

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended March 31, 2019

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
or
For the transition period from _____ to _____
Commission File Number: 001-35159
THERMON GROUP HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
7171 Southwest Parkway, Building 300, Suite 200, Austin, Texas
(Address of principal executive offices)

27-2228185
(I.R.S. Employer Identification No.)
78735
(Zip Code)

(512) 690-0600
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	THR	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's common equity held by non-affiliates as of September 30, 2018 was \$830,607,986 based on the closing price of \$25.78 as reported on the New York Stock Exchange. Solely for the purposes of this calculation, directors and officers of the registrant are deemed to be affiliates.

As of June 11, 2019, the registrant had 32,636,248 shares of common stock, par value \$0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

As permitted by General Instruction G of Form 10-K, certain portions, as expressly described in this report, of the registrant's Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC are incorporated by reference into Part III of this Annual Report on Form 10-K.

THERMON GROUP HOLDINGS, INC.
ANNUAL REPORT
FOR THE FISCAL YEAR ENDED MARCH 31, 2019

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K ("this annual report") includes forward-looking statements within the meaning of the U.S. federal securities laws in addition to historical information. These forward looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are included throughout this annual report, including in the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and include, without limitation, statements regarding our industry, business strategy, plans, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. When used in this discussion, the words "anticipate," "assume," "believe," "budget," "continue," "contemplate," "could," "should," "estimate," "expect," "intend," "may," "plan," "possible," "potential," "predict," "project," "will," "would," "future" and similar 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 increase; (ix) our belief in the sufficiency of our cash flows to meet our needs for the next year; (x) our ability to integrate acquired companies; (xi) our ability to successfully achieve synergies from acquisitions; and (xii) our ability to make required debt repayments.

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 cyclicalities in the markets we serve; (ii) future growth of energy, chemical processing and power generation capital investments; (iii) our ability to deliver existing orders within our backlog; (iv) our ability to operate successfully in foreign countries; (v) our ability to effectively integrate THS product lines into our existing sales and market channels; (vi) tax liabilities and changes to tax policy; (vii) our ability to protect data and thwart potential cyber attacks; (viii) our ability to bid and win new contracts; (ix) our ability to successfully develop and improve our products and successfully implement new technologies; (x) competition from various other sources providing similar heat tracing and process heating products and services, or alternative technologies, to customers; (xi) our revenue mix; (xii) changes in relevant currency exchange rates; (xiii) a material disruption at any of our manufacturing facilities; (xiv) potential liability related to our products as well as the delivery of products and services; (xv) our dependence on subcontractors and third-party suppliers; (xvi) our ability to comply with the complex and dynamic system of laws and regulations applicable to domestic and international operations, including U.S. government tariffs and the United Kingdom's referendum vote; (xvii) our ability to continue to generate sufficient cash flow to satisfy our liquidity needs; (xviii) our ability to obtain standby letters of credit, bank guarantees or performance bonds required to bid on or secure certain customer contracts; (xix) our ability to attract and retain qualified management and employees, particularly in our overseas markets; (xx) our ability to protect our trade secrets and intellectual property; and (xxi) the extent to which federal, state, local, and foreign governmental regulations of energy, chemical processing and power generation products and services limits or prohibits the operation of our business. Any one of these factors or a combination of these factors could materially affect our future results of operations and could influence whether any forward-looking statements contained in this annual report ultimately prove to be accurate. See also Item 1A, "Risk Factors" for information regarding the additional factors that have impacted or may impact our business and operations.

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

PART I

References in this annual report to "we," "our," "us," the "Company," or "Thermon" mean Thermon Group Holdings, Inc. and its consolidated subsidiaries taken together as a combined entity. A particular fiscal year is the twelve months ended on March 31 of the given calendar year (e.g. "fiscal 2019," "fiscal 2018" and "fiscal 2017" mean the Company's fiscal years ended March 31, 2019, March 31, 2018 and March 31, 2017, respectively). Thermon Group Holdings, Inc. is a holding company that conducts all of its business through its subsidiaries, and its common stock is listed on the New York Stock Exchange under the symbol "THR."

ITEM 1. BUSINESS

Business Overview

We are one of the largest providers of highly engineered industrial process heating solutions for process industries. For over 60 years, we have served a diverse base of thousands of customers around the world in attractive and growing markets, including oil & gas, chemical processing and power generation. We are a global leader and one of the few thermal solutions providers with a global footprint. We offer a full suite of products (heating units, 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 through a global network of sales and service professionals and distributors in more than 30 countries and through our ten manufacturing facilities on three continents. These global capabilities and longstanding relationships with some of the largest multinational oil & gas, chemical processing, power and engineering, procurement and construction ("EPC") companies in the world have enabled us to diversify our revenue streams and opportunistically access high growth markets worldwide. For fiscal 2019, approximately 60% of our revenue was generated outside of the United States.

