Thermon Group Holdings, Inc.
Form 10-K
June 20, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

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

For The Fiscal Year Ended March 31, 2011

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

For the transition period from to

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

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.)**	**27-2228185 (Thermon Group Holdings, Inc.)** **26-0249310 (Thermon Holding Corp.)**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
100 Thermon Drive, San Marcos, Texas	**78666**
(Address of principal executive offices)	(Zip Code)

(512) 396-5801

(Registrant s telephone number, including area code)

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

Thermon Group Holdings, Inc.

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

Thermon Holding Corp.

Title of each class	**Name of each exchange on which registered**
None	Not applicable

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

Thermon Group Holdings, Inc.: **None**

Thermon Holding Corp.: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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

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

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

Thermon Group Holdings, Inc. x **Thermon Holding Corp.** x

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

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 September 30, 2010, each registrant was a privately held company, and therefore the market value of each registrant s common equity held by non-affiliates was zero.

As of June 13, 2011, each registrant had the following number of shares of common stock outstanding:

Thermon Group Holdings, Inc.: 29,523,641 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 I(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format.

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EXPLANATORY NOTE

This annual report (this annual report) combines the Annual Reports on Form 10-K for the year ended March 31, 2011 of Thermon Group Holdings, Inc. and Thermon Holding Corp.

Unless stated otherwise or the context otherwise requires, references in this annual 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 Annual Reports on Form 10-K 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 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 annual report that separately discuss TGH and THC, including separate financial statements and notes thereto and separate Exhibit 31 and Exhibit 32 certifications. Cash and cash equivalents and stockholders equity are the main areas of difference between the consolidated financial statements of TGH and those of THC. In the sections that combine disclosure for TGH and THC (*i.e.*, where the disclosure refers to the consolidated company), this annual report refers to actions or holdings as our actions or holdings and, unless otherwise indicated, means 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;

- 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 annual report gives effect to and assumes the occurrence of the foregoing actions.

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THERMON GROUP HOLDINGS, INC.

THERMON HOLDING CORP.

FORM 10-K

FOR THE FISCAL YEAR ENDED MARCH 31, 2011

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FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of the U.S. federal securities laws in addition to historical information. These forward-looking statements are included throughout this annual report, including in the sections entitled Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business and include, without limitation, statements regarding our industry, business strategy, plans, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. When used in this discussion, the words anticipate, assume, believe, budget, continue, could, estimate, expect, intend, may, plan, potential, predict, p terms and phrases are intended to identify forward-looking statements in this annual report.

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

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

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

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PART I

ITEM 1. BUSINESS

Business Overview

We are one of the largest providers of highly engineered thermal solutions for process industries. For over 50 years, we have served a diverse base of thousands of customers around the world in attractive and growing markets, including energy, chemical processing and power generation. We are a global leader and one of the few thermal solutions providers with a global footprint and a full suite of products (heating cables, tubing bundles and control systems) and services (design optimization, engineering, installation and maintenance services) required to deliver comprehensive solutions to complex projects. We serve our customers locally through a global network of sales and service professionals and distributors in more than 30 countries and through our four manufacturing facilities on three continents. These capabilities and longstanding relationships with some of the largest multinational energy, chemical processing, power and engineering, procurement and construction, or EPC, companies in the world have enabled us to diversify our revenue streams and opportunistically access high growth markets worldwide. For the fiscal year ended March 31, 2011, or fiscal 2011, 69% of our revenues were generated outside of the United States.

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

Our customers need for MRO/UE solutions provides us with an attractive recurring revenue stream. Customers typically use the incumbent heat tracing provider for MRO/UE projects to avoid complications and compatibility problems associated with switching providers. We typically begin to realize meaningful MRO/UE revenue from new Greenfield installations one to three years after completion of the project as customers begin to remove and replace our products during routine and preventative maintenance on in-line mechanical equipment, such as pipes and valves. As a result, our growth has been driven by new facility construction, as well as by servicing our continually growing base of solutions installed around the world, which we refer to as our installed base. Approximately 55% of our revenues for fiscal 2011 were derived from such MRO/UE activities.

We have a long history of strong organic revenue growth and stable gross margins through a variety of economic cycles. Specifically, our revenues have grown in 18 of the past 22 fiscal years, and our gross margins have averaged 44% over that period. In addition, we have generated significant growth in both revenue and profitability in recent years. Our revenue grew by 97% to $238.8 million for fiscal 2011 from $121.4 million for fiscal 2007, and gross profit grew by 86% to $102.7 million from $55.3 million over the same period. During fiscal 2011, we realized a net loss of $15.2 million and Adjusted EBITDA of $55.7 million. See Note 7 to the table set forth in Item 6, Selected Financial Data. At March 31, 2011, we reported backlog of signed purchase orders of approximately $76.3 million.

Our corporate offices are located at 100 Thermon Drive, San Marcos, TX 78666. Our telephone number is (512) 396-5801. Our website address is *www.thermon.com.* Copies of the charters of the committees of our board of directors, our code of business conduct and ethics and our corporate governance guidelines are available on our website. All reports that we have filed with the Securities and Exchange Commission (SEC), including this Annual Report on Form 10-K and our Current Reports on Form 8-K, can be obtained free of charge from the SEC s website at www.sec.gov or through our website. In addition, all reports filed with the SEC may be read and copied

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at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549-1090. Further information regarding the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0330. None of the information on our website or any other website identified herein is incorporated by reference in this annual report and should not be considered a part of this annual report.

Company History

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

On April 30, 2010, an investor group led by entities affiliated with CHS Capital LLC and two other private equity firms acquired Audax s controlling interest in us. The acquisition and related transaction fees and expenses were financed through (i) the issuance of $210.0 million aggregate principal amount of our senior secured notes and (ii) a $129.2 million equity investment by our sponsors and certain members of our current and former management team. Concurrent with the closing of the acquisition, our wholly-owned subsidiary TII 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. As used in this annual report, the CHS Transactions refer collectively to such acquisition, the equity investment in us by CHS, our other sponsors and certain members of our management team, the entry into our revolving credit facility, the repayment of amounts owed under, and the termination of, certain then-existing revolving credit and term loan facilities, the issuance of our senior secured notes and the application of the gross proceeds from the offering of our senior secured notes and the equity investment to complete such acquisition and to pay related fees and expenses of these transactions.

Subsequent to our fiscal year end, in May 2011, in connection with the IPO, CHS sold 4,307,161 shares of our common stock for approximately $48.1 million, and our other sponsors in the aggregate sold 1,613,497 shares of our common stock for approximately $18.0 million. At June 13, 2011, CHS beneficially owned 32.4% of our common stock, and our other sponsors in the aggregate beneficially owned 20.9% of our common stock. We realized net proceeds from the IPO of approximately $48.6 million, after deducting the underwriting discounts and commissions and estimated offering expenses. Since the IPO had a substantial effect on our financial position, we have included discussion throughout this annual report of items specifically affected by such transaction. In particular, we redeemed $21.0 million aggregate principal amount of our senior secured notes on each of April 29 and June 9, 2011. After these redemptions, we have $168.0 million outstanding aggregate principal amount of our senior secured notes.

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The following chart summarizes our corporate structure:

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* Issuer of common stock listed on the New York Stock Exchange under the symbol THR and successor for financial statement reporting purposes to Thermon Holdings, LLC, which, as of the completion of the CHS Transactions on April 30, 2010, no longer owned any interest in us.

** Issuer of our SEC-registered senior secured notes

Guarantor of our SEC-registered senior secured notes

Our Industry

Alvarez & Marsal Private Equity Performance Improvement Group, LLC, or A&M, estimates that the market for industrial electric heat tracing is approximately $1 billion in annual revenues and estimates that it is growing its share of the overall heat tracing market as end users appear to continue to favor electric heat tracing solutions over steam heat tracing solutions for new installations. When revenues for steam heat tracing parts are included, A&M estimates the overall addressable market for heat tracing is approximately $2 billion in annual revenues. The industrial electric heat tracing industry is fragmented and consists of approximately 40 companies that typically only serve discrete local markets with manufactured products and provide a limited service offering. We believe that we are the second largest participant in the industrial electric heat tracing market and significantly larger than our next largest competitor. Heat tracing providers differentiate themselves through the quality and reputation of their products, the length and quality of their customer relationships and their ability to provide comprehensive solutions. Large multinational companies drive the majority of spending for the types of major industrial facilities that require heat tracing, and we believe that they prefer providers who have a global footprint and a comprehensive suite of products and services. We believe we are one of only a few companies that meets these criteria.

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

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- ***Energy.*** Heat tracing is used to facilitate the processing, transportation and freeze protection of energy products in both upstream and downstream oil and gas applications. We believe that the industrialization of developing regions of the world will fuel continued energy demand that will require additional upstream and downstream infrastructure, leading to increased demand for heat tracing. According to the Energy Information Administration, which we refer to as the EIA, global energy consumption is expected to increase 49% from 2007 to 2035 as economies in both developed and emerging countries continue to grow and standards of living improve. In order to meet growing demand and offset natural declines in existing oil and gas production, a significant increase in capital expenditures in upstream infrastructure will be required, with a particular focus on reservoirs that are in harsher climates, are deeper or have other complex characteristics that magnify the need for heat tracing. According to Wood Mackenzie, a leading independent energy research and consulting firm, as of October 2010, global upstream development expenditures are expected to increase 11% to approximately $420 billion in 2013 from approximately $380 billion in 2010. Key areas of growth for heat tracing include Canada and Russia/Kazakhstan due to their harsh climates. According to Purvin and Gertz, or P&G, Canadian oil production is expected to grow from 2.7 million barrels of oil per day, or MMbbl/d, in 2010 to 3.2 MMbbl/d in 2015, driven primarily by increases in production from oil sands. Furthermore, over the same time period, P&G projects oil sands-related capital expenditures in Canada to grow from $11 billion to $20 billion. In Russia/Kazakhstan, P&G projects oil production to grow from 10.0 MMbbl/d in 2010 to 11.5 MMbbl/d in 2015, with approximately 1.4 MMbbl/d of production coming from new production that offsets declines in existing production. An increase in upstream production coupled with increased demand for refined products will require a corresponding increase in downstream refining capacity. Key areas for demand growth in refined products applications include the Middle East and Asia. According to P&G, demand for refined products in the Middle East is expected to grow from 5.2 MMbbl/d in 2010 to 7.4 MMbbl/d in 2025, or a 42% increase. Similarly, demand for refined products in Asia is expected to grow from 21.2 MMbbl/d in 2010 to 30.6 MMbbl/d in 2025, or a 44% increase. Finally, we believe that we will benefit from stricter environmental compliance and regulatory requirements. The equipment used to monitor environmental compliance often requires heat tracing intensive solutions.

- ***Chemical Processing.*** Across the spectrum of chemical production facilities (such as specialty, commodity, pharmaceutical and agricultural), heat tracing is required for temperature maintenance and freeze protection. The corrosive nature of certain chemicals shortens the life cycle of in-line mechanical equipment attached to pipes such as valves, pumps and filters, thereby accelerating and increasing demand for MRO/UE solutions in this end market. Factors that may impact heat tracing demand in chemicals end markets include the rapid industrialization of the developing world, a shift in base chemical processing operations to low-cost feedstock regions, a transition of Western chemical processing activities from commodity products to specialty products and environmental compliance. According to the American Institute of Chemical Engineers, global capital spending by the chemical processing industry is estimated to increase to $418.4 billion, representing a compound annual growth rate of 11.1% from 2010 to 2015. We believe that our global presence positions us to take advantage of this expected future growth.

- ***Power Generation.*** Heat tracing is required in high-temperature processes, freeze protection and environmental regulation compliance in coal and gas facilities and for safety injection systems in nuclear facilities. An important driver of demand for heat tracing solutions for power generation is increasing demand for electricity worldwide. According to the EIA, global net electricity generation is projected to increase 87% between 2007 and 2035. We believe capital spending on new and existing power generation infrastructure will be required to meet this demand. In addition, compliance with stricter regulatory environmental standards is also driving demand for heat tracing equipment used in emissions testing applications in segments of the power generation end-market. The Clean Air Act, the Clean Air Mercury Rule, the European Union Emissions Trading System, China s National Climate Change Program and the United Nations Framework Convention on Climate Change are examples of recent rule changes, proposals and other initiatives aimed at improving emissions standards.

- ***Continuing selection of electric-based heat tracing solutions over steam-based solutions.*** Beginning in the 1960s, electric heat tracing products entered the market as an alternative to steam heat tracing products. While steam-based products are still used today for heavy oil, chemical and processing

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applications, electric-based products generally offer greater cost savings and operating efficiencies. As a consequence, Greenfield projects commissioned in recent years are increasingly designed to incorporate electric heat tracing. We believe the continuing selection of electric-based products over steam-based products represents a favorable long-term industry trend for the industrial electric heat tracing market.

Our Competitive Strengths

We believe that the following strengths differentiate us from our competitors:

We have access to attractive high growth sectors of our global addressable market. We have a network of sales and service professionals and distributors in more than 30 countries and a manufacturing footprint that includes four facilities on three continents. This footprint allows us to diversify our revenue streams and opportunistically access the most attractive regions and sub-sectors of our markets. Global growth and development has driven increased demand for energy, chemical products and electricity worldwide, particularly in emerging markets. Largely as a result of this growing demand, our revenue grew at a compound annual growth rate of 8% from fiscal 1990 to fiscal 2011 with a significant portion generated by end-users in upstream oil and gas markets. Going forward, we expect that the continuing industrialization of the developing world will push the search for energy resources to increasingly harsh cold weather countries, including Canada and Russia, where demand for our products is magnified, and strong petrochemical demand in China and India has led to a shift in chemical production to the Asia-Pacific region. We have a strong, established local presence in each of these markets.

We are a global market leader. We believe that we are the second largest industrial electric heat tracing company in the world, significantly larger than our next largest competitor and one of only a few solutions providers with a comprehensive suite of products and services, global capabilities and local on-site presence. Over our 56-year history, we have developed an installed base operated by thousands of customers and long-standing relationships with some of the largest multinational energy, chemical processing, power and EPC companies in the world that drive the majority of spending decisions for the major facilities that require our products. We believe these multinational companies prefer providers with our scale, global presence and comprehensive product and service offering. We believe such strengths create significant barriers to entry and position us well to take advantage of positive industry trends in high growth markets around the world.

Our highly engineered solutions are mission critical to our customers. Reliable thermal solutions are critical to the safe and profitable operation of our customers facilities. These facilities are often complex, with numerous classified areas that are inherently hazardous and where product safety concerns are paramount. Therefore, we believe that our customers consider safety, reliability and customer service to be the most important purchase criteria for our products. We are a leader in the national and international standards setting process for the heat tracing industry and hold leadership positions on numerous industry standards development organizations, such as the Institute of Electrical and Electronics Engineers, or the IEEE. Our participation with these organizations helps us to better serve our customers by promoting the development of internationally recognized specifications for products that ensure safety, reliability and functionality. We believe that our favorable industry reputation and long track record of safety, reliability and technological innovation create competitive benefits, including long-standing customer relationships, a defensible market position and significant barriers to entry.

Our favorable business model positions us to achieve attractive financial results. The following features of our business model contribute to our attractive financial results:

- ***Existing installed base generates significant recurring revenue.*** On average, annual MRO/UE expenditures generated from an installed heat tracing system are approximately 5 to 10% of the initial cost of the system and expansions may require approximately 10 to 20% of the initial cost of the system. We estimate that approximately 55% of our revenues in fiscal 2011 were generated from MRO/UE sales. Throughout our 56-year history, we have grown our global base of installed systems and believe that today we have the second largest installed base in the industrial electric heat tracing industry. As we continue to complete new Greenfield installations, we believe that, subject to customers continuing capital and maintenance expenditures, our growing global installed base of heat tracing solutions will drive increased MRO/UE business. In order to avoid complications or

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compatibility problems associated with switching providers, customers often use the incumbent heat tracing provider for MRO/UE projects.

- ***Diversified, global customer base and end markets.*** Over the past five decades, we have sold our solutions to thousands of customers in more than 90 countries, serving a broad range of end-market applications. Approximately 69% of our revenues in fiscal 2011 were generated outside of the United States, including in emerging markets. The diversity of our customer base and end markets limits our exposure to any individual industry sector or geographic region and provides us with an opportunity to leverage our global footprint to access the most attractive high growth sectors of our end markets.

