# 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 June 30, 2012**

**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.)**<br>**Delaware (Thermon Holding Corp.)**<br>(State or other jurisdiction of incorporation or organization) | **27-2228185 (Thermon Group Holdings, Inc.)**<br>**26-0249310 (Thermon Holding Corp.)**<br>(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)

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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.** x Yes o No **Thermon Holding Corp.** o Yes x 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.** x Yes o No **Thermon Holding Corp.** x Yes o No

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

**Thermon Group Holdings, Inc.**

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer x | Smaller reporting company o |

**Thermon Holding Corp.**

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer x | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**Thermon Group Holdings, Inc.** o Yes x No **Thermon Holding Corp.** o Yes x No

As of August 6, 2012, each registrant had the following number of shares of common stock outstanding:

**Thermon Group Holdings, Inc.:** 30,656,470 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 June 30, 2012 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 in connection with the CHS Transactions in April 2010, 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:

- it enhances investors understanding of TGH and THC by enabling investors to view our business as a whole in the same manner that 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) references to our actions or holdings relate to the actions or holdings of TGH and THC and their respective subsidiaries, as one consolidated company, unless otherwise indicated therein.

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

**QUARTERLY REPORT**

**FOR THE QUARTER ENDED JUNE 30, 2012**

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## 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)*

| | June 30, 2012 (Unaudited) | March 31, 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 13,630 | $ 21,468 |
| Accounts receivable, net of allowance for doubtful accounts of $878 and $1,434 as of June 30, 2012 and March 31, 2012, respectively | 53,770 | 50,037 |
| Inventories, net | 36,300 | 38,453 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 1,437 | 1,996 |
| Income taxes receivable | 6,416 | 5,193 |
| Prepaid expenses and other current assets | 6,988 | 6,853 |
| Deferred income taxes | 3,459 | 3,664 |
| Total current assets | 122,000 | 127,664 |
| | | |
| Property, plant and equipment, net | 28,030 | 27,661 |
| Goodwill | 115,592 | 118,007 |
| Intangible assets, net | 139,573 | 144,801 |
| Debt issuance costs, net | 6,265 | 7,446 |
| | $ 411,460 | $ 425,579 |
| | | |
| **Liabilities and shareholders equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 15,034 | $ 15,728 |
| Accrued liabilities | 15,278 | 22,442 |
| Current portion of long term debt | | 21,000 |
| Borrowings under revolving lines of credit | 12,769 | |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 1,952 | 2,446 |
| Income taxes payable | 3,193 | 1,374 |
| Obligations due to settle the CHS Transaction | 3,397 | 3,528 |
| Total current liabilities | 51,623 | 66,518 |
| Long-term debt, net of current maturities | 118,145 | 118,145 |
| Deferred income taxes | 42,421 | 45,999 |
| Other noncurrent liabilities | 2,425 | 2,437 |
| | | |
| Common stock: $.001 par value; 150,000,000 authorized; 30,572,260 and 30,208,084 shares issued and outstanding at June 30, 2012 and March 31, 2012, respectively | 30 | 30 |
| Preferred stock: $.001 par value;10,000,000 authorized; no shares issued and outstanding | | |
| Additional paid in capital | 195,212 | 191,998 |
| Accumulated other comprehensive (loss) income | (2,086) | 3,362 |

| | | | | |
|---|---|---|---|---|
| Retained earnings (accumulated deficit) | | 3,690 | | (2,910) |
| Shareholders equity | | 196,846 | | 192,480 |
| | $ | 411,460 | $ | 425,579 |

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

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**Thermon Group Holdings, Inc.**

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

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

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 |
|---|---|---|
| Sales | $ 67,213 | $ 64,618 |
| Cost of sales | 33,874 | 32,629 |
| Gross profit | 33,339 | 31,989 |
| Operating expenses: | | |
| Marketing, general and administrative and engineering | 16,015 | 29,616 |
| Amortization of other intangible assets | 2,794 | 2,885 |
| Income (loss) from operations | 14,530 | (512) |
| Other income/(expenses): | | |
| Interest income | 27 | 91 |
| Interest expense | (4,367) | (6,790) |
| Loss on retirement of senior secured notes | | (630) |
| Miscellaneous expense | 44 | (14) |
| Income (loss) before provision for income taxes | 10,234 | (7,855) |
| Income tax expense (benefit) | 3,634 | (2,889) |
| Net income (loss) | $ 6,600 | $ (4,966) |
| Comprehensive income (loss): | | |
| Net income (loss) | $ 6,600 | $ (4,966) |
| Foreign currency translation adjustment | (5,448) | 1,395 |
| Comprehensive income (loss) | $ 1,152 | $ (3,571) |
| Income (loss) per common share: | | |
| Basic | $ 0.22 | $ (0.18) |
| Diluted | $ 0.21 | $ (0.18) |
| Weighted-average shares used in computing net income (loss) per common share: | | |
| Basic | 30,341,021 | 27,738,534 |
| Diluted | 31,410,145 | 27,738,534 |

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

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**Thermon Group Holdings, Inc.**

Condensed Consolidated Statement of Cash Flows (Unaudited)