During fiscal years 2015 and 2016, we acquired three companies, Unitemp Corporation ("Unitemp"), Sumac Fabrication Company Limited ("Sumac") and Industrial Process Insulators, Inc. ("IPI"), adding complementary products and services to our core thermal solution offerings. Additionally, in October 2017, we completed the acquisition of CCI Thermal Technologies Inc., now Thermon Heating Systems, Inc. ("THS"), allowing Thermon to greatly expand our product offerings and the end markets we serve. We continue to actively pursue both organic and inorganic growth initiatives that serve to advance our corporate strategy.

Our legacy thermal solutions product - also referred to as heat tracing - provides 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. We offer both electric and steam heat tracing, as both are utilized to a significant extent in our end markets. 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 heat tracing 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. While our products represent a fraction of the total cost of a typical processing facility, they are critical to the safe and profitable operation of the facility. These facilities are 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 attractive recurring revenue streams. 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 51% of our revenue for fiscal 2019, excluding THS, was derived from such MRO/UE activities.

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

Our newest offerings - made possible through the acquisition of THS - give us the ability to access a much broader footprint of a typical refining or heavy manufacturing facility where our legacy products have generally been required. With our full suite of heating products, we can now extend beyond the external heating of pipes offered by heat tracing. Our family of environmental heating products (branded as "Ruffneck" and "Catadyne") range from electric or gas-powered space heating for personnel operating in harsh and hazardous environments to specific components in the same environments that need special protection. THS also offers a broad spectrum of capabilities in the process heating line. Immersion, circulation, and other highly-engineered forms of process heating (branded as "Caloritech") protects process fluids as they reside in tanks or vessels or in-transit through the plant. One can think of our legacy capabilities as heating "from the outside," whereas our additional capabilities provide us the products to heat "from within." THS holds an "N-stamp," or Nuclear Component Certification, allowing us to serve the nuclear power sector with heating and filtration products. These highly specialized filters use advanced mediums and specialized metals to perform under extreme heat and pressure. These products are branded as "3L Filters." Lastly, our "Fastrax" and "Hellfire" lines, as well as some "Caloritech" products, provide a full-spectrum offering to the rail and transit industry. In both rolling stock and rail infrastructure, THS is a market leader in providing heat to rail cars, tracks, and switches throughout the world.

Our corporate offices are located at 7171 Southwest Parkway, Building 300, Suite 200, Austin, Texas 78735. Our telephone number is (512) 690-0600. 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 free of charge on our Investor Relations website located at <http://ir.thermon.com>. All reports that we have filed with the Securities and Exchange Commission ("SEC"), including this Annual Report on Form 10-K and our Current Reports on Form 8-K, can be obtained free of charge from the SEC's website at www.sec.gov or through our Investor Relations website. In addition, all reports filed with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549-1090. Information regarding the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0330. None of the information on our website or any other website identified herein is incorporated by reference in this annual report and should not be considered a part of this annual report.

Company History

Thermon, Inc., our principal operating subsidiary in the United States, 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. 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.

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

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

On March 2, 2015, we acquired substantially all of the operating assets and assumed certain operating liabilities of Unitemp located in Cape Town, South Africa in a \$3.9 million cash transaction. Unitemp, formerly a distributor of Thermon's thermal solutions in South Africa, offers heating, sensing, portable instruments, monitoring and control solutions to industrial customers throughout Sub-Saharan Africa. On April 1, 2015, we acquired a 75% controlling interest in the business previously operated by Sumac for approximately \$11.0 million in cash and up to \$5.9 million of potential additional contingent cash consideration, which was settled for \$5.8 million in fiscal 2017. Sumac is based in Fort McMurray, Alberta, Canada and designs and manufactures temporary electrical power distribution equipment that is used in hazardous-location and general purpose areas within industrial facilities. On July 31, 2015, we acquired 100% of the capital stock of IPI, an insulation contractor located in Port Neches, Texas serving the U.S. refining, petrochemical, power and energy, marine and pulp and paper industries, in a \$21.8 million cash transaction. IPI has a significant presence in the Texas and Louisiana Gulf Coast region.

In October 2017, we, through a wholly-owned subsidiary, acquired 100% of the equity interests of CCI Thermal Technologies Inc. and certain related real estate assets for \$262.4 million CAD (approximately \$204.6 million USD at the exchange rate as of October 30, 2017) in cash. Such subsidiary and CCI Thermal Technologies Inc. amalgamated immediately after the closing of the acquisition to form Thermon Heating Systems, Inc., an indirect, wholly-owned subsidiary of the Company. THS is engaged in industrial process heating, focused on the development and production of advanced heating and filtration solutions for industrial and hazardous area applications and is headquartered in Edmonton, Alberta, Canada. THS markets its products through several diverse brands known for high quality, safety and reliability, and serves clients in the energy, petrochemical, electrical distribution, power, transit and industrial end markets globally. We believe we will be able to leverage our existing global sales force to further expand the reach of THS's product offerings.

