, Inc.	\$100.00	\$166.53	\$180.86	\$188.76	\$196.01
iShares Russell 3000 Index	\$100.00	\$107.67	\$124.62	\$154.61	\$172.46
iShares Russell 2000 Index	\$100.00	\$102.57	\$120.80	\$150.55	\$162.53
Russell Global Index	\$100.00	\$93.13	\$103.04	\$119.19	\$120.89
Peer Group (a)	\$100.00	\$95.96	\$135.64	\$145.65	\$136.18

(a) Our peer group is comprised of the following companies that trade under the following ticker symbols, Graham Corp. (GHM), Vicor Corp. (VICR), ENGlobal Corp. (ENG), Ampco-Pittsburgh Corp. (AP), AAON Inc. (AAON), Flotek Industries Inc. (FTK), Gorman-Rupp Co. (GRC), Advanced Energy Industries Inc. (AEIS), ESCO Technologies Inc. (ESE), Methode Electronics Inc. (MEI), AZZ Inc. (AZZ), and Powell Industries Inc. (POWL). During fiscal 2015, Measurement Specialties Inc. (MEAS), a former member of our peer group was acquired and is no longer publicly traded. The presentation of all prior periods has been adjusted to reflect our peer group during fiscal 2015.

The information in this "Stock Performance" section shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act.

#### Dividend Policy

Since the completion of the CHS Transactions on April 30, 2010, we have not declared or paid any cash dividends on our capital stock, and we do not currently intend to pay any cash dividends on our common stock. We currently intend to retain earnings to finance the growth and development of our business and for working capital and general corporate purposes. Any payment of dividends will be at the discretion of our board of directors and will depend upon earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by applicable law and other factors. In particular, our credit facility limits our ability to pay dividends from cash generated from

operations. See Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.”

#### Equity Compensation Plan Information

For information on our equity compensation plans, see Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters-Equity Compensation Plan Information”. See also Note 13, “Stock-Based Compensation Expense” to our consolidated financial statements included elsewhere in this annual report.

#### Issuer Purchases of Equity Securities

None.

#### Recent Sales of Unregistered Securities

None.

### ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected historical consolidated financial and operating data as of and for the fiscal years ended March 31, 2015 (“fiscal 2015”), March 31, 2014 (“fiscal 2014”), March 31, 2013 (“fiscal 2013”), March 31, 2012 (“fiscal 2012”) and March 31, 2011 (“fiscal 2011”). The data set forth below should be read in conjunction with Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations”, which is contained elsewhere in this annual report, and our consolidated financial statements and the notes thereto as of March 31, 2015 and 2014 and for fiscal 2015, fiscal 2014 and fiscal 2013, which are contained elsewhere in this annual report.

In this annual report, we have included the consolidated financial and operating data of Thermon Group Holdings, Inc. (“successor”) for fiscal 2015, fiscal 2014, fiscal 2013, fiscal 2012 and the period from May 1, 2010 through March 31, 2011 and the consolidated financial and operating data of Thermon Holdings, LLC (“predecessor”) for the period from April 1, 2010 to April 30, 2010. Concurrent with the completion of the CHS Transactions on April 30, 2010, predecessor no longer owned any interest in us, and, beginning with the period from May 1, 2010 through March 31, 2011, we have reported the consolidated financial and operating data of successor. We do not anticipate that there would have been any material difference in our consolidated financial and operational data and notes thereto for the period from April 1, 2010 to April 30, 2010 had such financial and operating data been prepared for Thermon Group Holdings, Inc., except as it relates to purchase accounting in connection with the CHS Transactions.

The presentation of fiscal 2011 includes the combined results of the predecessor and successor periods. We have presented the combination of these periods because it provides an easier-to-read discussion of the results of operations and provides the investor with information from which to analyze our financial results in a manner that is consistent with the way management reviews and analyzes our results of operations. In addition, the combined results provide investors with the most meaningful comparison between our results for prior and future periods. Please refer to Note 1 to the table set forth below for a separate presentation of the results for the predecessor and successor periods for fiscal 2011.



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	Successor				Predecessor/Successor Combined (Non-GAAP) (1)
	Year Ended March 31,				2011
	2015	2014	2013	2012	
	(dollars in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Sales	\$308,578	277,323	284,036	272,323	\$ 241,063
Cost of sales	153,874	142,153	151,204	140,208	131,348
Purchase accounting adjustments (2)	—	—	—	—	7,614
Gross profit	\$154,704	\$135,170	\$132,832	\$132,115	\$ 102,101
Operating expenses:					
Marketing, general and administrative and engineering	76,868	65,463	64,633	76,280	58,893
Amortization of intangible assets	10,775	11,090	11,211	11,379	18,245
Income from operations	\$67,061	\$58,617	\$56,988	\$44,456	\$ 24,963
Interest income	460	246	112	122	49
Interest expense (3)	(4,565)	(10,019)	(15,225)	(19,584)	(29,000)
Loss on retirement of debt	—	(15,485)	—	(3,825)	(630)
Success fees to owners related to the CHS Transactions (4)	—	—	—	—	(7,738)
Other expense (5)	(394)	(596)	(325)	(1,671)	(14,125)
Income (loss) from continuing operations before provision for income taxes	\$62,562	\$32,763	\$41,550	\$19,498	\$ (26,481)
Income tax expense (benefit)	13,176	6,964	14,576	7,468	(11,274)
Net income (loss)	\$49,386	\$25,799	\$26,974	\$12,030	\$ (15,207)
Net income (loss) per common share: (6)					
Basic	\$1.54	\$0.82	\$0.88	\$0.41	\$ —
Diluted	1.52	0.80	0.85	0.40	—
Weighted-average shares used in computing net income (loss) per common share (thousands) (6):					
Basic	32,027	31,595	30,797	29,083	—
Diluted	32,407	32,154	31,797	30,454	—
Cash dividends per share	—	—	—	—	—
Other Financial and Operating Data:					
Capital expenditures	6,075	3,367	6,264	8,883	1,799
Backlog at end of period (7)	75,745	84,840	95,228	117,748	76,298



	At March 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands)				
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$93,774	\$72,640	\$43,847	\$21,468	\$51,266
Accounts receivable, net	60,441	52,578	56,123	50,037	40,013
Inventory, net	41,008	37,316	34,391	38,453	31,118
Total assets	453,309	442,180	435,523	425,579	451,032
Total debt	108,000	121,500	118,145	139,145	212,063
Total shareholders' equity	271,766	250,466	226,047	192,480	126,532

(1) The closing of the CHS Transactions on April 30, 2010 established a new basis of accounting that primarily affected inventory, intangible assets, goodwill, taxes, debt and equity. This resulted in additional amortization expense, interest expense and tax expense for the period from May 1, 2010 through March 31, 2011 (“successor”) as compared to the period from April 1, 2010 through April 30, 2010 (“predecessor”). Except for purchase accounting adjustments, the results for the two combined periods are comparable. Therefore, we believe that combining the two periods into a single period for comparative purposes gives the most clarity for the users of this financial information. Please also refer to our historical consolidated financial statements and notes thereto for the fiscal year ended March 31, 2011 included in our fiscal 2011 annual report filed with the Securities and Exchange Commission on June 20, 2011 for a separate presentation of the results for the predecessor and successor periods in accordance with U.S. generally accepted accounting principles (“GAAP”).

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	For the Period From May 1, 2010 Through March 31, 2011 (Successor)	For the Period from April 1, Through April 30 2010 (Predecessor)	Fiscal Year Ended March 31, 2011 (Predecessor/Successor Combined)
Consolidated Statements of Operations Data:			
Sales	\$227,880	\$13,183	\$ 241,063
Cost of sales	124,781	6,567	131,348
Purchase accounting non-cash adjustment	7,614	—	7,614
Gross profit	95,485	6,616	102,101
Marketing, general and administrative and engineering	54,630	4,263	58,893
Amortization of intangible assets	18,030	215	18,245
Income from operations	22,825	2,138	24,963
Interest income	42	7	49
Interest expense	(22,771	) (6,229	) (29,000
Loss on retirement of debt	(630	) —	(630
Success fees to owners related to the CHS Transactions	(3,022	) (4,716	) (7,738
Other expense	(5,224	) (8,901	) (14,125
Loss before provision for income taxes	(8,780	) (17,701	) (26,481
Income tax expense (benefit)	6,160	(17,434	) (11,274
Net loss	\$(14,940	) \$(267	) \$ (15,207
Statement of Cash Flows Data:			
Net cash used in:			
Capital expenditures	\$1,702	\$97	\$ 1,799

(2) In fiscal 2011, there was a non-cash negative impact of \$7.6 million to cost of sales and, consequently, gross profit due to a purchase accounting adjustment related to the CHS Transactions.

(3) Interest expense for fiscal 2014 included a \$4.0 million acceleration of amortization on our deferred debt issuance costs related to the redemption of all \$118.1 million of aggregate outstanding principal on our 9.5% senior secured notes and an additional \$0.6 million of amortized deferred debt issuance costs. Interest expense for fiscal 2013 included a \$2.3 million acceleration of the amortization of our deferred debt issuance costs due to partial redemptions of our senior secured notes and a refinancing of our prior revolving credit facility and \$1.0 million of additional amortized deferred debt issuance costs. Interest expense for fiscal 2012 included a \$3.1 million acceleration of the amortization of our deferred debt issuance costs due to certain partial redemptions of our senior secured notes and \$1.0 million of additional amortized deferred debt issuance costs. Interest expense for fiscal 2011 of \$29.0 million reflected in part increased interest expense on our senior secured notes issued in connection with the CHS Transactions. In addition, we recorded a \$4.9 million acceleration of the amortization on our deferred debt issuance costs of the predecessor as well as \$1.6 million of amortized deferred debt issuance costs related to the successor.