*(Dollars in Thousands)*

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 |
|---|---|---|
| **Operating activities** | | |
| Net income (loss) | $ 6,600 | $ (4,966) |
| Adjustment to reconcile net income (loss) to net cash (used in), provided by operating activities: | | |
| Depreciation and amortization | 3,417 | 3,946 |
| Amortization of debt costs | 1,180 | 2,315 |
| Stock compensation expense | 58 | 6,341 |
| Benefit for deferred income taxes | 76 | 753 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (4,842) | (5,470) |
| Inventories | 902 | (2,927) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 103 | (366) |
| Other current and noncurrent assets | (106) | 2,329 |
| Accounts payable | (541) | 1,948 |
| Accrued liabilities and noncurrent liabilities | (7,040) | (10,605) |
| Income taxes payable | 1,793 | (13,676) |
| Net cash (used in) provided by operating activities | 1,600 | (20,378) |
| | | |
| **Investing activities** | | |
| Purchases of property, plant and equipment | (1,268) | (2,379) |
| Cash paid for Thermon Holding Corp. (net of cash acquired of $2,852) | (131) | (372) |
| Net cash used in investing activities | (1,399) | (2,751) |
| | | |
| **Financing activities** | | |
| Payments on senior secured notes | (21,000) | (42,000) |
| Net proceeds (payments) from revolving line of credit | 12,769 | (2,063) |
| Capital contributions | | 48,669 |
| Premium paid on retirement of senior secured notes | (630) | (1,260) |
| Proceeds from employee stock options | 1,912 | |
| Net cash provided by (used in) financing activities | (6,949) | 3,346 |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (1,090) | 121 |
| | | |
| Change in cash and cash equivalents | (7,838) | (19,662) |
| Cash and cash equivalents at beginning of period | 21,468 | 51,266 |
| Cash and cash equivalents at end of period | $ 13,630 | $ 31,604 |

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

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**Thermon Group Holdings, Inc.**

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Dollars in Thousands, Except Share and Per Share Data)

**1. Basis of Presentation and Accounting Policy Information**

On April 30, 2010, a group of investors led by entities affiliated with CHS Capital LLC ( CHS ) and two other private equity firms (together with CHS, our private equity sponsors ) 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 $129,252 of equity investments by our private equity sponsors 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.

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.

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, 2012. 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 June 30, 2012 and March 31, 2012, and the results of our operations for the three months ended June 30, 2012 and 2011.

*Use of Estimates*

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. While our management has based their assumptions and estimates on the facts and circumstances existing at June 30, 2012, actual results could differ from those estimates and affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements. The operating results for the three month period ended June 30, 2012 are not necessarily indicative of the results that may be achieved for the fiscal year ending March 31, 2013.

*Recent Accounting Pronouncements*

In May 2011, the FASB updated FASB ASC 820 that resulted in common fair value measurement and disclosure requirements in U.S. generally accepted accounting principles (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. ASC 820 became effective for us this quarter, and is being applied prospectively. In conjunction with adopting ASC 820, we disclosed the fair value of investments and the inputs used to estimate that fair value.

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. We have adopted ASC 220 effective April 1, 2012 and in conjunction with adopting ASC 220, we chose to present the components of comprehensive income within a single statement of other comprehensive income or loss. ASC 220 affects presentation and disclosure only and therefore adoption did not affect our results as reported in our consolidated financial statements.

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**2. Fair Value Measurements**

*Fair Value*. We measure fair value based on authoritative accounting guidance, which defines fair value, establishes a framework for measuring fair value as well as expands on required disclosures regarding fair value measurements.

Inputs are referred to as assumptions that market participants would use in pricing the asset or liability. The uses of inputs in the valuation process are categorized into a three-level fair value hierarchy.

- Level 1 uses quoted prices in active markets for identical assets or liabilities we have the ability to access.

- Level 2 uses observable inputs other than quoted prices in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 uses one or more significant inputs that are unobservable and supported by little or no market activity, and that reflect the use of significant management judgment.

Financial assets and liabilities with carrying amounts approximating fair value include cash, trade accounts receivable, accounts payable, accrued expenses and other current liabilities. The carrying amount of these financial assets and liabilities approximates fair value because of their short maturities. At June 30, 2012 and March 31, 2012, no assets or liabilities were valued using Level 3 criteria.

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

| | June 30, 2012 | | March 31, 2012 | | |
|---|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value | Valuation Technique |
| Financial Liabilities | | | | | |
| Long-term debt | $ 118,145 | $ 130,107 | $ 139,145 | $ 153,755 | Level 2 - Market Approach |

Our senior secured notes trade on over the counter markets. As the quoted price is only available through a dealer, the Company concluded the market is not active enough to be classified as a Level 1 valuation. However, the pricing is indirectly observable through dealers and has been classified as Level 2. 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.

**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 includes options, 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 June 30, 2012 and 2011, respectively, are as follows:

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 |
|---|---|---|
| ***Basic net income (loss) per common share*** | | |
| Net income (loss) | $ 6,600 | $ (4,966) |
| Weighted-average common shares outstanding | 30,341,021 | 27,738,534 |
| Basic net income (loss) per common share | $ 0.22 | $ (0.18) |

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| | | Three Months Ended June 30, 2012 | | Three Months Ended June 30, 2011 |
|---|---|---|---|---|
| ***Diluted net income (loss) per common share*** | | | | |
| Net income (loss) | $ | 6,600 | $ | (4,966) |
| Weighted-average common shares outstanding | | 30,341,021 | | 27,738,534 |
| Common share equivalents: | | | | |
| Stock options issued | | 1,069,124 | | |
| Weighted average shares outstanding dilutive (1) | | 31,410,145 | | 27,738,534 |
| Basic net income (loss) per common share | $ | 0.21 | $ | (0.18) |

(1) For the three months ended June 30, 2011 the Company was in a net loss position, therefore 1,288,173 common stock equivalents were not included in the calculation of diluted loss per common share since they would have had a dilutive effect.