Industry Overview

We estimate that the market for industrial process heating design and parts was approximately \$4.0 billion in annual revenue in 2018. With our October 2017 acquisition of THS, our addressable market in fiscal 2018 grew by almost \$1.0 billion in annual revenue, consisting of the process heating (\$800 million) and transportation (\$180 million) industries. This diversified the product and service mix to encompass the industrial process heating industry, which includes industrial heat tracing. We estimate that the industrial heat tracing market is composed of approximately 60% electric heat tracing and 40% steam heat tracing. While some environments welcome a conversion to electric heat tracing, a significant number of applications will remain protected by steam - due to both safety and the fact that many processes generate steam as a by-product, making it readily available. The industrial electric heat tracing industry is fragmented and consists of more than 30 companies that typically only serve discrete local markets with manufactured products and provide a limited service offering. The market for steam heat tracing solutions is equally as fragmented, but served by fewer companies, as the applications can be extremely high-temperature - requiring specific domain knowledge and manufacturing and installation techniques that are unique. Much like electric and steam heat tracing, the process heating market is highly fragmented. Industrial process heating 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 process heating, and we believe that they prefer providers who have a global footprint and a comprehensive suite of products and services. We believe we are one of only a few companies that meet these criteria.

The major end markets that drive demand for process heating include oil & gas, chemical processing and power generation. We believe that there are attractive near-to medium-term trends in each of these end markets.

- **Oil & Gas.** Process heating is used to facilitate the processing, transportation and freeze protection of energy products in both upstream and downstream oil and gas applications. According to the International Energy Agency ("IEA"), natural gas supplies 22% of the energy used worldwide, and makes up nearly a quarter of electricity generation, and plays a crucial role as a feedstock for industry. Also, IEA estimates that global oil and gas upstream capital spending will increase over 4% in 2019. The oil and gas end market accounted for approximately 38% of the total market for industrial process heating in 2019, or approximately \$1.5 billion in revenue. As global oil prices continue to recover from the recent depression, Thermon is well-positioned to take advantage of the near-to medium-term growth trends associated with this primary end market.
- **Chemical Processing.** Process heating is required for temperature maintenance and freeze protection in a variety of chemical processing applications. Factors that may impact process heating 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. The IEA estimates that new global petrochemicals capacity will account for 33% of oil-demand growth by 2030. We estimate that the chemicals end market (including petrochemical) accounted for approximately 14% of the total market for industrial process heating in 2019, or approximately \$560 million in revenue.
- **Power Generation.** Process heating is required for high-temperature product maintenance, freeze protection and environmental regulation compliance in coal and gas facilities and for safety systems in nuclear facilities. An important driver of demand for process heating solutions for power generation is increasing demand for electricity worldwide. We estimate that the power generation end market accounted for approximately 7% of the total market for industrial process heating in fiscal 2019, or approximately \$280 million in revenue. According to the IEA's World Energy Outlook 2018, electricity currently accounts for 19% of final energy consumption, a share that is expected to increase as demand growth for electricity outpaces all other fuels. According to the IEA's World

Energy Outlook 2018's New Policies Scenario, electricity will account for 24% of final energy consumption in 2040.

Transportation. Process heating is required to safely clear and heat rail switches, melt snow and ice from platforms, and provide comfort heating and defrosting in rolling stock. With over 1.1 million kilometers of operational railway in the world, it is still one of the most economical and safe solutions for passengers and products globally. According to an estimate by IEA based on International Union of Railways ("UIC"), Urban, passenger and freight rail continues to grow on the same curve as global gross domestic product, or GDP. Of this growth, the commercial rail and transit sector represents the largest increase at approximately 8.9% through 2028. We estimate that our transportation industry end markets accounted for approximately 6% of the total market for industrial process heating in fiscal 2019, or approximately \$240 million in revenue.

Segments

We operate in four reportable segments based on four geographic countries or regions in which we operate: (i) United States and Latin America ("US-LAM"), (ii) Canada, (iii) Europe, Middle East and Africa ("EMEA") and (iv) Asia-Pacific ("APAC"). Within our four reportable segments, our core products and services are focused on thermal solutions primarily related to the electrical heat tracing industry. Each of our reportable segments serves a similar class of customers, including engineering, procurement and construction companies, international and regional oil and gas companies, commercial sub-contractors, electrical component distributors and direct sales to existing plant or industrial applications. Profitability within our segments is measured by operating income. Profitability can vary in each of our reportable segments based on the competitive environment within the region, the level of corporate overhead, such as the salaries of our senior executives, and the level of research and development and marketing activities in the region, as well as the mix of products and services. Since March 2015, we acquired THS, Unitemp, IPI and Sumac. THS (formerly known as CCI Thermal Technologies Inc.) develops and produces advanced industrial heating and filtration solutions for industrial and hazardous area applications that closely align with Thermon's core business and serves similar end markets in North America. As such, we have elected to report THS's operations through our US-LAM and Canada reportable segments. Both Unitemp and IPI offer thermal solutions and have been included in our EMEA and US-LAM reportable segments, respectively. Sumac provides temporary power products that differ from our core thermal solutions business. As operating results from Sumac comprise less than 10% of our total sales and operating income, Sumac has been aggregated in our Canada segment. See Note 18, "Segment Information" for financial data relating to our four reportable geographic segments.