(4) In fiscal 2011, we paid fees to both the predecessor and successor owners related to the successful completion of the CHS Transactions. As related party transactions, they were reported separately from other CHS Transaction expenses included in other expense.

(5) Other expense for fiscal 2011 of \$14.1 million consisted primarily of \$15.0 million of non-recurring expenses related to the CHS Transactions, partially offset by \$0.6 million of income related to the reversal of our compliance

reserve.

While we have presented net income per common share and weighted-average shares used in computing net (6) income per common share for fiscal 2015, fiscal 2014, fiscal 2013 and fiscal 2012, we have not presented such information for

26

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fiscal 2011, as the capital structures of the predecessor and successor are substantially different, and the net income (loss) per share amounts and weighted-average shares used in computing net income (loss) per common share are therefore not comparable or meaningful. Please refer to our consolidated financial statements and notes thereto included in our fiscal 2011 annual report filed with the Securities and Exchange Commission on June 20, 2011 for a presentation of the net income (loss) per share and the weighted average shares outstanding for the predecessor and successor periods.

- (7) Represents the future revenue attributable to signed, but unperformed, purchase orders that set forth specific revenue amounts at the end of the applicable period.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, Item 6, "Selected Financial Data" and our consolidated financial statements and related notes included elsewhere in this annual report. The discussions in this section contain forward-looking statements that involve risks and uncertainties, including, but not limited to, those described in Item 1A, "Risk Factors." Actual results could differ materially from those discussed below.

### Overview

We are one of the largest providers of highly engineered thermal solutions for process industries. For more than 60 years, we have served a diverse base of thousands of customers around the world in attractive and growing markets, including energy, chemical processing and power generation. We are a global leader and one of the few thermal solutions providers with a global footprint and a full suite of products and services required to deliver comprehensive solutions to complex projects. We serve our customers locally through a global network of sales and service professionals and distributors in more than 30 countries and through our four manufacturing facilities on three continents. These global capabilities and longstanding relationships with some of the largest multinational energy, chemical processing, power and EPC companies in the world have enabled us to diversify our revenue streams and opportunistically access high growth markets worldwide. For fiscal 2015, approximately 63% of our revenues were generated outside of the United States.

**Revenue.** Our revenues are derived from providing customers with a full suite of innovative and reliable heat tracing solutions, including electric and steam heat tracing, tubing bundles, control systems, design optimization, engineering services and installation services. Our sales are primarily to industrial customers for petroleum and chemical plants, oil and gas production facilities and power generation facilities. Our petroleum customers represent a significant portion of our business. We serve all three major categories of customers in the petroleum industry - upstream exploration/production, midstream transportation and downstream refining. Overall, demand for industrial heat tracing solutions falls into two categories: (i) new facility construction, which we refer to as Greenfield projects, and (ii) recurring maintenance, repair and operations and facility upgrades or expansions, which we refer to as MRO/UE. Greenfield construction projects often require comprehensive heat tracing solutions. We believe that Greenfield revenue consists of sales revenues by customer in excess of \$1 million annually (excluding sales to resellers), and typically includes most orders for projects related to facilities that are new or that are built independent of existing facilities. We refer to sales revenues by customer of less than \$1 million annually, which we believe are typically derived from MRO/UE, as MRO/UE revenue. Based on our experience, we believe that \$1 million in annual sales is an appropriate threshold for distinguishing between Greenfield revenue and MRO/UE revenue. However, we often sell our products to intermediaries or subcontract our services; accordingly, we have limited visibility into how our

products or services may ultimately be used and can provide no assurance that our categorization may accurately reflect the sources of such revenue. Furthermore, our customers do not typically enter into long-term forward maintenance contracts with us. In any given year, certain of our smaller Greenfield projects may generate less than \$1 million in annual sales, and certain of our larger plant expansions or upgrades may generate in excess of \$1 million in annual sales, though we believe that such exceptions are few in number and insignificant to our overall results of operations.

We believe that our pipeline of planned projects, in addition to our backlog of signed purchase orders, provides us with strong visibility into our future revenue, as historically we have experienced few order cancellations, and the cancellations that have occurred in the past have not been material compared to our total contract volume or total backlog. The small number of order cancellations is attributable in part to the fact that a large portion of our solutions are ordered and installed toward the end of Greenfield project construction. Our backlog at March 31, 2015 was \$75.7 million, as compared to \$84.8 million at March 31, 2014. The year-over-year decline in backlog of \$9.1 million is mostly attributable to the depreciation of most foreign currencies against the U.S. Dollar, which negatively impacted backlog by \$7.0 million. Our backlog was also adversely

impacted by several large greenfield projects that were nearing their completion as of the end of fiscal 2015 which have not been replaced. The timing of recognition of revenue out of backlog is not always certain, as it is subject to a variety of factors that may cause delays, many of which are beyond our control (such as customers' delivery schedules and levels of capital and maintenance expenditures). When delays occur, the recognition of revenue associated with the delayed project is likewise deferred.

**Cost of sales.** Our cost of revenues includes primarily the cost of raw material items used in the manufacture of our products, cost of ancillary products that are sourced from external suppliers and construction labor cost. Additional costs of revenue include contract engineering cost directly associated to projects, direct labor cost, shipping and handling costs, and other costs associated with our manufacturing/fabrication shops. The other costs associated with our manufacturing/fabrication shops are mainly indirect production costs, including depreciation, indirect labor costs, and the costs of manufacturing support functions such as logistics and quality assurance. Key raw material costs include polymers, copper, stainless steel, insulating material, and other miscellaneous parts related to products manufactured or assembled as part of our heat tracing solutions. Historically, the costs of our primary raw materials have been stable and readily available from multiple suppliers, and we have been generally successful with passing along raw material cost increases to our customers. Therefore, increases in the cost of key raw materials of our products have not generally affected our gross margins. We cannot provide any assurance that we may be able to pass along such cost increases to our customers in the future, and if we are unable to do so, our results of operations may be adversely affected.

**Operating expenses.** Our marketing, general and administrative and engineering expenses are primarily comprised of compensation and related costs for sales, marketing, pre-sales engineering and administrative personnel, as well as other sales related expenses and other costs related to research and development, insurance, professional fees, the global integrated business information system, provisions for bad debts and warranty expense.

**Key drivers affecting our results of operations.** Our results of operations and financial condition are affected by numerous factors, including those described above under Item 1A, "Risk Factors" and elsewhere in this annual report and those described below:

**Timing of Greenfield projects.** Our results of operations in recent years have been impacted by the various construction phases of large Greenfield projects. On very large projects, we are typically designated as the heat tracing provider of choice by the project owner. We then engage with multiple contractors to address incorporating various heat tracing solutions throughout the overall project. Our largest Greenfield projects may generate revenue for several quarters. In the early stages of a Greenfield project, our revenues are typically realized from the provision of engineering services. In the middle stages, or the material requirements phase, we typically experience the greatest demand for our heat tracing cable, at which point our revenues tend to accelerate. Revenues tend to decrease gradually in the final stages of a project and are generally derived from installation services and demand for electrical panels and other miscellaneous electronic components used in the final installation of heat tracing cable, which we frequently outsource from third-party manufacturers. Therefore, we typically provide a mix of products and services during each phase of a Greenfield project, and our margins fluctuate accordingly.

**Cyclical nature of end-users' markets.** Demand for our products and services depends in large part upon the level of capital and maintenance expenditures of our customers and end users, in particular those in the energy, chemical processing and power generation industries, and firms that design and construct facilities for these industries. These customers' expenditures historically have been cyclical in nature and vulnerable to economic downturns. Greenfield projects, and in particular large Greenfield projects (i.e., new facility construction projects generating in excess of \$5 million in annual sales), have been a substantial source of revenue growth in recent years, and Greenfield revenues tend to be more cyclical than MRO/UE revenues. In recent years we have noted particular cyclicity in capital spending for new facilities in Asia, Eastern Europe and the Middle East. Revenues derived from Europe, including the Middle East,



accounted for 19% and 21% of our total revenues during each of fiscal 2015 and fiscal 2014 and revenues derived from the Asia region accounted for 12% of our total revenues during fiscal 2015 and fiscal 2014. A sustained decrease in capital and maintenance spending or in new facility construction by our customers could have a material adverse effect on the demand for our products and services and our business, financial condition and results of operations.

Acquisition strategy. Recently, we have begun executing on a strategy to grow the Company through the acquisition of businesses that are either in the heat tracing solutions industry or provide complementary products and solutions for the markets and customers we serve.

On March 2, 2015, we acquired substantially all of the operating assets and assumed certain operating liabilities of Unitemp located in Cape Town, South Africa. Unitemp had previously been a valued distributor of Thermon's thermal solutions for the South African market. In addition, Unitemp offers heating, sensing, portable instruments, monitoring and control solutions to industrial customers throughout Sub-Saharan Africa. Prior to the acquisition, Unitemp generated \$10.2 million (based on the average South African Rand to U.S. Dollar exchange rate during the period) in sales in their last full fiscal year.

On April 1, 2015, we acquired a 75% controlling interest in the business previously operated by Sumac Fabrication Company Limited ("Sumac"). Based in Fort McMurray, Alberta, Canada. Sumac is a designer and fabricator of temporary electrical power distribution equipment that is used in hazardous-location and general purpose areas within industrial facilities. Prior to the acquisition, Sumac generated \$16.5 million (based on the average Canadian Dollar to U.S. Dollar exchange rate during the period) in sales in their last full fiscal year.

Impact of product mix. Typically, both Greenfield and MRO/UE customers require our products as well as our engineering and construction services. The level of service and construction needs will affect the profit margin for each type of revenue. We tend to experience lower margins from our design optimization, engineering, installation and maintenance services than we do from sales of our heating cable, tubing bundle and control system products. We also tend to experience lower margins from our outsourced products, such as electrical switch gears and transformers, than we do from our manufactured products. Accordingly, our results of operations are impacted by our mix of products and services.