- ***Strong revenue visibility.*** We believe that we have strong visibility into our future revenue as a result of recurring demand that we expect will be generated from our global installed base, a growing backlog of signed purchase orders and a robust pipeline of planned projects. Our visibility into the timing of our recognition of revenue out of backlog is not always certain, particularly with larger projects; however, our solutions are ordered and installed toward the end of Greenfield project construction, and therefore, historically, purchase orders have rarely been cancelled.

- ***Consistent gross margins and cash flow generation.*** We have a long history of stable gross margins and positive operating cash flow through a variety of economic cycles. We have consistently had positive income from operations, and gross margins have averaged 44% over the past 22 fiscal years. We believe that the growth in our gross margins is largely attributable to our customers recognition of the value and reliability of our heat tracing solutions and our ability to deliver a comprehensive suite of design and engineering services, including turnkey solutions. In addition, we have a highly variable cost structure with limited capital expenditures required to maintain our business.

Our management team has a proven track record. Our senior management team averages approximately 22 years of experience with us and is responsible for growing Thermon through a variety of business cycles, building our global platform and developing our reputation for quality and reliability in the heat tracing industry. Our senior management and key employees have a significant equity stake in us.

Our Growth Strategy

Our business strategy is designed to capitalize on our competitive strengths. Key elements of our strategy include:

Capitalize on our leading market position to continue pursuing organic growth opportunities. Our primary growth engine has traditionally been organic expansion. We will continue to focus on strategically building the necessary global sales infrastructure to expand our footprint in high growth markets. We believe that this footprint and our local presence are attractive to our customers and differentiate us from other industry participants. We expect to continue to pursue growth opportunities in emerging markets and across industry sectors in the future.

Leverage our installed base to expand our recurring revenue stream. Once the MRO/UE cycle begins, we typically realize MRO/UE revenues, which are typically higher margin than Greenfield revenues, over the life of each installation. As we continue to grow our large, global installed base with new Greenfield projects, we expect to generate incremental MRO/UE revenues related to these new projects as a result of our incumbent position and existing relationships with such customers. We typically begin to realize meaningful MRO/UE revenue streams from our new Greenfield installations one to three years after completion of the project as customers begin to discard our products in order to perform routine and preventative maintenance on in-line mechanical equipment. Since the beginning of fiscal 2008 through fiscal 2011, we estimate that we have realized approximately $290 million in revenues from Greenfield projects, which represents a meaningful opportunity for us to create MRO/UE revenues in the future. A key component of our strategy is to continue to focus our sales organization on systematically pursuing the addressable aftermarket revenue opportunity associated with our installed base.

Drive growth through alliances with major customers and suppliers. We have developed strategic alliances with other industry participants in order to enhance our growth opportunities. We have entered into framework agreements with several of our largest, multinational customers that typically designate us as the sole or a pre-qualified heat tracing provider for projects in which such customers are involved. As a result, these

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agreements have facilitated our involvement in, and provided us with a competitive advantage over our competitors when bidding for, new Greenfield and MRO/UE projects and helped us identify incremental revenue opportunities for our solutions. We intend to enter into similar agreements with certain suppliers of complementary products that will allow us to take mutual advantage of our customer relationships and enhance our cross-selling opportunities.

Continue to offer solutions that support evolving environmental applications. A portion of our recent growth has been driven by the use of our products in alternative energy initiatives, including carbon capture, thermal solar and coal gasification facilities. In addition, our products help our customers monitor their facilities environmental or other regulatory compliance. For example, we offer specialized heat traced tube bundles that allow our customers with coal fired power plants to effectively monitor their emissions under recent U.S. Environmental Protection Agency guidelines. We believe these end markets have the potential for high growth in the United States and abroad, and we intend to continue to focus on driving growth by providing solutions that address our customers evolving environmental application needs.

Selectively pursue investment opportunities.

- Given the fragmented nature of the heat tracing industry, we believe that there will be opportunities to pursue value-added acquisitions at attractive valuations in the future. We plan to assess these opportunities with a focus on augmenting our extensive geographic footprint, broadening our product and service offering, expanding our technological capabilities and capitalizing on potential operating synergies.

- We plan to pursue strategic investment opportunities such as the expansion of our principal manufacturing facility in San Marcos, Texas, which we expect to be substantially complete during fiscal 2012. We expect this current expansion will serve our production capacity needs for at least five years based on our current business plan. Additionally, the expansion will provide us with the capabilities to consider additional product lines.

Segments

We have defined our one operating segment based on geographic regions. See Note 17, Geographic Information to the consolidated financial statements of TGH for the fiscal years ended March 31, 2011, March 31, 2010 and March 31, 2009 contained elsewhere in this annual report for geographic financial data relating to our business.

Products and Services

Our products include a wide range of electric heat tracing cables, steam tracing components, and tubing bundles, as well as instrument and control products, including:

- Self-regulating & power limiting heating cables: automatically increase or decrease heat output as pipe temperature changes;
- Mineral insulated, or MI, cables: high performance heat tracing cable for exposures to high temperatures in harsh environments;
- Heat traced tube bundles for environmental gas sampling systems;
- Heat transfer compounds and steam tracers for comprehensive steam tracing solutions;
- Control and monitoring systems for electric tracing of pipes, tanks, hoppers and instrument sampling systems; and
- Turnkey solutions that provide customers with complete solutions for heat tracing, including design, optimization, installation and on-going maintenance.

Electric Heat Tracing Applications

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

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

Power-limiting and constant watt heating cables Power limiting and constant watt heating cables are flexible parallel resistance cables used to heat trace piping in lengths longer than 200 feet. Such intermediate lengths of pipe are commonly found in pipe racks that connect process units within the plant. These heaters allow longer lengths between power supply points than self-regulating cables.

TEK HTEK and MIQ cables The TEK and HTEK series resistance, constant watt heating cables are used where circuit lengths exceed the limitations of parallel resistance heating cables. By using series constant watt heating cables, a single power supply point can energize circuit lengths up to 3,000 feet. MIQ high performance mineral insulated heating cables are used for high temperature maintenance, high temperature exposure and/or high watt density applications that exceed the limitations of thermoplastic insulated cables. MIQ cables are composed of a high nickel/chromium alloy sheath, which is well-suited for high temperature service and offers high resistance to stress corrosion in chloride, acid, salt and alkaline environments.

Steam Heat Tracing

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

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

Temperature Controls and Monitoring

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

A facility s pipes, tanks and other heat-traced equipment can be monitored through various sensors that assess temperature, monitor current usage and detect any potential problems, such as ground faults. Our TraceView control system software, first introduced over 15 years ago, collects and analyzes data from all heat tracing sensors of a facility, which is then analyzed and controlled by a single technician at a workstation.

We are developing a next generation of control system software, which will provide three crucial improvements over currently available applications:

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- Process information faster, substantially reducing data collection time at large facilities with thousands of heat tracing circuits;

- Provide for increased data collection and functionality, thereby increasing plant safety and efficiency; and

- Improve communication with distributed control systems, which are used to control equipment (such as valves) in industrial facilities.

Instrumentation

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

Tank Insulation and Heating Systems

In 1992, we introduced the ThermaSeam   Tank Insulation System, which provides a product for insulating large vessels that commonly contain petroleum, chemical, asphalt, anhydrous ammonia, beverages or chilled water for HVAC storage. The design of the ThermaSeam   Tank Insulation Systems enables installation without the use of scaffolding and is durable, low maintenance and cost-effective. The machine-formed, double-locking standing seams between adjacent panels that create a weatherproof barrier and also extend the entire height of the tank enhance the system s strength and durability. The system s external banding eliminates traditional weak spots in the tank insulation process. In addition to ThermaSeam , we also offer the RT FlexiPanel® flexible heating panel, designed specifically for use on metallic tanks or vessels.

Hopper Heating

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

VisiTrace Workflow Software

VisiTrace , our proprietary 3D engineering software system, allows us to design and engineer heat tracing systems in a virtual environment. It fully integrates with our customers 3D modeling software systems. This software is designed to create efficiencies for us and our customers by collecting and centralizing a facility s engineering and design plans, saving time during the design and construction phase through the software s instantaneous change updates. VisiTrace optimizes the design of the heat tracing system, reduces our customers up-front costs and on-going operating costs, which in turn creates goodwill for future projects.

Turnkey Services

We provide customers with complete turnkey solutions for their heat tracing needs. Turnkey services include front-end optimization, product supply, engineering deliverables, system integration, installation, commissioning and maintenance. Specialized, turnkey heat tracing services meet the needs of many of our industrial

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customers who have downsized and outsourced their non-core competencies and are requiring their vendor base to have multi-service and multi-site capabilities.

Our turnkey business in the United States is based in Houston, Texas and Baton Rouge, Louisiana. We have over 1,000 turnkey clients; the largest project is approximately $8 million. Engineering and construction companies in the United States often subcontract their heat tracing projects to outside parties, including us, because of the field s highly specialized nature.

Value-Added Services

We offer heat tracing design and engineering services during every stage of a project. Offering these value-added services, especially during the early stages of a project, is a core element of our business strategy. Based on past experience, the performance of design and engineering services during the early stages of a project leads to subsequent sales of heat tracing products for that project.

We are focused on providing a comprehensive solution to fulfill the heat tracing needs of our customers. As a manufacturer of a wide range of heat tracing products, we believe that we are well positioned to evaluate and optimize a system for a customer without bias towards a particular product, and rely on more than 56 years of experience to craft the most appropriate heat tracing solution for a customer s situation and demands.

We provide value-added design and engineering services to our customers through our full-time staff of engineers and technicians. Through the design and engineering process, our engineers and technicians located throughout the world provide our customers with design optimization studies, product selection assistance, computer-generated drawing packages and detailed wiring diagrams.

Manufacturing and Operations

We have four manufacturing facilities on three continents. We manufacture the products that generate a majority of our total sales at our principal facility in San Marcos, Texas. We produce our flexible heating cables, heat tracing compound and tubing bundles in San Marcos. Our facilities are highly automated, which reduces labor costs. Our facilities incorporate numerous manufacturing processes that utilize computer-controlled equipment and laser technology. We maintain a ready supply of spare parts and have on-site personnel trained to repair and perform preventative maintenance on our specialized equipment, reducing the likelihood of long term interruptions at our manufacturing facilities. Our manufacturing facilities are equipped to provide us with maximum flexibility to manufacture our products efficiently and with short lead times. This in turn allows for lower inventory levels and faster responses to customer demands. Construction of expanded heater cable production facilities at the San Marcos facility is now underway, and we anticipate the construction of a new approximately 50,000 square foot manufacturing building in San Marcos, Texas in fiscal 2012, which we expect will serve our production capacity needs at that location for at least five years based on our current business plan. We have budgeted $5.2 million of capital expenditures in fiscal 2012 for the expansion of the San Marcos facility and new and upgraded equipment at such location. We plan to finance the facility expansion and new and upgraded equipment from cash on hand. Our Electronic Cross Linking Facility, which we refer to as ECLF, is also located at the San Marcos facility. Cross-linking enhances the thermal, chemical and electrical stability of our low-temperature self-regulating heater cables. By performing cross-linking in-house, we condense the overall manufacturing cycle by approximately six weeks. This enhances our ability to ensure a high level of product quality and to better control the production process. We also process third party materials, including diamonds, in our ECLF under toll processing agreements in order to increase utilization and generate incremental revenues.

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

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

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

Purchasing Strategy We have multiple suppliers for all of our critical raw materials, including polymer, graphite, copper and stainless steel. For each of these raw materials, a minimum of two suppliers are selected and approved. We evaluate pricing and performance of these suppliers annually. For our low-volume custom-built electronic controller components, we select a single supplier based on past performance reliability and monitor the process closely as volumes are too low to divide this product over multiple suppliers. Our purchase specifications are usually based on industry or manufacturer standards. Testing of the raw materials is performed and documented by our suppliers and is reviewed by us at the time of receipt.

Distribution We maintain three central distribution centers located in San Marcos, Texas, Calgary, Alberta and the Netherlands. Inventory is typically shipped directly from these distribution centers to customers, the construction site or our regional sales agents or distributors. Our sales agents may maintain safety stocks of core products to service the immediate MRO/UE requirements of customers who are time-sensitive and cannot wait for delivery from one of the central distribution centers. In the United States, a network of agents maintains safety stocks of core products. In Canada, customers are serviced from the central distribution center in Calgary. In Europe, customers are serviced from the central distribution center in the Netherlands. In Asia, a safety stock of materials are kept in Yokohama, Japan; Seoul, Korea; Shanghai, China; Pune, India and Melbourne, Australia. Safety stocks are also warehoused in Moscow, Russia.

Customers

We serve a broad base of large multinational customers, many of which we have served for more than 50 years. We have a diversified revenue mix with thousands of customers. None of our customers represented more than 9% of total revenues in fiscal 2011.

Sales and Marketing

Our direct sales force, consisting of 79 employees, is focused on positioning us with major end-users and engineering, procurement and construction companies during the development phase of Greenfield projects with the goal of providing reliable, cost-effective heat tracing solutions. We utilize a network of more than 100 independent sales agents and distributors in over 30 countries to provide local support to customer facilities for MRO/UE. We actively participate in the growth and development of the domestic and international heat tracing standards established in the countries in which we sell products. We believe that we have established credibility as a reliable provider of high quality heat tracing products. In addition, we believe that our 15 registered trademarks in the United States and numerous additional brand names are recognized globally, giving us excellent brand recognition.

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

Our products comply with national and international heat tracing industry standards such as ANSI/IEEE-515 in the United States, Canadian Standards Association 130.03 in Canada; International Electrical Commission 60079-30-1 in Europe, IECEx in Australia and ANSI/IEC in the Middle East. We also hold product certifications from approval agencies around the world.

Competition

The global industrial electric heat tracing industry is fragmented and consists of approximately 40 companies, that typically only serve discrete local markets and provide a limited service offering. We believe that we are the second largest participant in the industrial electric heat tracing market and one of only a few solutions providers with a comprehensive suite of products and services, global capabilities and local on-site presence. Our most significant competitor is Tyco Thermal Controls, a subdivision of Tyco International Ltd.

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

Intellectual Property and Technology

The heat tracing industry is highly competitive and subject to the introduction of innovative techniques and services using new technologies. We have at least 40 registered patents in the United States, some of which have foreign equivalents. Of the United States registered patents, six remain active, along with several foreign equivalents. While we have patented some of our products and processes, we historically have not relied upon patents to protect our design or manufacturing processes or products, and our patents are not material to our operations or business. Instead, we rely significantly on maintaining confidential our trade secrets, manufacturing know-how and other proprietary rights and other information related to our operations. Accordingly, we require all employees to sign a nondisclosure agreement to protect our trade secrets, business strategy and other proprietary information. We have 15 registered trademarks in the United States and an additional 20 recognized brand names. We also rely on a significant number of unregistered trademarks, primarily abroad, but also in the United States, in the day-to-day operation of our business.

Research and Development

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

Employees

As of March 31, 2011, we employed approximately 658 persons on a full-time basis worldwide. None of our employees is covered by a collective-bargaining agreement, and we have never experienced any organized work stoppage or strike. We consider our employee relations to be good.

Governmental Regulation

Due to the international scope of our operations, we are subject to complex United States and foreign laws governing, among others, anti-corruption matters, export controls, economic sanctions, antiboycott rules, currency exchange controls and transfer pricing rules. These laws are administered, among others, the U.S. Department of Justice, the SEC, the Internal Revenue Service, Customs and Border Protection, the Bureau of Industry and Security, the Office of Antiboycott Compliance, or OAC, and the Office of Foreign Assets Control, or OFAC, as well as the counterparts of these agencies in foreign countries. Our policies mandate compliance with these laws. Despite our training and compliance programs, no assurances can be made that we will be found to be operating in full compliance with, or be able to detect every violation of, any such laws. For example, we paid penalties of $176,000 and $14,613 in 2009 to BIS and OFAC, respectively, to settle allegations that certain of our subsidiaries had committed apparent export control and economic sanctions violations that we voluntarily disclosed to the agencies. In August 2010, we paid a penalty of $32,500 to OAC to settle allegations that certain of our subsidiaries had committed apparent violations of antiboycott laws. We cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted.