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**4. Inventories**

Inventories consisted of the following:

| | | June 30, 2012 | | March 31, 2012 |
|---|---|---|---|---|
| Raw materials | $ | 13,573 | $ | 11,721 |
| Work in process | | 1,710 | | 1,402 |
| Finished goods | | 22,201 | | 26,424 |
| | | 37,484 | | 39,547 |
| Valuation reserves | | (1,184) | | (1,094) |
| Inventories, net | $ | 36,300 | $ | 38,453 |

**5. Goodwill**

The carrying amount of goodwill as of June 30, 2012 is as follows:

| | | Amount |
|---|---|---|
| Balance as of March 31, 2012 | $ | 118,007 |
| Foreign currency translation impact | | (2,415) |
| Balance as of June 30, 2012 | $ | 115,592 |

The excess purchase price over the fair value of assets acquired is recorded as goodwill. 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, 2013. At June 30, 2012, there were no indicators of a goodwill impairment. Goodwill is not deductible for tax purposes.

**6. Accrued Liabilities**

Accrued current liabilities consisted of the following:

| | | June 30, 2012 | | March 31, 2012 |
|---|---|---|---|---|
| Accrued employee compensation and related expenses | $ | 6,618 | $ | 10,970 |
| Interest | | 2,009 | | 6,162 |
| Customer prepayment | | 2,253 | | 1,518 |

| | | | | |
|---|---|---|---|---|
| Warranty reserve | | 720 | | 857 |
| Professional fees | | 1,058 | | 1,346 |
| Sales tax payable | | 1,057 | | 183 |
| Compliance costs | | 55 | | 55 |
| Other | | 1,508 | | 1,351 |
| Total accrued current liabilities | $ | 15,278 | $ | 22,442 |

**7. Related-Party Transactions**

We paid management fees including a termination fee in connection with our IPO to our private equity sponsors of $8,105 in the three months ended June 30, 2011. The termination fee is included as part of Marketing, general and administrative and engineering expense.

Included in our consolidated balance sheet is Obligations due to settle the CHS Transaction which totaled $3,397 and $3,528 at June 30, 2012 and March 31, 2012, respectively. These amounts represent amounts due to the Predecessor owners in final settlement of the acquisition by our private equity sponsors of a controlling interest in us that was completed on April 30, 2010. During the three months ended June 30, 2012 and 2011, we paid $131 and $372, respectively, to the Predecessor owners for cash amounts that were released during the respective three month periods. At June 30, 2012, 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.

**8. 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 $4,983 USD at June 30, 2012). The facility is collateralized by receivables, inventory, equipment, furniture and real estate. No loans were outstanding on this facility at June 30, 2012 or March 31, 2012.

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The Company s subsidiary in India has a revolving credit facility in the amount of 80,000 Rupees (equivalent to $1,421USD at June 30, 2012). The facility is collateralized by receivables, inventory, real estate, a letter of credit, and cash. No loans were outstanding under the facility at June 30, 2012 or March 31, 2012.

The Company s subsidiary in Australia has a revolving credit facility in the amount of $325 Australian Dollars (equivalent to $327 USD at June 30, 2012). The facility is collateralized by real estate. No loans were outstanding under the facility at June 30, 2012 or March 31, 2012.

The Company s subsidiary in Japan has a revolving credit facility in the amount of 45,000 Japanese Yen (equivalent to $566 USD at June 30, 2012). The 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 9, Long-Term Debt . No loans were outstanding under the Japanese revolving credit facility at June 30, 2012 or March 31, 2012.

Under the Company s principal revolving credit facility described below in Note 9, Long-Term Debt, there were $12,769 and $0 of outstanding borrowings at June 30, 2012, and March 31, 2012, 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.

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**9. Long-Term Debt**

Long- term debt consisted of the following:

| | June 30, 2012 | March 31, 2012 |
|---|---|---|
| 9.500% Senior Secured Notes, due May 2017 | $ 118,145 | $ 139,145 |
| | 118,145 | 139,145 |
| Less current portion | | (21,000) |
| | $ 118,145 | $ 118,145 |

***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 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 June 30, 2012, we had $26,700 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 June 30, 2012, we had $12.8 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 June 30, 2012, we had $118.1 million of indebtedness outstanding under our senior secured notes with annual cash interest expense of approximately $11.2 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 1 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 months ended June 30, 2012 and 2011, the Company made partial redemptions of the senior secured notes in the amount of $21,000 and $42,000, respectively. In connection with these redemptions, the Company paid cash premiums on redemption of $630 and $1,260 for the three months ended June 30, 2012 and 2011, respectively. As a result of these partial redemptions, we accelerated the amortization of deferred debt cost of $871 and $1,871 for the three months ended June 30, 2012 and 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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***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 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 fair value is determined by quoted prices from active foreign currency markets (Level 2 fair value).  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 June 30, 2012 and March 31, 2012, the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were $10,697 and $14,429, respectively.

Net foreign exchange transaction gains or losses included in the accompanying condensed consolidated statements of operations were a gain of $52 and a loss of $92 in the three months ended June 30, 2012 and 2011, respectively. The fair values of foreign currency forward contracts were not significant individually and approximated a gain of $28 at June 30, 2012 and a loss of $188 at March 31, 2012.

**10. Commitments and Contingencies**

At June 30, 2012, the Company had in place letter of credit guarantees and performance bonds securing performance obligations of the Company. These arrangements totaled approximately $10,340.  Of this amount, $2,218 is secured by cash deposits at the Company s financial institutions.  The remaining $8,122 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 June 30, 2012 and March 31, 2012, was approximately $2,218 and $2,398, 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.

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*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. We have reserved $186 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 June 30, 2012, 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 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 and does not anticipate incurring any significant losses with respect to this matter that would not be covered by insurance.

**11. Stock-Based Compensation Expense**

Since the completion of the CHS Transactions on April 30, 2010, the board of directors has adopted and the shareholders have approved two stock option award plans. The 2010 Thermon Group Holdings, Inc. Restricted Stock and Stock Option Plan ( 2010 Plan ) was approved on July 28, 2010. The plan authorized the issuance of 2,767,171 stock options or restricted shares (on a post stock split basis). On April 8, 2011, the board of directors approved the Thermon Group Holdings, Inc. 2011 Long-Term Incentive Plan ( 2011 LTIP ). The 2011 LTIP made available 2,893,341 shares of the Company s common stock that may be awarded to employees, directors or non-employee contractors compensation in the form of stock options or restricted stock awards.

