

Thermon Group Holdings, Inc.
Form 10-Q
February 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2011

OR

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

Commission File Number: 001-35159 (Thermon Group Holdings, Inc.)

Commission File Number: 333-168915-05 (Thermon Holding Corp.)

THERMON GROUP HOLDINGS, INC.

THERMON HOLDING CORP.

(Exact name of registrant as specified in its charter)

Delaware (Thermon Group Holdings, Inc.)

Delaware (Thermon Holding Corp.)

(State or other jurisdiction of incorporation or organization)

27-2228185 (Thermon Group Holdings, Inc.)

26-0249310 (Thermon Holding Corp.)

(IRS Employer Identification No.)

100 Thermon Drive, San Marcos, Texas 78666

(Address of principal executive offices)

(512) 396-5801

(Registrant's telephone number, including area code)

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

Thermon Group Holdings, Inc. Yes No

Thermon Holding Corp. 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).

Thermon Group Holdings, Inc. Yes No

Thermon Holding Corp. Yes No

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

Thermon Group Holdings, Inc.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Thermon Holding Corp.

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Large accelerated filer

Accelerated filer

Non-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).

Thermon Group Holdings, Inc. Yes No

Thermon Holding Corp. Yes No

As of February 7, 2012, each registrant had the following number of shares of common stock outstanding:

Thermon Group Holdings, Inc.: 29,902,353 shares, par value \$0.001 per share

Thermon Holding Corp.: 100,000 shares, par value \$0.001 per share. Thermon Group Holdings, Inc. is the sole stockholder of Thermon Holding Corp. common stock.

Thermon Holding Corp. meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form with the reduced disclosure format.

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EXPLANATORY NOTE

This quarterly report (this quarterly report) combines the Quarterly Reports on Form 10-Q for the quarter ended December 31, 2011 of Thermon Group Holdings, Inc. and Thermon Holding Corp.

Unless stated otherwise or the context otherwise requires, references in this quarterly report to:

- TGH mean Thermon Group Holdings, Inc., a Delaware corporation;
- THC mean Thermon Holding Corp., a Delaware corporation; and
- we, our, us or the Company mean TGH, THC and their consolidated subsidiaries taken together as one company.

TGH was incorporated in Delaware in March 2010 in connection with the acquisition by an affiliate of CHS Capital LLC, or CHS, of a majority interest in us on April 30, 2010, which we refer to, together with certain transactions related to such acquisition described below, as the CHS Transactions. TGH is the sole stockholder of THC.

THC is a direct wholly-owned subsidiary of TGH and was incorporated in Delaware in 2007 in connection with the acquisition by an affiliate of the Audax Group private equity firm, or Audax, of a majority interest in us in August 2007, which we refer to as the Audax Transaction.

TGH is a holding company that conducts all of its business through THC and its subsidiaries. In May 2011, TGH completed an initial public offering (or IPO) of its common stock. In the aggregate, 10,650,000 shares of TGH common stock were sold in the IPO at a price to the public of \$12.00 per share. TGH s common stock, which we refer to as our common stock, is listed on the New York Stock Exchange under the symbol THR.

THC owns 100% of the outstanding shares of common stock of Thermon Industries, Inc. (TII), which issued \$210,000,000 aggregate principal amount of 9.500% Senior Secured Notes due 2017, which have been registered with the Securities and Exchange Commission (or SEC) under the Securities Act of 1933, as amended (or the Securities Act), and which we refer to as our senior secured notes. THC and the domestic subsidiaries of TII are guarantors of our senior secured notes.

We believe combining the Quarterly Reports on Form 10-Q of TGH and THC into this single report provides the following benefits:

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- it enhances investors' understanding of TGH and THC by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- it eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both TGH and THC; and
- it creates time and cost efficiencies for both companies through the preparation of one combined report instead of two separate reports.

In order to highlight the differences between TGH and THC, there are sections in this quarterly report that separately discuss TGH and THC, including separate financial statements and notes thereto and separate Exhibit 31 and Exhibit 32 certifications. In the sections that combine disclosure for TGH and THC (*i.e.*, where the disclosure refers to the consolidated company), this quarterly report refers to actions or holdings as our actions or holdings and, unless otherwise indicated, such references relate to the actions or holdings of TGH and THC and their respective subsidiaries, as one consolidated company.

Finally, in connection with the IPO:

- TGH amended its amended and restated certificate of incorporation to increase its authorized capital stock and effect a 192.458681-for-one split of the common stock of TGH, which occurred on March 31, 2011;
 - the two classes of TGH common stock were automatically converted into a single class of voting common stock;
 - TGH and its stockholders adopted a second amended and restated certificate of incorporation;
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- TGH initially issued and sold 4,000,000 shares of its common stock and subsequently issued and sold 575,098 shares of its common stock pursuant to a partial exercise of the underwriters' overallotment option;
- certain stockholders of TGH initially sold 6,000,000 shares of TGH common stock and subsequently sold 74,902 shares of TGH common stock pursuant to a partial exercise of the underwriters' overallotment option;
- options to purchase 2,757,524 shares of TGH common stock granted under the Thermon Group Holdings, Inc. Restricted Stock and Stock Option Plan (the "2010 Equity Plan") accelerated and became immediately exercisable; and
- options to purchase 117,600 shares of TGH common stock were granted under the Thermon Group Holdings, Inc. 2011 Long-Term Incentive Plan (the "LTIP").

Unless stated otherwise or the context otherwise requires, all information in this quarterly report gives effect to and assumes the occurrence of the foregoing actions.

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THERMON GROUP HOLDINGS, INC. and THERMON HOLDING CORP. (Combined)

QUARTERLY REPORT

FOR THE QUARTER ENDED DECEMBER 31, 2011

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1 Financial Statements of Thermon Group Holdings, Inc.**

Condensed Consolidated Balance Sheets

(Dollars in Thousands, except share and per share data)

	December 31, 2011 (Unaudited)	March 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,776	\$ 51,266
Accounts receivable, net of allowance for doubtful accounts of \$1,405 and \$1,487 as of December 31, 2011 and March 31, 2011, respectively	46,187	40,013
Inventories, net	40,143	31,118
Costs and estimated earnings in excess of billings on uncompleted contracts	2,283	2,063
Income taxes receivable	6,328	2,462
Prepaid expenses and other current assets	7,065	7,633
Deferred income taxes	1,684	2,779
Total current assets	123,466	137,334
Property, plant and equipment, net	25,381	21,686
Goodwill	116,438	120,750
Intangible assets, net	145,999	159,056
Debt issuance costs, net	7,472	11,573
Other noncurrent assets		633
	\$ 418,756	\$ 451,032
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	\$ 21,592	\$ 18,573
Accrued liabilities	15,525	28,972
Current portion of long term debt		21,000
Borrowings under revolving lines of credit	9,000	2,063
Billings in excess of costs and estimated earnings on uncompleted contracts	2,634	1,110
Income taxes payable		7,934
Obligations due to settle the CHS Transaction	3,550	4,213
Total current liabilities	52,301	83,865
Long-term debt, net of current maturities	139,145	189,000
Deferred income taxes	47,553	49,809
Other noncurrent liabilities	1,967	1,826
Common stock, 29,830,689 at December 31, 2011 and 24,933,407 at March 31, 2011, shares issued and outstanding \$.001 par value, 150,000,000 authorized	30	25
Preferred stock, no shares issued and outstanding \$.001 par value, 10,000,000 authorized		
Additional paid in capital	187,906	131,416

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Foreign currency translation adjustment	(987)	10,031
Accumulated deficit	(9,159)	(14,940)
Shareholders' equity	177,790	126,532
	\$ 418,756	\$ 451,032

See accompanying notes.