Environmental Compliance

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

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Industry

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

Our operating results have been and may in the future be adversely affected by general economic conditions and the cyclical pattern of certain industries in which our customers and end users operate. Demand for our products and services depends in large part upon the level of capital and maintenance expenditures by many of our customers and end users, in particular those in the energy, chemical processing and power generation industries, and firms that design and construct facilities for these industries. These customers expenditures historically have been cyclical in nature and vulnerable to economic downturns. Prolonged periods of little or no economic growth could decrease demand for oil and gas which, in turn, could result in lower demand for our products and a negative impact on our results of operations and cash flows. In addition, this historically cyclical demand may lead to significant shifts in our results of operations from quarter to quarter, which limits our ability to make accurate long-term predictions about our future performance.

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

A significant portion of our revenue historically has been generated by end-users in the upstream oil and gas markets. The businesses of most of our customers in the energy industry are, to varying degrees, cyclical and historically have experienced periodic downturns. Profitability in the energy industry is highly sensitive to supply and demand cycles and commodity prices, which historically have been volatile, and our customers in this industry historically have tended to delay large capital projects, including expensive maintenance and upgrades, during industry downturns. Customer project delays may limit our ability to realize value from our backlog as expected and cause fluctuations in the timing or the amount of revenue earned and the profitability of our business in a particular

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period. In addition, such delays may lead to significant fluctuations in results of operations from quarter to quarter, making it difficult to predict our financial performance on a quarterly basis.

Demand for a significant portion of our products and services depends upon the level of capital expenditure by companies in the energy industry, which depends, in part, on energy prices. Prices of oil and gas have been very volatile over the past four years, with significant increases until achieving historic highs in July 2008, followed immediately by a steep decline through 2009 and moderate increases throughout 2010 and in early 2011. A sustained downturn in the capital expenditures of our customers, whether due to a decrease in the market price of oil and gas or otherwise, may delay projects, decrease demand for our products and services and cause downward pressure on the prices we charge, which, in turn, could have a material adverse effect on our business, financial condition and results of operations. Such downturns, including the perception that they might continue, could have a significant negative impact on the market price of our common stock.

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

For fiscal 2011, approximately 69% of our revenues were generated outside of the United States, and approximately 37% were generated outside North America. In addition, one of our key growth strategies is to continue to expand our global footprint in emerging and high growth markets around the world, although we may not be successful in expanding our international business.

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

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

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

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

- exchange controls and currency restrictions;

- the burden of complying with multiple and potentially conflicting laws;

- potentially negative consequences from changes in U.S. and foreign tax laws;
- difficulty in staffing and managing (including ensuring compliance with internal policies and controls) geographically widespread operations;
- different regulatory regimes controlling the protection of our intellectual property;
- difficulty in the enforcement of contractual obligations in non-U.S. jurisdictions and the collection of accounts receivable from foreign accounts; and
- transportation delays or interruptions.

One or more of these factors could prevent us from successfully expanding our presence in international markets, could have a material adverse effect on our revenues, profitability or cash flows or cause an increase in our liabilities. We may not succeed in developing and implementing policies and strategies to counter the foregoing factors effectively in each location where we do business.

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

Our backlog is comprised of the portion of firm signed purchase orders or other written contractual commitments received from customers that we have not recognized as revenue. The dollar amount of backlog as of March 31, 2011 was $76.3 million. The timing of our recognition of revenue out of our backlog is subject to a variety of factors that may cause delays, many of which, including fluctuations in our customers delivery schedules, are beyond our control. Such delays may lead to significant fluctuations in results of operations from quarter to quarter, making it difficult to predict our financial performance on a quarterly basis. For example, a delay in the completion of a large Greenfield project resulted in approximately several million dollars in revenue attributable to such project being realized in the quarter ended September 30, 2010, which was one quarter later than expected. Further, while we have historically experienced few order cancellations and the amount of order cancellations has not been material compared to our total contract volume, if we were to experience a significant amount of cancellations of or reductions in purchase orders, it would reduce our backlog and, consequently, our future sales and results of operations.

Our ability to meet customer delivery schedules for our backlog is dependent on a number of factors including, but not limited to, access to raw materials, an adequate and capable workforce, engineering expertise for certain projects, sufficient manufacturing capacity and, in some cases, our reliance on subcontractors. For example, we are currently evaluating the expansion of our principal manufacturing facility in San Marcos, Texas, which we expect will serve our production capacity needs at that location for at least five years based on our current business plan. We cannot, however, provide any assurance that such expansion will be undertaken in a timely fashion, or at all, or that we will realize the gain in capacity we expect. The availability of these factors may in some cases be subject to conditions outside of our control. A failure to deliver in accordance with our performance obligations may result in financial penalties and damage to existing customer relationships, our reputation and a loss of future bidding opportunities, which could cause the loss of future business and could negatively impact our financial performance.

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

Our future revenue and overall results of operations require us to successfully bid on new contracts and, in particular, contracts for large Greenfield projects, which are frequently subject to competitive bidding processes. For example, for fiscal 2011, approximately 17% of our revenue consisted of designing, engineering, supplying and/or installing equipment for large Greenfield projects pursuant to competitive bids. Our revenue from major projects depends in part on the level of capital expenditures in our principal end markets, including the energy, chemical processing and power generation industries. The number of such projects we win in any year fluctuates, and is dependent upon the number of projects available and our ability to bid successfully for such projects. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which is affected by a number of factors, such as competitive position, market conditions, financing arrangements and required governmental approvals. For example, a client may require us to provide a bond or letter of credit to protect the client should we fail to perform under the terms of the contract. If negative market conditions arise, or if we fail to secure adequate financial arrangements or required governmental approvals, we may not be able to pursue particular projects, which could adversely affect our profitability.

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

We operate in competitive domestic and international markets and compete with highly competitive domestic and international manufacturers and service providers. The fragmented nature of the industrial electric heat tracing industry, which consists of approximately 40 companies, makes the market for our products and services highly competitive. A number of our direct and indirect competitors are major multinational corporations, some of which have substantially greater technical, financial and marketing resources than us, and additional competitors may enter these markets. Our competitors may develop products that are superior to our products, develop methods of more efficiently and effectively providing products and services, or adapt more quickly than we do to new technologies or evolving customer requirements. Any increase in competition may cause us to lose market share or compel us to reduce prices to remain competitive, which could result in reduced sales and earnings.

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

We may not be able to effectively manage our exchange rate and/or currency transaction risks. Volatility in currency exchange rates may decrease our revenues and profitability, adversely affect our liquidity and impair our financial condition. We have not historically entered into hedging instruments to manage our exchange rate risk.

Our non-U.S. subsidiaries generally sell their products and services in the local currency, but obtain a significant amount of their products from our facilities located in another country, primarily the United States, Canada or Europe. In particular, significant fluctuations in the Canadian Dollar, the Russian Ruble, the Euro or the Pound Sterling against the U.S. Dollar could adversely affect our results of operations. We also bid for certain foreign projects in U.S. Dollars or Euros. If the U.S. Dollar or Euro strengthens relative to the value of the local currency, we may be less competitive in bidding for those projects. See Item 7A, Quantitative and Qualitative Disclosures about Market Risk for additional information regarding our foreign currency exposure relating to operations.

In order to meet our global cash management needs, we often transfer cash between the United States and foreign operations and sometimes between foreign entities. In addition, our debt service requirements are primarily in U.S. Dollars and a substantial portion of our cash flow is generated in foreign currencies, and we may need to repatriate cash to the United States in order to meet our U.S. debt service obligations, including on our senior secured notes. These transfers of cash expose us to currency exchange rate risks, and significant changes in the value of the foreign currencies relative to the U.S. Dollar could limit our ability to meet our debt obligations, including under our senior secured notes, and impair our financial condition.

Because our consolidated financial results are reported in U.S. Dollars, and we generate a substantial amount of our sales and earnings in other currencies, the translation of those results into U.S. Dollars can result in a significant decrease in the amount of those sales and earnings. In addition, fluctuations in currencies relative to the U.S. Dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations.

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

We face a risk of exposure to claims in the event that the failure, use or misuse of our products results, or is alleged to result, in death, bodily injury, property damage or economic loss. Although we maintain quality controls and procedures, we cannot be sure that our products will be free from defects. If any of our products prove to be defective, we may be required to replace the product. In addition, we may be required to recall or redesign such products, which could result in significant unexpected costs. Some of our products contain components manufactured by third parties, which may also have defects. In addition, if we are installing our products, we may be subject to claims that our installation caused damage or loss. Our products are often installed in our customers or end users complex and capital intensive facilities in inherently hazardous or dangerous industries, including energy, chemical processing and power generation, where the potential liability from risk of loss could be substantial. Although we currently maintain product liability coverage, which we believe is adequate for the continued operation of our business, we cannot be certain that this insurance coverage will continue to be available to us at a reasonable cost or, if available, will be adequate to cover any potential liabilities. With respect to components manufactured by third-party suppliers, the contractual indemnification that we seek from our third-party suppliers may be insufficient to cover claims made against us. In the event that we do not have adequate insurance or contractual indemnification, product liabilities could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

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

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

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

In addition, our geographically widespread operations, coupled with our relatively smaller offices in many countries and our reliance on third party subcontractors, suppliers and manufacturers in the completion of our projects, make it more difficult to oversee and ensure that all our offices and employees comply with our internal policies and control procedures. We have in the past experienced employee theft, although the amounts involved have not been material, and we cannot assure you that we can ensure compliance with our internal control policies and procedures.

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

The U.S. Foreign Corrupt Practices Act, which we refer to as the FCPA, and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to influence foreign government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by both the DOJ and the SEC resulting in record fines and penalties, increased enforcement activity by non-U.S. regulators, and increases in criminal and civil proceedings brought against companies and individuals. Because many of our customers and end users are involved in infrastructure construction and energy production, they are often subject to increased scrutiny by regulators. Our internal policies mandate compliance with these anti-corruption laws. We operate in many parts of the world that are recognized as having governmental corruption problems to some degree and where strict compliance with anti-corruption laws may conflict with local customs and practices. Our continued operation and expansion outside the United States, including in developing countries, could increase the risk of such violations in the future. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures always will protect us from unauthorized reckless or criminal acts committed by our employees or agents. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may result in severe criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, business, results of operations or financial condition.

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

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

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

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

If we lose our senior management or other key employees, our business may be adversely affected.

Our ability to successfully operate and grow our global business and implement our strategies is largely dependent on the efforts, abilities and services of our senior management and other key employees. If we lose the services of our senior management or other key employees and are unable to find qualified replacements with comparable experience in the industry, our business could be negatively affected. Our future success will also depend on, among other factors, our ability to attract and retain qualified personnel, such as engineers and other skilled labor, and in particular management and skilled employees for our foreign operations.

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

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

- diversion of management time and attention from daily operations;

- difficulties integrating acquired businesses, technologies and personnel into our business;
- potential loss of key employees, key contractual relationships or key customers of acquired companies or of us; and
- assumption of the liabilities and exposure to unforeseen liabilities of acquired companies.

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

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

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

Additional liabilities related to taxes or potential tax adjustments could adversely impact our financial results, financial condition and cash flow.

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

Even though we have increased and may in the future increase our repatriation of cash earned by our non-U.S. subsidiaries to fund one-time redemptions of our outstanding senior secured notes or other extraordinary corporate events in the United States, we will leave a portion of such cash outside the United States as permanently reinvested earnings and profits. Accordingly, our current estimated annual effective tax rate is based on partial, and not full, repatriation of cash earned by our non-U.S. subsidiaries. If we underestimate our need for repatriated cash, or our needs change, significant tax adjustments may result.

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

Due to TGH being a public company with listed equity securities and THC having SEC-registered debt securities, we are required to comply with certain laws, regulations and requirements, including the requirements of the Securities Exchange Act of 1934, as amended, which we refer to the Exchange Act, certain corporate governance provisions of the Sarbanes-Oxley Act of 2002, which we refer to as the Sarbanes-Oxley Act, related regulations of the SEC and requirements of the New York Stock Exchange, which we refer to as the NYSE. Complying with these statutes, regulations and requirements occupies a significant amount of time of our board of directors and management and results in significant legal, accounting and other expenses. We maintain, and will continue to maintain, internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a public company. However, the measures we take may not be sufficient to satisfy our obligations. In addition, we cannot predict or estimate the amount of additional costs incurred in order to comply with these requirements.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments and attestation by our independent registered public accounting firm of the effectiveness of our internal control over financial reporting. Starting with the annual report for the fiscal year ending March 31, 2012, we will be required to file an annual management assessment of the effectiveness of our internal control over financial reporting with the SEC. For the fiscal year ending March 31, 2013, in addition to the management assessment, we will have to file an attestation by our independent registered public accounting firm of the effectiveness of our internal control over financial reporting with the SEC. In connection with the implementation of the necessary procedures and practices related to internal control over financial reporting, we or our independent registered public accounting firm may identify deficiencies that we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. If we fail to comply with Section 404, or if we or our independent registered public accounting firm identify and report a material weakness, it may affect the reliability of our internal control over financial reporting, which could adversely affect the market price of our common stock and subject us to sanctions or investigations by the NYSE, the SEC or other regulatory authorities, which would require additional financial and management resources.

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

We have substantial indebtedness. At March 31, 2011, THC had $210.0 million outstanding in senior secured notes. After taking into account the optional redemptions of $21.0 million aggregate principal amount of our senior secured notes that occurred on each of April 29, 2011 and June 9, 2011, we have long-term debt of $168.0 million, all of which is secured. Our senior secured notes accrue interest at a fixed rate of 9.500%, payable in cash semi-annually on May 1 and November 1 of each year. If our cash flows and capital resources are insufficient to fund the interest payments on our senior secured notes and other debt service obligations and keep us in compliance with the covenants under our debt agreements or to fund our other liquidity needs, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot ensure that we would be able to take any of these actions, that these actions would permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, which may impose significant operating and financial restrictions on us and could adversely affect our ability to finance our future operations or capital needs; obtain standby letters of credit, bank guarantees or performance bonds required to bid on or secure certain customer contracts; make strategic acquisitions or investments or enter into alliances; withstand a future downturn in our business or the economy in general; engage in business activities, including future opportunities, that may be in our interest; and plan for or react to market conditions or otherwise execute our business strategies.

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

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

A significant portion of our business is conducted through foreign subsidiaries and our failure to generate sufficient cash flow from these subsidiaries, or otherwise repatriate or receive cash from these subsidiaries, could result in our inability to repay our indebtedness.

Approximately 69% of our fiscal 2011 revenues were generated outside of the United States. While we have been able to meet the regular interest payment obligations on our senior secured notes to date from cash generated through our U.S. operations and expect to be able to continue to do so in the future, we may seek to repatriate cash for other uses, and our ability to withdraw cash from foreign subsidiaries will depend upon the results of operations of these subsidiaries and may be subject to legal, contractual or other restrictions and other business considerations. Our foreign subsidiaries may enter into financing arrangements that limit their ability to make loans or other payments to fund payments of our debt. In particular, to the extent our foreign subsidiaries incur additional indebtedness, the ability of our foreign subsidiaries to provide us with cash may be limited. In addition, dividend and interest payments to us from our foreign subsidiaries may be subject to foreign withholding taxes, which could reduce the amount of funds we receive from our foreign subsidiaries. Dividends and other distributions from our foreign subsidiaries may also be subject to fluctuations in currency exchange rates and legal and other restrictions on repatriation, which could further reduce the amount of funds we receive from our foreign subsidiaries.

In general, when an entity in a foreign jurisdiction repatriates cash to the United States, the amount of such cash is treated as a dividend taxable at current U.S. tax rates. Accordingly, upon the distribution of cash to us from our foreign subsidiaries, we will be subject to U.S. income taxes. Although foreign tax credits may be available to reduce the amount of the additional tax liability, these credits may be limited based on our tax attributes. Therefore, to the extent that we must use cash generated in foreign jurisdictions, there may be a cost associated with repatriating cash to the United States.

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

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

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

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

We have obtained and applied for some U.S. and, to a lesser extent, foreign trademark registrations and will continue to evaluate the registration of additional trademarks. We cannot guarantee that any of our pending applications will be approved. Moreover, even if the applications are approved, third parties may seek to oppose or

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otherwise challenge them. In addition, we rely on a number of significant unregistered trademarks, primarily abroad, but also in the United States, in the day-to-day operation of our business. Without the protections afforded by registration, our ability to protect and use our trademarks may be limited and could negatively affect our business.