We estimate that Greenfield and MRO/UE have each made the following contribution as a percentage of revenue in the periods listed:

	Fiscal Year Ended March 31,			
	2015	2014	2013	
Greenfield	41	% 33	% 42	%
MRO/UE	59	% 67	% 58	%

We believe that our analysis of Greenfield and MRO/UE is an important measurement to explain the trends in our business to investors. Greenfield revenue is an indicator of both our ability to successfully compete for new contracts as well as the economic health of the industries we serve. Furthermore, Greenfield revenue is an indicator of potential MRO/UE revenue in future years.

For MRO/UE orders, the sale of our manufactured products typically represents a higher proportion of the overall revenues associated with such order than the provision of our services. Greenfield projects, on the other hand, require a higher level of our services than MRO/UE orders, and often require us to purchase materials from third party vendors. Therefore, we typically realize higher margins from MRO/UE revenues than Greenfield revenues.

Large and growing installed base. Customers typically use the incumbent heat tracing provider for MRO/UE projects to avoid complications and compatibility problems associated with switching providers. Therefore, with the significant Greenfield activity we have experienced in recent years, our installed base has continued to grow, and we expect that such installed base will continue to generate ongoing high margin MRO/UE revenues. For fiscal 2015, MRO/UE sales comprised approximately 59% of our consolidated revenues.

Seasonality of MRO/UE revenues. Revenues realized from MRO/UE orders tend to be less cyclical than Greenfield projects and more consistent quarter over quarter, although MRO/UE revenues are impacted by seasonal factors. MRO/UE revenues are typically highest during the second and third fiscal quarters, as most of our customers perform preventative maintenance prior to the winter season.



## Results of Operations

The following table sets forth data from our statements of operations as a percentage of sales for the periods indicated.

	Fiscal Year Ended March 31,								
	2015			2014			2013		
	(dollars in thousands)								
Consolidated Statements of Operations Data:									
Sales	\$308,578	100	%	\$277,323	100	%	\$284,036	100	%
Cost of sales	153,874	50		142,153	51		151,204	53	
Gross profit	\$154,704	50	%	\$135,170	49	%	\$132,832	47	%
Operating Expenses:									
Marketing, general, and administrative and engineering	76,868	25	%	65,463	24	%	64,633	23	%
Amortization of intangible assets	10,775	3		11,090	4		11,211	4	
Income from operations	\$67,061	22	%	\$58,617	21	%	\$56,988	20	%
Interest expense, net (1)	(4,105)	(1)	)	(9,773)	(4)	)	(15,113)	(5)	)
Loss on redemption of debt	—	—		(15,485)	(6)	)	—	—	
Other expense	(394)	—	)	(596)	—	)	(325)	—	)
Income before provision for income taxes	\$62,562	20	%	\$32,763	12	%	\$41,550	15	%
Income tax expense	13,176	4		6,964	3		14,576	5	
Net income	\$49,386	16	%	\$25,799	9	%	\$26,974	9	%

Interest expense for fiscal 2014 included a \$4.0 million acceleration of the amortization of our deferred debt issuance costs as we redeemed all \$118.1 million of aggregate outstanding principal on our 9.5% senior secured notes. During the period we incurred an additional \$0.6 million of amortized deferred debt issuance costs. Interest expense for fiscal 2013 included a \$2.3 million acceleration of the amortization of our deferred debt issuance costs due to partial redemptions of our senior secured notes and a refinancing of our prior revolving credit facility. \$1.0 million of additional amortized deferred debt issuance costs were recorded in fiscal 2013. Further reductions in our fiscal 2015 interest expense were due to the difference in interest rates on our 9.5% senior secured notes and our term loan whose interest rate was fixed at 3.12% after giving effect to our interest rate swap.

## Year Ended March 31, 2015 Compared to the Year Ended March 31, 2014

Revenues. Revenues for fiscal 2015 were \$308.6 million, compared to \$277.3 million for fiscal 2014, an increase of \$31.3 million, or 11%. The increase in revenue during fiscal 2015 was mainly attributable to increased Greenfield revenues which increased \$34.3 million or 37%, whereas MRO/UE revenues declined \$3.0 million or 2% as compared to fiscal 2014. Greenfield revenue grew in all geographic regions with the majority of the growth concentrated in North America where we saw increased activity in the United States and strong demand in the Canadian Oil Sands region as described further below. During fiscal 2015 Greenfield revenue represented 41% of total revenue and MRO/UE revenue represented 59% of total revenue, whereas in fiscal 2014 Greenfield revenue represented 33% of total revenue and MRO/UE revenue represented 67% of total revenue. Historically our ratio of MRO/UE revenue to Greenfield revenue has approximated 60% MRO/UE and 40% Greenfield. Our fiscal 2014 MRO/UE-Greenfield ratio reflected higher MRO/UE revenue than our historical average primary due to decreased Greenfield opportunities globally. In fiscal 2015, \$0.5 million of revenue was realized from the acquisition of Unitemp and is included as

MRO/UE revenue.

In fiscal 2015, we experienced revenue growth of \$24.2 million or 27% in the United States as compared to fiscal 2014. The increase in demand within the United States is largely attributable to investments in petroleum and chemical markets, which have increased their use of natural gas as feedstock which, in turn, has necessitated additional heat tracing. Revenue increased in Canada by \$4.9 million or 5%, driven by demand in the Oil Sands region, where we experienced a larger

30

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volume of smaller Greenfield projects, as well as increased sales to some of our primary distributors. With the recent decline in oil prices, our petroleum customers, and in particular within the upstream exploration and production sector in Canada, have postponed or suspended investments in large capital products such as new facility constructions. However, we note that existing production and the associated MRO/UE activity continues.

Fiscal 2015 revenue increased \$3.0 million, in our Asia region or 9% which was primarily attributable to increased Greenfield activity, as compared to fiscal 2014. Revenues in our Europe region declined \$0.8 million in fiscal 2015 due to weakening macro-economic conditions across the region, decreased demand in Russia as a result of international sanctions, as well as the depreciation of European currencies relative to the U.S. Dollar.

Foreign currency fluctuations negatively impacted revenues by \$12.8 million or 4% of total revenues based on the difference in the weighted-average foreign exchange rates in effect during fiscal 2015 and fiscal 2014. Our foreign currency losses were largely attributable to the depreciation of the Canadian dollar, the Euro and the Russian Ruble relative to the U.S. Dollar.

Gross profit and margin. Gross profit totaled \$154.7 million in fiscal 2015, compared to \$135.2 million in fiscal 2014, an increase of \$19.5 million, or 14%. As a percentage of revenues, gross profit increased to 50% in fiscal 2015 from 49% in fiscal 2014. Our gross margin improvement is largely due to favorable sales mix, especially related to sales of our manufactured products which typically contribute higher margins than products we outsource from third party manufacturers. Furthermore, our gross margins were also favorably impacted from operating efficiencies realized at our new and expanded manufacturing facilities in San Marcos, Texas.

Marketing, general and administrative and engineering. Marketing, general and administrative and engineering costs were \$76.9 million in fiscal 2015, compared to \$65.5 million in fiscal 2014, an increase of \$11.4 million, or 17%. As a percentage of total revenues, marketing, general and administrative and engineering costs were 24.9% and 23.6% in fiscal 2015 and 2014, respectively. The primary driver of the increase is due to an increase in our annual incentive bonus expense which increased \$9.5 million as we exceeded our internal targets established by our Board of Directors in fiscal 2015, whereas in fiscal 2014 we did not meet our established targets. Our base personnel wages and benefits increased \$4.0 million due to additional hires of sales and engineering personnel. Stock compensation expense increased \$1.0 million in fiscal 2015 as compared to fiscal 2014 due to the issuance of additional equity awards in fiscal 2015, which generated incremental stock compensation expense.

Amortization of intangible assets. Amortization of intangible assets was \$10.8 million in fiscal 2015, compared to \$11.1 million in fiscal 2014. The decrease is attributed to foreign currency translation adjustments.

Interest expense, net. Interest income, interest expense and loss on redemptions of debt totaled \$4.1 million in fiscal 2015, compared to \$25.3 million in fiscal 2014, a decrease of \$21.2 million. In fiscal 2014, we redeemed all \$118.1 million of the outstanding aggregate principal amount of our 9.5% senior secured notes. In connection with the redemption, we incurred accelerated amortization of deferred debt issuance costs of \$4.0 million and a loss on retirement of debt of \$15.5 million. Interest expense on outstanding principal was \$4.1 million and \$5.5 million in fiscal 2015 and 2014 respectively. The decrease of interest expense on outstanding principal is due both to a \$13.5 million reduction of principal on the outstanding balance of our senior secured debt in addition to a reduction of our interest rate. During fiscal 2015, our interest rate on our secured term loan facility ranged from 3.12% to 3.62%, whereas in fiscal 2014 the interest rate was 3.62%. Excluding the impact of the accelerated amortization of deferred debt issuance costs, we recognized interest expense of \$0.5 million and \$0.6 million associated with deferred debt issuance costs amortization.

Other expense. Other expense was \$0.4 million in fiscal 2015, compared to \$0.6 million in fiscal 2014, a decrease of \$0.2 million. We experienced foreign currency exchange transaction losses of \$1.3 million and \$0.6 million in fiscal

2015 and fiscal 2014, respectively. See Note 2, "Fair Value Measurements" to our consolidated financial statements included elsewhere in this annual report for further discussion of our foreign currency exchange transactions. In fiscal 2015, our foreign currency losses were partially offset by a \$0.9 million gain as a result of the settlement of monies that were held in escrow in connection with the CHS Transactions. The non-recurring gain was recognized as the consideration received was in excess of our estimated outstanding liabilities.