Table of Contents**Thermon Group Holdings, Inc.**

Condensed Consolidated Statements of Operations (Unaudited)

(Dollars in Thousands, except share and per share data)

	Three Months Ended December 31, 2011 (Successor)	Three Months Ended December 31, 2010 (Successor)	Nine Months Ended December 31, 2011 (Successor)	For the Period From May 1, Through December 31, 2010 (Successor)	For the Period From April 1, Through April 30, 2010 (Predecessor)
Sales	\$ 68,837	\$ 64,941	\$ 201,478	\$ 165,905	\$ 13,063
Cost of sales	35,146	35,333	103,847	98,795	6,447
Gross profit	33,691	29,608	97,631	67,110	6,616
Operating expenses:					
Marketing, general and administrative and engineering	15,300	14,705	59,603	37,227	4,263
Amortization of other intangible assets	2,809	3,700	8,572	15,126	215
Income from operations	15,582	11,203	29,456	14,757	2,138
Other income/(expenses):					
Interest income	72	7	239	10	7
Interest expense	(4,203)	(5,580)	(16,023)	(17,111)	(6,229)
Loss on retirement of senior secured notes	(229)		(3,195)		
Success fees to owners related to the CHS Transaction				(3,022)	(4,716)
Miscellaneous expense	(215)	(1,029)	(1,402)	(4,667)	(8,901)
Income (loss) before provision for income taxes	11,007	4,601	9,075	(10,033)	(17,701)
Income tax expense (benefit)	4,074	1,592	3,294	927	(17,434)
Net income (loss)	\$ 6,933	\$ 3,009	\$ 5,781	\$ (10,960)	\$ (267)
Income (loss) per common share:					
Basic	\$ 0.23	\$ 0.12	\$ 0.20	\$ (0.44)	\$ (5.11)
Diluted	\$ 0.22	\$ 0.11	\$ 0.19	\$ (0.44)	\$ (5.11)
Weighted-average shares used in computing net loss per common share:					
Basic	29,586,956	24,908,772	28,937,292	24,887,987	52,253
Diluted	31,216,493	27,557,174	30,480,160	24,887,987	52,253

See accompanying notes.

Table of Contents**Thermon Group Holdings, Inc.**

Condensed Consolidated Statement of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended December 31, 2011 (Successor)	For the Period From May 1, Through December 31, 2010 (Successor)	For the Period From April 1, Through April 30, 2010 (Predecessor)
Operating activities			
Net income (loss)	\$ 5,781	\$ (10,960)	\$ (267)
Adjustment to reconcile net income (loss) to net cash (used in), provided by operating activities:			
Depreciation and amortization	10,623	24,040	392
Amortization of debt costs	4,100	3,365	2,586
Stock compensation expense	6,457	734	
Benefit for deferred income taxes	(175)	(2,660)	(15,122)
Premiums paid on redemption, included as financing activities	3,825		
Changes in operating assets and liabilities:			
Accounts receivable	(8,209)	(6,452)	1,365
Inventories	(10,413)	(2,972)	(1,719)
Costs and estimated earnings in excess of billings on uncompleted contracts	(591)	(678)	34
Other current and noncurrent assets	1,013	(1,241)	(3,151)
Accounts payable	4,904	5,672	825
Accrued liabilities and noncurrent liabilities	(11,488)	18,161	9,515
Income taxes payable	(12,308)	(937)	(860)
Net cash (used in) provided by operating activities	(6,481)	26,072	(6,402)
Investing activities			
Purchases of property, plant and equipment	(6,179)	(1,149)	(97)
Cash paid for Thermon Holding Corp. (net of cash acquired of \$2,852)	(663)	(314,294)	
Other investing activities			(1,397)
Net cash used in investing activities	(6,842)	(315,443)	(1,494)
Financing activities			
Proceeds from senior secured notes		210,000	
Payments on senior secured notes	(70,855)		
Proceeds from revolving line of credit	9,000	4,599	
Payments on revolving lines of credit and long-term debt	(2,063)	(4,599)	(19,385)
Capital contributions	48,459	129,502	
Premiums paid on redemption of senior secured notes	(3,825)		
Proceeds from stock option exercises	1,579		
Debt issuance costs		(15,473)	
Net cash provided by (used in) financing activities	(17,705)	324,029	(19,385)
Effect of exchange rate changes on cash and cash equivalents	(462)	543	(14)

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Change in cash and cash equivalents		(31,490)		35,201		(27,295)
Cash and cash equivalents at beginning of period		51,266				30,147
Cash and cash equivalents at end of period	\$	19,776	\$	35,201	\$	2,852

See accompanying notes.

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Thermon Group Holdings, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Dollars in Thousands, Except Share Data)

1. Basis of Presentation

On April 30, 2010, a group of investors led by entities affiliated with CHS Capital LLC (CHS) and two other private equity firms acquired a controlling interest in Thermon Holding Corp. and its subsidiaries from Thermon Holdings, LLC (Predecessor) for approximately \$321,500 in a transaction that was financed by approximately \$129,200 of equity investments by CHS, two other private equity firms and certain members of our current and former management team (collectively, the management investors) and \$210,000 of debt raised in an exempt Rule 144A senior secured note offering to qualified institutional investors (collectively, the CHS Transactions). The proceeds from the equity investments and debt financing were used both to finance the acquisition and pay related transaction costs. As a result of the CHS Transactions, Thermon Group Holdings, Inc. became the ultimate parent of Thermon Holding Corp. Thermon Group Holdings, Inc. (TGH) and its direct and indirect subsidiaries are referred to collectively as we , our , the Company or Successor herein. We refer to CHS and the two other private equity fund investors collectively as our private equity sponsors.

In the CHS Transactions, the senior secured notes were issued by Thermon Finance, Inc., which immediately after the closing of the CHS Transactions was merged into our wholly-owned subsidiary Thermon Industries, Inc.

The CHS Transactions were accounted for as a purchase combination. The purchase price was allocated to the assets and liabilities acquired based on their estimated fair values. While the Company takes responsibility for the allocation of assets acquired and liabilities assumed, it consulted with an independent third party to assist with the appraisal process.

Pushdown accounting was employed to reflect the purchase price paid by our new owner.

We have prepared our consolidated financial statements as if TGH had been in existence throughout all relevant periods. The historical financial and other data prior to the closing of the CHS Transactions on April 30, 2010 have been prepared using the historical results of operations and bases of the assets and liabilities of the Predecessor. Our historical financial data prior to May 1, 2010 may not be indicative of our future performance. The CHS Transactions which closed on April 30, 2010, resulted in the liquidation of the equity balances that belonged to the previous owner. Accordingly, the consolidated statement of operations and cash flows are reported separately for the period from April 1, 2010 to April 30, 2010 for the Predecessor. The settlement of equity balances and associated transaction expenses of the Predecessor are reported in the period from April 1, 2010 to April 30, 2010.