At June 30, 2012, there were 1,815,499 options outstanding. Stock compensation expense was $58 and $6,341 during the three months ended June 30, 2012 and 2011, respectively. At the date of the IPO on May 5, 2011, we recorded stock compensation expense of $6,310 which represented all unamortized stock compensation expense related to the outstanding stock options under the 2010 Plan.

The right to purchase shares under the options vests over a five to ten-year period, beginning on the date of grant. Stock options must be exercised within ten years from date of grant. Stock options were issued with an exercise price which was equal to the market price of our common stock at the grant date. We estimate potential forfeitures of stock grants and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods. During the three month period ended June 30, 2012, we did not make any changes in accounting principles or methods of estimates relating to stock-based compensation expense.

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**12. Income Taxes**

Our anticipated annual effective tax rate before discrete events of approximately 35.2% has been applied to our consolidated pre-tax income for the three month period ended June 30, 2012. Our anticipated annual effective tax rate after discrete events of approximately 35.5% differs from the tax rate before the discrete event due to the additional accrued interest and penalties recorded on uncertain tax positions (discussed below). 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 meals and entertainment and compensation expenses. For the three months ended June 30, 2011, the Company s provision for income taxes reflects an effective benefit rate before discrete events of approximately 35.2% and an after discrete event benefit rate of 36.8%. The effective tax rate was higher than the U.S. statutory rate 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 three month periods ended June 30, 2012 and 2011, the Company recorded tax expense (benefit) of $3,634 and $(2,889) on pre-tax income (loss) of $10,234 and $(7,855), respectively.

As of June 30, 2012, 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, 2012. All of our unrecognized tax benefits at June 30, 2012 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 $33 for the three months ending June 30, 2012, resulting in a cumulative total accrual of $235.

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 June 30, 2012 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 10, Commitments and Contingencies .

**13. 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 geographic regions into a single reportable 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 comprehensive income (loss).

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During the three months ended June 30, 2012, the Company changed its basis for reporting operating segments. Previously, the operating segments were categorized between the Eastern and Western Hemispheres. Management has changed its basis for reporting such that the four geographic regions of the United States, Canada, Europe and Asia are now analyzed separately. Each of these regions were reported previously within the hemispheres presentation, therefore there is no material difference with this change in presentation of geographic information. 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 June 30, 2012 | Three Months Ended June 30, 2011 |
|---|---|---|
| Sales by geographic area: | | |
| United States | $ 20,175 | $ 21,832 |
| Canada | 21,345 | 20,836 |
| Europe | 17,236 | 16,513 |
| Asia | 8,457 | 5,437 |
| | $ 67,213 | $ 64,618 |
| | | |
| Operating income (loss) | | |
| United States | $ 4,793 | $ (3,001) |
| Canada | 6,249 | 6,333 |
| Europe | 2,183 | 3,235 |
| Asia | 1,427 | 1,026 |
| Unallocated: | | |
| Management fees | | (8,105) |
| Other | (122) | |
| | $ 14,530 | $ (512) |

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**PART I FINANCIAL INFORMATION**

**Item 1(continued) Financial Statements of Thermon Holding Corp.**

Condensed Consolidated Balance Sheets

*(Dollars in Thousands)*

| | June 30, 2012 (Unaudited) | March 31, 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 13,630 | $ 21,468 |
| Accounts receivable, net of allowance for doubtful accounts of $878 and $1,434 as of June 30, 2012 and March 31, 2012, respectively | 53,770 | 50,037 |
| Inventories, net | 36,300 | 38,453 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 1,437 | 1,996 |
| Income taxes receivable | 6,416 | 5,193 |
| Prepaid expenses and other current assets | 6,988 | 6,853 |
| Deferred income taxes | 3,459 | 3,664 |
| Total current assets | 122,000 | 127,664 |
| | | |
| Property, plant and equipment, net | 28,030 | 27,661 |
| Goodwill | 115,592 | 118,007 |
| Intangible assets, net | 139,573 | 144,801 |
| Debt issuance costs, net | 6,265 | 7,446 |
| | $ 411,460 | $ 425,579 |
| | | |
| **Liabilities and shareholders equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 15,034 | 15,728 |
| Accrued liabilities | 15,278 | 22,442 |
| Current portion of long term debt | | 21,000 |
| Borrowings under revolving lines of credit | 12,769 | |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 1,952 | 2,446 |
| Income taxes payable | 3,193 | 1,374 |
| Obligations due to settle the CHS Transaction | 3,397 | 3,528 |
| Total current liabilities | 51,623 | 66,518 |
| Long-term debt, net of current maturities | 118,145 | 118,145 |
| Deferred income taxes | 42,421 | 45,999 |
| Other noncurrent liabilities | 2,425 | 2,437 |
| | | |
| Additional paid in capital | 195,242 | 192,028 |
| Accumulated other comprehensive (loss) income | (2,086) | 3,362 |
| Retained earnings (accumulated deficit) | 3,690 | (2,910) |
| Shareholders equity | 196,846 | 192,480 |
| | $ 411,460 | $ 425,579 |