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

Risks Related to Ownership of Our Common Stock

The price of our common stock could be volatile.

The overall market and the price of our common stock may fluctuate greatly. The trading price of our common stock may be significantly affected by various factors, including: (i) quarterly fluctuations in our operating results; (ii) changes in investors and analysts perception of the business risks and conditions of our business or our competitors; (iii) our ability to meet the earnings estimates and other performance expectations of financial analysts or investors; (iv) unfavorable commentary or downgrades of our stock by equity research analysts; (v) the emergence of new sales channels in which we are unable to compete effectively; (vi) disruption to our operations; (vii) termination of lock-up agreements or other restrictions on the ability of our existing stockholders to sell their shares; (viii) fluctuations in the stock prices of our peer companies or in stock markets in general; and (ix) general economic or political conditions.

Future sales of our common stock may lower our stock price.

If our existing stockholders sell a large number of shares of our common stock in the public market, the market price of our common stock could decline significantly. In addition, the perception in the public market that our existing stockholders might sell shares of common stock could depress the market price of our common stock, regardless of the actual plans of our existing stockholders. As of June 13, 2011, we had 29.5 million shares of our common stock outstanding, 10.6 million shares of which are immediately available for resale in the public market and 18.9 million of which will become available for resale in the public market after November 1, 2011 (subject to extension under certain circumstances), and subject to certain restrictions, including limitations under Rule 144 and restrictions on open market transfers pursuant to the terms of our Securityholder Agreement (as described below in Item 13, Certain Relationships and Related Transactions, and Director Independence Related Party Transactions Securityholder Agreement). In addition, we have filed a registration statement on Form S-8 under the Securities Act registering all of the shares of common stock subject to outstanding options (including 2.8 million shares subject to vested stock options) as well as shares of our common stock that may otherwise be covered by additional options and other awards granted under our existing equity incentive plans. See Item 11, Executive Compensation Elements of Our Compensation Program Long-Term Incentives-Restricted Stock and Stock Option Plan and Executive Compensation 2011 Long-Term Incentive Plan. These shares can be sold in the public market upon issuance, subject to certain restrictions, including restrictions under the securities laws applicable to resales by affiliates.

In addition, beginning November 1, 2011 (subject to extension under certain circumstances), CHS will have the right, subject to certain exceptions and conditions, to require us to register their 9,556,793 shares of common stock under the Securities Act, and holders of an additional 9,301,712 shares of our common stock will have the right to participate in future registrations of securities by us. Registration of any of these outstanding shares of common stock would result in such shares becoming freely tradable without compliance with Rule 144 upon effectiveness of the registration statement.

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

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

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

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

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

Our existing stockholders exert significant influence over us, and their interests may not coincide with yours.

CHS and its affiliates beneficially own, in the aggregate, 32.4% of our outstanding common stock. CHS and its affiliates, together with our other sponsors and their respective affiliates, beneficially own, in the aggregate, 53.3% of our outstanding common stock. As a result, our sponsors, acting individually or together, could control substantially all matters requiring stockholder approval for the foreseeable future, including approval of significant corporate transactions. In addition, pursuant to the terms of our Securityholder Agreement (as described below in Item 13, Certain Relationships and Related Transactions, and Director Independence Related Party Transactions Securityholder Agreement), CHS will continue to have the ability to designate one member of our board of directors and to require all other parties to the Securityholder Agreement to sell their respective shares of our common stock, on substantially the same terms and conditions as CHS is selling its shares, in the event that CHS approves a sale of us. The parties to the Securityholder Agreement, other than CHS, own in the aggregate 31.5% of our outstanding common stock. The interests of these stockholders may not always coincide with our interests as a company or the interest of other stockholders. In addition, this concentration of ownership may delay or prevent a change in control of our company, even if that change in control would benefit our stockholders. This significant concentration of stock ownership and voting power may adversely affect the trading price of our common stock due to investors perception that conflicts of interest may exist or arise. See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters and Item 13, Certain Relationships and Related Transactions, and Director Independence for further information about the equity interests held by our sponsors and their respective affiliates.

Moreover, our second amended and restated certificate of incorporation contains a provision renouncing our interest and expectancy in, or in being offered an opportunity to participate in, any business opportunity that may be presented to the sponsors or any of their respective affiliates (other than us and our subsidiaries), subsidiaries, officers, directors, agents, stockholders, members, partners and employees and that may be a business opportunity for such sponsor, even if the opportunity is one that we might reasonably have pursued or had the ability or desire to pursue if granted the opportunity to do so. None of the sponsors has any duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business as us or any of our subsidiaries.

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We are eligible to take advantage of the NYSE s controlled company exemption from certain NYSE corporate governance requirements, and if we elect to do so, our stockholders will not have the same protections afforded to stockholders of companies that are subject to such requirements.

Under the NYSE rules, a company of which more than 50% of the voting power is held by another person or group of persons acting together is a controlled company and may elect not to comply with certain NYSE corporate governance requirements. We are eligible to take advantage of the controlled company exception in light of the collective voting power of our sponsors and their respective affiliates. We currently are not relying on this exception, but may elect to do so in the future. If we were to elect to be treated as a controlled company in the future, we would be exempt from certain NYSE corporate governance requirements, including the requirements that our board of directors consist of a majority of independent directors and that we have compensation and nominating and corporate governance committees comprised entirely of independent directors, and our stockholders would not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our common stock or if our operating results do not meet their expectations, our common stock price could decline.

The market price of our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause the market price of our common stock or its trading volume to decline. Moreover, if one or more of the analysts who cover our company downgrade our common stock or if our operating results or prospects do not meet their expectations, the market price of our common stock could decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our headquarters and principal executive offices are located at 100 Thermon Drive, San Marcos, Texas. A summary of the physical properties that we use as of March 31, 2011 follows in the table below. We believe that our facilities are suitable for their purpose and adequate to meet our business operations requirements. We have manufacturing facilities in the United States, Canada, Europe and India. Most of our operations are registered to International Organization for Standardization (ISO) 9001 quality standards.

Location	Country	Approximate Size	Function	Owned/ Leased
Corporate Headquarters San Marcos, TX*	United States	150,000 sq. ft. on 30 acres	Manufacturing, fabrication, sales, engineering, marketing, research & development, warehouse and Corporate Headquarters	Owned
Hunter Road Facility San Marcos, TX	United States	26,800 sq. ft.	Fabrication, engineering and warehouse	Leased
McCarty Lane Property San Marcos, TX	United States	6.6 acres	Storage	Owned
Houston, TX	United States	44,000 sq. ft. on 4.2 acres	Fabrication, sales, engineering and warehouse	Owned
Baton Rouge, LA	United States	10,000 sq. ft.	Sales, engineering and warehouse	Owned
Newark, DE	United States	850 sq. ft.	Sales	Leased
Office Calgary, AB	Canada	34,000 sq. ft.	Fabrication, sales, engineering and warehouse	Leased
MI Plant Calgary, AB	Canada	46,000 sq. ft.	Manufacturing, fabrication and warehouse	Leased
Edmonton, AB	Canada	4,250 sq. ft.	Sales and warehouse	Leased
Sarnia, ON	Canada	4,500 sq. ft.	Sales and warehouse	Leased
Mexico City	Mexico	2,000 sq. ft.	Sales and engineering	Leased
Pijnacker	Netherlands	35,000 sq. ft. on 1.5 acres	Manufacturing, fabrication, sales, engineering, warehouse, marketing and European Headquarters	Owned
Moscow	Russia	3,050 sq. ft.	Sales and engineering	Leased
Paris	France	2,000 sq. ft.	Sales and engineering	Leased
Gateshead, Tyne & Wear	United Kingdom	5,000 sq. ft.	Sales and engineering	Leased
Bergisch Gladbach	Germany	2,750 sq. ft.	Sales and engineering	Leased
Manama	Bahrain	700 sq. ft.	Sales and engineering	Leased
Shanghai	China	2,500 sq. ft.	Sales and engineering	Leased
Beijing	China	1,500 sq. ft.	Sales and engineering	Leased
Mumbai	India	3,750 sq. ft.	Sales and engineering	Leased
Koregon Bhima	India	15,000 sq. ft. on 2.3 acres	Manufacturing, fabrication and warehouse	Owned
Caringbah, New South Wales	Australia	200 sq. ft.	Sales	Leased
Bayswater, Victoria	Australia	1,350 sq. ft.		Owned

			Fabrication, sales, engineering and warehouse	
Kuala Lumpur	Malaysia	475 sq. ft.	Sales and engineering	Leased
Yokohama	Japan	1,500 sq. ft.	Sales and engineering	Leased
Seoul	South Korea	3,000 sq. ft.	Sales and engineering	Leased

* We anticipate expanding our Corporate Headquarters San Marcos, Texas facility during fiscal 2012 with the addition of an approximately 50,000 sq. ft. manufacturing building.

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ITEM 3. LEGAL PROCEEDINGS

The Company has no outstanding legal matters outside of matters arising in the ordinary course of business, except as described below.

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. Five cases are currently pending. Insurers are defending us in two of the five lawsuits, and we expect that an insurer will defend us in the remaining three matters. Of the concluded suits, there were five cost of defense settlements and the remainder were dismissed without payment. All amounts paid in connection with such settlements were immaterial. There are no claims unrelated to asbestos exposure for which coverage has been sought under the policies that are providing coverage. We can give no assurances that we will prevail in any of these matters.

ITEM 4. RESERVED.

PART II

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

The common stock of TGH began trading on the NYSE on May 5, 2011 under the symbol THR. Prior to that time, there was no public trading market for the common stock of TGH. The high and low per-share sale prices for the common stock of TGH as reported by the NYSE for the period from May 5, 2011 to June 13, 2011 were $13.14 and $11.70. The last reported sale price for TGH s common stock as reported on the NYSE on June 13, 2011 was $12.46 per share.

THC is a direct wholly-owned subsidiary of TGH. THC s common stock is not listed for trading on any stock exchange, and there is no established public trading market for THC s common stock.

As of June 13, 2011, the common stock of TGH was held of record by at least 78 holders and there were 29,523,641 shares of TGH common stock outstanding.

Dividend Information

In December 2009, Thermon Holdings, LLC, the predecessor to the Company for financial statement reporting purposes, declared a cash dividend in the amount of $182.18 per issued and outstanding equity interest (or $8.6 million in the aggregate). Since the completion of the CHS Transactions on April 30, 2010, we have not declared or paid any cash dividends on our capital stock, and we do not currently intend to pay any cash dividends on our common stock. We currently intend to retain earnings to finance the growth and development of our business and for working capital and general corporate purposes. Any payment of dividends will be at the discretion of our board of directors and will depend upon earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by applicable law and other factors. In particular, the indenture governing our senior secured notes and our revolving credit facility limit our ability to pay dividends from cash generated from operations. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Equity Compensation Plan Information

For information on our equity compensation plans, see Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Equity Compensation Plan Information. See also Note 14, Stock-Based Compensation Expense to the consolidated financial statements of TGH included elsewhere in this annual report.

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Issuer Purchases of Equity Securities

For the quarter ended March 31, 2011, neither TGH nor THC made any repurchases of its own common stock.

Recent Sales of Unregistered Securities

Since the incorporation of TGH in March 2010, TGH has issued the following securities that were not registered under the Securities Act (after giving effect to a 192.458681-for-one split of the common stock of TGH effective as of March 31, 2011):

- On April 30, 2010, as part of the CHS Transactions, an investor group led by entities affiliated with CHS Capital LLC and two other private equity firms acquired Audax s controlling interest in us. The acquisition was financed in part by an equity investment by our sponsors and certain and former members of management and key employees, whom we collectively refer to as the management investors. The sponsors and management investors acquired 24,875,669 shares of TGH common stock in exchange for an aggregate investment of $129,252,000. See Item 13, Certain Relationships and Related Transactions, and Director Independence Related Party Transactions CHS Transactions. These shares were issued in reliance on the exemption provided by Section 4(2) of the Securities Act.

- In October 2010, TGH sold 28,869 shares of common stock to Charles A. Sorrentino, a director, for $150,000. These shares were issued in reliance on the exemption provided by Section 4(2) of the Securities Act. TGH also granted stock options under the 2010 Equity Plan to purchase an aggregate of 2,648,402 shares of TGH common stock, each with an exercise price of $5.20 per share, to employees and directors and issued 9,623 shares of common stock under the 2010 Equity Plan to one employee. See Item 11, Executive Compensation Elements of Our Compensation Program Long-Term Incentives Restricted Stock and Stock Option Plan.

- In December 2010, TGH sold 19,246 shares of common stock to Richard E. Goodrich, a director, for $100,000. These shares were issued in reliance on the exemption provided by Section 4(2) of the Securities Act.

- On March 1, 2011, TGH granted options under the 2010 Equity Plan to purchase an aggregate of 109,122 shares of common stock, each with an exercise price of $9.82, to employees. See Item 11, Executive Compensation Elements of Our Compensation Program Long-Term Incentives Restricted Stock and Stock Option Plan.

- In May 2011, concurrently with the pricing of the IPO, TGH granted to its executive officers and certain other employees options under the LTIP to purchase 117,600 shares of common stock. See Item 11, Executive Compensation 2011 Long-Term Incentive Plan.

All shares described above are deemed restricted securities for purposes of the Securities Act.

Use of Proceeds from Sales of Registered Securities

On May 10, 2011, TGH completed the IPO, pursuant to which an aggregate of 10,000,000 shares of common stock were sold to the public at a price of $12.00 per share. TGH sold 4,000,000 shares of its common stock, and certain stockholders of TGH sold 6,000,000 shares of TGH common stock.

On May 26, 2011, TGH and certain stockholders of TGH completed the sale of 650,000 shares of TGH common stock (575,098 shares of which were issued and sold by TGH and 74,902 shares of which were sold by certain stockholders of TGH), pursuant to the partial exercise by the underwriters of the over-allotment option granted in connection with the IPO.

TGH raised approximately $54.9 million in gross proceeds from the sale of shares in the IPO and over-allotment option, resulting in net proceeds to TGH of approximately $48.6 million, after deducting approximately $3.8 million in underwriting discounts and commissions and $2.5 million in IPO-related expenses.

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All of the 10,650,000 shares of TGH common stock sold in the IPO and over-allotment option were sold pursuant to TGH s Registration Statement on Form S-1 (File No. 333-172007), which was declared effective by the SEC on May 4, 2011. The IPO commenced on May 4, 2011 and terminated before all but 850,000 shares of TGH common stock (which were subject to the underwriters over-allotment option) registered in the registration statement were sold.

Barclays Capital Inc. and Jefferies & Company, Inc. served as joint book-running managers and representatives of the several underwriters in the IPO.

There has been no material change in the planned use of proceeds from the IPO as described in the final prospectus filed by TGH with the SEC pursuant to Rule 424(b) on May 5, 2011. TGH contributed $21.6 million of the net proceeds from the IPO to THC to prepay $21.0 million of our senior secured notes outstanding at a redemption price of 103% of the principal amount thereof, plus accrued and unpaid interest thereon, which prepayment occurred on June 9, 2011. TGH intends to use the remaining net proceeds from the IPO for general corporate purposes. No payments were made by TGH to directors, officers or persons owning ten percent or more of TGH common stock or to their associates, or to our affiliates, from the net IPO proceeds.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth certain selected historical consolidated financial and operating data as of and for the fiscal years ended March 31, 2007, March 31, 2008, March 31, 2009, March 31, 2010 and March 31, 2011. The data set forth below should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, which is contained elsewhere in this annual report, and our consolidated financial statements and the notes thereto for the fiscal years ended March 31, 2009, March 31, 2010 and March 31, 2011, which are contained elsewhere in this annual report.

In this annual report, we have included the consolidated financial statements of Thermon Group Holdings, Inc. as of March 31, 2011 and for the period from May 1, 2010 through March 31, 2011 (successor) and the consolidated financial statements of Thermon Holdings, LLC for the fiscal years ended March 31, 2010 and March 31, 2009, for the period from August 30, 2007 through March 31, 2008 (predecessor), and for the period from April 1, 2007 through August 29, 2007 (pre-predecessor). Concurrent with the completion of the CHS Transactions on April 30, 2010, Thermon Holdings, LLC no longer owned any interest in us, and, beginning with the period from May 1, 2010 through March 31, 2011, we reported the consolidated financial statements of Thermon Group Holdings, Inc. We do not anticipate that there would have been any material difference in our consolidated financial statements and notes thereto for the fiscal years ended March 31, 2008, March 31, 2009 and March 31, 2010 had such statements been prepared for Thermon Group Holdings, Inc., except as it relates to purchase accounting in connection with the CHS Transactions.