In May 2011, Thermon Group Holdings, Inc. completed its initial public offering (IPO) of common shares in which it issued 4,575,098 new common shares and received net proceeds of \$48,459, net of underwriting discounts and commissions and offering expenses. Refer to Note 13,

Shareholders Equity .

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of TGH for the year ended March 31, 2011. In our opinion, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly our financial position at December 31, 2011 and March 31, 2011, and the results of our operations for the three months ended December 31, 2011 and 2010, the nine months ended December 31, 2011, the period from May 1, 2010 to December 31, 2010 and the period from April 1 through April 30, 2010. Operating results for the period from May 1 through December 31, 2010 and for the period from April 1 through April 30, 2010 are not necessarily indicative of the results that may be expected for the three and nine months ended December 31, 2011. Certain reclassifications have been made to the prior period presentation to conform to the current period presentation. All dollar and share amounts are presented in thousands, unless otherwise noted.

2. Recent Accounting Pronouncements

In June 2011, the FASB updated FASB ASC 220, *Comprehensive Income* (FASB ASC 220) that gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The update does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The update does not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items. The update does not affect how earnings per share is calculated or presented. The update should be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We are currently evaluating the requirements of this update and have not yet determined the impact on our consolidated financial statements.

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In September 2011, the FASB updated FASB ASC 350, *Goodwill and Other* (FASB ASC 350) that gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The amendments are effective for annual and interim goodwill impairment test performed for fiscal years beginning after December 15, 2011. We are currently evaluating the requirements of this update and have not yet determined the impact on our consolidated financial statements.

In January 2010, the FASB updated FASB ASC 820, *Fair Value Measurements and Disclosures* (FASB ASC 820) that requires additional disclosures and clarifies existing disclosures regarding fair value measurements. The additional disclosures include (i) transfers in and out of Levels 1 and 2 and (ii) activity in Level 3 fair value measurements. The update provides amendments that clarify existing disclosures on level of disaggregation and disclosures about inputs and valuation techniques. This update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We adopted the update on April 1, 2010 as required and subsequently adopted on April 1, 2011, the update surrounding disclosures on Level 3 fair value measurements and concluded it did not have a material impact on our consolidated financial position or results of operations. In May 2011, the FASB updated FASB ASC 820 that resulted in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. We are currently evaluating the requirements of this update and have not yet determined the impact on our consolidated financial statements.

3. Earnings and Net Income (Loss) per Common Share

Basic earnings per share (EPS) and net loss per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during each period. Diluted net loss per share is computed by dividing net loss by the weighted average number of common shares and common share equivalents outstanding (if dilutive) during each period. The number of common share equivalents, which include options and P units, is computed using the treasury stock method.

The reconciliation of the denominators used to calculate basic EPS and diluted EPS for the three months ended December 31, 2011 and 2010, the nine months ended December 31, 2011, the period from May 1, 2010 to December 31, 2010 and the period from April 1 through April 30, 2010, respectively, are as follows:

	(Successor)			(Predecessor)	
	Three Months Ended Dec. 31, 2011	Three Months Ended Dec. 31, 2010	Nine Months Ended Dec. 31, 2011	For the period From May 1, 2010 Through Dec. 31, 2010	For the Period From April 1, Through April 30, 2010
Net income (loss)	\$ 6,933	\$ 3,009	\$ 5,781	\$ (10,960)	\$ (267)
	29,586,956	24,908,772	28,937,292	24,887,987	52,253

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Weighted-average common shares
outstanding

Plus: Commons share equivalents Stock options (1)	1,629,537	2,648,402	1,542,868		
Weighted average shares outstanding - dilutive	31,216,493	27,557,174	30,480,160	24,887,987	52,253

(1) For the periods in which the Company was in a net loss position, there was no dilutive effect on net loss per common share as the Class P units issued by the predecessor and options issued by the successor are antidilutive.

4. Inventories

Inventories consisted of the following:

		December 31, 2011		March 31, 2011
Raw materials	\$	13,959	\$	9,847
Work in process		1,866		2,307
Finished goods		25,562		20,669
		41,387		32,823
Valuation reserves		(1,244)		(1,705)
Inventories, net	\$	40,143	\$	31,118

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Property, plant and equipment consisted of the following:

	December 31, 2011	March 31, 2011
Land, buildings and improvements	\$ 13,144	\$ 13,495
Machinery and equipment	6,533	7,378
Office furniture and equipment	2,672	2,595
Construction in process	6,391	
	28,740	23,468
Accumulated depreciation	(3,359)	(1,782)
Property, plant and equipment, net	\$ 25,381	\$ 21,686

6. Goodwill

The carrying amount of goodwill as of December 31, 2011, is as follows:

	Amount
Balance as of March 31, 2011	\$ 120,750
Foreign currency translation impact	(4,312)
Balance as of December 31, 2011	\$ 116,438

The excess purchase price over the fair value of assets acquired is recorded as goodwill. As we have one operating segment, we allocate goodwill to one reporting unit for goodwill impairment testing. Goodwill is tested for impairment on an annual basis, and between annual tests if indicators of potential impairment exist, using a fair-value-based approach based on the market capitalization of the reporting unit. Our annual impairment test will be performed as of January 1, 2012. At December 31, 2011, there were no indicators of a goodwill impairment. Goodwill is not deductible for tax purposes.

7. Intangibles

Intangible assets at December 31, 2011 and March 31, 2011 were related to the CHS Transactions and consisted of the following:

Gross Carrying Amount at December 31, 2011	Accumulated Amortization	Net Carrying Amount at December 31, 2011	Gross Carrying Amount at March 31, 2011	Accumulated Amortization	Net Carrying Amount at March 31, 2011
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Trademarks	\$	47,753	\$		\$	47,753	\$	49,403	\$		\$	49,403
Developed technology		10,944		(993)		9,951		11,321		(600)		10,721
Customer relationships		101,432		(14,780)		86,652		104,319		(7,240)		97,079
Backlog		10,171		(10,171)				10,480		(10,480)		
Certification		498				498		516				516
Other		1,633		(488)		1,145		1,634		(297)		1,337
Total	\$	172,431	\$	(26,432)	\$	145,999	\$	177,673	\$	(18,617)	\$	159,056

Trademarks and certifications have indefinite lives. Developed technology, customer relationships, and other intangible assets have estimated lives of 20 years, 10 years, and 6 years, respectively. The weighted average useful life for the group is 10 years.

The net carrying amounts of intangible assets are affected by currency translation adjustments. As compared to the net carrying amounts at March 31, 2011, intangible assets at December 31, 2011, were approximately \$4,485 million lower due to fluctuations in exchange rates used to value intangible assets carried in foreign currency.