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

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**Thermon Holding Corp.**

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

*(Dollars in Thousands)*

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 |
|---|---|---|
| Sales | $ 67,213 | $ 64,618 |
| Cost of sales | 33,874 | 32,629 |
| Gross profit | 33,339 | 31,989 |
| Operating expenses: | | |
| Marketing, general and administrative and engineering | 16,015 | 29,616 |
| Amortization of other intangible assets | 2,794 | 2,885 |
| Income from operations | 14,530 | (512) |
| Other income/(expenses): | | |
| Interest income | 27 | 91 |
| Interest expense | (4,367) | (6,790) |
| Loss on retirement of senior secured notes | | (630) |
| Miscellaneous expense | 44 | (14) |
| Income (loss) before provision for income taxes | 10,234 | (7,855) |
| Income tax expense (benefit) | 3,634 | (2,889) |
| Net income (loss) | $ 6,600 | $ (4,966) |
| | | |
| Comprehensive income (loss): | | |
| Net income (loss) | $ 6,600 | $ (4,966) |
| Foreign currency translation adjustment | (5,448) | 1,395 |
| Comprehensive income (loss) | $ 1,152 | $ (3,571) |

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

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**Thermon Holding Corp.**

Condensed Consolidated Statement of Cash Flows (Unaudited)

*(Dollars in Thousands)*

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 |
|---|---|---|
| **Operating activities** | | |
| Net income (loss) | $ 6,600 | $ (4,966) |
| Adjustment to reconcile net income (loss) to net cash (used in), provided by operating activities: | | |
| Depreciation and amortization | 3,417 | 3,946 |
| Amortization of debt costs | 1,180 | 2,315 |
| Stock compensation expense | 58 | 6,341 |
| Benefit for deferred income taxes | 76 | 753 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (4,842) | (5,470) |
| Inventories | 902 | (2,927) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 103 | (366) |
| Other current and noncurrent assets | (106) | 2,329 |
| Accounts payable | (541) | 1,948 |
| Accrued liabilities and noncurrent liabilities | (7,040) | (10,605) |
| Income taxes payable | 1,793 | (13,676) |
| Net cash (used in) provided by operating activities | 1,600 | (20,378) |
| | | |
| **Investing activities** | | |
| Purchases of property, plant and equipment | (1,268) | (2,379) |
| Cash paid for Thermon Holding Corp. (net of cash acquired of $2,852) | (131) | (372) |
| Net cash used in investing activities | (1,399) | (2,751) |
| | | |
| **Financing activities** | | |
| Payments on senior secured notes | (21,000) | (42,000) |
| Net proceeds (payments) from revolving line of credit | 12,769 | (2,063) |
| Capital contributions | 1,912 | 48,919 |
| Premium paid on retirement of senior secured notes | (630) | (1,260) |
| Net cash provided by (used in) financing activities | (6,949) | 3,596 |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (1,090) | 121 |
| | | |
| Change in cash and cash equivalents | (7,838) | (19,412) |
| Cash and cash equivalents at beginning of period | 21,468 | 51,016 |
| Cash and cash equivalents at end of period | $ 13,630 | $ 31,604 |

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

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**Thermon Holding Corp.**

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Dollars in Thousands)

**1. Basis of Presentation and Accounting Policy Information**

On April 30, 2010, a group of investors led by entities affiliated with CHS Capital LLC ( CHS ) and two other private equity firms (together with CHS, our private equity sponsors ) 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 $129,252 of equity investments by our private equity sponsors 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. ( TGH ) 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.

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.

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, 2012. 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 June 30, 2012 and March 31, 2012, and the results of our operations for the three months ended June 30, 2012 and 2011.

*Use of Estimates*

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. While our management has based their assumptions and estimates on the facts and circumstances existing at June 30, 2012, actual results could differ from those estimates and affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements.  The operating results for the three month period ended June 30, 2012 are not necessarily indicative of the results that may be achieved for the fiscal year ending March 31, 2013.

*Recent Accounting Pronouncements*

In May 2011, the FASB updated FASB ASC 820 that resulted in common fair value measurement and disclosure requirements in U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs).

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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. ASC 820 became effective for us this quarter, and is being applied prospectively. In conjunction with adopting ASC 820, we disclosed the fair value of investments and the inputs used to estimate that fair value.

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. We have adopted ASC 220 effective April 1, 2012 and in conjunction with adopting ASC 220, we chose to present the components of comprehensive income within a single statement of other comprehensive income or loss. ASC 220 affects presentation and disclosure only and therefore adoption did not affect our results as reported in our consolidated financial statements.

**2. Fair Value Measurements**

*Fair Value*. We measure fair value based on authoritative accounting guidance, which defines fair value, establishes a framework for measuring fair value as well as expands on required disclosures regarding fair value measurements.

Inputs are referred to as assumptions that market participants would use in pricing the asset or liability. The uses of inputs in the valuation process are categorized into a three-level fair value hierarchy.

- Level 1 uses quoted prices in active markets for identical assets or liabilities we have the ability to access.
- Level 2 uses observable inputs other than quoted prices in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 uses one or more significant inputs that are unobservable and supported by little or no market activity, and that reflect the use of significant management judgment.

Financial assets and liabilities with carrying amounts approximating fair value include cash, trade accounts receivable, accounts payable, accrued expenses and other current liabilities. The carrying amount of these financial assets and liabilities approximates fair value because of their short maturities. At June 30, 2012 and March 31, 2012, no assets or liabilities were valued using Level 3 criteria.

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

| | June 30, 2012 | | March 31, 2012 | | |
|---|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** | **Valuation Technique** |
| Financial Liabilities | | | | | |
| Long-term debt | $ 118,145 | $ 130,107 | $ 139,145 | $ 153,755 | Level 2 - Market Approach |

Our senior secured notes trade on over the counter markets. As the quoted price is only available through a dealer, the Company concluded the market is not active enough to be classified as a Level 1 valuation. However, the pricing is indirectly observable through dealers and has been classified as Level 2. 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.