Products and Services

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

- self-regulating and power limiting heating cables, which automatically increase or decrease heat output as pipe temperature changes as well as constant wattage heating cables;
- mineral insulated, or "MI," cable, which is a high performance heat tracing cable for generating high temperatures that is typically used in harsh environments;
- skin effect trace heater, which can heat lines in excess of 15 miles long from a single power point;
- heat traced tube bundles for environmental gas sampling systems;
- heat transfer compounds and steam tracers for comprehensive steam tracing solutions;
- control and monitoring systems for electric tracing of pipes, tanks, hoppers and instrument sampling systems;
- turnkey solutions that provide customers with complete solutions for heat tracing, including design, optimization, installation and ongoing maintenance;
- products and services from the THS transaction, which include high efficiency explosion-proof gas catalytic heaters, convection heaters designed for rugged industrial applications, electric heaters engineered for industrial processes and environments, advanced gas and liquid filtration systems and highly efficient heat transfer systems for rail track and switch equipment;

- products and services from the Unitemp acquisition, which include heating, sensing, monitoring and controlling tools; and
- products from the Sumac acquisition, which include equipment for temporary electric power distribution and lighting products used in energy infrastructure construction projects and maintenance/turnaround projects.

Electric Heat Tracing Applications

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

Self-regulating heating cables- Our self-regulating heating cables are flexible and engineered to automatically increase or decrease heat output as pipe or vessel temperature changes. BSX™ self-regulating cables are designed to provide freeze protection or process temperature maintenance to metallic and non-metallic piping, vessels and equipment. HTSX™ self-regulating heating cable is suitable for heat tracing applications involving crude oil and most chemicals.

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

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

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

Steam Heating Solutions

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

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

Currently, we are adding capabilities to include full steam heating solutions. This includes the design, engineering, procurement, integration, installation, and insulation of steam systems that include the steam supply manifold, the condensate return manifold, and the tubing, valves, fittings, heat trace, and other components that exist in-between.

Temperature Controls and Monitoring

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

We offer a variety of temperature control monitoring systems as part of our TraceNet™ family of controller solutions. TraceNet™ controllers allow operators to assess control parameters, set control algorithms and monitor operating conditions throughout heat tracing installations. In conjunction with our TraceNet™ monitoring software, over 30,000 heat trace circuits can be monitored within the same network. We actively seek to expand our TraceNet™ product offerings with smart, connected solutions delivering customers the most advanced, reliable and easy-to-use monitoring solutions in the marketplace.

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.

Project Services

As a manufacturer and global expert in process heating solutions, our customers often times rely on Thermon to deliver a range of project services, which may include:

- Engineering and design
- Procurement and project management services
- Turnkey installation
- Recurring facility assessment or audit
- Maintenance services

Our customers rely on Thermon's design and engineering expertise on projects around the world. These services are combined with our heat tracing and process heating products under one contract to deliver an integrated solution that improves the overall value proposition for the customer. By delivering design drawings in conjunction with early project specifications, we can address our customer needs for design optimization studies, product selection assistance and computer-generated drawing packages. Often these are new facilities or Greenfield projects but they may also include upgrades or expansions and maintenance projects where our existing customers are upgrading their facilities. Project services are important to our business model and growth strategy to secure Greenfield contracts that both establish and enhance new and existing customer relationships.

Project services also include full turnkey solutions whereby we contract to install a complete heat tracing or process heating solution. We refer to this as our construction business which is primarily located in the southern United States near many of our customers in the downstream and mid stream petroleum, chemical and power generation industries.

Thermon Heating Systems Products

In October 2017, we acquired 100% of the equity of CCI Thermal Technologies Inc. and immediately rebranded as Thermon Heating Systems, Inc. ("THS"). THS develops, designs and manufactures the following high quality and durable advanced industrial heating and filtration solutions:

- Environmental heating (branded as "Ruffneck" and "Catadyne") - which provides electric or gas-powered space heating for both hazardous and non-hazardous areas;
- Process heating (branded as "Caloritech") - provides a myriad of highly-engineered heating products to multiple end-markets with the purpose of heating and maintaining a process fluid at specified temperatures. Some products also serve the transportation sector with both radiant and convection-style heating;

- Filtration (branded as “3L Filters”) - which provides highly-specialized filtration solutions for the most stringent environments, including the nuclear industry; and
- Transportation (branded as “Fastrax” and “Hellfire”) - provides heating applications to both rolling stock (rail cars) and rail infrastructure (track and switch).

Sumac Temporary Power Products

In April 2015, we acquired a 75% controlling interest in the business previously operated by Sumac. Sumac's line of products and solutions are designed to provide a safe and efficient means of supplying temporary electrical power distribution and lighting at energy infrastructure facilities for new construction and during maintenance and turnaround projects at operating facilities. Sumac products include power distribution panels, master/slave sub-panels, power cords and lighting fixtures - and are sold to end-users operating in many of the same markets as our core thermal solutions, including heavy industrial settings, oil and gas refining and upgrading, power generation plants, petrochemical production facilities and mining operations. A number of these products are engineered-to-order based on proprietary designs.