The presentation of fiscal 2008 includes the combined results of the pre-predecessor and predecessor periods, and the presentation of fiscal 2011 includes the combined results of the predecessor and successor periods. We have presented the combination of these respective periods because it provides an easier-to-read discussion of the results of operations and provides the investor with information from which to analyze our financial results in a manner that is consistent with the way management reviews and analyzes our results of operations. In addition, the combined results provide investors with the most meaningful comparison between our results for prior and future periods. Please refer to Notes 1 and 2 to the table set forth in this Item 6, Selected Financial Data below and our historical consolidated financial statements and notes thereto for the fiscal years ended March 31, 2008 and March 31, 2011 included elsewhere in this annual report for a separate presentation of the results for the pre-predecessor and predecessor, and predecessor and successor periods, respectively.

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	Pre-Predecessor	Pre-Predecessor/ Predecessor Combined (Non-GAAP)(1)	Predecessor		Predecessor/ Successor Combined (Non-GAAP)(2)
	Year Ended March 31,				
	2007	2008	2009	2010	2011
	(dollars in thousands)				
Consolidated Statements of Operations Data:					
Sales	$ 121,410	$ 185,811	$ 202,755	$ 192,713	$ 238,808
Cost of sales	66,102	102,946	105,456	101,401	128,460
Purchase accounting adjustments(3)		7,146			7,614
Gross profit	$ 55,308	$ 75,719	$ 97,299	$ 91,312	$ 102,734
Operating expenses:					
Marketing, general and administrative and engineering	37,361	47,044	49,807	47,343	58,425
Amortization of intangible assets		6,716	6,627	2,426	18,245
Income from operations	$ 17,947	$ 21,959	$ 40,865	$ 41,543	$ 26,064
Interest income	64	167	94	6	49
Interest expense	(882)	(8,374)	(9,625)	(7,357)	(29,000)(4)
(Gain/(loss) on disposition of property, plant and equipment	428	(116)	(18)	(1)	(1,101)
Loss on retirement of debt					(630)
Success fees to owners related to the CHS Transactions(5)					(7,738)
Miscellaneous income/(expense)(5)	(1,400)	(12,937)	(3,120)	(1,285)	(14,125)
Income (loss) from continuing operations before provision for income taxes	$ 16,157	$ 699	$ 28,196	$ 32,906	$ (26,481)
Income tax benefit (expense)	(5,429)	(21,712)	(1,795)	(13,966)	11,274
Income (loss) from continuing operations	$ 10,728	$ (21,013)	$ 26,401	$ 18,940	$ (15,207)
Discontinued operations:					
Income from operations (less applicable income tax provision (benefit) of ($79) and $229 in 2006 and 2007)	446				
Gain on disposal of discontinued operations (less applicable income tax of $112 in 2007)	219				
Net income (loss)(6)	$ 11,393	$ (21,013)	$ 26,401	$ 18,940	$ (15,207)
Other Financial and Operating Data:					
Adjusted EBITDA(7)	$ 19,548	$ 37,548	$ 47,497	$ 44,990	$ 55,663
Capital expenditures	6,432	5,315	2,708	1,587	1,799
Backlog at end of period(8)	52,229	77,497	66,779	82,459	76,298

	Pre-Predecessor/ Predecessor	Predecessor	Predecessor/ Successor Combined

	Combined (Non-GAAP)(1) 2007	2008	At March 31, 2009 (dollars in thousands)	2010	(Non-GAAP)(2) 2011
Balance Sheet Data:					
Cash and cash equivalents	$ 2,062	$ 6,474	$ 13,402	$ 30,147	$ 51,266
Accounts receivable, net	27,924	45,016	37,874	41,882	40,013
Inventory, net	18,766	25,136	25,103	22,835	31,118
Total assets	72,769	213,301	193,736	221,116	451,032
Total debt	11,809	120,951	99,032	109,249	212,063
Total shareholders equity	30,515	20,345	38,214	55,074	126,532

(1) The closing of the Audax Transaction on August 30, 2007 established a new basis of accounting that primarily affected inventory, intangible assets, goodwill, taxes, debt and equity. This resulted in additional amortization expense, interest expense and tax expense for the period from August 30, 2007 through March 31, 2008 (predecessor) as compared to the period from April 1, 2007 through August 29, 2007 (pre-predecessor). Except for purchase accounting adjustments, the results for the two combined periods are comparable. Therefore, we believe that combining the two periods into a single period for comparative purposes gives the most clarity for the users of this financial information. Please refer to our historical consolidated financial statements and notes thereto for the year ended March 31, 2008 included elsewhere in this annual report for a separate presentation of the results for the pre-predecessor and predecessor periods in accordance with U.S. generally accepted accounting principles (or GAAP).

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	For the Period From April 1, Through August 29, 2007 (Pre-Predecessor)	For the Period From August 30, 2007 Through March 31, 2008 (Predecessor) (dollars in thousands)	Year Ended March 31, 2008 (Pre-Predecessor/ Predecessor Combined)
Consolidated Statements of Operations Data:			
Revenues	$ 61,615	$ 124,196	$ 185,811
Cost of revenues	33,801	76,291	110,092
Gross profit	27,814	47,905	75,719
Marketing, general and administrative and engineering	17,182	29,862	47,044
Amortization of intangible assets		6,716	6,716
Income from operations	10,632	11,327	21,959
Interest income	13	154	167
Interest expense	(440)	(7,934)	(8,374)
Loss on disposition of property, plant and equipment	(75)	(41)	(116)
Miscellaneous income/(expense)	(9,222)	(3,715)	(12,937)
Income (loss) before provision for income taxes	908	(209)	699
Income tax expense	(1,693)	(20,019)	(21,712)
Net loss	$ (785)	$ (20,228)	$ (21,013)
Statement of Cash Flows Data:			
Net cash provided by (used in):			
Operating activities	$ (10,573)	$ 9,328	$ (1,245)
Investing activities	194	(150,150)	(149,956)
Financing activities	10,870	147,280	158,150
Effect of exchange rates on cash and cash equivalents	1,147	16	1,163
Capital expenditures	1,085	4,229	5,315
Depreciation and amortization	654	15,629	16,283

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

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	For the Period From April 1, Through April 30, 2010 (Predecessor)	For the Period From May 1, 2010 Through March 31, 2011 (Successor) (dollars in thousands)	Fiscal Year Ended March 31, 2011 (Predecessor/ Successor Combined)
Consolidated Statements of Operations Data:			
Revenues	$ 13,063	$ 225,745	$ 238,808
Cost of revenues	6,447	122,013	128,460
Purchase accounting non-cash adjustment		7,614	7,614
Gross profit	6,616	96,118	102,734
Marketing, general and administrative and engineering	4,263	54,162	58,425
Amortization of intangible assets	215	18,030	18,245
Income from operations	2,138	23,926	26,064
Interest income	7	42	49
Interest expense	(6,229)	(22,770)	(29,000)
Loss on retirement of debt		(630)	(630)
Success fees to owners related to the CHS Transactions	(4,716)	(3,022)	(7,738)
Loss on disposition of property plant and equipment		(1,101)	(1,101)
Miscellaneous income/(expense)	(8,901)	(5,224)	(14,125)
Loss before provision for income taxes	(17,701)	(8,780)	(26,481)
Income tax benefit (expense)	17,434	(6,160)	11,274
Net loss	$ (267)	$ (14,940)	$ (15,207)
Statement of Cash Flows Data:			
Net cash provided by (used in):			
Operating activities	$ (6,402)	$ 38,962	$ 32,560
Investing activities	(1,494)	(316,605)	(318,099)
Financing activities	(19,385)	326,316	306,931
Capital expenditures	(97)	(1,702)	(1,799)
Depreciation and amortization	392	27,538	20,316
Purchase accounting adjustment to cost of goods sold		7,614	7,614
Amortization of deferred debt cost to interest expense	2,586	3,948	6,534
Effect of exchange rates on cash and cash equivalents	(14)	2,593	2,579

(3) In fiscal 2008, there was a non-cash negative impact of $7.1 million to cost of sales and, consequently, gross profit due to a purchase accounting adjustment related to the Audax Transaction. In the fiscal year ended March 31, 2011, there was a similar non-cash negative impact of $7.6 million to cost of sales and, consequently, gross profit due to a purchase accounting adjustment related to the CHS Transactions.

(4) Interest expense for the fiscal year ended March 31, 2011 of $29.0 million included increased interest and amortization related to the CHS Transactions, including interest expense on our revolving credit facility and our senior secured notes issued on April 30, 2010 to finance in part the CHS Transactions, as well as $2.0 million of unused bridge loan fee amortization, $3.1 million of prepayment fees and $2.6 million of accelerated amortization of the deferred debt costs associated with the repaid debt.

(5) Miscellaneous expense for fiscal 2008 of $(12.9) million consisted primarily of $(8.8) million of non-recurring expenses related to the Audax Transaction, a $(3.9) million employee compensation transaction bonus related to the Audax Transaction, $(0.3) million of foreign exchange transaction losses and $(0.3) million of compliance fees and related costs, partially offset by $0.4 million in net miscellaneous income. Miscellaneous expense for the fiscal year ended March 31, 2011 of $(21.9) million, which includes Success fees to owners related to the CHS Transactions, consisted primarily of $(22.7) million of non-recurring expenses related to the CHS Transactions, and partially offset by $0.6 million of income related to the reversal of our compliance reserve.

(6) We have not presented net income (loss) per share amounts for the periods presented herein, as the capital structures of the pre-predecessor, predecessor and successor are substantially different, and the net income

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(loss) per share amounts are therefore not comparable or meaningful. Please refer to our consolidated financial statements and notes thereto for fiscal 2009, fiscal 2010 and for fiscal 2011, which are contained elsewhere in this annual report, for a presentation of the net income (loss) per share and the weighted average shares outstanding for the pre-predecessor, predecessor and successor periods.

(7) Adjusted EBITDA represents net income (loss) before interest expense (net of interest income), income tax expense, depreciation and amortization expense and other non-cash charges such as stock-based compensation expense, transaction expenses incurred in connection with the Audax Transaction and the CHS Transactions, and other unusual non-recurring transactions not associated with our ongoing operations, such as the loss on retirement of debt and non-recurring employee bonuses. Disclosure in this annual report of Adjusted EBITDA, which is a non-GAAP financial measure as defined under the rules of the SEC, is intended as a supplemental measure of our performance that is not required by, or presented in accordance with, GAAP. Adjusted EBITDA should not be considered as an alternative to net income, income from continuing operations or any other performance measure derived in accordance with GAAP. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by unusual or non-recurring items.

We believe this measure is meaningful to our investors to enhance their understanding of our financial performance. Although Adjusted EBITDA is not necessarily a measure of our ability to fund our cash needs, we understand that it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance and to compare our performance with the performance of other companies that report Adjusted EBITDA. Adjusted EBITDA should be considered in addition to, not as a substitute for, income from operations, net income (loss) and other measures of financial performance reported in accordance with GAAP. Our calculation of Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies. The following table reconciles net income (loss) to Adjusted EBITDA for the periods presented in this table and elsewhere in this annual report:

	Pre-Predecessor/ Predecessor Combined (Non-GAAP)	**Predecessor Year Ended March 31,**			**Predecessor/ Successor Combined (Non-GAAP)**
	2007	**2008**	**2009**	**2010**	**2011**
	(dollars in thousands)				
Net income (loss)	$ 11,393	$ (21,013)	$ 26,401	$ 18,940	$ (15,207)
Interest expense, net	818	8,207	9,531	7,351	28,951
Income tax expense	5,429	21,712	1,795	13,966	(11,274)
Depreciation and amortization expense	1,398	15,892	8,497	4,424	27,930
Stock-based compensation expense					1,939
Loss on retirement of debt(a)					630
Audax Transaction expenses(b)		8,820			
CHS Transactions expenses(c)				309	22,694
Other sale transaction expenses	510(d)		1,273(e)		
Non-recurring employee bonus(f)		3,930			
Adjusted EBITDA	$ 19,548	$ 37,548	$ 47,497	$ 44,990	$ 55,663

(a) Represents accrued premium associated with redemption of $21.0 million of our senior secured notes on June 9, 2011. The partial redemption occurred at a redemption price of 103% of the principal amount thereof, plus accrued and unpaid interest thereon.

(b) Represents expenses related to the sale process that culminated with the successful completion of the Audax Transaction, which were incurred in fiscal 2008.

(c) Represents expenses related to the sale process that culminated with the successful completion of the CHS Transactions, which were incurred during fiscal 2010 and the fiscal year ended March 31, 2011.

(d) Represents legal, financial and other advisory and consulting fees and expenses incurred in fiscal 2007 when our founder and his family, our controlling stockholders at the time, engaged in negotiations to sell their controlling interest in us. This transaction was ultimately abandoned by the parties in fiscal 2007.

(e) Represents legal, financial and other advisory and consulting fees and expenses incurred during fiscal 2009 when Audax engaged in negotiations to sell their controlling interest in us. Negotiations were abandoned by the parties in fiscal 2009.

(f) Represents non-recurring bonuses paid to employees prior to the Audax Transaction.

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

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

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

Overview

We are one of the largest providers of highly engineered thermal solutions for process industries. For over 50 years, we have served a diverse base of thousands of customers around the world in attractive and growing markets, including energy, chemical processing and power generation. We are a global leader and one of the few thermal solutions providers with a global footprint and a full suite of products and services required to deliver comprehensive solutions to complex projects. We serve our customers locally through a global network of sales and service professionals and distributors in more than 30 countries and through our four manufacturing facilities on three continents. These global capabilities and longstanding relationships with some of the largest multinational energy, chemical processing, power and EPC companies in the world have enabled us to diversify our revenue streams and opportunistically access high growth markets worldwide. For the fiscal year ended March 31, 2011, 69% of our revenues were generated outside of the United States.

Revenue. Our revenues are derived from providing customers with a full suite of innovative and reliable heat tracing solutions, including electric and steam heat tracing, tubing bundles, control systems, design optimization, engineering services and installation services. Our sales are primarily to industrial customers for petroleum and chemical plants, oil and gas production facilities and power generation facilities. Demand for industrial heat tracing solutions falls into two categories: (i) new facility construction, which we refer to as Greenfield projects, and (ii) recurring maintenance, repair and operations and facility upgrades or expansions, which we refer to as MRO/UE. Greenfield construction projects often require comprehensive heat tracing solutions. We believe that Greenfield revenue consists of sales revenues by customer in excess of $1 million annually (excluding sales to agents, who typically resell our products to multiple customers), and typically includes most orders for projects related to facilities that are new or that are built independent of existing facilities. We refer to sales revenues by customer of less than $1 million annually, which we believe are typically derived from MRO/UE, as MRO/UE revenue. Based on our experience, we believe that $1 million in annual sales is an appropriate threshold for distinguishing between Greenfield revenue and MRO/UE revenue. However, we often sell our products to intermediaries or subcontract our services; accordingly, we have limited visibility into how our products or services may ultimately be used and can provide no assurance that our categorization may accurately reflect the sources of such revenue. Furthermore, our customers do not typically enter into long-term forward maintenance contracts with us. In any given year, certain of our smaller Greenfield projects may generate less than $1 million in annual sales, and certain of our larger plant expansions or upgrades may generate in excess of $1 million in annual sales, though we believe that such exceptions are few in number and insignificant to our overall results of operations.

We believe that our robust pipeline of planned projects, as evidenced by our growing backlog of signed purchase orders, provides us with strong visibility into our future revenue, as historically we have experienced few order cancellations, and the cancellations that have occurred in the past have not been material compared to our total contract volume or total backlog. The small number of order cancellations is attributable in part to the fact that a large portion of our solutions are ordered and installed toward the end of Greenfield project construction. Our backlog at March 31, 2011 was $76.3 million. The timing of recognition of revenue out of backlog is not always certain, as it is subject to a variety of factors that may cause delays, many of which are beyond our control (such as customers delivery schedules and levels of capital and maintenance expenditures). When delays occur, the recognition of revenue associated with the delayed project is likewise deferred.