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**3. Inventories**

Inventories consisted of the following:

| | | June 30, 2012 | | March 31, 2012 |
|---|---|---|---|---|
| Raw materials | $ | 13,573 | $ | 11,721 |
| Work in process | | 1,710 | | 1,402 |
| Finished goods | | 22,201 | | 26,424 |
| | | 37,484 | | 39,547 |
| Valuation reserves | | (1,184) | | (1,094) |
| Inventories, net | $ | 36,300 | $ | 38,453 |

**4. Goodwill**

The carrying amount of goodwill as of June 30, 2012 is as follows:

| | | Amount |
|---|---|---|
| Balance as of March 31, 2012 | $ | 118,007 |
| Foreign currency translation impact | | (2,415) |
| Balance as of June 30, 2012 | $ | 115,592 |

The excess purchase price over the fair value of assets acquired is recorded as goodwill. 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, 2013. At June 30, 2012, there were no indicators of a goodwill impairment. Goodwill is not deductible for tax purposes.

**5. Accrued Liabilities**

Accrued current liabilities consisted of the following:

| | | June 30, 2012 | | March 31, 2012 |
|---|---|---|---|---|
| Accrued employee compensation and related expenses | $ | 6,618 | $ | 10,970 |
| Interest | | 2,009 | | 6,162 |
| Customer prepayment | | 2,253 | | 1,518 |

| | | | | |
|---|---|---|---|---|
| Warranty reserve | | 720 | | 857 |
| Professional fees | | 1,058 | | 1,346 |
| Sales tax payable | | 1,057 | | 183 |
| Compliance costs | | 55 | | 55 |
| Other | | 1,508 | | 1,351 |
| Total accrued current liabilities | $ | 15,278 | $ | 22,442 |

**6. Related-Party Transactions**

We paid management fees including a termination fee in connection with our IPO to our private equity sponsors of $8,105 in the three months ended June 30, 2011. The termination fee is included as part of Marketing, general and administrative and engineering expense.

Included in our consolidated balance sheet is Obligations due to settle the CHS Transaction which totaled $3,397 and $3,528 at June 30, 2012 and March 31, 2012, respectively. These amounts represent amounts due to the Predecessor owners in final settlement of the acquisition by our private equity sponsors of a controlling interest in us that was completed on April 30, 2010. During the three months ended June 30, 2012 and 2011, we paid $131 and $372, respectively, to the Predecessor owners for cash amounts that were released during the respective three month periods. At June 30, 2012, 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.

**7. 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 $4,983 USD at June 30, 2012). The facility is collateralized by receivables, inventory, equipment, furniture and real estate. No loans were outstanding on this facility at June 30, 2012 or March 31, 2012.

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The Company s subsidiary in India has a revolving credit facility in the amount of 80,000 Rupees (equivalent to $1,421USD at June 30, 2012). The facility is collateralized by receivables, inventory, real estate, a letter of credit, and cash. No loans were outstanding under the facility at June 30, 2012 or March 31, 2012.

The Company s subsidiary in Australia has a revolving credit facility in the amount of $325 Australian Dollars (equivalent to $327 USD at June 30, 2012). The facility is collateralized by real estate. No loans were outstanding at June 30, 2012 or March 31, 2012.

The Company s subsidiary in Japan has a revolving credit facility in the amount of 45,000 Japanese Yen (equivalent to $566 USD at June 30, 2012). The 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 8, Long-Term Debt . No loans were outstanding under the Japanese revolving credit facility at June 30, 2012 or March 31, 2012.

Under the Company s principal revolving credit facility described below in Note 8, Long-Term Debt, there were $12,769 and $0 of outstanding borrowings at June 30, 2012, and March 31, 2012, 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.

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**8. Long-Term Debt**

Long- term debt consisted of the following:

| | June 30, 2012 | | March 31, 2012 | |
|---|---|---|---|---|
| 9.500% Senior Secured Notes, due May 2017 | $ | 118,145 | $ | 139,145 |
| | | 118,145 | | 139,145 |
| Less current portion | | | | (21,000) |
| | $ | 118,145 | $ | 118,145 |

***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 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 June 30, 2012, we had $26,700 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 June 30, 2012, we had $12.8 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 June 30, 2012, we had $118.1 million of indebtedness outstanding under our senior secured notes with annual cash interest expense of approximately $11.2 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 1 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 months ended June 30, 2012 and 2011, the Company made partial redemptions of the senior secured notes in the amount of $21,000 and $42,000, respectively. In connection with these redemptions, the Company paid cash premiums on redemption of $630 and $1,260 for the three months ended June 30, 2012 and 2011, respectively. As a result of these partial redemptions we accelerated deferred debt amortization of $871 and $1,871 for the three months ended June 30, 2012 and 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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***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 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 fair value is determined by quoted prices from active foreign currency markets (Level 2 fair value). 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 June 30, 2012 and March 31, 2012, the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were $10,697 and $14,429, respectively.

Net foreign exchange transaction losses included in the accompanying condensed consolidated statements of operations were a gain of $52 and a loss of $92 in the three months ended June 30, 2012 and 2011, respectively. The fair values of foreign currency forward contracts were not significant individually and approximated a gain of $28 and a loss of $188 as of June 30, 2012 and March 31, 2012, respectively.

**9. Commitments and Contingencies**

At June 30, 2012, the Company had in place letter of credit guarantees and performance bonds securing performance obligations of the Company. These arrangements totaled approximately $10,340.  Of this amount, $2,218 is secured by cash deposits at the Company s financial institutions.  The remaining $8,122 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 June 30, 2012 and March 31, 2012, was approximately $2,218 and $2,398, 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.

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*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 or has alleged 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. We have reserved $186 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 June 30, 2012, 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 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 and does not anticipate incurring any significant losses with respect to this matter that would not be covered by insurance.