Income taxes. We reported an income tax expense of \$13.2 million in fiscal 2015, compared to \$7.0 million in fiscal 2014, an increase of \$6.2 million or 89%. Our effective tax rates were 21.1% in fiscal 2015 and 21.3% in fiscal 2014, respectively. During fiscal 2015, we recorded an income tax benefit of \$3.1 million that is primarily related to the release of a deferred tax liability for undistributed foreign earnings that we no longer expect to repatriate. Also during fiscal 2015, we released the valuation allowance for a net operating loss carry-forward in one of our foreign jurisdictions that generated a tax

benefit of \$0.6 million. During fiscal 2014, we concluded an income tax audit in the United States and, as a result, released certain liabilities for uncertain tax positions in the amount of \$1.0 million. In addition, we received an income tax benefit of \$0.6 million in fiscal 2014 related to estimated tax benefits that were determined not to be payable to the Predecessor owners. Excluding these discrete tax benefits, our effective tax rate would have been 28.5% and 25.5% in fiscal 2015 and fiscal 2014, respectively. The effective tax rate before discrete events increased in fiscal 2015 due to increased taxable income in the United States, which has a higher corporate income tax rate than other geographic regions. See Note 15, "Income Taxes," to our consolidated financial statements, included elsewhere in this annual report, for further detail on income taxes.

Net income. Net income was \$49.4 million in fiscal 2015 as compared to \$25.8 million in fiscal 2014, an increase of \$23.6 million or 91%. In fiscal 2015, our gross profit increased \$19.5 million as a result of increased revenue and a higher gross margin percentage. In addition, in fiscal 2015 interest expense decreased by \$21.2 million primarily due to the full redemption of the outstanding aggregate principal of our 9.5% senior secured notes in fiscal 2014 and related interest expense. These improvements were partially offset by an increase in our marketing, general and administrative and engineering costs of \$11.4 million which was primarily attributed to personnel cost. Other expense was also favorably impacted by a \$0.9 million non-recurring settlement of monies held in escrow as a result of the CHS Transactions. Our income tax expense increased \$6.2 million primarily due to increased pre-tax income.

#### Year Ended March 31, 2014 Compared to the Year Ended March 31, 2013

Revenues. Revenues for fiscal 2014 were \$277.3 million, compared to \$284.0 million for fiscal 2013, a decrease of \$6.7 million, or 2%. The decrease in revenue during fiscal 2014 was mainly attributable to Greenfield revenues which declined \$25.7 million or 22%. MRO/UE revenues, on the other hand increased \$19.0 million or 12% as compared to fiscal 2013. We believe that the decline in Greenfield sales in fiscal 2014 is a reflection of strong comparative sales in fiscal 2013. The increase of MRO/UE revenue in fiscal 2014 is reflective of our significant installed base of customers who source our products during maintenance and upgrade activities.

In fiscal 2014, we experienced revenue growth of \$7.7 or 9% million in the United States as compared to fiscal 2013. The increase in demand within the United States is largely attributable to upgrade efforts at refineries that are now processing heavy crude oil, from the Canadian oil sands region, which needs to be heated throughout the refining process, as well demand driven by the proliferation of hydraulic fracturing methods to extract natural gas. We experienced revenue declines in Canada and our Asia regions of \$6.2 million or 6% and \$7.0 million or 17%, respectively, as compared to fiscal 2013. In Canada, fiscal 2014 revenues generated from our largest Greenfield project declined \$6.0 million or 20% from \$30.6 million in fiscal 2013 to \$24.6 million in fiscal 2014 due to the project being in its later stages when demand for our heat tracing products tends to diminish. Canadian revenues were also negatively impacted during fiscal 2014 by approximately \$4.8 million due to the depreciation of the Canadian dollar relative to the U.S. dollar. Within our Asia region, we had several large Greenfield projects in fiscal 2013 whose revenues were not replaced in fiscal 2014. Revenues in our European region declined \$1.2 million or 2% in fiscal 2014 largely due to overall economic weakness in the region experienced in the first quarter of fiscal 2014, offset in part by improved results in Europe for the remainder of fiscal 2014.

Gross profit and margin. Gross profit totaled \$135.2 million in fiscal 2014, compared to \$132.8 million in fiscal 2013, an increase of \$2.4 million, or 2%. As a percentage of revenues, profit margin increased to 48.7% in fiscal 2014 from 46.8% in fiscal 2013. This increase is attributable to the higher mix of MRO/UE sales during fiscal 2014 from which we typically realize higher gross margins than Greenfield sales. In addition, our fiscal 2013 Greenfield sales included two large projects that were competitively bid with comparatively lower margins and in turn reduced overall margins.



Marketing, general and administrative and engineering. Marketing, general and administrative and engineering costs were \$65.5 million in fiscal 2014, compared to \$64.6 million in fiscal 2013, an increase of \$0.9 million, or 1%. As a percentage of total revenues, marketing, general and administrative and engineering costs were 23.6% and 22.8% in fiscal 2014 and 2013, respectively. In fiscal 2014, we switched vendors for our data communications and as a result incurred a \$0.7 million increase in communication costs related to fees and duplicate services incurred during the transition. As of March 31, 2014, we had nearly completed the transition and do not expect to continue to incur such communication costs in fiscal 2015. Building expenses increased approximately \$0.6 million as compared to fiscal 2013, as we relocated our Houston office to a larger and more updated facility. Stock compensation expense increased \$0.9 million due to the full year effect of awards granted in August 2012 (fiscal 2013) and additional awards granted in fiscal 2014. The increases in data communications costs, building expenses and stock compensation expense were partially offset by a \$1.5 million reduction in our personnel costs, which was driven by a decrease in our annual incentive expense of \$3.0 million, as we did not meet the internal goals for the short term incentive plan established by our board of directors, offset in part by an increase in salaries, wages and benefit expense due to additional sales and engineering personnel.

Amortization of intangible assets. Amortization of intangible assets was \$11.1 million in fiscal 2014, compared to \$11.2 million in fiscal 2013. The decrease is attributed to foreign currency translation adjustments.

Interest expense, net. Interest expense and loss on redemptions of debt totaled \$25.3 million in fiscal 2014, compared to \$15.1 million in fiscal 2013, an increase of \$10.2 million. In fiscal 2014 we redeemed all \$118.1 million of the outstanding aggregate principal amount of our 9.5% senior secured notes. In connection with the redemption, we incurred acceleration of deferred debt issuance costs of \$4.0 million and a loss on retirement of debt of \$15.5 million, related to redemption premiums paid to the noteholders. In fiscal 2013, we made partial redemptions of our 9.5% senior secured notes with \$21.0 million of aggregate principal being redeemed, and negotiated a new revolving credit facility. In connection with the fiscal 2013 bond redemptions and the termination of the previous revolving credit facility, we incurred acceleration of deferred debt issuance costs of \$2.3 million. Interest expense on outstanding principal was \$5.4 million and \$11.9 million in fiscal 2014 and fiscal 2013, respectively. The decrease in interest on outstanding principal is due to the difference in the interest rate on our redeemed 9.5% senior secured notes and that of our term loan, which is fixed at approximately 3.62% as a result of our interest rate swap. We expect annual interest expense in fiscal 2015 to be approximately \$4.2 million after accounting for scheduled principal reduction payments.

Other expense. Other expense was \$0.6 million in fiscal 2014, compared to \$0.3 million in fiscal 2013, an increase of \$0.3 million due mostly to increased losses on foreign currency exchange transactions in fiscal 2014. See Note 2, "Fair Value Measurements" to our consolidated financial statements included elsewhere in this annual report, for further discussion of our foreign currency exchange transactions.

Income taxes. We reported an income tax expense of \$7.0 million in fiscal 2014, compared to \$14.6 million in fiscal 2013, a decrease of \$7.6 million. Our effective tax rates were 21.3% in fiscal 2014 and 35.1% in fiscal 2013, respectively. During fiscal 2014, we concluded an income tax audit in the United States and, as a result, released certain liabilities for uncertain tax positions in the amount of \$1.0 million. In addition, we received an income tax benefit of \$0.6 million in fiscal 2014 related to estimated tax benefits that were determined not to be payable to the Predecessor owners. Excluding these discrete tax benefits, our effective tax rate in fiscal 2014 would have been 25.5%. During fiscal 2014, we adopted a permanent reinvestment position on our foreign earned earnings. Accordingly, we no longer accrue incremental taxation for expected repatriation of earnings into the United States. As a result, our estimated tax rate was reduced from 35.0% to 25.5%, excluding discrete events. The decrease in income tax expense from fiscal 2013 is attributable to our reduced pre-tax net income, the adoption of a permanent reinvestment position as well as the two aforementioned discrete events. See Note 15, "Income Taxes," to our consolidated financial statements, included elsewhere in this annual report, for further detail on income taxes.

Net income. Net income was \$25.8 million in fiscal 2014 as compared to \$27.0 million in fiscal 2013, a decrease of \$1.2 million. In fiscal 2014, interest expense increased \$10.2 million, which was attributable to increases in the acceleration of the amortization of our deferred debt issuance costs, as well as the loss on retirement of debt related to the redemption of our 9.5% senior secured notes. Marketing, general and administrative and engineering costs increased \$0.9 million in fiscal 2014. These increases in expenses were offset by an increase in fiscal 2014 gross profit of \$2.4 million and a decrease of income tax expense of \$7.6 million in the same period. The increase in fiscal 2014 gross profit was due to higher gross profit as a percent of total revenues in fiscal 2014, primarily attributable to the increase in MRO/UE sales as a percentage of total revenues. The decrease of income tax expense is due to lower pre-tax net income in fiscal 2014, the adoption of a permanent reinvestment of foreign earnings position, and \$1.6 million of income tax benefits from non-recurring discrete events.