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Accrued current liabilities consisted of the following:

	December 31, 2011	March 31, 2011
Accrued employee compensation and related expenses	\$ 8,311	\$ 9,333
Interest	2,226	9,083
Customer prepayment	1,066	6,866
Warranty reserve	629	1,325
Professional fees	1,064	774
Compliance costs	55	55
Other	2,174	1,536
Total accrued current liabilities	\$ 15,525	\$ 28,972

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9. Related-Party Transactions

We paid management fees including a termination fee in connection with our IPO to our private equity sponsors of \$8,120 in the nine months ended December 31, 2011. In the prior year periods of May 1 to December 31, 2010 and April 1 to April 30, 2010, we paid management fees (both Successor and Predecessor) of \$1,333 and \$79, respectively. Management fees including the termination fee are included as part of Marketing, general and administrative and engineering expense. Additionally, in the prior year periods of May 1 to December 31, 2010 and April 1 to April 30, 2010, we paid success fees to owners (both Successor and Predecessor) of \$3,022 and \$4,716, respectively.

Included in our consolidated balance sheet is Obligations due to settle the CHS Transaction which totaled \$3,550 and \$4,213 at December 31, 2011 and March 31, 2011, respectively. These amounts represent amounts due to the Predecessor owners in final settlement of the sale that was completed on April 30, 2010. During the three and nine months ended December 31, 2011, we paid \$137 and \$663, respectively, to the Predecessor owners for cash amounts that were released during the three month period. At December 31, 2011, the amount outstanding represents the estimate of tax refunds due from government entities that have not been received but are related to the final tax periods filed by the Predecessor and remaining encumbered cash to be released as letters of credit expire.

10. Short-Term Revolving Lines of Credit

The Company's subsidiary in the Netherlands has a revolving credit facility in the amount of Euro 4,000 (equivalent to \$5,169 USD at December 31, 2011) collateralized by receivables, inventory, equipment, furniture and real estate. No loans were outstanding on this facility at December 31, 2011 or March 31, 2011.

The Company's subsidiary in India has a revolving credit facility in the amount of 80,000 rupees (equivalent to \$1,463 USD at December 31, 2011). The facility is collateralized by receivables, inventory, real estate, a letter of credit, and cash. No loans were outstanding under the facility at December 31, 2011 or March 31, 2011.

The Company's subsidiary in Australia has a revolving credit facility in the amount of \$325 Australian Dollars (equivalent to \$328 USD at December 31, 2011). The facility is collateralized by real estate. The facilities had no loans outstanding as of December 31, 2011 or March 31, 2011.

The Company's subsidiary in Japan has a revolving credit facility in the amount of 45,000 Japanese Yen (equivalent to \$578 USD at December 31, 2011). The credit facility is collateralized by a standby letter of credit in the amount of \$300 issued as part of the revolving credit facility referred to in Note 11, Long-Term Debt. No loans were outstanding under the Japanese revolving credit facility at December 31, 2011 or March 31, 2011.

Under the Company's principal revolving credit facility described below in Note 11, Long-Term Debt, there were \$9,000 and \$2,063 of outstanding borrowings at December 31, 2011, and March 31, 2011, respectively. Although borrowings under the facility do not mature until 2015, management intends to repay all borrowings under the facility within 90 days of incurrence.

11. Long-Term Debt

Long- term debt consisted of the following:

	December 31, 2011	March 31, 2011
9.500% Senior Secured Notes, due May 2017	\$ 139,145	\$ 210,000
	139,145	210,000
Less current portion		(21,000)
	\$ 139,145	\$ 189,000

Revolving Credit Facility and Senior Secured Notes

Revolving credit facility. Simultaneously with the closing of the CHS Transactions and the sale of our senior secured notes, our wholly owned subsidiary, Thermon Industries, Inc., entered into a five-year, \$40.0 million senior secured revolving credit facility, which we refer to as our revolving credit facility, of which up to \$20.0 million is available to our Canadian subsidiary, subject to borrowing base availability. Availability of funds under our revolving credit facility is determined by a borrowing base equal to the

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sum of 85% of eligible accounts receivable, plus 60% of eligible inventory, plus 85% of the net orderly liquidation value of eligible equipment, plus 50% of the fair market value of eligible owned real property. In no case shall availability under our revolving credit facility exceed the commitments thereunder. As of December 31, 2011, we had \$30.4 million of capacity available under our revolving credit facility after taking into account the borrowing base, outstanding loan advances and letters of credit. In addition to our revolving credit facility, we have various short term revolving lines of credit available to us at our foreign affiliates. At December 31, 2011 we had \$9.0 million of outstanding borrowings under the revolving credit facility with an interest rate of 5%.

The revolving credit facility will mature in 2015. Any borrowings on our revolving credit facility will incur interest expense that is variable in relation to the LIBOR rate. Borrowings denominated in Canadian Dollars under the Canadian facility bear interest at a variable rate in relation to the bankers' acceptance rate, as set forth in the revolving credit facility. In addition to paying interest on outstanding borrowings under our revolving credit facility, we are required to pay a 0.75% per annum commitment fee to the lenders in respect of the unutilized commitments thereunder and letter of credit fees equal to the LIBOR margin or the bankers' acceptance rate, as applicable, on the undrawn amount of all outstanding letters of credit.

Senior secured notes. As of December 31, 2011, we had \$139.1 million of indebtedness outstanding under our senior secured notes with annual cash interest expense of approximately \$13.2 million. Our senior secured notes mature on May 1, 2017 and accrue interest at a fixed rate of 9.500%. We pay interest in cash semi-annually on May and November 1 of each year. Our senior secured notes were issued in a Rule 144A exempt senior secured note offering to qualified institutional investors. The proceeds were used to fund the purchase price for the CHS Transactions and related transaction costs. In January 2011, we consummated an offer to exchange the old restricted senior secured notes for new, SEC-registered senior secured notes.

During the three and nine months ended December 31, 2011, the Company made partial redemptions of the senior secured notes in the amount of \$4,265 and \$70,855, respectively. In connection with these redemptions, the Company paid cash premiums on redemption of \$229 and \$3,195 for the three and nine months ended December 31, 2011, respectively. In addition, the Company accelerated deferred debt amortization of \$174 and \$3,096 for the three and nine months ended December 31, 2011, respectively. These expenses were included in interest expense for the periods reported.

Guarantees; security. The obligations under our revolving credit facility and our senior secured notes are guaranteed on a senior secured basis by the Company and each of its existing and future domestic restricted subsidiaries, other than Thermon Industries, Inc., the issuer of the senior secured notes. The obligations under our revolving credit facility are secured by a first priority perfected security interest in substantially all of our and the guarantors' assets, subject to certain exceptions, permitted liens and encumbrances reasonably acceptable to the agent under our revolving credit facility. Our senior secured notes and guarantees are also secured by liens on substantially all of our and the guarantors' assets, subject to certain exceptions; provided, however, that the liens are contractually subordinated to the liens thereon that secure our revolving credit facility.

Restrictive covenants. The revolving credit facility and senior secured notes contain various restrictive covenants that include restrictions or limitations on 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. However, all of these covenants are subject to customary exceptions.

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Information about our long-term debt that is not measured at fair value follows:

	December 31, 2011		March 31, 2011		Valuation Technique
	Carrying Value	Fair Value	Carrying Value	Fair Value	
Financial Liabilities					
Long-term debt	\$ 139,145	\$ 150,277	\$ 210,000	\$ 225,800	Level 2 - Market Approach

Differences between carrying value and fair value are primarily due to instruments that provide fixed interest rates or contain fixed interest rate elements. Inherently, such instruments are subject to fluctuations in fair value due to subsequent movements in interest rates.