**10. Stock-Based Compensation Expense**

We record stock-based compensation expense related to stock-based awards that are made by our parent to our employees, directors or non-employee contractors. Stock compensation expense was $58 and $6,341 during the three months ended June 30, 2012 and 2011, respectively. At the date of the IPO for Thermon Group Holdings on May 5, 2011, we recorded stock compensation expense of $6,310 which represented all unamortized stock compensation then outstanding.

The right to purchase shares under the options vests over a five to ten-year period, beginning on the date of grant. Stock options must be exercised within ten years from date of grant. Stock options were issued with an exercise price which was equal to the market price of our common stock at the grant date. We estimate potential forfeitures of stock grants and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods. During the three month period ended June 30, 2012, we did not make any changes in accounting principles or methods of estimates relating to stock based compensation expense.

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**11. Income Taxes**

Our anticipated annual effective tax rate before discrete events of approximately 35.2% has been applied to our consolidated pre-tax income for the three month period ended June 30, 2012. Our anticipated annual effective tax rate after discrete events of approximately 35.5% differs from the before discrete event rate due to the additional accrued interest and penalties recorded on uncertain tax positions (discussed below). 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 meals and entertainment and compensation expenses.  For the three months ended June 30, 2011, the Company s provision for income taxes reflects an effective benefit rate before discrete event of approximately 35.2% and an after discrete event benefit rate of 36.8%. The effective tax rate was higher than the U.S. statutory rate 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 three month periods ended June 30, 2012 and 2011, the Company recorded tax expense (benefit) of $3,634 and $(2,889) on pre-tax income (loss) of $10,234and $(7,855), respectively.

As of June 30, 2012, 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, 2012.  All of our unrecognized tax benefits at June 30, 2012 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 $33 for the three months ending June 30, 2012, resulting in a cumulative total accrual of $235.

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 June 30, 2012 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 9, Commitments and Contingencies .

**12. 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 geographic regions into a single reportable 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.

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During the three months ended June 30, 2012, the Company changed its basis for reporting operating segments. Previously, the operating segments were categorized between the Eastern and Western Hemispheres. Management has changed its reporting such that the four geographic regions of the United States, Canada, Europe and Asia are now analyzed separately. Each of these regions were reported previously within the hemisphere presentation, therefore there is no material difference with this change in presentation of geographic information. 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 June 30, 2012 | | Three Months Ended June 30, 2011 |
|---|---|---|---|---|
| Sales by geographic area: | | | | |
| United States | $ | 20,175 | $ | 21,832 |
| Canada | | 21,345 | | 20,836 |
| Europe | | 17,236 | | 16,513 |
| Asia | | 8,457 | | 5,437 |
| | $ | 67,213 | $ | 64,618 |
| | | | | |
| Operating income (loss) | | | | |
| United States | $ | 4,793 | $ | (3,001) |
| Canada | | 6,249 | | 6,333 |
| Europe | | 2,183 | | 3,235 |
| Asia | | 1,427 | | 1,026 |
| Unallocated: | | | | |
| Management fees | | | | (8,105) |
| Other | | (122) | | |
| | $ | 14,530 | $ | (512) |

**13. Guarantor Consolidation**

The senior secured notes issued by Thermon Industries, Inc., our wholly-owned subsidiary, are guaranteed by THC and our other existing, wholly-owned domestic subsidiaries: Thermon Manufacturing Company, Thermon Heat Tracing Services, Inc., Thermon Heat Tracing Services-I, Inc. and Thermon Heat Tracing Services-II, Inc. (collectively, the Guarantors ). Our foreign subsidiaries (collectively, the Non-Guarantors ) are not guarantors of the senior secured notes.

The following tables set forth financial information of the Guarantors and Non-Guarantors for the condensed consolidated balance sheets as of June 30, 2012 and March 31, 2012 the condensed consolidated statements of operations for the three months ended June 30, 2012 and June 30, 2011 and the condensed consolidated statements of cash flows for the three months ended June 30, 2012 and June 30, 2011. The information is presented on the equity method of accounting together with elimination entries necessary to reconcile to the consolidated financial statements.

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**Thermon Holding Corp.**

Condensed Balance Sheet (Unaudited)

| | June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Thermon Holding Corp. (Guarantor) | Thermon Industries, Inc. (Issuer) | Thermon Manufacturing Company and US Subsidiaries (Guarantor) | International Subsidiaries (Non-guarantors) | Eliminations | Consolidated |
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ | $ | $ 3,461 | $ 10,169 | $ | $ 13,630 |
| Accounts receivable, net | | | 11,569 | 42,172 | 29 | 53,770 |
| Inventories, net | | | 21,159 | 16,824 | (1,683) | 36,300 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | | | 1,437 | | | 1,437 |
| Income taxes receivable | | | 6,436 | (20) | | 6,416 |
| Prepaid expenses and other current assets | | | 1,022 | 5,525 | 441 | 6,988 |
| Deferred Income taxes | | | 2,752 | 707 | | 3,459 |
| Total current assets | | | 47,836 | 75,377 | (1,213) | 122,000 |
| Property, plant and equipment, net | | | 22,580 | 5,450 | | 28,030 |
| Goodwill | | | 47,392 | 68,200 | | 115,592 |
| Intangible assets, net | 1,014 | | 70,559 | 68,000 | | 139,573 |
| Debt Issuance costs, net | | 6,265 | | | | 6,265 |
| Investment in subsidiaries | 255,600 | 257,155 | 89,338 | | (602,093) | |
| | $ 256,614 | $ 263,420 | $ 277,705 | $ 217,027 | $ (603,306) | $ 411,460 |
| Liabilities and shareholder s equity | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $ | $ | $ 8,625 | $ 6,409 | $ | $ 15,034 |
| Accrued liabilities | | 1,871 | 5,229 | 8,251 | (73) | 15,278 |
| Obligations in settlement of the CHS Transactions | | | 3,397 | | | 3,397 |
| Borrowings under revolving lines of credit | | | | 12,769 | | 12,769 |
| Income tax payable | | | 3,173 | 20 | | 3,193 |
| Billings in excess of costs and estimated | | | 600 | 1,352 | | 1,952 |
| Intercompany loans | (72,645) | 138,302 | (80,135) | 14,376 | 102 | |
| Total current liabilities | (72,645) | 140,173 | (59,111) | 43,177 | 29 | 51,623 |
| Long-term debt, net of current maturities | | 118,145 | | | | 118,145 |
| Deferred Income taxes | | | 26,842 | 15,579 | | 42,421 |
| Other noncurrent liabilities | | | 1,725 | 700 | | 2,425 |
| Shareholder s equity | 329,259 | 5,102 | 308,249 | 157,571 | (603,335) | 196,846 |
| | $ 256,614 | $ 263,420 | $ 277,705 | $ 217,027 | $ (603,306) | $ 411,460 |