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

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

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

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

- *Cyclicality of end-users markets.* Demand for our products and services depends in large part upon the level of capital and maintenance expenditures of our customers and end users, in particular those in the energy, chemical processing and power generation industries, and firms that design and construct facilities for these industries. These customers expenditures historically have been cyclical in nature and vulnerable to economic downturns. Greenfield projects, and in particular large Greenfield projects (*i.e.*, new facility construction projects generating in excess of $5 million in annual sales), have been a substantial source of revenue growth in recent years, and Greenfield revenues tend to be more cyclical than MRO/UE revenues. In recent years we have noted particular cyclicality in capital spending for new facilities in Asia, Eastern Europe and the Middle East. Revenues derived from Europe (including the Middle East, which have historically comprised a relatively minor portion of such revenues) accounted for 26% and 27% of our total revenues during fiscal 2011 and fiscal 2010, respectively, and revenues derived from the Asia-Pacific region accounted for 11% and 12% of our total revenues during fiscal 2011 and fiscal 2010, respectively. A sustained decrease in capital and maintenance spending or in new facility construction by our customers could have a material adverse effect on the demand for our products and services and our business, financial condition and results of operations.

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

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

	Fiscal Year Ended March 31,		
	2009	2010	2011
Greenfield	32%	39%	45%
MRO/UE	68%	61%	55%

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

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

- *Large and growing installed base.* Customers typically use the incumbent heat tracing provider for MRO/UE projects to avoid complications and compatibility problems associated with switching providers. Therefore, with the significant Greenfield activity we have experienced in recent years, our installed base has continued to grow, and we expect that such installed base will continue to generate ongoing high margin MRO/UE revenues. For fiscal 2011, MRO/UE sales comprised approximately 55% of our consolidated revenues.

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

Results of Operations

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

	Predecessor		Fiscal Year Ended March 31, (dollars in thousands)		Predecessor/ Successor Combined (Non-GAAP)(1)	
	2009		2010		2011	
Consolidated Statements of Operations Data:						
Sales	$ 202,755	100%	$ 192,713	100%	$ 238,808	100%

Cost of sales		105,456	52		101,401	53		128,460	54
Purchase accounting adjustments(2)			0			0		7,614	3
Gross profit	$	97,299	48%	$	91,312	47%	$	102,734	43%
Operating Expenses:									
Marketing, general and administrative and engineering	$	49,807	25%	$	47,343	25%	$	58,425	25%
Amortization of intangible assets		6,627	3		2,426	1		18,245	8
Income from operations	$	40,865	20%	$	41,543	22%	$	26,064	11%
Interest expense, net		(9,531)	(5)		(7,351)	(4)		(28,951)(3)	(12)
Loss on redemption of debt			0			0		(630)	()
Success fees to owners related to the CHS Transactions			0			0		(7,738)(4)	(3)
Miscellaneous income/(expense) net of gain (loss) on disposition of property, plant and equipment		(3,138)	(2)		(1,286)	(1)		(15,226)(4)	(6)
Income (loss) from continuing operations before provision for income taxes	$	28,196	14%	$	32,906	17%	$	(26,481)	(11)%
Income tax benefit (expense)		(1,795)	(1)		(13,966)	(7)		11,274	(5)
Net income (loss)	$	26,401	13%	$	18,940	10%	$	(15,207)	(6)%

(1) The closing of the CHS Transactions on April 30, 2010 established a new basis of accounting that primarily affected inventory, intangible assets, goodwill, taxes, debt and equity. This resulted in additional amortization expense, interest expense and tax expense for the period from May 1, 2010 through March 31, 2011 (successor) as compared to the period from April 1, 2010 through April 30, 2010 (predecessor). Except for purchase accounting adjustments, the results for the two combined periods are comparable. Therefore, we believe that combining the two periods into a single period for comparative purposes gives the most clarity for the users of this financial information. Please refer to Note 2 to the table set forth in Item 6, Selected Financial Data and our consolidated financial statements and notes thereto for fiscal 2011 included elsewhere in this annual report for a separate presentation of the results for the predecessor and successor periods in accordance with GAAP.

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

(3) Interest expense for fiscal 2011 of $29.0 million included increased interest and amortization related to the CHS Transactions, including interest expense on our revolving credit facility and our senior secured notes issued on April 30, 2010 to finance in part the CHS Transactions, as well as $2.0 million of unused bridge loan fee amortization, $3.1 million of prepayment fees and $2.6 million of accelerated amortization of the deferred debt costs associated with the repaid debt.

(4) Miscellaneous income (expense) and success fees to owners related to the CHS Transactions for the fiscal year ended March 31, 2011 of $(23.0) million consisted primarily of $(22.7) million of non-recurring expenses related to the CHS Transactions, and partially offset by $0.6 million of income related to the reversal of our compliance reserve.

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Year Ended March 31, 2011 (Predecessor/Successor Combined) (Non-GAAP) Compared to the Year Ended March 31, 2010 (Predecessor)

We have prepared our consolidated and combined financial statements as if Thermon Group Holdings, Inc. (successor) had been in existence throughout all relevant periods. The historical financial and other data prior to the CHS Transactions, which occurred on April 30, 2010 and which established a new basis of accounting, have been prepared using the historical results of operations and assets and liabilities of Thermon Holdings, LLC and its subsidiaries (predecessor). Our historical financial data prior to April 30, 2010 may not necessarily be indicative of our future performance. For comparability to the periods discussed herein, please refer to Note 2 to the table set forth in Item 6, Selected Financial Data.

Revenues. Revenues for fiscal 2011 were $238.8 million, compared to $192.7 million for fiscal 2010, an increase of $46.1 million, or 23.9%, mostly due to an increase in large Greenfield project activity in fiscal 2011, which accounted for $26.3 million of the increase. Separately, revenues increased in all geographies in which we operate during fiscal 2011. Revenue in the Western Hemisphere increased $33.4 million, or 28%, from $117.4 million in fiscal 2010 to $150.8 million in fiscal 2011, with revenue in Canada accounting for $26.0 million of the increase. Revenue in the Eastern Hemisphere increased $12.7 million, or 17%, from $75.4 million in fiscal 2010 to $88.1 million in fiscal 2011. One major project in Eastern Europe accounted for $6.1 million of this increase.

Gross profit and margin. Gross profit totaled $102.7 million in fiscal 2011, compared to $91.3 million in fiscal 2010, an increase of $11.4 million, or 12.5%. As a percentage of revenues, gross profit decreased to 43.0% in fiscal 2011 from 47.4% in fiscal 2010. In fiscal 2011 there was a non-cash $7.6 million negative impact to gross profit due to a purchase accounting adjustment related to the CHS Transactions. Under purchase accounting rules, inventories that were carried at lower of cost or market are stepped up to fair value, which eliminates gross profit in the period in which the units are sold. Excluding the purchase accounting adjustment, gross margin would have been 46.2% in fiscal 2011. In addition, fiscal 2010 gross margin was positively affected by a $1.8 million favorable adjustment related to the release of accruals for certain expenses on long-term projects in Russia. After taking into account this adjustment, gross margin would have been 46.4% in fiscal 2010. Adjusted gross margin decreased

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marginally by 0.2% in fiscal 2011 as compared to fiscal 2010. These adjusted gross margins of 46.2% and 46.4% for fiscal 2011 and fiscal 2010, respectively, are within our expected range of gross margins based on our historical results. No discernible series of events or factors were responsible for the negligible decline in gross margin over such period.

Marketing, general and administrative and engineering. Marketing, general and administrative and engineering costs were $58.4 million in fiscal 2011, compared to $47.3 million in fiscal 2010, an increase of $11.1 million, or 23.4%. The overall increase is primarily related to an increase in expenses to address personnel needs to meet growing customer demand. The expenses contributing to this increase are mostly attributable to an increase in salaries and benefits of $8.7 million. In addition, there is an increase of $1.1 million in management fees paid to our sponsors in fiscal 2011 as compared to the predecessors management fees in fiscal 2010. As a percentage of revenues, marketing, general and administrative and engineering expenses were comparable across periods (24.5% in fiscal 2011 and 24.6% in fiscal 2010).

Amortization of intangible assets. Amortization of intangible assets was $18.2 million in fiscal 2011, compared to $2.4 million in fiscal 2010, an increase of $15.8 million, due to the amortization of certain intangible assets associated with the CHS Transactions.

Interest expense. Interest expense was $29.0 million in fiscal 2011, compared to $7.4 million in fiscal 2010, an increase of $21.6 million, which is primarily attributable to the increased levels of indebtedness incurred in connection with the issuance of $210.0 million aggregate principal amount of our senior secured notes and the higher interest rate on our senior secured notes as compared to our long-term debt prior to the CHS Transactions. Also included in interest expense are one-time financing costs associated with the CHS Transactions, including $2.0 million in full amortization of our bridge loan fee, $2.6 million in accelerated amortization of deferred debt costs associated with repaid debt and $3.1 million in prepayment penalties.

Miscellaneous expense. Miscellaneous expense was $15.3 million in fiscal 2011, compared to miscellaneous expense of $1.3 million in fiscal 2010, an increase of $14.0 million. Miscellaneous expense in fiscal 2011 consisted primarily of $11.4 million of professional fees and expenses related to the CHS Transactions and $1.1 million of loss on the disposal of certain fixed assets, partially offset by $0.6 million income related to adjustment of compliance liabilities and foreign exchange transaction gains and other miscellaneous income of $0.9 million. Miscellaneous expense in fiscal 2010 consisted primarily of legal, financial and other advisory and consulting fees and expenses incurred when Audax commenced an auction process to sell their controlling interest in us and foreign exchange transaction losses, partially offset by a small gain in sales of fixed assets.

Income taxes. Income taxes were a benefit of $11.3 million in fiscal 2011, compared to a $14.0 million tax expense in fiscal 2010, a decrease of $25.3 million from fiscal 2010. The effective tax rates were (42.6)% in fiscal 2011 and 42.4% in fiscal 2010. The fiscal 2011 amounts combine the effects of the CHS Transactions for the one month period ended April 30, 2010(for which we filed a separate US federal income tax return) and the eleven month period ended March 31, 2011. For the one month ended April 30, 2010, we recorded a tax benefit of $17.4 million as our former owners were able to deduct costs related to the CHS Transactions. For the eleven month period ended March 31, 2011, our tax expense was $6.2 million despite a pre-tax loss of $8.8 million. The tax expense was due primarily to dividends of $33.4 million that were repatriated into the U.S. from certain of our foreign subsidiaries during the fourth quarter of fiscal 2011. After taking into account the effect of credits for foreign taxes paid, these dividends increased our tax expense by approximately $4.2 million. The other significant component of the tax expense in the eleven months ended March 31, 2011 was from earnings at our foreign subsidiaries. See Note 15, Income Taxes to our consolidated financial statements for TGH for the fiscal year ended March 31, 2011, included elsewhere in this annual report, for further detail on income taxes.

Net income (loss). Net loss was $15.2 million in fiscal 2011 as compared to net income of $18.9 million in fiscal 2010, a decrease of $34.1 million. The decrease in net income was primarily attributable to the expenses incurred in fiscal 2011 in connection with the CHS Transactions, including an increase in amortization of intangible assets of $15.8 million (including $7.6 million in purchase accounting adjustments that had a non-cash negative impact to cost of sales and, consequently, gross profit) over the prior year. In addition, interest expense increased by $21.6 million as compared to fiscal 2010 due to increased levels of indebtedness at a higher interest rate incurred in connection with the CHS Transactions, as described above. During fiscal 2011, we also incurred $22.7 million in transaction costs directly related to the CHS Transactions. In total, the increases in amortization of intangible assets,

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interest expense and transaction costs related to the CHS Transactions comprise $60.1 million in increased expenses over fiscal 2010, partially offset by a decrease in income tax expense of $25.3 million due to the income tax benefit of $11.3 million recorded in fiscal 2011 and an increase in gross profit in fiscal 2011 of $11.4 million due to higher sales.

Year Ended March 31, 2010 Compared to Year Ended March 31, 2009

Revenues. Revenues for fiscal 2010 were $192.7 million, compared to $202.8 million for fiscal 2009, a decrease of $10.1 million or 5.0%. Revenues from large Greenfield projects decreased by $7.6 million in fiscal 2010. Smaller Greenfield projects and MRO/UE combined for a decline of $2.5 million in fiscal 2010. The reduction in large Greenfield projects is primarily related to the completion of several oil and gas projects during fiscal 2010 that were largely realized in fiscal 2009 and therefore generated less revenue in fiscal 2010. The reduction of MRO/UE revenue in fiscal 2010 was due to an $11.2 million decrease in the Eastern Hemisphere revenue offset by increased MRO/UE revenue in the Western Hemisphere of $8.7 million.

Revenues in our Western Hemisphere area decreased to $117.3 million in fiscal 2010 from $124.6 million in fiscal 2009, a decrease of $7.3 million or 5.8%, mainly due to the near completion of a large Greenfield project located in Canada. Specifically, we had one large Greenfield project in Canada that accounted for a $17.2 million decrease in revenue in fiscal 2010 as compared to fiscal 2009. This reduction was offset by increased MRO/UE revenue of $8.7 million and other Canadian projects that began in fiscal 2010 and accelerated in fiscal 2011. Revenues from our Eastern Hemisphere area decreased to $75.3 million in fiscal 2010 from $78.1 million in fiscal 2009, a decrease of $2.8 million or 3.5%. Eastern Hemisphere revenues were marked by an overall a decline in MRO/UE revenue offset by an increase in Greenfield revenue. The decrease in Eastern Hemisphere MRO/UE revenue is attributable to a downturn in capital spending in our end markets, which tends to be due to the cyclical nature of capital spending in Asia and in Eastern Europe.

Gross profit and margin. As a percentage of revenues, gross profit was 47.4% for fiscal 2010 as compared to 48.0% for fiscal 2009. Gross profit totaled $91.3 million for fiscal 2010, compared to $97.3 million for fiscal 2009, a decrease of $6.0 million, or 6.2%, from fiscal 2009, which is largely attributable to a decrease in revenues over the same period. The gross margins of 47.4% and 48.0% for fiscal 2010 and fiscal 2009, respectively, are in line with our expected range of gross margins based on our historical results. No discernible series of events or factors were responsible for the negligible decline in gross margin over such period.

Marketing, general and administrative and engineering. As a percentage of revenues, marketing, general and administrative and engineering expenses totaled 24.6% for both fiscal 2010 and fiscal 2009. Marketing, general and administrative and engineering expenses were $47.3 million for fiscal 2010, compared to $49.8 million for fiscal 2009, a decrease of $2.5 million, or 5.0%, from fiscal 2009. The decrease in operating expense is primarily due to the decrease in incentive expense due to lower business activity in fiscal 2010 from that of fiscal 2009.

Amortization of intangible assets. Amortization of intangible assets was $2.4 million in fiscal 2010, compared to $6.6 million in fiscal 2009, a decrease of $4.2 million from fiscal 2009, due to the amortization of certain intangible assets associated with the Audax Transaction. The decrease in amortization expense was due to certain short-term intangible assets that were fully amortized prior to fiscal 2010.

Interest expense. Interest expense was $7.4 million in fiscal 2010, compared to $9.6 million in fiscal 2009, a decrease of $2.2 million, or 22.9%, from fiscal 2009. The decrease is a primarily due to higher debt levels during fiscal 2009 and a reduction in interest rates during fiscal

2010.

Miscellaneous expense. Miscellaneous expense was $1.3 million in fiscal 2010 compared to $3.1 million in fiscal 2009, a decrease of $1.8 million, or 58.1%, from fiscal 2009. Miscellaneous expense in fiscal 2010 consisted primarily of $1.0 million of professional fees and expenses related to capital transactions and miscellaneous expenses of $0.3 million. Miscellaneous expense in fiscal 2009 consisted primarily of $1.3 million of professional fees and expenses related to capital transactions, $0.8 million of foreign exchange transaction losses and a $1.2 million charge related to self-reported export compliance violations, partially offset by $0.2 million of miscellaneous income.