Sumac's products are designed around the "plug and play" concept and differentiated from others in the industry through unique safety features that include arc flash protection *i.e.*, protecting users while making and breaking connections under electrical load, and offering ground fault protection. Certain products are certified to safely operate in hazardous areas such as live plant environments that process combustible chemicals and materials. Sumac's suite of products is designed to allow for quick reconfigurations of electrical power distribution panels to meet the changing needs of contractors as work moves from one phase to the next during construction and facility maintenance operations. These features help our customers save considerable time on the job site and realize significant cost savings while maintaining the highest level of safety. We believe we will be able to leverage our existing global sales force to further expand the reach of Sumac's product offerings.

Manufacturing and Operations

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

Our flexible heat cable products are manufactured in San Marcos, Texas. The manufacturing building has approximately 48,000 square feet of floor space, including offices. The facility has excess capacity and will support growth of our primary heat cable sales to an aggregate revenue capacity of \$400 to \$500 million, depending on pricing and product mix.

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

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

During fiscal 2016, we completed an expansion of our primary pre-insulated tubing product manufacturing plant located in San Marcos, Texas, which significantly increased our production capacity for our instrumentation tube-bundle product line. The total cost of the expanded facility, including the purchase of new capital equipment, was \$3.5 million.

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

THS products are currently fabricated at five THS facilities in North America: Edmonton, Oakville, and Orillia in Canada, and Denver and Houston in the United States. THS maintains state of the art facilities and maintains several recognized facility certifications.

Sumac's products are currently fabricated at a facility in Fort McMurray, Alberta, Canada. Sumac's customer base has primarily been in the oil sands region of Alberta, Canada, which is a remote location. We are in the process of expanding Sumac's temporary power solution presence in the U.S. gulf-coast region with the addition of fabrication capacity at our San Marcos, Texas facility.

In 2017, we completed construction of our newest manufacturing facility in Russia, Thermon Eurasia LLC, a wholly owned indirect subsidiary has begun local production of key products in the greater Moscow region. The new production facility, approximately 20,300 square feet, focuses on manufacturing, fabrication, packaging and quality control of high-temperature self-regulating heating cables, low-temperature self-regulation heating cables, series constant watt cables, mineral insulated heating circuits, power and splice boxes, mechanical thermostats, electronic control modules, heat tracing kits and accessories, control panels and power distribution boards. The facility has helped us better serve our customers in the region through a comprehensive local suite of heat tracing products and services, including sales support, logistics, engineering, technical support, project management, and field services for electric and steam heat tracing, as well as other industrial process heating applications. We believe Russia and the adjacent Eurasian countries represent a very important and promising market opportunity for Thermon, and the new production facility is a key strategic investment. Our capital investment for the new facility was \$1.0 million.

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

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

Distribution- Our primary distribution centers are located in San Marcos, Texas, Calgary, Alberta and the Netherlands. Inventory is typically shipped directly from these distribution centers to customers, the construction site or our regional sales agents or distributors. Our sales agents may maintain "safety stocks" of core products to service the immediate MRO/UE requirements of customers who are time-sensitive and cannot wait for delivery from one of the central distribution centers. In the United States, a network of agents maintains safety stocks of core products. In Canada, customers are serviced from the central distribution center in Calgary. THS maintains a sufficient supply of inventoried catalog stores at all five THS locations to quickly service customers' needs. Highly customizable engineered products are primarily manufactured out of the Oakville, Canada location. In Europe, customers are serviced from the central distribution center in the Netherlands. In Asia, safety stock of materials are kept in Yokohama, Japan; Seoul, Korea; Shanghai, China; Pune, India; and Melbourne, Australia. Safety stocks are also warehoused in Moscow, Russia, Mexico City and Mexico. We expect to utilize warehouses that have been added through the acquisition of Sumac, IPI and Unitemp in Fort McMurray, Alberta, Canada, Port Neches, Texas and Cape Town and Johannesburg, South Africa, respectively, to store inventory for sales to existing Sumac, IPI and Unitemp customers.

In April 2015, we completed the expansion of our primary distribution center located in San Marcos, Texas at a total cost of \$3.9 million including equipment. The expansion has significantly increased our storage capacity, reduced outside storage costs and consolidated warehouse operations for improved efficiencies.

Customers

We serve a broad base of large multinational customers, many of which we have served for more than 60 years. We have a diversified revenue mix with thousands of customers. None of our customers represented more than 10% of total revenue in fiscal 2019.

Sales and Marketing

Our direct sales force is focused on positioning us with major end-users and EPC companies during the development phase of Greenfield projects with the goal of providing reliable, cost-effective process heating 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 electrical standards established in the countries in which we sell products. We believe that we have established credibility as a reliable provider of high quality process heating products. In addition, we believe that our 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 products and associated design practices are subjected to various tests, including heat output, thermal stability and long-term aging, with the goal of producing products capable of performing at or beyond the expectations of our customers. All products are further tested and certified by various approval agencies to verify compliance with applicable industry standards.