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**Thermon Holding Corp.**

**Condensed Balance Sheet**

| | March 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Thermon Holding, Corp. (Guarantor) | Thermon Industries, Inc. (Issuer) | Thermon Manufacturing Company and US Subsidiaries (Guarantor) | International Subsidiaries (Non-guarantors) | Eliminations | Consolidated |
| Assets | | | | | | |
| Current assets: | | | | | | |
| | | | | | | |
| Cash and cash equivalents | $ | $ | $ 5,815 | $ 15,653 | $ | $ 21,468 |
| Accounts receivable, net | | | 28,466 | 38,431 | (16,860) | 50,037 |
| Inventories, net | | | 20,225 | 19,949 | (1,721) | 38,453 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | | | 1,458 | 538 | | 1,996 |
| Income taxes receivable | | | 5,193 | | | 5,193 |
| Prepaid expenses and other current assets | | | 932 | 5,398 | 523 | 6,853 |
| Deferred Income taxes | | | 2,758 | 906 | | 3,664 |
| Total current assets | | | 64,847 | 80,875 | (18,058) | 127,664 |
| Property, plant and equipment, net | | | 21,870 | 5,791 | | 27,661 |
| Goodwill | | | 47,391 | 70,616 | | 118,007 |
| Intangible assets, net | 1,078 | | 72,019 | 71,704 | | 144,801 |
| Debt Issuance costs, net | | 7,446 | | | | 7,446 |
| Intercompany loans | | | 160 | | (160) | |
| Investment in subsidiaries | 127,622 | 252,209 | 118,455 | | (498,286) | |
| | $ 128,700 | $ 259,655 | $ 324,742 | $ 228,986 | $ (516,504) | $ 425,579 |
| Liabilities and shareholder s equity | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $ | $ | $ 8,615 | $ 18,768 | $ (11,655) | $ 15,728 |
| Accrued liabilities | | 6,136 | 8,577 | 11,779 | (4,050) | 22,442 |
| Current portion of long term debt | | 21,000 | | | | 21,000 |
| | | | | | | |
| Billings in excess of costs and estimated earnings on uncompleted contracts | | | 2,098 | 348 | | 2,446 |
| Income taxes payable | | | 114 | 1,260 | | 1,374 |
| Obligations in settlement of the CHS Transactions | | | 3,528 | | | 3,528 |
| Intercompany payables | (70,732) | 110,062 | (38,288) | 273 | (1,315) | |
| Total current liabilities | (70,732) | 137,198 | (15,356) | 32,428 | (17,020) | 66,518 |
| Long-term debt, net of current maturities | | 118,145 | | | | 118,145 |
| Deferred Income taxes | | | 29,725 | 16,274 | | 45,999 |
| Other noncurrent liabilities | | | 1,702 | 735 | | 2,437 |
| Shareholder s equity | 199,432 | 4,312 | 308,671 | 179,549 | (499,484) | 192,480 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 128,700 | $ | 259,655 | $ | 324,742 | $ | 228,986 | $ | (516,504) | $ | 425,579 |

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**Thermon Holding Corp.**

Condensed Statement of Comprehensive Income (Loss) (Unaudited)

| | Three Months Ended June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Thermon Holding, Corp. (Guarantor) | Thermon Industries, Inc. (Issuer) | Thermon Manufacturing Company and U.S. Subsidiaries (Guarantors) | International Subsidiaries (Non-guarantors) | Eliminations | Consolidated |
| Revenues | $ | $ | $ 32,945 | $ 48,127 | $ (13,859) | $ 67,213 |
| Cost of sales | | | 20,012 | 27,741 | (13,879) | 33,874 |
| Gross profit | | | 12,933 | 20,386 | 20 | 33,339 |
| Operating expenses: | | | | | | |
| Marketing, general and administrative and engineering | 58 | | 6,759 | 9,198 | | 16,015 |
| Amortization of other intangible assets | 64 | | 1,460 | 1,270 | | 2,794 |
| Income (loss) from operations | (122) | | 4,714 | 9,918 | 20 | 14,530 |
| Other income/(expenses): | | | | | | |
| Equity in earnings of subsidiaries | 6,741 | 5,758 | 1,949 | | (14,448) | |
| Interest income | | | | 27 | | 27 |
| Interest expense | | (4,155) | (62) | (150) | | (4,367) |
| Miscellaneous income/(expense) | | | 2,189 | (2,145) | | 44 |
| Income (loss) before provision for income taxes | 6,619 | 1,603 | 8,790 | 7,650 | (14,428) | 10,234 |
| Income tax expense (benefit) | (43) | (1,454) | 3,032 | 2,017 | 82 | |