Income taxes. Income taxes were $14.0 million in fiscal 2010 compared to $1.8 million in fiscal 2009, an increase of $12.2 million. The effective tax rate was 42.6% in fiscal 2010 and 6.4% in fiscal 2009. Excluding the

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effects of the non-cash change in the deferred tax liability related to deemed foreign income, the effective tax rates would be approximately 33.4% and 35.0% in fiscal 2010 and fiscal 2009, respectively. The deemed foreign income relates to the debt outstanding of our Canadian subsidiary that originated in the Audax Transaction. The changes in the effective tax rates are primarily due to the deemed foreign income related to debt outstanding of our Canadian subsidiary and the impact of rate differences of international subsidiaries.

Net income. Net income was $19.0 million in fiscal 2010 as compared to $26.4 million in fiscal 2009, a decrease of $7.4 million. The decrease in net income was primarily related to a non-cash charge to deferred taxes. The effect of the deferred taxes related to our Canadian debt and represented a decrease in net income of $11.4 million.

Contractual Obligations and Contingencies

Contractual Obligations. The following table summarizes our material contractual payment obligations as of March 31, 2011.

		Payment Due By Period			
	TOTAL	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	(dollars in thousands)				
Senior secured notes(1)	$ 210,000	$ 42,000	$	$	$ 168,000
Interest payments on senior secured notes(1)	98,866	17,736	31,920	31,920	17,290
Revolving credit facility(2)	2,063	2,063			
Operating lease obligations(3)	8,379	2,048	2,847	2,201	1,283
Obligations in settlement of the CHS Transactions(4)	4,213	4,213			
Information technology services agreement(5)	891	648	231	12	
Termination fee payable to sponsors(6)	7,357	7,357			
Total	$ 331,769	$ 76,065	$ 34,998	$ 34,133	$ 186,573

(1) Reflects the optional redemption of $21.0 million aggregate principal amount of our senior secured notes on each of April 29, 2011 and June 9, 2011. Interest on our senior secured notes accrues at a fixed rate of 9.500%.

(2) Reflects outstanding borrowings under the Canadian sub-facility of our revolving credit facility, which were repaid in full on April 4, 2011. Interest on the borrowings at March 31, 2011 accrued at the rate of 5.0%.

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

(4) Consists of estimated amounts owed to sellers in the CHS Transactions for restricted cash and in satisfaction of the post-closing adjustment for estimated income tax refunds.

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

(6) Represents the one-time cash fee paid to our sponsors concurrently with the completion of the IPO on May 10, 2011 in connection with the termination of the management services agreement. See Item 13, Certain Relationships and Related Transactions, and Director Independence Related Party Transactions Transaction Fee and Management Fee.

There are no contingent gains or losses or litigation settlements that are not provided for in the accounts.

Contingencies. We are involved in various legal and administrative proceedings and disputes that arise from time to time in the ordinary course of doing business. Some of these proceedings may result in fines, penalties or judgments being assessed against us, which, from time to time, may adversely affect our financial results. For a discussion of contingencies that may adversely affect our results of operations, see Note 11, Commitments and Contingencies to the audited consolidated financial statements of TGH contained elsewhere in this annual report. We have considered these proceedings and disputes in determining the necessity of any reserves for losses that are

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probable and reasonably estimable. Our recorded reserves are based on estimates developed with consideration given to the potential merits of claims or quantification of any performance obligations. In doing so, we take into account our history of claims, the limitations of any insurance coverage, advice from outside counsel, the possible range of outcomes to such claims and obligations and their associated financial impact (if known and reasonably estimable), and management s strategy with regard to the settlement or defense of such claims and obligations. While the ultimate outcome of those claims, lawsuits or performance obligations cannot be predicted with certainty, we believe, based on our understanding of the facts of these claims and performance obligations, that adequate provisions have been recorded in the accounts where required. In addition, 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.

To bid on or secure certain contracts, we are required at times to provide a performance guaranty to our customers in the form of a surety bond, standby letter of credit or foreign bank guaranty. On March 31, 2011, we had in place standby letters of credit and bank guarantees totaling $5.9 million and performance bonds totaling $1.3 million to back performance obligations under customer contracts. As of March 31, 2011, we also had in place a $0.3 million letter of credit as collateral for the revolving facility for our subsidiary in Japan. Our Indian subsidiary also has $2.9 million in customs bonds outstanding.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and funds available under our revolving credit facility and other revolving lines of credit. Our primary liquidity needs are to finance our working capital, capital expenditures and debt service needs. Subsequent to March 31, 2011, TGH completed an IPO of its common stock in May 2011 and raised $48.6 million net of commissions and expenses. On April 29, 2011 and June 9, 2011, we made two separate optional redemptions of $21.0 million in principal amount of our senior secured notes, reducing the outstanding aggregate amount of our senior secured notes to $168.0 million.

Cash and cash equivalents. At March 31, 2011, we had $51.3 million in cash and cash equivalents. We maintain cash and cash equivalents at various financial institutions located in many countries throughout the world. Approximately $41.8 million, or 81%, of these amounts was held in domestic accounts with various institutions and approximately $9.5 million, or 19%, of these amounts was held in accounts outside of the United States with various financial institutions.

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 March 31, 2011, we had $33.4 million of capacity available under our revolving credit facility after taking into account the borrowing base, and had drawn $2.1 million under our Canadian sub-facility. In addition to our revolving credit facility, we have various short term revolving lines of credit available to us at our foreign affiliates, and no borrowings were outstanding under any such lines of credit at March 31, 2011.

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 sub-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. At March 31, 2011, we had borrowed $2.1 million under the

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Canadian sub-facility at an interest rate of 5.0%. We repaid the $2.1 million loan under the Canadian sub-facility in full on April 4, 2011.

Senior secured notes. We have incurred substantial indebtedness in connection with the senior secured notes. As of March 31, 2011, we had $210.0 million of indebtedness outstanding under the senior secured notes with annual cash interest expense of approximately $20.0 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 by our wholly-owned subsidiary Thermon Industries, Inc. 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 completed an offer to exchange the old restricted senior secured notes for new, SEC-registered senior secured notes. In accordance with the terms of our senior secured note indenture, on each of April 29, 2011 and June 9, 2011, we redeemed $21.0 million aggregate principal amount of our senior secured notes at a redemption price equal to 103% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date. After taking into account both optional redemptions, we have $168.0 million outstanding principal amount of our senior secured notes.

Guarantees; security. The obligations under our revolving credit facility and our senior secured notes are guaranteed on a senior secured basis by THC 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 exceptions.

Credit risk. The credit ratings assigned to our senior secured notes reflect the rating agencies assessments of our ability to make payments on our senior secured notes when due. Actual or anticipated changes to our credit rating by any rating agency may negatively impact the market value and liquidity of our senior secured notes. In addition, any downgrade in our credit ratings may affect our ability to obtain additional financing in the future and may affect the terms of any such financing.

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

Since the issuance of our senior secured notes on April 30, 2010, we have been able to meet our regular debt service obligations through cash generated through our U.S. operations, and it is our expectation that we will continue to be able to do so in the future. In fiscal 2011 we did, however, repatriate $33.4 million in the form of incremental dividends from our non-U.S. subsidiaries in order to complete redemptions of our outstanding senior secured notes which occurred on April 29, 2011. In order to repay our senior secured notes on or before their maturity date, we expect to make further repatriations of our foreign earnings. The receipt of these dividends had an impact of approximately $4.2 million to our tax expense for fiscal 2011. See also Note 15, Income Taxes to the consolidated financial statements of TGH.

In addition, our ability to repatriate cash from our foreign subsidiaries may be subject to legal, contractual or other restrictions and other business considerations. See Item 1A, Risk Factors Risks Related to Our Business

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and Industry A significant portion of our business is conducted through foreign subsidiaries and our failure to generate sufficient cash flow from these subsidiaries, or otherwise repatriate or receive cash from these subsidiaries, could result in our inability to repay our indebtedness.

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

In fiscal 2011, we invested $1.7 million in capital expenditures for furniture and fixture replacements, minor plant equipment replacement and minor maintenance. In fiscal 2012, we anticipate the construction of a new manufacturing building in San Marcos, Texas. We estimate that approximately $5.2 million in capital expenditures will be incurred during fiscal 2012 in connection with such expansion. We expect to fund the facility expansion from cash on hand and do not expect to finance the construction.

Year Ended March 31, 2011 (Predecessor/Successor Combined) (Non-GAAP) Compared to the Year Ended March 31, 2010 (Predecessor)

Net cash provided by operating activities totaled $32.6 million for the combined fiscal 2011 period, compared to $24.7 million for fiscal 2010, an increase of $7.9 million, or 32%. The increase in cash flows from operating activities in fiscal 2011 compared with fiscal 2010 was due in large part to higher revenues which generated $11.4 million more gross profit in fiscal 2011 than in fiscal 2010. Improved operating cash flows were offset by our fiscal 2011 net loss of $15.2 million as compared to fiscal 2010 net income of $18.9 million, a decrease of $34.1 million. Net loss takes into account certain non-cash charges such as depreciation and amortization, debt cost amortization, stock-based compensation expense and accounting for deferred income taxes. The effects of these non-cash adjustments increased cash flows by $4.9 million in fiscal 2011 as compared to fiscal 2010. Cash flows from operations in fiscal 2011 were negatively impacted by a net increase in operating assets of $8.6 million as compared to fiscal 2010. Increases in assets included an increase in inventory of $10.0 million, as we purchased inventory to meet our customer s needs, and an increase in prepaid expenses and other assets offset by a reduction in accounts receivable of $6.6 million, as we were able to reduce our days sales outstanding from 76 to 59. Cash flows for fiscal 2011 were positively impacted by a net combined increase of $45.8 million from accounts payable and accrued liabilities and other noncurrent liabilities in fiscal 2011 as compared to fiscal 2010. Included in the increase in payables and liabilities is an advance payment of $6.7 million for the purchase of our products by one of our customers. We expect to deliver these products by June 30, 2011. Also included within the overall increase of payables and liabilities were accrued interest of $8.8 million, accounts payable of $8.9 million, taxes payable of $6.0 million and accrued compensation expense of $4.1 million. The increase in accounts payable is reflective of our growth as well as measures to create an efficient cash conversion cycle by taking full advantage of payment terms offered to us.

Net cash used in investing activities totaled $318.1 million for fiscal 2011 compared to $1.6 million for fiscal 2010. The significant increase in cash flows used in investing activities was attributable to the $314.4 million purchase price in the CHS Transactions. Subsequent to the transaction date on April 30, 2010, we paid $3.0 million in partial settlement of obligations related to the CHS Transactions. Payment of the $4.2 million that is estimated to be due to the former shareholders will be reported as additional cash consideration paid for the CHS Transactions, in future periods. Investing activities in fiscal 2011 also consisted of $1.8 million of capital expenditures. Investing activities in fiscal 2010 consisted of $1.6 million of capital expenditures.

Net cash provided by financing activities totaled $306.9 million for fiscal 2011, compared to $8.6 million used in financing activities for fiscal 2010, primarily due to the significant financing activities that occurred in fiscal 2011 as part of the CHS Transactions, including the issuance of $210.0 million of our senior secured notes, $129.3 million received from equity investments in us and $2.1 million in borrowings under our revolving credit facility. In fiscal 2010, the predecessor paid a dividend to our former owners of $8.6 million.

Year Ended March 31, 2010 Compared to Year Ended March 31, 2009

Net cash provided by operating activities totaled $24.7 million for fiscal 2010 compared to $23.7 million for fiscal 2009. Cash from operations for both fiscal 2010 and fiscal 2009 was largely the result of net operating income of $18.9 million and $26.4 million, respectively. The fiscal 2009 income from operations included the effect of a deferred tax gain of $11.6 million which was generated when debt was transferred to our Canadian affiliate. This had the effect of reconciling net income downward as a non-cash use of cash. This was partially offset favorably by the collection of receivables of $6.4 million. In fiscal 2010, cash was generated through net income after an adjustment of $4.0 million from deferred tax expense.

Net cash used in investing activities totaled $1.6 million for fiscal 2010 compared to $2.3 million for fiscal 2009. Investing activities in fiscal 2010 consisted of $1.6 million of capital expenditures. Investing activities in fiscal 2009 consisted of $2.7 million of capital expenditures, partially offset by $0.4 million of other investing transactions.

Net cash provided by (used in) financing activities totaled $(8.6) million for fiscal 2010 compared to $(12.3) million for fiscal 2009. Financing activities in fiscal 2010 consisted of a $8.6 million dividend paid to former equityholders of Thermon Holdings, LLC. Financing activities in fiscal 2009 consisted of $12.3 million of payments on debt and notes payable.

Off-Balance Sheet Arrangements

As of March 31, 2011, we do not have any off balance sheet arrangements. In addition, we do not have any interest in entities referred to as variable interest entities, which includes special purposes entities and other structured finance entities.

Effect of Inflation

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

Seasonality

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

Our operating expenses remain relatively consistent with some variability related to overall headcount of the company which increased slightly in the year ended March 31, 2011. Fluctuations in operating expense are partly due to changes in management s estimates for items such annual bonus attainment and reserves for bad debt.

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

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. We base our estimates on past experience and other assumptions that we believe are

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reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Our critical accounting policies are those that materially affect our financial statements and involve difficult, subjective or complex judgments by management. Our most significant financial statement estimates include revenue recognition, allowances for bad debts, warranty reserves, inventory reserves and potential litigation claims and settlements.

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

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

Construction contract revenues are recognized using the percentage-of-completion method, primarily based on contract costs incurred to date compared with total estimated contract costs. Changes to total estimated contract costs or losses, if any, are recognized in the period they are determined. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the current period. Revenues recognized in excess of amounts billed are classified as costs and estimated earnings in excess of billings on uncompleted contracts. Essentially all of such amounts are expected to be billed and collected within one year and are classified as current assets. Billings in excess of costs and estimated earnings on uncompleted contracts are classified as current liabilities. When reasonably dependable estimates cannot be made, construction contract revenues are recognized using the completed contract method.

Estimating allowances, specifically the allowance for doubtful accounts and the adjustment for excess and obsolete inventories. We make estimates about the uncollectability of our accounts receivable. We specifically analyze accounts receivable, historical bad debts, customer concentrations, customer credit-worthiness and current economic trends when evaluating the adequacy of our allowance for doubtful accounts. Our allowance for doubtful accounts was $1.5 million and $1.8 million at March 31, 2011 and 2010, respectively.

We also write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and estimated fair value based on assumptions of future demand and market conditions. Our allowance for excess and obsolete inventories was $1.7 million and $1.2 million at March 31, 2011 and 2010, respectively.

Our allowance for the warranty on our sold products and installations was $1.3 million and $0.7 million at March 31, 2011 and 2010, respectively.

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

Valuation of long-lived, goodwill and other intangible assets. Separable intangible assets that have finite lives are amortized over their useful lives. Goodwill and indefinite lived intangible assets are not amortized, but are reviewed for impairment annually, or more frequently if impairment indicators arise. In making this assessment, management relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, transactions and market place data. There are inherent uncertainties related to these factors and management s judgment in applying them to the analysis of goodwill impairment. GAAP requires that push down accounting be applied for wholly-owned subsidiaries if the ownership is 95 percent or more. In connection with the CHS Transactions, goodwill has been allocated to our entities in the United States, Canada and Europe accordingly. As such, we have identified three reporting units: United States, Canada and Europe, for goodwill impairment testing, which are at a level below our one operating segment. Factors considered important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and

- significant negative industry or economic trends.

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When testing for goodwill impairment, we follow the guidance prescribed in ASC 350, *Intangibles Goodwill and Other*. First, we perform a step I goodwill impairment test to identify a potential impairment. In doing so, we compare the fair value of a reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, goodwill may be impaired and a step II goodwill impairment test is performed to measure the amount of any impairment loss. In the step II goodwill impairment test, we compare the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. We allocate the fair value of a reporting unit to all of the assets and liabilities of that unit, including intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

Estimates about fair value used in the step I goodwill impairment tests have been calculated using an income approach based on the present value of future cash flows of each reporting unit. The income approach has been generally supported by additional market transaction and guideline analyses. These approaches incorporate a number of assumptions including future growth rates, discount rates, and income tax rates in assessing fair value. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairments in future periods.

When it is determined that the carrying value of intangibles, long-lived assets and related goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, the measurement of any impairment is determined and the carrying value is reduced as appropriate. As of March 31, 2011, we had goodwill of $120.8 million, including the impact of the CHS Transactions. There have been no impairments of goodwill during the fiscal years ended March 31, 2011 and 2010.