Foreign Currency Transaction Risk.

We transact business in various foreign currencies and have established a program that primarily utilizes foreign currency forward contracts to offset the risk associated with the effects of certain foreign currency exposures. Under this program, increases or decreases in our foreign currency exposures are offset by gains or losses on the forward contracts, to mitigate the possibility of foreign currency transaction gains or losses. These foreign currency exposures typically arise

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from intercompany transactions. Our forward contracts generally have terms of 90 days or less. We do not use forward contracts for trading purposes nor do we designate these forward contracts as hedging instruments pursuant to ASC 815. We adjust the carrying amount of all contracts to their fair value at the end of each reporting period and unrealized gains and losses are included in our results of operations for that period. These gains and losses largely offset gains and losses resulting from settlement of payments received from our foreign operations which are settled in U.S. dollars. All outstanding foreign currency forward contracts are marked to market at the end of the period with unrealized gains and losses included in miscellaneous expense. The balance sheet reflects unrealized gains within prepaid expenses and other current assets and unrealized losses within accrued liabilities. Our ultimate realized gain or loss with respect to currency fluctuations will depend on the currency exchange rates and other factors in effect as the contracts mature. As of December 31, 2011 and March 31, 2011, the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$14,019 and zero, respectively.

Net foreign exchange transaction losses included in the accompanying condensed consolidated statements of operations were \$213 and \$1,456 in the three and nine months ended December 31, 2011, respectively. For the three months ended December 31, 2010, the period from May 1 through December 31, 2010 and the period from April 1 through April 30, 2010, losses from foreign exchange transactions were \$242, \$566 and zero, respectively. The fair values of foreign currency forward contracts were not significant individually and approximated \$59 as of December 31, 2011.

Other Financial Assets and Liabilities

Financial assets and liabilities with the carrying amounts approximating fair value include cash and cash equivalents, accounts receivable, other current assets, current debt, accounts payable and other current liabilities.

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12. Commitments and Contingencies

At December 31, 2011, the Company had in place letter of credit guarantees and performance bonds securing performance obligations of the Company. These arrangements totaled approximately \$7,594. Of this amount, \$2,291 is secured by cash deposits at the Company's financial institutions. The remaining \$5,303 represents a reduction of the available amount of the Company's Short Term and Long Term Revolving Lines of Credit. Included in prepaid expenses and other current assets at December 31, 2011 and March 31, 2011, was approximately \$2,291 and \$2,133, respectively, of cash deposits pledged as collateral on performance bonds and letters of credit.

The Company is involved in various legal proceedings that arise from time to time in the ordinary course of doing business and believes that adequate reserves have been established for any probable losses. Expenses related to litigation are included in operating income. We do not believe that the outcome of any of these proceedings 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 or cash flows in any one accounting period.

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

Asbestos Litigation Since 1999, we have been named as one of many defendants in 16 personal injury suits alleging exposure to asbestos from our products. None of the cases alleges premises liability. Two cases are currently pending. Insurers are defending us in one of the two lawsuits, and we expect that an insurer will defend us in the remaining matter. Of the concluded suits, there were seven cost of defense settlements and the remainder were dismissed without payment. There are no claims unrelated to asbestos exposure for which coverage has been sought under the policies that are providing coverage.

Indian Sales Tax and Customs Disputes Our Indian subsidiary is currently disputing assessments of administrative sales tax and customs duties with Indian tax and customs authorities. In addition, we currently have a customs duty case before the Supreme Court in India, on appeal by custom authorities. During the three months ended December 31, 2011, we concluded settlement of some of these matters whereby Thermon paid approximately \$88. We have reserved \$287 in estimated settlement of the remaining matters.

Notice of Tax Dispute with the Canada Revenue Agency On June 13, 2011, we received notice from the Canada Revenue Agency (Agency) advising us that they disagree with the tax treatment we proposed with respect to certain asset transfers that was completed in August 2007 by our Predecessor owners. As a result, the Agency proposes to disallow the interest deductions taken in Canada for tax years 2008, 2009 and 2010. In total these interest deductions amounted to \$11,640. The statutory tax rate in Canada is approximately 25%, therefore the tax due that is requested by the Agency is approximately \$2,910. At December 31, 2011, we have not recorded a tax liability reserve related to this matter with the Agency, as a loss is not probable or estimable. While we will vigorously contest this ruling, we expect that any liability, if any, will be covered under an indemnity agreement with the Predecessor owners.

Building Construction Accident - On July 27, 2011, during construction of the expansion of our manufacturing facility by a third party contractor in San Marcos, Texas, a section of the partially completed steel framework collapsed during erection. One employee of the erection subcontractor to the general contractor was killed. There were no Thermon employees on the construction site at the time of the incident. We

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understand that both the general contractor and the steel erection subcontractor were issued citations by OSHA and have been sued in private actions brought by the decedent's estate as a result of the accident. The Company has not been fined or named in any lawsuits related to this matter. Present estimates are that completion of the project will occur by March 31, 2012. We do not expect significant adverse effects on our ability to produce and ship product as a result of the incident because we had accumulated inventory in preparation of the manufacturing downtime.

Warranty Reserve Changes in the Company's product liability are as follows:

	Nine months Ended Dec. 31, 2011 (Successor)	For the Period From May 1, Through Dec. 31, 2010 (Successor)	For the Period From April 1, Through April 30, 2010 (Predecessor)
Balance at beginning of period	\$ 1,325	\$ 1,057	\$ 699
Provision for warranties issued	127	604	19
Reclassification of other liabilities			339
Settlements	(823)	(620)	
Balance at end of period	\$ 629	\$ 1,041	\$ 1,057

Table of Contents**13. Shareholders Equity**

In May 2011, we completed an initial public offering of our common stock. We issued 4,575,098 new common shares for which we received \$48,459 after deductions for offering expenses, underwriting discounts and commissions. The gross offering price was \$12.00 per share. In addition, some of our stockholders participated in the offering and sold a total of 6,074,902 shares at a gross offering price of \$12.00 per share, for which they were paid directly. After completion of the initial public offering and the issuance of 15,136 restricted shares and the exercise of stock options resulting in the issuance of 307,048 common shares (see note 15, "Stock-Based Compensation Expense"), Thermon Group Holdings had 29,830,689 shares outstanding out of a total 150,000,000 authorized at December 31, 2011. At December 31, 2011, CHS and two other private equity firms controlled approximately 52.8% of the common stock of Thermon Group Holdings.

Thermon Group Holdings also has 10,000,000 preferred shares authorized with none issued.