We evaluate our products for electrical safety requirements, environmental assessments and market based assessments for the particular applications and harsh climates that Therman services. Our products comply with national and international heat tracing industry standards such as ANSI/IEEE-515, ANSI/IEEE, 515.1, ANSI/IEEE-844, UL 508A, UL 698, UL 1030 and UL 499 in the United States, Canadian Standards Association 130.03, 72, 46, 88, 14 and 30 in Canada; and International Electrical Commission IECx 60079-30-1, IECEx 60079-30-2, IECEx 60079-0, IECEx 60079-1 and IECEx 60079-2 in international markets. We also hold many product certifications from local country approval agencies and registration bodies around the world. We actively monitor the introduction of new domestic or global standards and certifications, and pursue certifications relating to the electrical heat tracing industry.

Competition

The global industrial electric heat tracing industry is fragmented and consists of more than 30 companies, which typically only serve discrete local markets and provide a limited service offering. We believe that we are the second largest participant in the industrial electric heat tracing market and one of only a few solutions providers with a comprehensive suite of products and services, global capabilities and local on-site presence. Our most significant competitor is nVent Electric plc (NYSE: NVT), which was spun-off of Pentair plc (NYSE: PNR) in April 2018.

We have entered the broader industrial process heating market following the THS transaction in October 2017. The industrial process heating market, which includes industrial heat tracing, also tends to be fairly fragmented with several smaller companies serving discrete local markets with limited offerings. The primary competitors of THS vary by end-market, but generally we view nVent Electric, NIBE, Watlow and Chromalox as competitors in various areas across the spectrum of end-markets we now serve.

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

Intellectual Property and Technology

The industrial process heating industry, as well as the complementary markets where we intend to expand, are highly competitive and subject to the introduction of innovative techniques and services using new technologies. While we have patented some of our products and processes, we historically have not relied upon patents to protect our design, manufacturing processes or products, and our patents are not material to our operations or business. Instead, we rely significantly on maintaining the confidentiality of our trade secrets, manufacturing know-how, 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 rely on registered and unregistered trademarks in the United States and abroad and have many recognized brand names.

Research and Development

Our research and development activities are focused on identifying new technologies to enhance our industrial process heating 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 product development initiatives include polymer research and continued advancement of integrated control and monitoring systems. Software development activities include advanced heat tracing network monitoring communication software and engineering design software initiatives.

Employees

As of March 31, 2019, we employed approximately 1,465 persons on a full-time basis worldwide and retained approximately 228 independent contractors. We have never experienced any organized work stoppage or strike; however, approximately 1% of our employees are covered by collective bargaining agreements. 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, 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. Our policies mandate compliance with these laws. Despite our training and compliance programs, no assurances can be made that we will be found to be operating in full compliance with, or be able to detect every violation of, any such laws. We cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted.

Environmental Compliance

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

Seasonality

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

Backlog

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Industry

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

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

Suspensions and delays in large capital projects within the energy sector, especially in the United States and Canada, have adversely affected our results of operations in recent years. A sustained downturn in the energy industry, due to decreases in oil and gas prices or demand for oil and gas products, could further decrease demand for some of our products and services, which would materially and adversely affect our business, financial condition and results of operations.

A significant portion of our revenue historically has been generated by end-users in the oil and gas markets where we serve all three major categories of customers in the petroleum industry - upstream exploration/production, midstream transportation and downstream refining. The businesses of most of our customers in the energy industry are, to varying degrees, cyclical and historically have experienced periodic downturns. Profitability in the energy industry is highly sensitive to supply and demand cycles and commodity prices, which historically have been volatile, and our customers in this industry have tended to delay large capital projects, including expensive maintenance and upgrades, during industry downturns. Customer project delays and cancellations may limit our ability to realize value from our backlog as expected and cause fluctuations in the timing or the amount of revenue earned and the profitability of our business in a particular period. In addition, such delays and cancellations 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, which are volatile. In recent years, we have experienced suspensions or delays in large capital projects within the energy sector, especially in the upstream exploration and production sector, and most notably in the United States and Canada. A sustained downturn in the capital expenditures of our customers, whether due to a decrease in the market price of oil and gas or demand for oil and gas products, 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 also have a significant negative impact on the market price of our common stock.

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

Our backlog is comprised of the portion of firm signed purchase orders or other written contractual commitments received from customers that we have not recognized as revenue. Backlog may increase or decrease based on the addition of large multi-year projects and their subsequent completion. Backlog may also be favorably or unfavorably affected by foreign currency rate fluctuations. The dollar amount of backlog as of March 31, 2019 was \$120.0 million. The timing of our recognition of revenue out of our backlog is subject to a variety of factors that may cause delays, many of which, including fluctuations in our customers' delivery schedules, are beyond our control. Such delays may lead to significant fluctuations in

results of operations from quarter to quarter, making it difficult to predict our financial performance on a quarterly basis. Further, while we have historically experienced few order cancellations and the amount of order cancellations has not been material compared to our total contract volume, if we were to experience a significant amount of cancellations of or reductions in purchase orders, it would reduce our backlog and, consequently, our future sales and results of operations.