## Contractual Obligations and Contingencies

Contractual Obligations. The following table summarizes our significant contractual payment obligations as of March 31, 2015 and the effect such obligations are expected to have on our liquidity position assuming all obligations reach maturity.

	Total	Payment Due By Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(dollars in thousands)				
Variable rate term loan (1)	\$ 108,000	\$ 13,500	\$ 33,750	\$ 60,750	\$—
Interest payments on variable rate term loan (2)	9,222	3,194	4,876	1,152	—
Operating lease obligations (3)	8,420	2,672	3,111	1,399	1,238
Information technology services agreements (4)	1,588	1,070	472	46	—
Total	\$ 127,230	\$ 20,436	\$ 42,209	\$ 63,347	\$ 1,238

(1) Consists of monthly principal payments of \$1.1 million through March 31, 2017; increasing in April 2017 to \$1.7 million through maturity with a lump-sum payment of \$40.5 million due in April 2019.

Consists of estimated future term loan interest payments at an interest rate of 3.12%, based on our interest rate swap agreement (a) through April 30, 2016 and (b) after April 30, 2016 through the April 2019 maturity date, at a (2) blended interest rate based on the amount of interest payments on outstanding principal that are fixed through our interest rate swap and our interest rate on LIBOR-based borrowings of 2.19% as of March 31, 2015 has been applied to any unhedged future interest payments.

(3) We enter into operating leases in the normal course of business. Our operating leases include the leases on certain of our manufacturing and warehouse facilities, in addition to certain offices of our affiliates.

(4) Represents the future annual service fees associated with certain information technology service agreements with several vendors.

Contingencies. We are involved in various legal and administrative proceedings that arise from time to time in the ordinary course of doing business. Some of these proceedings may result in fines, penalties or judgments being assessed against us, which may adversely affect our financial results. In addition, from time to time, the Company is involved in various disputes, which may or may not be settled prior to legal proceedings being instituted and which may result in losses in excess of accrued liabilities, if any, relating to such unresolved disputes. As of March 31, 2015, management believes that adequate reserves have been established for any probable and reasonably estimatable losses. Expenses related to litigation reduce operating income. We do not believe that the outcome of any of these proceedings or disputes would have a significant adverse effect on our financial position, long-term results of operations, or cash flows. It is possible, however, that charges related to these matters could be significant to our results of operations or cash flows in any one accounting period.

During fiscal 2015 we agreed to release the Predecessor owners from any further indemnity obligations. See Note 10, "Related Party Transactions." In exchange for this release, we received \$1.7 million for indemnity items that we have already paid and an estimate of potential contingencies associated with specific indemnity items. After offsetting certain indemnity items already included in our financial statements, we recorded miscellaneous income of \$0.9 million. The identified contingencies relate to disputes with government agencies in India where we have estimated the outcome and included the expected settlement as a liability in our consolidated balance sheet.

The Company has no outstanding legal matters outside of matters arising in the ordinary course of business. We can give no assurances we will prevail in any of these matters.

To bid on or secure certain contracts, we are required at times to provide a performance guaranty to our customers in the form of a surety bond, standby letter of credit or foreign bank guaranty. On March 31, 2015, we had in place standby letters

of credit, bank guarantees and performance bonds totaling \$11.8 million to back our various customer contracts. Our Indian subsidiary also has \$4.8 million in customs bonds outstanding.

### Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and funds available under our revolving credit facility and other revolving lines of credit. Our primary liquidity needs are to finance our working capital, capital expenditures and debt service needs. On May 20, 2013, we completed a \$118.1 million redemption of all of our outstanding senior secured notes. In connection with the redemption, we entered into a five year \$135.0 million variable rate term loan and subsequently entered into an interest rate swap agreement that effectively fixes our term loan interest rate as described below. At March 31, 2015, outstanding principal on the variable rate term loan was \$108.0 million.

Cash and cash equivalents. At March 31, 2015, we had \$93.8 million in cash and cash equivalents. We maintain cash and cash equivalents at various financial institutions located in many countries throughout the world. Approximately \$37.2 million, or 40%, of these amounts were held in domestic accounts with various institutions and approximately \$56.6 million, or 60%, of these amounts were held in accounts outside of the United States with various financial institutions.

#### Senior secured credit facility.

On June 11, 2014, we entered into the first amendment (the "Amendment") to our amended and restated credit agreement, executed April 19, 2013. The Amendment extended the maturity date of our variable rate secured term loan and \$60.0 million senior secured revolving credit facility, which we refer to collectively as our "credit facility," through April 19, 2019. Under the Amendment, the fixed portion of our borrowing rate, which is dictated by our leverage ratio, was reduced by 0.25% and our fee on undrawn amounts on our senior secured revolving credit facility was reduced by 0.05%. These rate reductions became effective July 1, 2014 and June 11, 2014, respectively. The Amendment also changed the maximum leverage ratio permitted for each fiscal quarter ending on and after March 31, 2015 from 2.25 to 1.0 to 2.75 to 1.0.

Under our credit facility, in no case shall availability exceed commitments thereunder. The credit facility will mature in April 2019. Any credit facility borrowings will bear interest, at our option, at a rate equal to either (i) a base rate determined by reference to the greatest of (a) JPMorgan Chase Bank's prime rate in New York City, (b) the federal funds effective rate in effect on such day plus ½ of 1% and (c) the adjusted LIBOR rate for a one month interest period on such day plus 1%, in each case plus an applicable margin dictated by our leverage ratio, or (ii) the LIBOR rate, plus an applicable margin dictated by our leverage ratio. Borrowings denominated in Canadian Dollars under the Canadian sub-facility bear interest at our option, at a rate equal to either (i) a base rate determined by reference to the greater of (a) JPMorgan Chase Bank, Toronto branch's prime rate and (b) the sum of (x) the yearly interest rate to which the one-month Canadian deposit offered rate is equivalent plus (y) 1.0%, in each case plus an applicable margin dictated by our leverage ratio, or (ii) a Canadian deposit offered rate determined by the sum of (a) the annual rate of interest determined with reference to the arithmetic average of the discount rate quotations of all institutions listed in respect of the relevant period for Canadian dollar-denominated bankers' acceptances plus (b) 0.10% per annum, plus an applicable margin dictated by our leverage ratio. In addition to paying interest on outstanding borrowings under our credit facility, we are currently required to pay a 0.3% per annum commitment fee to the lenders in respect of the unutilized commitments thereunder, which commitment fee could change based on our leverage ratio, and letter of credit fees equal to the LIBOR margin or the Canadian deposit offered rate, as applicable, on the undrawn amount of all outstanding letters of credit, in addition to a 0.125% annual fronting fee. At March 31, 2015, we had no outstanding borrowings under our senior secured revolving credit facility. Had there been any outstanding borrowings thereunder, the interest rate would have been 2.19%. As of March 31, 2015, we had \$59.3 million of capacity available under our senior secured revolving credit facility after taking into account the borrowing base, outstanding loan advances and letters of credit. The variable rate secured term loan bears interest at the LIBOR rate plus an applicable margin dictated by our leverage ratio. As of March 31, 2015, our interest rate was 2.19%. The term loan

includes monthly principal payments of \$1.1 million through March 31, 2017, increasing to \$1.7 million through the maturity date. The remaining \$40.5 million is due in April 2019.

Senior secured notes and refinancing under a term loan. During the fiscal year ended March 31, 2015, in connection with the Amendment, we incurred \$0.3 million of fees, which we have deferred and will recognize as interest expense over the life of the term loan. On May 20, 2013, we utilized the proceeds from our new variable rate term loan to redeem the remaining \$118.1 million of aggregate principal amount outstanding of our 9.5% senior secured notes. In conjunction with the redemption, we paid a total of \$15.5 million in redemption premiums and expensed the remaining \$4.0 million of associated deferred debt issuance costs. In the year ended March 31, 2013, the Company made partial redemptions of the senior secured notes in the amount of \$21.0 million. As a result of the redemptions, we recognized \$0.9 million as an acceleration of deferred debt issuance cost amortization and paid \$0.6 million in call premiums.

Interest rate swap. In June 2013, the Company entered into an interest rate swap to reduce the exposure to interest rate fluctuations associated with its variable rate term loan. Under the interest rate swap agreement we pay a fixed amount and receive payments based on a variable interest rate. Since October 1, 2014 our interest expense on outstanding principal amounts was fixed at approximately 3.12%. We have hedged 100% of our interest payments on outstanding principal through April 2016. For the period from May 1, 2016 through April 30, 2018, interest payments based on the one-month LIBOR rate on approximately \$5.2 million of average outstanding principal remain unhedged, increasing to \$49.8 million for the period from May 1, 2018 to April 19, 2019.

Guarantees; security. The obligations under our credit facility are guaranteed on a senior secured basis by each of our existing and future domestic restricted subsidiaries, including Thermon Industries, Inc., the U.S. borrower under our credit facility. The obligations under our credit facility are secured by a first priority perfected security interest in substantially all of our assets, subject to certain exceptions, permitted liens and encumbrances reasonably acceptable to the administrative agent under our credit facility.

Restrictive covenants. The credit facility contains various restrictive covenants that, among other things, restrict, subject to certain negotiated exceptions, our ability to: incur additional indebtedness or issue disqualified capital stock unless certain financial tests are satisfied; pay dividends, redeem subordinated debt or make other restricted payments; make certain investments or acquisitions; issue stock of subsidiaries; grant or permit certain liens on our assets; enter into certain transactions with affiliates; merge, consolidate or transfer substantially all of our assets; incur dividend or other payment restrictions affecting certain of our subsidiaries; transfer or sell assets, including capital stock of our subsidiaries; and change the business we conduct.