14. Comprehensive Income (Loss)

Our comprehensive income (loss) is comprised of net loss, foreign currency translation, unrealized gains and losses on forward and option contracts and securities classified as available for sale. Comprehensive income (loss) for the three months ended December 31, 2011 and 2010, the nine months ended December 31, 2011, the period from May 1, 2010 to December 31, 2010 and the period from April 1 through April 30, 2010, respectively, are as follows:

	(Successor)			(Predecessor)	
	Three Months Ended Dec. 31, 2011	Three Months Ended Dec. 31, 2010	Nine Months Ended Dec. 31, 2011	For the period From May 1, 2010 Through Dec. 31, 2010	For the Period From April 1, Through April 30, 2010
Net income (loss)	\$ 6,933	3,009	5,781	(10,960)	(267)
Foreign currency translation gains (losses), net of taxes	113	3,566	(11,017)	1,786	(576)
Total comprehensive loss	\$ 7,046	6,575	(5,236)	(9,174)	(843)

15. Stock-Based Compensation Expense

On October 20, 2010, October 27, 2010 and March 1, 2011 our board of directors granted certain employees and directors options to purchase a combined total of 2,757,524 shares of our common stock under the Restricted Stock and Stock Option Plan. The exercise price for these options was \$5.20 per share for the grants issued in October and \$9.82 for the grants issued in March. All options granted have a ten year term. The options are for the purchase of shares of common stock of Thermon Group Holdings, Inc. At the completion of the IPO, all outstanding options that were granted under our Restricted Stock and Stock Option Plan became vested and exercisable. Although the options were exercisable at the time of the IPO, the sale of the underlying option shares were restricted under the lock-up agreements with the IPO underwriters, which

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began to expire on October 31, 2011. During the three months ended December 31, 2011, 307,048 common shares were issued in connection with option exercises. At the date of the IPO on May 5, 2011, the Company recorded stock compensation expense of \$6,310 which represented all unamortized stock compensation expense related to the outstanding stock options under the Restricted Stock and Stock Option Plan.

There were no stock compensation awards issued during the three months ended December 31, 2011. On May 5, 2011, 117,600 shares, each with an exercise price of \$12.00 per share, were granted under our 2011 Long-Term Incentive Plan for which stock compensation expense was not accelerated. They vest ratably over five years with 20% at each anniversary date of the grant. We valued these options with a Black-Scholes model. Due to the fact that the common stock underlying the options was not publicly traded prior to the IPO, we based the expected volatility on a comparable group of companies. The expected term is based on the simplified method due to the lack of historical exercise data. The risk-free rate for periods within the contractual life of the option is based on the Treasury bill coupon rate for U.S. Treasury securities with a maturity that approximates the expected term. We do not intend to pay dividends on our common stock for the foreseeable future, and accordingly we used a dividend yield of zero. Accordingly the assumptions we used included an estimated volatility of 45%, life of option of 6.66 years, risk free rate of 3.25% and no dividend assumption. The weighted-average estimated grant date fair value for employee stock options granted in fiscal 2012 was \$5.99 per share. Excluding the \$6,310 stock compensation expense associated with the acceleration of the pre-IPO options, the Company recorded stock compensation expense related to unvested awards for the three and nine months ended December 31, 2011 of \$58 and \$147, respectively.

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During the nine months ended December 31, 2011, the Company issued a total of 15,136 shares of restricted stock to members of its board of directors. The restricted shares vest in one half increments over two years at the anniversary of the grant date. While the restricted shares are considered issued for purposes of total common shares outstanding at the time of the grant, they are subject to restrictions on transfer or sale until each anniversary vesting date. We valued the restricted shares at \$11.89 per share, which was the market closing price at the date of the grant. We will expense the value of the restricted shares as stock compensation expense ratably over the vesting period unless any portion is forfeited.

16. Miscellaneous Income (Expense)

Miscellaneous income (expense) is as follows:

	Three Months Ended Dec. 31, 2011 (Successor)	Three Months Ended Dec. 31, 2010 (Successor)	Nine Months Ended Dec. 31, 2011 (Successor)	For the Period May 1 Through Dec. 31, 2010 (Successor)	For the Period Through April 30, 2010 (Predecessor)
Professional fees and expenses related to CHS Transactions	\$	\$ (818)	\$	\$ (4,662)	\$ (5,660)
Employee bonus payments paid in connection with CHS Transactions					(3,545)
Changes in estimates for compliance fees and costs				600	
Loss on foreign exchange transactions	(213)	(242)	(1,456)	(566)	
Other	(2)	31	54	(39)	304
Total	\$ (215)	\$ (1,029)	\$ (1,402)	\$ (4,667)	\$ (8,901)

17. Income Taxes

Our anticipated annual effective tax rate of approximately 38.0% has been applied to our consolidated pre-tax income for the nine month period ended December 31, 2011. Our anticipated annual effective tax rate was different than the U.S. federal statutory rate primarily due to state taxes, a difference in rates between the U.S. and foreign jurisdictions, and certain permanent differences, such as nondeductible compensation expenses. For the nine months ended December 31, 2010, the Company's provision for income taxes reflects an effective benefit rate of approximately 59.6%. The effective tax rate was higher than the U.S. statutory rate due to deferred taxes released when the outstanding Canadian debt facility was retired. For the three month periods ended December 31, 2011 and 2010, the Company recorded tax expense of \$4,074 and \$1,592 on pre-tax income of \$11,007 and \$4,601, respectively. In the nine month period ended December 31, 2011 and the eight month period ended December 31, 2010, the Company recorded approximately \$3,294 and \$927 of income tax expense on pre-tax income (loss) of approximately \$9,075 and \$(10,033), respectively.

For the period from April 1 through April 30, 2010 of the Predecessor, an income tax benefit of approximately \$17,434 was recorded on a pre-tax loss of \$17,701. In connection with the CHS Transactions, the Canadian debt facility was repaid releasing a deferred tax liability of \$14,945. Without the benefit of the deferred tax reversal related to the Canadian debt facility, the benefit rate amounted to approximately 14.1%. This benefit rate was increased by foreign tax credits and exchange losses associated with repatriated earnings and decreased by the amount of

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sellers' expense stemming from the CHS Transactions that is anticipated to be non-deductible.

As of December 31, 2011, we have established a long-term liability for uncertain tax positions in the amount of \$1,307 and have recognized no material adjustments to the liability recorded as of March 31, 2011. All of our unrecognized tax benefits at December 31, 2011 would affect our effective income tax rate if recognized, though the Company does not expect to recognize any tax benefits in the next twelve months. The Company recognizes related accrued interest and penalties as income tax expense and has accrued \$102 for the nine months ending December 31, 2011, resulting in a cumulative total accrual of \$163.

Tax years 2007 through 2010 generally remain open to examination by the major taxing jurisdictions to which we are subject. The Company's U.S. federal income tax returns are under exam for the Predecessor's tax years ending April 30, 2010 and March 31, 2010, and as of December 31, 2011 no adjustments have been proposed. The Company's Canadian federal income tax returns are under exam for the Predecessor's tax years ending March 31, 2008, 2009 and 2010. See Note 12, Commitments and Contingencies.

Table of Contents**18. Geographic Information**

We have defined our operating segment based on geographic regions. These regions share similar economic characteristics, similar product mix, similar customers and similar distribution methods. Accordingly, we have elected to aggregate these two geographic regions into a single operating segment. Revenue from the sale of our products which are similar in nature and revenue from construction and engineering are reflected as sales in our consolidated statement of operations.

Within its operating segment, the Company has provided further detail for those countries or regions that generate significant revenue and operating income. For purposes of this note, revenue is attributed to individual countries on the basis of the physical location and jurisdiction of organization of the subsidiary that invoices the material and services.