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

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

For fiscal 2019, approximately 60% of our revenues were generated outside of the United States, and approximately 29% were generated outside North America. In addition, one of our key growth strategies is to continue to expand our global footprint in emerging and high growth markets around the world, although we may not be successful in expanding our international business.

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

- changes in a specific country's or region's political, social or economic conditions, particularly in emerging markets;
- trade relations between the United States and those foreign countries in which our customers and suppliers have operations, including protectionist measures such as tariffs, import or export licensing requirements and trade sanctions;
- restrictions on our ability to own or operate subsidiaries in, expand in and, if necessary, repatriate cash from, foreign jurisdictions;
- exchange controls and currency restrictions;
- the burden of complying with numerous and potentially conflicting laws;
- potentially negative consequences from changes in U.S. and foreign tax laws;
- difficulty in staffing and managing (including ensuring compliance with internal policies and controls) geographically widespread operations;
- different regulatory regimes controlling the protection of our intellectual property;
- difficulty in the enforcement of contractual obligations in non-U.S. jurisdictions and the collection of accounts receivable from foreign accounts; and
- transportation delays or interruptions.

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

If we are unable to effectively integrate the THS product lines into our existing sales and marketing channels, our future sales and revenue growth could be adversely affected.

With the completion of the THS acquisition in October 2017, we entered into a new product line that exposed us to new end markets relative to our legacy heat tracing products and services. THS is engaged in industrial process heating,

focused on the development and production of advanced heating and filtration solutions for industrial and hazardous area applications, and serves clients in the energy, petrochemical, electrical distribution, power, transit and industrial end markets globally. While THS has similar economic characteristics as the core Thermon process heating operations, it does represent a new product line that exposed us to new end markets relative to our legacy heat tracing products and services. We are in the process of integrating THS into our existing Thermon sales and marketing operations. If we are unable to successfully combine and integrate the THS product lines with our existing Thermon operations, we may be unable to realize the anticipated synergies and financial benefits from the THS acquisition in the timeframe that we expect or at all, and our future sales and revenue growth could be adversely affected.

Additional liabilities related to taxes, potential tax adjustments or changes to tax policy in foreign jurisdictions 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.

On December 22, 2017, the United States enacted significant changes to U.S. tax law following the passage and signing of H.R.1, “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018” (the “Tax Act”). The Tax Act included significant changes to existing U.S. tax law, including a permanent reduction to the U.S. federal corporate income tax rate from 35% to 21%, a one-time repatriation tax on deferred foreign income (“Transition Tax”), deductions, credits and business-related exclusions. We have finalized our assessment of the impact of the Transition Tax on our consolidated financial statements and accompanying notes as of March 31, 2019.

Given the Tax Act’s significant changes and potential opportunities to repatriate cash tax free, we have reevaluated our former permanent reinvestment position. Accordingly, we will no longer assert a permanent reinvestment position in most of our foreign subsidiaries. We expect to repatriate certain earnings which will be subject to withholding taxes. These additional withholding taxes are being recorded as an additional deferred tax liability associated with the basis difference in such jurisdictions. Any changes made by foreign jurisdictions to their respective withholding rates could materially impact our results of operations, financial condition and cash flow.

There may be breaches of our information technology systems that materially damage business partner and customer relations that could subject us to significant reputational, financial, legal and operational consequences.

As a company we store company, customer, employee and business partner information, which may include, among other information, trade secrets, names, addresses, phone numbers, email addresses, tax identification numbers, payment account information and customer facility information. We could be subject to sophisticated and targeted attacks intending to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, including the introduction of computer viruses or malware, cyber-attacks and other means. We require user names and passwords in order to access our information technology systems. These security measures are subject to potential third-party security breaches, employee error, malfeasance and faulty password management, among other limitations. Third parties may attempt to fraudulently induce employees or customers into disclosing user names, passwords or other sensitive information, which may in turn be used to access our information technology systems. We may not be able to anticipate, detect or recognize threats to our system or to implement effective preventive measures against all security breaches. If we were to experience a breach of our systems and were unable to protect sensitive data, such a breach could, among other things:

- risk our confidential manufacturing processes and other trade secreted information that may lead to new and increased entrants and competitors or cause other damage to the business;
- expose our customers' facilities and projects to increased safety and security risk;
- materially damage business partner and customer relationships;
- adversely impact our financial results and expose us to potential risk of loss or litigation; and/or

- require us to incur substantial costs or require us to change our business practices;

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

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

If we are unable to successfully develop and improve our products and successfully implement new technologies in the markets that we serve, our business could be adversely affected.

Our future success will depend upon our continued investment in research and development of new products, improvement and enhancement of our existing product offerings and our ability to continue to achieve new technological advances in the process heating industry. Our inability to continue to successfully develop and market new products or our inability to implement technological advances on a pace consistent with that of our competitors could adversely affect our business and results of operations.