Business combinations. We allocated the purchase price in connection with the CHS Transactions to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the purchase price over these fair values is recorded as goodwill. We engage independent third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. The significant purchased intangible assets recorded by us include trademarks, customer relationships, backlog and developed technology. The fair values assigned to the identified intangible assets are discussed in detail in Note 5, Acquisition, Goodwill and Other Intangible Assets to the consolidated financial statements of TGH included elsewhere in this annual report.

Critical estimates in valuing certain intangible assets include, without limitation, future expected cash flows from customer relationships, acquired developed technologies and trademarks and discount rates. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Accounting for business combinations requires our management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, support obligations assumed, estimated restructuring liabilities and pre-acquisition contingencies. We have attempted to record all known contingencies or obligations at March 31, 2011. While our agreement under the CHS Transactions provides us with certain indemnity to reimburse for payment on such obligations, costs in excess of our indemnity or accruals will have an impact on our consolidated statement of operations and financial position.

Accounting for income taxes. We account for income taxes under the asset and liability method that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position, results of operations or effective tax rate.

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

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

We view undistributed earnings of certain foreign subsidiaries as permanently re-invested and, therefore, we have not provided deferred taxes related to these earnings. During fiscal 2011, we changed our tax position relating to undistributed earnings of our Canadian subsidiary and, accordingly, deferred taxes have been provided for Canadian undistributed earnings. The deferred tax liability recorded on the U.S. financial statements is subject to fluctuations in the Canadian currency rate each year.

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

Stock-based compensation expense. We account for share-based payments to employees in accordance with ASC 718, *Compensation Stock Compensation*, which requires that share-based payments (to the extent they are compensatory) be recognized in our consolidated statements of operations based on their fair values. In addition, we have applied certain of the provisions of the SEC s guidance contained in ASC 718 in our accounting for stock-based compensation awards.

As required by ASC 718, we recognize stock-based compensation expense for share-based payments that are expected to vest. In determining whether an award is expected to vest, we use an estimated, forward-looking forfeiture rate based upon our historical forfeiture rates. Stock-based compensation expense recorded using an estimated forfeiture rate is updated for actual forfeitures quarterly. To the extent our actual forfeitures are different than our estimates, we record a true-up for the differences in the period that the awards vest, and such true-ups could

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materially affect our operating results. We also consider on a quarterly basis whether there have been any significant changes in facts and circumstances that would affect our expected forfeiture rate.

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

Pursuant to the outstanding stock option agreements, all outstanding option awards at March 31, 2011 vested and became exercisable immediately prior to the completion of the IPO. In the first quarter of fiscal 2012, we will record stock-based compensation expense of approximately $6.3 million.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13 that amended the accounting rules addressing revenue recognition for multiple- deliverable revenue arrangements by eliminating the criterion for objective and reliable evidence of fair value for the undelivered products or services. Instead, revenue arrangements with multiple deliverables should be divided into separate units of accounting provided the deliverables meet certain criteria. Additionally, ASU 2009-13 provides for elimination of the use of the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables based on their relative selling price. A hierarchy for estimating such selling price is included in the update. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. We are currently evaluating whether this update will have an impact on our consolidated financial statements.

In January 2010, the FASB updated FASB ASC 820, which requires additional disclosures and clarifies existing disclosures regarding fair value measurements. The additional disclosures include: (1) transfers in and out of Levels 1 and 2 and (2) roll forward activity in Level 3 fair value measurements. The update provides amendments that clarify existing disclosures on (1) level of disaggregation and (2) 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. The adoption of ASC 820 did not have a material impact on our financial statements.

Recent Developments

On May 10, 2011, TGH completed the IPO, pursuant to which an aggregate of 10,000,000 shares of common stock were sold to the public at a price of $12.00 per share. TGH sold 4,000,000 shares of its common stock, and certain stockholders of TGH sold 6,000,000 shares of TGH common stock. On May 26, 2011, TGH and certain stockholders of TGH completed the sale of 650,000 shares of TGH common stock (575,098 shares of which were issued and sold by TGH and 74,902 shares of which were sold by certain stockholders of TGH), pursuant to the partial exercise by the underwriters of the over-allotment option granted in connection with the IPO. TGH raised approximately $54.9 million in gross proceeds from the sale of shares in the IPO and over-allotment option, resulting in net proceeds to TGH of approximately $48.6 million, after deducting approximately $3.8 million in underwriting discounts and commissions and $2.5 million in IPO-related expenses.

There has been no material change in the planned use of proceeds from the IPO as described in the final prospectus filed by TGH with the SEC pursuant to Rule 424(b) on May 5, 2011. During the first quarter of fiscal 2012, TGH contributed $21.6 million of the net proceeds from the IPO to THC to prepay $21.0 million of our senior secured notes outstanding at a redemption price of 103% of the principal amount thereof, plus accrued and unpaid interest thereon, which prepayment occurred on June 9, 2011. TGH intends to use the remaining net proceeds from the IPO for general corporate purposes.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposures include the effect of fluctuations in foreign exchange rates, interest rates and commodity prices.

Foreign currency risk relating to operations. We transact business globally and are subject to risks associated with fluctuating foreign exchange rates. Approximately 69% of our fiscal 2011 consolidated revenue was generated by sales from our non-U.S. subsidiaries. Our non-U.S. subsidiaries generally sell their products and services in the local currency, but obtain a significant amount of their products from our facilities located in another country, primarily the United States, Canada or Europe. Significant changes in the relevant exchange rates could adversely affect our margins on foreign sales of products. Our non-U.S. subsidiaries incur most of their expenses (other than intercompany expenses) in their local functional currency. These currencies include the Canadian Dollar, Euro, British Pound, Russian Ruble, Australian Dollar, South Korean Won, Chinese Renminbi, Indian Rupee, Mexican Peso, and Japanese Yen.

During fiscal 2011, our largest exposures to foreign exchange rates consisted primarily of the Canadian Dollar and the Euro against the U.S. Dollar. The market risk related to the foreign currency exchange rates is measured by estimating the potential impact of a 10% change in the value of the U.S. Dollar relative to the local currency exchange rates. The rates used to perform this analysis were based on a weighted average of the market rates in effect during the relevant period. A 10% appreciation of the U.S. Dollar relative to the Canadian Dollar would result in a net decrease in net income of $0.6 million for fiscal 2011. Conversely, a 10% depreciation of the U.S. Dollar relative to the Canadian Dollar would result in a net increase in net income of $0.7 million for fiscal 2011. A 10% appreciation of the U.S. Dollar relative to the Euro would result in a net decrease in net income of $0.1 million for fiscal 2011. Conversely, a 10% depreciation of the U.S. Dollar relative to the Euro would result in a net increase in net income of $0.1 million for fiscal 2011.

The geographic areas outside the United States in which we operate are generally not considered to be highly inflationary. Nonetheless, these foreign operations are sensitive to fluctuations in currency exchange rates arising from, among other things, certain intercompany transactions that are generally denominated in U.S. Dollars rather than their respective functional currencies. The impact of foreign currency transaction gains and losses on our condensed consolidated statements of operations for fiscal 2011 was zero compared to a loss of $1.1 million in fiscal 2010.

In order to meet our global cash management needs, we often transfer cash between the U.S. and foreign entities and on occasion between foreign entities. In addition, our debt service requirements are primarily in U.S. Dollars and a substantial portion of our cash flow is generated in foreign currencies, and we may need to repatriate cash to the United States in order to meet our U.S. debt service obligations, including on our senior secured notes. These transfers of cash expose us to currency exchange rate risks, and significant changes in the value of the foreign currencies relative to the U.S. Dollar could limit our ability to meet our debt obligations and impair our financial condition.

Because our consolidated financial results are reported in U.S. Dollars, and we generate a substantial amount of our sales and earnings in other currencies, the translation of those results into U.S. Dollars can result in a significant decrease in the amount of those sales and earnings. In addition, fluctuations in currencies relative to the U.S. Dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations. The unrealized effect of foreign currency translation was a gain of $9.5 million in fiscal 2011, compared to a gain of $6.5 million in fiscal 2010 that was recorded in shareholders equity as other comprehensive income.

We do not currently use options, forward contracts or any derivatives to hedge cash flow currency exposures.

Interest rate risk and foreign currency risk relating to debt. The interest rate for the senior secured notes is fixed at 9.500% while any borrowings on our revolving credit facility will incur interest expense that is variable in relation to the LIBOR rate. At March 31, 2011, the interest rate on amounts outstanding under our revolving credit

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facility was 5.0%. A 1% increase or decrease on our amount of revolving debt at March 31, 2011 would have had a $0.02 million impact on interest expense, if the amount remained outstanding for the entire year.

The senior secured notes are denominated and payable in the U.S. Dollar. Approximately 69% of our consolidated revenue was generated in foreign currency in fiscal 2011; therefore, we expect to have to repatriate our cash earnings in foreign locations in order to make further principal reductions on the senior secured notes. In the event that the U.S. Dollar strengthens relative to the foreign currencies we are repatriating to make scheduled interest payments, we may incur exchange rate losses that are larger than those that we have reported historically.

Commodity price risk. We use various commodity-based raw materials in our manufacturing processes. Generally, we acquire such components at market prices and do not typically enter into long-term purchase commitments with suppliers or hedging instruments to mitigate commodity price risk. As a result, we are subject to market risks related to changes in commodity prices and supplies of key components of our products. Historically, the costs of our primary raw materials have been stable and readily available from multiple suppliers. Typically, we have been able to pass on raw material cost increases to our customers. We cannot provide any assurance, however, that we may be able to pass along such cost increases to our customers or source sufficient amounts of key components on commercially reasonable terms or at all in the future, and if we are unable to do so, our results of operations may be adversely affected.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

Members and Board of Directors

Thermon Group Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Thermon Group Holdings, Inc. (the Company or Successor) as of March 31, 2011 and 2010 (Predecessor) of Thermon Holdings, LLC., and the related consolidated statements of operations, members /shareholders equity, and cash flows for the period from May 1, 2010 to March 31, 2011(Successor), for the period from April 1, 2010 to April 30, 2010 (Predecessor) and for the years ended March 31, 2010 and 2009 (Predecessor). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2010 and 2009 financial statements of Thermon Canada Inc., Thermon Australia, PTY., LTD, and Thermon Heat Tracing & Engineering (Shanghai) Co., Ltd., wholly owned subsidiaries, which statements reflect total assets of $96.3 million as of March 31, 2010, and total revenues of $59.0 million and $68.6 million for the years ended March 31, 2010 and 2009, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Thermon Canada Inc., Thermon Australia, PTY., LTD (each of which are before certain adjustments to conform to United States generally accepted accounting principles), and Thermon China is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

We have audited the adjustments presented in the reconciliation from Canadian generally accepted accounting principles and Australian generally accepted accounting principles to United States generally accepted accounting principles for 2010 and 2009 related to Thermon Canada Inc. and Thermon Australia, PTY., LTD, respectively, reflected in Notes 19 and 20 to the consolidated financial statements.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Thermon Group Holdings, Inc. at March 31, 2011 and 2010 (Predecessor) of Thermon Holdings, LLC., and the consolidated results of its operations and its cash flows for the period from May 1, 2010 to March 31, 2011 (Successor), for the period from April 1, 2010 to April 30, 2010 (Predecessor) and for the years ended March 31, 2010 and 2009 (Predecessor) in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP
Austin, Texas

June 20, 2011

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Report of the Independent Registered Public Accounting Firm

To the Shareholder of Thermon Canada Inc.:

We have audited the balance sheet of Thermon Canada Inc. as at March 31, 2010 and the statements of earnings (loss) and comprehensive income (loss), retained earnings (deficit), cash flows, and the related schedules, for each of the years in the two-year period ended March 31, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and the results of its operations and its cash flows for each of the years in the two-year period ended March 31, 2010 in accordance with Canadian generally accepted accounting principles.

/s/ Meyers Norris Penny LLP

Chartered Accountants

Calgary, Alberta
October 28, 2010

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Thermon Australia Pty Ltd

ABN: 79 000 554 932

Independent Audit Report to the members of Thermon Australia Pty Ltd

We have audited the accompanying financial statements of Thermon Australia Pty Ltd, which comprises the statement of financial position as at 31 March 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended that date a summary of significant accounting policies, other explanatory notes and the director s declaration.

Directors Responsibility for the Financial Statements

The directors of the company are responsible for the preparation and fair presentation of the financial statements and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial statements, are appropriate to meet the requirements of the Corporations Act 2001, and are appropriate to meet the needs of the members. The directors responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor s Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the members. We conducted our audit in accordance with Australian Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States). These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

The financial statements have been prepared for distribution to members for the purpose of fulfilling the directors financial reporting under the Corporations Act 2001. We disclaim an assumption of responsibility for any reliance on this statement or on the financial statements to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Thermon Australia Pty Ltd on 24 May 2010, would be in the same terms if provided to the directors as at the date of this auditor s report.

Auditor s Opinion

In our opinion the financial statements of Thermon Australia Pty Ltd are prepared in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company s financial position as at 31 March 2010 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

/s/ BELL PARTNERS
Bell Partners
Chartered Accountants

/s/ T G REES
T G Rees
Partner

Level 7, 468 St Kilda Road, Melbourne

31 May 2010

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Thermon Australia Pty Ltd

ABN: 79 000 554 932

Independent Audit Report to the members of Thermon Australia Pty Ltd

Report on the Financial Report

We have audited the accompanying financial report of Thermon Australia Pty Ltd, which comprises the balance sheet as at 31 March 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended that date a summary of significant accounting policies, other explanatory notes and the directors declaration.

Directors Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. The directors responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor s Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as the whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the members. We conducted our audit in accordance with Australian Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States). These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor s judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company s preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to members for the purpose of fulfilling the directors financial reporting under the Corporations Act 2001. We disclaim an assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Thermon Australia Pty Ltd on 15 May 2009, would be in the same terms if provided to the directors as at the date of this auditor s report.

Auditor s Opinion

In our opinion the financial report of Thermon Australia Pty Ltd is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company s financial position as at 31 March 2009 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

/s/ BELL PARTNERS
Bell Partners
Chartered Accountants

/s/ T G REES
T G Rees
Partner

Level 7, 468 St Kilda Road, Melbourne

21 May 2009

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

BOARD OF DIRECTORS

THERMON HEAT TRACING & ENGINEERING (SHANGHAI) CO., LTD.

We have audited the accompanying balance sheets of Thermon Heat Tracing & Engineering (Shanghai) Co., Ltd. (the Company) as of March 31, 2010 , and the statement of income for the years ended March 31, 2010 and 2009 . These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Independent Auditing Standards for Certified Public Accountants of China and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2010, and the results of its operations for the years ended March 31, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ SHANGHAI JIALIANG CPAS
Shanghai JiaLiang CPAs

Shanghai, the People s Republic of China

October 31, 2010

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Thermon Group Holdings, Inc.

Consolidated Statements of Operations

(Dollars in Thousands, except per share data)

	For the Period From May 1, 2010 Through March 31, 2011 (Successor)	For the Period From April 1, Through April 30, 2010	Year Ended March 31, 2010 (Predecessor)	Year Ended March 31, 2009
Sales	$ 225,745	$ 13,063	$ 192,713	$ 202,755
Cost of sales	129,627	6,447	101,401	105,456
Gross profit	96,118	6,616	91,312	97,299
Operating expenses:				
Marketing, general and administrative and engineering	54,162	4,263	47,343	49,807
Amortization of other intangible assets	18,030	215	2,426	6,627
Income from operations	23,926	2,138	41,543	40,865
Other income (expenses):				
Interest income	42	7	6	94
Interest expense	(22,771)	(6,229)	(7,357)	(9,625)
Loss on retirement of debt	(630)			
Loss on disposition of property, plant and equipment	(1,101)		(1)	(18)
Success fees to owners related to the CHS Transactions	(3,022)	(4,716)		
Miscellaneous income (expense)	(5,224)	(8,901)	(1,285)	(3,120)
	(32,706)	(19,839)	(8,637)	(12,669)
Income (loss) from operations before provision for income taxes	(8,780)	(17,701)	32,906	28,196
Income tax (expense) benefit	(6,160)	17,434	(13,966)	(1,795)
Net income (loss)	$			