Total sales and operating income classified by major geographic area in which the Company operates are as follows:

	Three Months Ended Dec. 31, 2011 (Successor)	Three Months Ended Dec. 31, 2010 (Successor)	Nine Months Ended Dec. 31, 2011 (Successor)	For the Period From May 1, Through Dec. 31, 2010 (Successor)	For the Period From April 1, Through 30-Apr-10 (Predecessor)
Sales by geographic area:					
Western hemisphere					
United States	\$ 24,909	\$ 19,536	\$ 69,736	\$ 46,082	\$ 4,959
Canada	17,897	21,632	60,138	55,369	3,992
Elsewhere in the western hemisphere	316	250	828	697	25
Intercompany sales	17,851	13,744	49,101	34,784	3,850
	60,973	55,162	179,803	136,932	12,826
Eastern hemisphere:					
Europe	18,897	15,073	48,905	44,719	2,970
Asia	6,818	8,450	21,620	19,038	1,117
Intercompany sales	452		2,077	105	51
	26,167	23,523	72,602	63,862	4,138
Eliminations of intercompany sales	(18,303)	(13,744)	(50,927)	(34,889)	(3,901)
	\$ 68,837	\$ 64,941	\$ 201,478	\$ 165,905	\$ 13,063
Operating income (loss)					
Western hemisphere					
United States	\$ 5,433	\$ 687	\$ 6,544	\$ (281)	\$ 1,126
Canada	7,022	6,521	20,663	10,400	1,066
Elsewhere in the western hemisphere	64	(20)	150	148	(30)
Eastern hemisphere:					
Europe	1,805	3,340	6,401	3,108	125
Asia	1,279	1,242	3,839	2,819	18
Unallocated:					
Management fees	(21)	(500)	(8,141)	(1,333)	(79)

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Other			(67)			(104)	(88)			
	\$	15,582	\$	11,203	\$	29,456	\$	14,757	\$	2,138

Table of Contents**PART I FINANCIAL INFORMATION****Item 1(continued) Financial Statements of Thermon Holding Corp.**

Condensed Consolidated Balance Sheets

(Dollars in Thousands)

	December 31, 2011 (Unaudited)	March 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,776	\$ 51,016
Accounts receivable, net of allowance for doubtful accounts of \$1,405 and \$1,487 as of December 31, 2011 and March 31, 2011, respectively	46,187	40,013
Inventories, net	40,143	31,118
Costs and estimated earnings in excess of billings on uncompleted contracts	2,283	2,063
Income taxes receivable	6,328	2,462
Prepaid expenses and other current assets	7,065	7,633
Deferred income taxes	1,684	2,779
Total current assets	123,466	137,084
Property, plant and equipment, net	25,381	21,686
Goodwill	116,438	120,750
Intangible assets, net	145,999	159,056
Debt issuance costs, net	7,472	11,573
Other noncurrent assets		633
	\$ 418,756	\$ 450,782
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	\$ 21,592	\$ 18,573
Accrued liabilities	15,525	28,972
Current portion of long term debt		21,000
Borrowings under revolving lines of credit	9,000	2,063
Billings in excess of costs and estimated earnings on uncompleted contracts	2,634	1,110
Income taxes payable		7,934
Obligations due to settle the CHS Transaction	3,550	4,213
Total current liabilities	52,301	83,865
Long-term debt, net of current maturities	139,145	189,000
Deferred income taxes	47,553	49,809
Other noncurrent liabilities	1,967	1,826
Additional paid in capital	187,936	131,191
Foreign currency translation adjustment	(987)	10,031
Accumulated deficit	(9,159)	(14,940)
Shareholders equity	177,790	126,282

\$ 418,756 \$ 450,782

See accompanying notes.

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Condensed Consolidated Statements of Operations (Unaudited)

(Dollars in Thousands)

	Three Months Ended December 31, 2011 (Successor)	Three Months Ended December 31, 2010 (Successor)	Nine Months Ended December 31, 2011 (Successor)	For the Period From May 1, Through December 31, 2010 (Successor)	For the Period From April 1, Through April 30, 2010 (Predecessor)
Sales	\$ 68,837	\$ 64,941	\$ 201,478	\$ 165,905	\$ 13,063
Cost of sales	35,146	35,333	103,847	98,795	6,447
Gross profit	33,691	29,608	97,631	67,110	6,616
Operating expenses:					
Marketing, general and administrative and engineering	15,300	14,705	59,603	37,227	4,263
Amortization of other intangible assets	2,809	3,700	8,572	15,126	215
Income from operations	15,582	11,203	29,456	14,757	2,138
Other income/(expenses):					
Interest income	72	7	239	10	7
Interest expense	(4,203)	(5,580)	(16,023)	(17,111)	(6,229)
Loss on retirement of senior secured notes	(229)		(3,195)		
Success fees to owners related to the CHS Transaction				(3,022)	(4,716)
Miscellaneous expense	(215)	(1,029)	(1,402)	(4,667)	(8,901)
Income (loss) before provision for income taxes	11,007	4,601	9,075	(10,033)	(17,701)
Income tax expense (benefit)	4,074	1,592	3,294	927	(17,434)
Net income (loss)	\$ 6,933	\$ 3,009	\$ 5,781	\$ (10,960)	\$ (267)

See accompanying notes.

Table of Contents**Thermon Holding Corp.**

Condensed Consolidated Statement of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended December 31, 2011 (Successor)	For the Period From May 1, Through December 31, 2010 (Successor)	For the Period From April 1, Through April 30, 2010 (Predecessor)
Operating activities			
Net income (loss)	\$ 5,781	\$ (10,960)	\$ (267)
Adjustment to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	10,623	24,040	392
Amortization of debt costs	4,100	3,365	2,586
Stock compensation expense	6,457	734	
Benefit for deferred income taxes	(175)	(2,660)	(15,122)
Premiums paid on redemption, included as financing activities	3,825		
Changes in operating assets and liabilities:			
Accounts receivable	(8,209)	(6,452)	1,365
Inventories	(10,413)	(2,972)	(1,719)
Costs and estimated earnings in excess of billings on uncompleted contracts	(591)	(678)	34
Other current and noncurrent assets	1,013	(1,241)	(3,151)
Accounts payable	4,904	5,672	825
Accrued liabilities and noncurrent liabilities	(11,488)	18,161	9,515
Income taxes payable	(12,308)	(937)	(860)
Net cash (used in) provided by operating activities	(6,481)	26,072	(6,402)
Investing activities			
Purchases of property, plant and equipment	(6,179)	(1,149)	(97)
Cash paid for Thermon Holding Corp. (net of cash acquired of \$2,852)	(663)	(314,294)	
Other investing activities			(1,397)
Net cash used in investing activities	(6,842)	(315,443)	(1,494)
Financing activities			
Proceeds from senior secured notes		210,000	
Payments on senior secured notes	(70,855)		
Proceeds from revolving line of credit	9,000	4,599	
Payments on revolving lines of credit and long-term debt	(2,063)	(4,599)	(19,385)
Capital contributions	50,288	129,252	
Premiums paid on redemption of senior secured notes	(3,825)		
Debt issuance costs		(15,473)	
Net cash provided by (used in) financing activities	(17,455)	323,779	(19,385)
Effect of exchange rate changes on cash and cash equivalents	(462)	543	(14)
Change in cash and cash equivalents	(31,240)	34,951	(27,295)
Cash and cash equivalents at beginning of period	51,016		30,147
Cash and cash equivalents at end of period	\$ 19,776	\$ 34,951	\$ 2,852

See accompanying notes.