Repatriation considerations. A substantial portion of our cash flows are generated by our non-U.S. subsidiaries. In general, when an entity in a foreign jurisdiction repatriates cash to the United States, the amount of such cash is treated as a dividend taxable at current U.S. tax rates. Accordingly, upon the distribution of cash to us from our non-U.S. subsidiaries, we will be subject to U.S. income taxes. Although foreign tax credits may be available to reduce the amount of the additional tax liability, these credits may be limited based on our tax attributes.

During the first quarter of fiscal 2014 and following the redemption of our senior secured notes, we estimated that domestic U.S. cash flow will be able to service our future debt service obligations and therefore we adopted a permanent reinvestment position whereby we expect to permanently reinvest our foreign earnings for most of our foreign subsidiaries and do not expect to repatriate future earnings generated by our foreign operations. As a result of this policy, we will not accrue a tax liability in anticipation of future dividends from most of our foreign subsidiaries. If we were to repatriate foreign earnings, we would incur additional income tax expense. This policy change resulted in the decrease in our effective tax rate from 35.1% of pretax income in fiscal 2013 to an effective rate of approximately 25.5%, before discrete events for fiscal 2014.

Since we have established a permanent reinvestment policy on foreign earnings, we have not established a deferred tax liability for the U.S. tax associated with potential repatriation of most foreign earnings. At March 31, 2015, we had not provided for U.S. federal income taxes and foreign withholding taxes on approximately \$106 million of available earnings in our foreign subsidiaries that are expected to be indefinitely invested. Future tax law changes or changes in the needs of our foreign subsidiaries could cause us to reconsider our policy and repatriate such earnings to the U.S. in the form of dividends. Any such dividends would be limited to the actual cash or assets available at our foreign subsidiaries, which are also subject to foreign currency fluctuations. Upon repatriation, the U.S. tax liability would be reduced by any foreign taxes already paid. We estimate that the ultimate tax liability for the repatriation of our foreign earnings would be in the range of \$8 million to \$10 million.

Future capital requirements. Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our credit facility, will be adequate to meet our liquidity needs for the next 12 months. We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to service our indebtedness, including our credit facility borrowings, or to fund our other liquidity needs. In addition, upon the occurrence of certain events, such as a change of control, we could be required to repay or refinance our indebtedness.

We cannot assure you that we will be able to refinance any of our indebtedness, including our credit facility, on commercially reasonable terms or at all.

In fiscal 2015, we invested \$6.1 million in capital expenditures, of which \$3.9 million related to the building of our new tube bundle facility and our San Marcos, Texas warehouse expansion. We invested \$0.3 million in the development of a new heat tracing design software solution which we anticipate will be released in June 2015. In fiscal 2015, we commenced a multi-year implementation of our enterprise resource planning software and incurred expenses of \$0.2 million. The remaining \$1.7 million represents our annual investments in technology, furniture and fixture replacements, and capital maintenance. Going forward, we expect to invest approximately \$9.1 million in fiscal 2016, including \$3.7 million of investments related to



the expansion of our tube bundle manufacturing facility, including new equipment. We estimate we will incur approximately \$0.9 million related to our multi-year ERP upgrade and \$0.5 million for translation services on our various global websites. The remaining \$4.0 million relates to maintenance capital expenditures including new manufacturing equipment, computers and equipment for our growing workforce, and software licenses.

#### Year Ended March 31, 2015 Compared to the Year Ended March 31, 2014

Net cash provided by operating activities totaled \$51.7 million for fiscal 2015 compared to \$46.1 million for fiscal 2014, an increase of \$5.6 million. Our net income increased from \$25.8 million in fiscal 2014 to \$49.4 million in fiscal 2015. The lower net income in fiscal 2014 is primarily attributable to \$15.5 million in call premiums paid for the redemption of our senior secured notes. The use of cash incurred with the redemption of our senior secured notes is added to operating activities and reduced from financing activities to more accurately reflect cash provided by operations in fiscal 2014. In addition to the call premiums paid, we also incurred a \$4.0 million non-cash charge related to the acceleration of unamortized deferred debt issuance cost. After adjusting for the debt transactions, fiscal 2015 net income increased \$4.1 million as compared to fiscal 2014. In fiscal 2015 our stock compensation expense increased \$1.1 million as a result of incremental shares granted in fiscal 2015. Our comparative change of deferred taxes represented an incremental use of cash of \$2.7 million.

In fiscal 2015, increases in accounts receivable resulted in a use of cash of \$12.2 million compared to a source of cash of \$2.9 million in fiscal 2014. The \$15.1 million comparative change in accounts receivable is primarily due to increased revenue in the fourth quarter of fiscal 2015, the impact of foreign currency exchange rates as well as timing of our collections. In fiscal 2015 and 2014, our inventory increased representing a use of cash of \$6.9 million in fiscal 2015 as compared to a use of cash of \$3.5 million fiscal 2014. The increased use of cash in fiscal 2015 is due to our increased inventory on hand to provide faster lead times. Our accounts payable and accrued liabilities in fiscal 2015 represented a source of cash of \$8.1 million compared to a use of cash of \$14.2 million in fiscal 2014, representing a comparative increase of \$22.3 million. In fiscal 2015, the increase in accrued expenses is primarily due to an increase of \$5.4 million in our accrued incentive bonus accrual as we met our internal targets established by our Board of Directors in fiscal 2015 where we did not in fiscal 2014. The comparative change in our income tax payable balance represented a comparative source of cash of \$3.9 million in fiscal 2015, due to our higher pre-tax income.

Net cash used in investing activities totaled \$10.0 million for fiscal 2015 compared to \$5.4 million for fiscal 2014, an increase of \$4.6 million. In fiscal 2015 and fiscal 2014, we spent \$6.1 million and \$3.4 million, respectively, to purchase property, plant and equipment. The increase of \$2.7 million is primarily attributable to expenditures in fiscal 2015 of \$3.9 million paid for the expansions of our tube bundle and warehouse facilities. In fiscal 2015 we paid \$3.9 million to acquire Unitemp. In fiscal 2014 we paid \$2.1 million to our Predecessor owners related to a tax refund that we received relating to prior tax years when the Predecessor owners were in control of the Company.

Net cash used in financing activities totaled \$11.8 million in fiscal 2015, compared to \$10.6 million for fiscal 2014 an increase of \$1.2 million. In fiscal 2014, we redeemed all of the outstanding aggregate principal amount of our 9.5% senior secured notes representing a use of cash of \$118.1 million. In connection with the redemption we paid \$15.5 million in prepayment redemption premiums. In fiscal 2014, we entered into a term loan agreement whereby we received \$135.0 million in proceeds and incurred \$1.7 million of debt issuance costs. In fiscal 2015, we paid \$0.3 million in deferred debt issuance costs related to the amendment of our our senior secured term loan. In both fiscal 2015 and fiscal 2014 we made principal payments on our term loan totaling \$13.5 million. Our proceeds from the exercise of employee stock options decreased \$2.8 million in fiscal 2015 and in fiscal 2015 we realized a tax benefit from our outstanding equity awards of \$1.6 million whereas in fiscal 2014 we incurred a loss of \$0.1 million.

#### Year Ended March 31, 2014 Compared to the Year Ended March 31, 2013

Net cash provided by operating activities totaled \$46.1 million for fiscal 2014 compared to \$41.4 million for fiscal 2013, an increase of \$4.7 million. Our net income decreased from \$27.0 million in fiscal 2013 to \$25.8 million in fiscal 2014. The decrease in net income is primarily attributable to \$15.5 million in redemption premiums paid for the redemption of our senior secured notes, offset by a decrease in interest expense on outstanding principal of \$6.5 million and a reduction of our income tax expense of \$7.6 million. Non-cash reconciling items such as depreciation and amortization, amortization of debt issuance costs, compensation expense and changes in deferred taxes amounted to a source of cash of \$16.5 million and \$16.6 million in fiscal 2014 and fiscal 2013, respectively. In fiscal 2014, decreases in accounts receivable resulted in a source of cash of \$2.9 million compared to a use of cash of \$7.1 million in fiscal 2013, an improvement of \$10.0 million. In fiscal 2014, our inventory grew representing a use of cash of \$3.5 million compared to fiscal 2013 when our inventory declined representing a source of cash of \$3.4 million. The growth in our inventory in fiscal 2014 is primarily attributable to project and

order delays that occurred at the end of the period. Our accounts payable and accrued liabilities in fiscal 2014 represented a use of cash of \$14.2 million compared to a source of cash of \$1.5 million in fiscal 2013, representing a comparative decrease of \$15.8 million. Our accrued liabilities decreased \$4.7 million due to the fact we currently pay interest on our long term debt monthly whereas in fiscal 2013 we paid interest semi-annually at a higher interest rate. Additionally, our annual incentive accrual was reduced \$2.9 million in fiscal 2014 compared to fiscal 2013. The comparative change in our income tax payable balance represented a comparative source of cash of \$0.5 million in fiscal 2014.

Net cash used in investing activities totaled \$5.4 million for fiscal 2014 compared to \$6.6 million for fiscal 2013, a decrease of \$1.2 million. In fiscal 2014 and fiscal 2013, we spent \$3.4 million and \$6.3 million, respectively, to purchase property, plant and equipment. The decrease of \$2.9 million is primarily attributable to expenditures in fiscal 2013 to improve our manufacturing facilities. In fiscal 2014 we paid \$2.1 million to our Predecessor owners primarily related to a tax refund that we received in fiscal 2014 relating to prior tax years when the Predecessor owners were in control. In fiscal 2013 we paid \$0.3 million to our Predecessor owners related to the release of certain restricted cash balances from the CHS Transactions.