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Thermon Holding Corp.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Dollars in Thousands)

1. Basis of Presentation

On April 30, 2010, a group of investors led by entities affiliated with CHS Capital LLC (CHS) and two other private equity firms acquired a controlling interest in Thermon Holding Corp. and its subsidiaries from Thermon Holdings, LLC (Predecessor) for approximately \$321,500 in a transaction that was financed by approximately \$129,200 of equity investments by CHS, two other private equity firms and certain members of our current and former management team (collectively, the management investors) and \$210,000 of debt raised in an exempt Rule 144A senior secured note offering to qualified institutional investors (collectively, the CHS Transactions). The proceeds from the equity investments and debt financing were used both to finance the acquisition and pay related transaction costs. As a result of the CHS Transactions, Thermon Group Holdings, Inc. became the ultimate parent of Thermon Holding Corp. Thermon Holding Corp. (THC) and its direct and indirect subsidiaries are referred to collectively as we , our , the Company or Successor herein. We refer to CHS and the two other private equity fund investors collectively as our private equity sponsors.

In the CHS Transactions, the senior secured notes were issued by Thermon Finance, Inc., which immediately after the closing of the CHS Transactions was merged into our wholly-owned subsidiary Thermon Industries, Inc.

The CHS Transactions were accounted for as a purchase combination. The purchase price was allocated to the assets and liabilities acquired based on their estimated fair values. While the Company takes responsibility for the allocation of assets acquired and liabilities assumed, it consulted with an independent third party to assist with the appraisal process.

Pushdown accounting was employed to reflect the purchase price paid by our new owner.

We have prepared our consolidated financial statements as if THC had been in existence throughout all relevant periods. The historical financial and other data prior to the closing of the CHS Transactions on April 30, 2010 have been prepared using the historical results of operations and bases of the assets and liabilities of the Predecessor. Our historical financial data prior to May 1, 2010 may not be indicative of our future performance. The CHS Transactions which closed on April 30, 2010, resulted in the liquidation of the equity balances that belonged to the previous owner. Accordingly, the consolidated statement of operations and cash flows are reported separately for the period from April 1, 2010 to April 30, 2010 for the (Predecessor). The settlement of equity balances and associated transaction expenses of the Predecessor are reported in the period from April 1, 2010 to April 30, 2010.

In May 2011, our parent, Thermon Group Holdings, Inc. completed its initial public offering (IPO) of common shares in which it received net proceeds of \$48,459, net of underwriting discounts and commissions and offering expenses. These proceeds were contributed to the Company

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and were recorded as Additional paid in capital on our consolidated balance sheet at June 30, 2011. See Note 12, Shareholder s Equity .

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of TGH for the year ended March 31, 2011. In our opinion, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly our financial position at December 31, 2011 and March 31, 2011, and the results of our operations for the three months ended December 31, 2011 and 2010, the nine months ended December 31, 2011, the period from May 1, 2010 to December 31, 2010 and the period from April 1 through April 30, 2010. Operating results for the period from May 1 through December 31, 2010 and for the period from April 1 through April 30, 2010 are not necessarily indicative of the results that may be expected for the three and nine months ended December 31, 2011. Certain reclassifications have been made to the prior period presentation to conform to the current period presentation. All dollar and share amounts are presented in thousands, unless otherwise noted.

2. Recent Accounting Pronouncements

In June 2011, the FASB updated FASB ASC 220, *Comprehensive Income* (FASB ASC 220) that gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The update does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net

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income. The update does not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items. The update does not affect how earnings per share is calculated or presented. The update should be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We are currently evaluating the requirements of this update and have not yet determined the impact on our consolidated financial statements.

In September 2011, the FASB updated FASB ASC 350, *Goodwill and Other* (FASB ASC 350) that gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The amendments are effective for annual and interim goodwill impairment test performed for fiscal years beginning after December 15, 2011. We are currently evaluating the requirements of this update and have not yet determined the impact on our consolidated financial statements.

In January 2010, the FASB updated FASB ASC 820, *Fair Value Measurements and Disclosures* (FASB ASC 820) that requires additional disclosures and clarifies existing disclosures regarding fair value measurements. The additional disclosures include (i) transfers in and out of Levels 1 and 2 and (ii) activity in Level 3 fair value measurements. The update provides amendments that clarify existing disclosures on level of disaggregation and disclosures about inputs and valuation techniques. This update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We adopted the update on April 1, 2010 as required and subsequently adopted on April 1, 2011, the update surrounding disclosures on Level 3 fair value measurements and concluded it did not have a material impact on our consolidated financial position or results of operations. In May 2011, the FASB updated FASB ASC 820 that resulted in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. We are currently evaluating the requirements of this update and have not yet determined the impact on our consolidated financial statements.

3. Inventories

Inventories consisted of the following:

	December 31, 2011		March 31, 2011
Raw materials	\$ 13,959	\$	9,847
Work in process	1,866		2,307
Finished goods	25,562		20,669
	41,387		32,823
Valuation reserves	(1,244)		(1,705)
Inventories, net	\$ 40,143	\$	31,118

4. Property, Plant and Equipment

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Property, plant and equipment consisted of the following:

	December 31, 2011		March 31, 2011
Land, buildings and improvements	\$ 13,144	\$	13,495
Machinery and equipment	6,533		7,378
Office furniture and equipment	2,672		2,595
Construction in process	6,391		
	28,740		23,468
Accumulated depreciation	(3,359)		(1,782)
Property, plant and equipment, net	\$ 25,831	\$	21,686

Table of Contents**5. Goodwill**

The carrying amount of goodwill as of December 31, 2011, is as follows:

	Amount
Balance as of March 31, 2011	\$ 120,750
Foreign currency translation impact	(4,312)
Balance as of December 31, 2011	\$ 116,438

The excess purchase price over the fair value of assets acquired is recorded as goodwill. As we have one operating segment, we allocate goodwill to one reporting unit for goodwill impairment testing. Goodwill is tested for impairment on an annual basis, and between annual tests if indicators of potential impairment exist, using a fair-value-based approach based on the market capitalization of the reporting unit. Our annual impairment test will be performed as of January 1, 2012. At December 31, 2011, there were no indicators of a goodwill impairment. Goodwill is not deductible for tax purposes.

6. Intangibles

Intangible assets at December 31, 2011 and March 31, 2011 were related to the CHS Transactions and consisted of the following:

	Gross Carrying Amount at December 31, 2011	Accumulated Amortization	Net Carrying Amount at December 31, 2011	Gross Carrying Amount at March 31, 2011	Accumulated Amortization	Net Carrying Amount at March 31, 2011
Trademarks	\$ 47,753	\$	\$ 47,753	\$ 49,403	\$	\$ 49,403
Developed technology	10,944	(993)	9,951	11,321	(600)	10,721
Customer relationships	101,432	(14,780)	86,652	104,319	(7,240)	97,079
Backlog	10,171	(10,171)		10,480	(10,480)	
Certification	498		498	516		516
Other	1,633	(488)	1,145	1,634	(297)	1,337
Total	\$ 172,431	\$ (26,432)	\$ 145,999	\$	\$	\$