Net cash used in financing activities totaled \$10.6 million in fiscal 2014, compared to \$12.2 million for fiscal 2013. In fiscal 2014, we redeemed all of the outstanding aggregate principal amount of our 9.5% senior secured notes representing a use of cash of \$118.1 million. In connection with the redemption we paid \$15.5 million in prepayment redemption premiums. In fiscal 2014, we entered into a term loan agreement whereby we received \$135.0 million in proceeds and incurred \$1.7 million of debt issuance costs. During fiscal 2014 we made principal payments on our term loan totaling \$13.5 million. In fiscal 2013, redemption and premiums paid on redemption of our 9.5% senior secured notes represented a use of cash of \$21.6 million. Stock option exercises and our associated tax benefit represented a source of cash of \$3.2 million in fiscal 2014 compared to \$9.7 million in fiscal 2013.

#### Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements. In addition, we do not have any interest in entities referred to as variable interest entities, which include special purpose entities and other structured finance entities.

#### Effect of Inflation

While inflationary increases in certain input costs, such as wages, have an impact on our operating results, inflation has had minimal net impact on our operating results during the last three years, as overall inflation has been offset by increased selling prices and cost reduction actions. We cannot assure you, however, that we will not be affected by general inflation in the future.

#### Seasonality

Our quarterly revenues are impacted by the level of large Greenfield projects that may be occurring at any given time. Demand for our products depends in large part upon the level of capital and maintenance expenditures by many of our customers and end users, in particular those customers in the oil and gas, refining, and chemical processing markets. These customers' expenditures historically have been cyclical in nature and vulnerable to economic downturns.

Our operating expenses remain relatively consistent with some variability related to overall headcount of the Company.

Our quarterly operating results may fluctuate based on the cyclical pattern of industries to which we provide heat tracing solutions and the seasonality of MRO/UE demand for our products. Most of our customers perform preventative maintenance prior to the winter season, thus in our experience typically making our second and third quarters the largest for MRO/UE revenue. However, revenues from Greenfield projects are not seasonal and tend to be level throughout the year, depending on the capital spending environment. Overall, seasonality does not have a material effect on our business.

#### Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Our critical accounting policies are those that materially

affect our financial statements and involve difficult, subjective or complex judgments by management. Our most significant financial statement estimates include revenue recognition, allowances for bad debts, warranty reserves, inventory reserves and potential litigation claims and settlements.

Although these estimates are based on management's best knowledge of current events and actions that may impact the Company in the future, actual results may be materially different from the estimates.

Revenue recognition. Revenues from sales of products are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable, and collectability is probable.

On average, less than 20% of our annual revenues are derived from the installation of heat tracing solutions for which we apply construction-type accounting. These construction-related contracts are awarded on a competitive bid and negotiated basis. We offer our customers a range of contracting options, including cost-reimbursable, fixed-price and hybrid, which has both cost-reimbursable and fixed-price characteristics. Most of our construction contract revenue is recognized using either the percentage-of-completion method, based on the percentage that actual costs-to-date bear to total estimated costs to complete each contract or as it relates to cost-reimbursable projects, revenue is recognized as work is performed. We follow the guidance of FASB ASC Revenue Recognition Topic 605-35 for accounting policies relating to our use of the percentage-of-completion method, estimating costs and revenue recognition, including the recognition of profit incentives, unapproved change orders and claims and combining and segmenting contracts. We utilize the cost-to-cost approach to measure the extent of progress toward completion, as we believe this method is less subjective than relying on assessments of physical progress. Under the cost-to-cost approach, the use of total estimated cost to complete each contract is a significant variable in the process of determining recognized revenue and is a significant factor in the accounting for contracts. Significant estimates that impact the cost to complete each contract are costs of engineering, materials, components, equipment, labor and subcontractors; labor productivity; schedule durations, including subcontractors and supplier progress; liquidated damages; contract disputes, including claims; achievement of contractual performance requirements; and contingency, among others. The cumulative impact of revisions in total cost estimates as contracts progress is reflected in the period in which these changes become known, including the recognition of any losses expected to be incurred on contracts in progress. Due to the various estimates inherent in our construction contract accounting, actual results could differ from those estimates. Our historical construction contract cost estimates have generally been accurate, and management does not believe that there is a reasonable likelihood that there will be a material change in future estimates or the methodology used to calculate these estimates.

Sales which are not accounted for under ASC 605-35 may have multiple elements, including heat tracing product, engineering and "field" services such as inspection, repair and/or training. We assess such revenue arrangements to determine the appropriate units of accounting. Each deliverable provided under multiple-element arrangements is considered a separate unit of accounting. Revenues associated with the sale of a product are recognized upon delivery, while the revenue for engineering and field services are recognized as services are rendered, limited to the amount of consideration which is not contingent upon the successful provision of future products or services under the arrangement. Amounts assigned to each unit of accounting are based on an allocation of total arrangement consideration using a hierarchy of estimated selling price for the deliverables. The selling price used for each deliverable will be based on Vendor Specific Objective Evidence ("VSOE"), if available, Third Party Evidence ("TPE"), if VSOE is not available, or estimated selling price, if neither VSOE nor TPE is available. We are currently evaluating the impact Accounting Standard Update 2014-9 will have on our performance obligations and the method which we determine and allocate the price of our contracts.

Estimating allowances, specifically the allowance for doubtful accounts and the adjustment for excess and obsolete inventories. The Company's receivables are recorded at cost when earned and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of allowance for doubtful accounts, represents their estimated net realizable value. If events or changes in circumstances indicate specific receivable

balances may be impaired, further consideration is given to the Company's ability to collect those balances and the allowance is adjusted accordingly. The Company has established an allowance for doubtful accounts based upon an analysis of aged receivables. Past-due receivable balances are written-off when the Company's internal collection efforts have been unsuccessful in collecting the amounts due.

The Company's primary base of customers operates in the oil, chemical processing and power generation industries. Although the Company has a concentration of credit risk within these industries, the Company has not experienced significant collection losses on sales to these customers. The Company's foreign receivables are not concentrated within any one geographic region nor are they subject to any current economic conditions that would subject the Company to unusual risk. The Company does not generally require collateral or other security from customers.

We perform credit evaluations of new customers and sometimes require deposits, prepayments or use of trade letters of credit to mitigate our credit risk. Allowance for doubtful account balances were \$0.8 million as of March 31, 2015 and 2014. Although we have fully provided for these balances, we continue to pursue collection of these receivables.

We write down our inventory for estimated excess or obsolete inventory equal to the difference between the cost of inventory and estimated fair market value based on assumptions of future demand and market conditions. Fair market value is determined quarterly by comparing inventory levels of individual products and components to historical usage rates, current backlog and estimated future sales and by analyzing the age and potential applications of inventory, in order to identify specific products and components of inventory that are judged unlikely to be sold. Our finished goods inventory consists primarily of completed electrical cable that has been manufactured for various heat tracing solutions. Most of our manufactured product offerings are built to industry standard specifications that have general purpose applications and therefore are sold to a variety of customers in various industries. Some of our products, such as custom orders and ancillary components outsourced from third-party manufacturers, have more specific applications and therefore may be at a higher risk of inventory obsolescence. Inventory is written-off in the period in which the disposal occurs. Actual future write-offs of inventory for salability and obsolescence reasons may differ from estimates and calculations used to determine valuation allowances due to changes in customer demand, customer negotiations, product application, technology shifts and other factors. Our allowance for excess and obsolete inventories was \$1.1 million and \$0.9 million at March 31, 2015 and 2014, respectively. Historically, inventory obsolescence and potential excess cost adjustments have been within our expectations, and management does not believe that there is a reasonable likelihood that there will be a material change in future estimates or assumptions used to calculate the inventory valuation reserves.

Significant judgments and estimates must be made and used in connection with establishing these allowances. If our assumptions used to calculate these allowances do not agree with our future ability to collect outstanding receivables, actual demand for our inventory, or the number of products and installations returned under warranty, additional provisions may be needed and our future results of operations could be adversely affected.

Valuation of long-lived, goodwill and other intangible assets. We evaluate goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. We operate as a single reportable segment with four geographic reporting units, each of which are assessed. We perform a qualitative analysis to determine whether it is more likely than not that the fair value of goodwill is less than its carrying amount. Some of the impairment indicators we consider include significant differences between the carrying amount and the estimated fair value of our assets and liabilities; macroeconomic conditions such as a deterioration in general economic condition or limitations on accessing capital; industry and market considerations such as a deterioration in the environment in which we operate and an increased competitive environment; cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows; overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods; other relevant events such as litigation, changes in management, key personnel, strategy or customers; the testing for recoverability of our long-lived assets; and a potential decrease in share price. We evaluate the significance of identified events and circumstances on the basis of the weight of evidence along with how they could affect the relationship between the reporting unit's fair value and carrying amount, including positive mitigating events and circumstances. If we determine it is more likely than not that the fair value of goodwill is less than its carrying amount, then a second step is performed to quantify the amount of goodwill impairment. If impairment is indicated, a goodwill impairment charge is recorded to write the goodwill down to its implied fair value. The Company determined that no impairment of goodwill existed during fiscal 2015 and fiscal 2014.

Other intangible assets include indefinite lived intangible assets for which we must also perform an annual test of impairment. The Company's indefinite lived intangible assets consist primarily of trademarks. The fair value of the

Company's trademarks is calculated using a "relief from royalty payments" methodology. This approach involves first estimating reasonable royalty rates for each trademark, then applying these royalty rates to a net sales stream and discounting the resulting cash flows to determine the fair value. The royalty rate is estimated using both a market and income approach. The market approach relies on the existence of identifiable transactions in the marketplace involving the licensing of trademarks similar to those owned by the Company. The income approach uses a projected pretax profitability rate relevant to the licensed income stream. We believe the use of multiple valuation techniques results in a more accurate indicator of the fair value of each trademark. This fair value is then compared with the carrying value of each trademark. The results of this test during the fourth quarter of our fiscal year indicated that there was no impairment of our indefinite life intangible assets during fiscal 2015 or fiscal 2014.

Accounting for income taxes. We account for income taxes under the asset and liability method that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been



recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position, results of operations or effective tax rate.

Significant judgment is required in determining our worldwide income tax provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of revenue sharing and cost reimbursement arrangements among related entities, the process of identifying items of revenues and expenses that qualify for preferential tax treatment, and segregation of foreign and domestic earnings and expenses to avoid double taxation. Although we believe that our estimates are reasonable, the final tax outcome of these matters could be different from that which is reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision and net income in the period in which such determination is made.

In estimating future tax consequences, all expected future events are considered other than enactments of changes in tax laws or rates. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not to be realized. We consider future growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, historical earnings, taxable income in prior years, if carryback is permitted under the law, and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets valuation allowance would be charged to earnings in the period in which we make such a determination, or goodwill would be adjusted at our final determination of the valuation allowance related to an acquisition within the measurement period. If we later determine that it is more likely than not that the net deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance as an adjustment to earnings at such time. The amount of income tax we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Our estimate of the potential outcome for any uncertain tax issue is highly judgmental. We account for these uncertain tax issues pursuant to ASC 740, Income Taxes, which contains a two-step approach to recognizing and measuring uncertain tax positions taken or expected to be taken in a tax return. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given with respect to the final outcome of these matters. We adjust reserves for our uncertain tax positions due to changing facts and circumstances, such as the closing of a tax audit, judicial rulings, refinement of estimates or realization of earnings or deductions that differ from our estimates. To the extent that the final outcome of these matters is different than the amounts recorded, such differences generally will impact our provision for income taxes in the period in which such a determination is made. Our provisions for income taxes include the impact of reserve provisions and changes to reserves that are considered appropriate and also include the related interest and penalties.

We estimate that domestic U.S. cash flow will be able to service our future debt service obligations and therefore we have adopted a permanent reinvestment position whereby we expect to permanently reinvest our foreign earnings for most of our foreign subsidiaries and do not expect to repatriate future earnings generated by our foreign operations. As a result of this policy, we no longer accrue a tax liability in anticipation of future dividends from our foreign subsidiaries.

Loss contingencies. We accrue for probable losses from contingencies including legal defense costs, on an undiscounted basis, when such costs are considered probable of being incurred and are reasonably estimable. We periodically evaluate available information, both internal and external, relative to such contingencies and adjust this accrual as necessary. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss.

Stock-based compensation expense. We account for share-based payments to employees in accordance with ASC 718, Compensation-Stock Compensation, which requires that share-based payments (to the extent they are compensatory) be recognized in our consolidated statements of operations and comprehensive income based on their fair values.

As required by ASC 718, we recognize stock-based compensation expense for share-based payments that are expected to vest. In determining whether an award is expected to vest, we use an estimated, forward-looking forfeiture rate based upon our historical forfeiture rates. Stock-based compensation expense recorded using an estimated forfeiture rate is updated for actual forfeitures quarterly. To the extent our actual forfeitures are different than our estimates, we record a true-up for the differences in the period that the awards vest, and such true-ups could materially affect our operating results. We also consider on a quarterly basis whether there have been any significant changes in facts and circumstances that would affect our expected forfeiture rate.

We are also required to determine the fair value of stock-based awards at the grant date. For option awards that are subject to service conditions and/or performance conditions, we estimate the fair values of employee stock options using a Black-Scholes-Merton valuation model. For restricted stock awards and restricted stock units, fair value is determined by the market price of our common stock as of the grant date. Some of our option grants and awards included a market condition for which we used a Monte Carlo pricing model to establish grant date fair value. These determinations require judgment, including estimating expected volatility. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be impacted.

#### Recent Accounting Pronouncements

**Revenue Recognition** - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09 "Revenue from Contracts with Customers" (Topic 606), which amends the existing revenue recognition requirements and guidance. Under the new guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. Early adoption is not permitted. The Company will adopt the standard on April 1, 2017. We have not selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

**Stock Compensation** - In June 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-12 (Topic 718), which clarified the treatment of share-based payments when a performance target could be achieved after the requisite service period. Under the new guidance, compensation cost should be recognized over the requisite service period when it becomes probable that the performance target will be achieved. The total compensation cost recognized should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. These provisions are effective for annual periods and interim periods within those years beginning on or after December 15, 2015. Early adoption is permitted. When adopted, we do not believe this update will have a material impact on our consolidated financial statements.

**Business Combinations**- In November 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-17 "Pushdown Accounting" (Topic 805). The amendment provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of an acquired entity. The acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period and would be treated as a change in accounting principle. Additional disclosures are required to enable the users of the financial statements to evaluate the effect of pushdown accounting. The standard was adopted on November 18, 2014 and did not have an impact on our current period consolidated financial statements and related disclosures.

**Interest**- In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-3 "Interest-Imputation of Interest" (Subtopic 835-30). The new guidance changes the presentation of debt issuance costs in financial statements and specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of the note. The guidance does not change the current guidance related to the recognition and measurement of debt issuance costs. The amortization of debt issuance costs will continue to be reported as interest expense. The guidance is effective for years and interim periods within those fiscal years beginning after December 15, 2015. Early adoption is allowed for all entities and the new guidance shall be applied to all prior periods retrospectively. We are currently evaluating when to adopt this ASU, if the standard update was adopted as of March 31, 2015, our outstanding debt obligation would have been reduced by \$1.4 million and \$1.5 million as of March 31, 2015 and 2014, respectively. The adoption of this guidance will have no impact on the presentation of our statement of operations .

## Non-GAAP Financial Measures

Disclosure in this annual report of "Adjusted EPS," "Adjusted EBITDA," "Adjusted net income," "Free cash flow" and "Return on equity" which are "non-GAAP financial measures" as defined under the rules of the Securities and Exchange Commission (the "SEC"), are intended as supplemental measures of our financial performance that are not required by, or presented in accordance with, U.S. generally accepted accounting principles ("GAAP"). "Adjusted net income" and "Adjusted fully diluted earnings per share (or EPS)" represent net income before certain transaction expenses and debt redemptions, debt extinguishment, refinancing of our revolving credit facility, certain discrete tax items, expenses related to the release of a liability for uncertain tax positions, the release of a deferred tax liability for foreign earnings we no longer expect to repatriate and a non-recurring gain related to the settlement of our escrow account with the Predecessor owners, per fully-diluted common share. "Adjusted EBITDA" represents net income before interest expense (net of interest income), income tax

expense, depreciation and amortization expense and other non-cash charges such as stock-based compensation expense, and expenses incurred with transactions not associated with our ongoing operations, such as the loss on the retirement of debt. "Return on equity" represents "Adjusted EBITDA" for each period divided by average total shareholders' equity for each respective twelve month period ended March 31. "Free cash flow" represents cash provided by operations less cash used for the purchase of property, plant and equipment. Foreign currency impact on revenue is calculated by comparing actual current period revenue in U.S Dollars to the theoretical U.S. Dollar revenue we would have achieved based on the weighted-average foreign exchange rates in effect in the comparative prior periods for all applicable foreign currencies.

We believe these non-GAAP financial measures are meaningful to our investors to enhance their understanding of our financial performance and are frequently used by securities analysts, investors and other interested parties to compare our performance with the performance of other companies that report Adjusted EPS, Adjusted EBITDA, Adjusted net income, or Return on equity. Adjusted EPS, Adjusted EBITDA, Adjusted net income, and Return on equity should be considered in addition to, not as substitutes for, income from operations, net income, net income per share, net cash provided by operating activities and other measures of financial performance reported in accordance with GAAP. We provide Free cash flow as a measure of our liquidity. Our calculation of Adjusted EPS, Adjusted EBITDA, Adjusted net income, Free cash flow and Return on equity may not be comparable to similarly titled measures reported by other companies.

The following table reconciles net income to Adjusted EBITDA and Return on equity for the periods presented:

	Year Ended March 31,			
	2015	2014	2013	
Net income	\$49,386	\$25,799	\$26,974	
Interest expense, net	4,105	9,773	15,113	
Income tax expense	13,176	6,964	14,576	
Depreciation and amortization	14,143	14,178	13,831	
Stock-based compensation	3,295	2,203	1,341	
Gain on settlement of CHS Transactions	(931 )	—	—	
Loss on retirement of debt (a)	—	15,485	—	
Secondary offering expenses (b)	—	—	536	
Adjusted EBITDA	\$83,174	\$74,402	\$72,371	
Average total shareholders' equity for the twelve month period ended March 31	261,116	238,257	209,264	
Return on Equity - non-GAAP basis	32	% 31	% 35	%

(a) In fiscal 2014, we redeemed all \$118.1 million of outstanding aggregate principal amount of our 9.5% senior secured notes. In connection with the redemption, we paid \$15.5 million in related redemption premiums.

Represents legal, financial and other advisory and consulting fees and expenses incurred during fiscal 2013 in (b) connection with our shelf registration and secondary offering in which our former private equity sponsors sold 11.5 million shares of our common stock.



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The following table reconciles net income to Adjusted net income and Adjusted EPS for the periods presented:

	Year ended March 31,		
	2015	2014	2013
Net income	\$49,386	\$25,799	\$26,974
Premium charges on long term debt	—	15,485	—
Acceleration of unamortized debt costs	—	4,010	2,318
Discrete tax items related to the CHS Transactions	—	(575	) —
Release of liability for uncertain tax positions	—	(1,047	) —
Release of deferred tax liability for undistributed foreign earnings	(3,224	) —	—
Secondary offering expenses	—	—	536
Release of valuation allowance for foreign net operating loss carry forward	(634	) —	—
Gain on settlement of CHS Transactions			