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 and the similarly fragmented nature of the industrial process heating industry 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. In addition, we compete against many regional and lower-cost manufacturers. Our competitors may develop products that are superior to our products, develop methods of more efficiently and effectively providing products and services, adapt more quickly than we do to new technologies or evolving customer requirements, or attempt to compete based primarily on price, localized expertise and local relationships. If we are unable to continue to differentiate our products and services or if we experience an increase in competition, it may cause us to lose market share or compel us to reduce prices to remain competitive, which could result in reduced sales and earnings.

Our gross margins depend, in part, on our revenue mix. Although Greenfield project revenues, which provide for an ongoing stream of future high-margin MRO/UE revenues, are critical to our success and growth, increased Greenfield project revenues can adversely affect our gross margin.

Typically, both Greenfield and MRO/UE customers require our products as well as our engineering and construction services. 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 gross margins are impacted by our mix of products and services. Although our product mix varies from period to period due to a variety of factors, historically, Greenfield revenue typically accounts for approximately 40% of our total revenue. Although Greenfield project revenues, which provide for an ongoing stream of future high-margin MRO/UE revenues, are critical to our long-term success and growth, a revenue mix higher in lower-margin Greenfield project revenues relative to historical levels could adversely affect our gross margins and results of operations.

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

We derived approximately 3%, 5% and 8% of our revenue from our subsidiary incorporated in Russia in the fiscal years ended March 31, 2019, 2018 and 2017, respectively. The escalation of geopolitical instability in Russia and Ukraine as well as currency fluctuations in the Russian Ruble could negatively impact our operations, sales, and future growth prospects in that region. The U.S. government has imposed sanctions through several executive orders restricting U.S. companies from conducting business with specified Russian and Ukrainian individuals and companies. While we believe that the executive orders currently do not preclude us from conducting business with our current customers or vendors in Russia, the sanctions imposed by the U.S. government may be expanded in the future to restrict us from engaging with them. If we are unable to conduct business with new or existing customers or vendors or pursue business opportunities in Russia or Ukraine, our business, including revenue, profitability and cash flows, and operations could be materially adversely affected. We cannot provide assurance that current sanctions or potential future changes in sanctions will not have a material impact on our operations in Russia and the Ukraine or on our financial results.

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.

Our Sumac operations are located in Fort McMurray, Alberta, Canada. Beginning on May 3, 2016, a forest fire swept through the town of Fort McMurray and the surrounding area causing significant damage to homes and businesses. None of Thermon's personnel located in Fort McMurray were injured nor were our facilities damaged. However, the entire city of Fort McMurray, including all of our staff, was evacuated for a period of approximately four weeks. We incurred temporary relocation costs of \$21,000 for our employees as well as business interruption costs. As a result of the crisis at Fort McMurray, many of the nearby oil sands region facilities ceased operations for approximately one month. This shut down adversely impacted Thermon's core thermal solutions business and Sumac's equipment rental and sales business during fiscal 2017.

Interruptions in production, in particular at our manufacturing facilities in San Marcos, Texas, or Calgary, Edmonton, Oakville or Orillia, 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 business strategy includes acquiring smaller, value-added companies and making investments that complement our existing business. These acquisitions and investments could be unsuccessful or consume significant resources, which could adversely affect our operating results.

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

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

We have limited experience in acquiring or integrating other businesses or making investments or undertaking joint ventures with others. It may be difficult for us to complete transactions quickly and to integrate acquired operations efficiently into our current business operations. Any acquisitions or investments may ultimately harm our business or financial condition, as such acquisitions may not be successful and may ultimately result in impairment charges. During fiscal 2016, we impaired \$1.7 million of goodwill and other intangible assets related to the Unitemp acquisition as our expectations of future revenue and profitability were below those estimated at the time of the acquisition.

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 revenue and profitability, adversely affect our liquidity and impair our financial condition. While we have entered into hedging instruments to manage our exchange rate risk as it relates to certain intercompany balances with certain of our foreign subsidiaries, these hedging activities we have entered into do not eliminate this exchange rate risk, nor do they reduce risk associated with total foreign sales.

Our non-U.S. subsidiaries generally sell their products and services in the local currency, but obtain a significant amount of their products from our facilities located elsewhere, primarily the United States, Canada or Europe. In particular, significant fluctuations in the Canadian Dollar, the Russian Ruble, the Euro or the Pound Sterling against the U.S. Dollar could adversely affect our results of operations. During fiscal 2019, the value of the U.S. Dollar strengthened in relation to the principal non-U.S. currencies from which we derive revenue, which negatively impacted revenue by \$4.6 million in fiscal 2019, whereas the relative weakening of the U.S. Dollar positively impacted revenue by \$7.9 million in fiscal 2018. Any further appreciation in the U.S. Dollar relative to such non-U.S. currencies could continue to have a significant negative impact on our results of operations in future periods. We also bid for certain foreign projects in U.S. Dollars or Euros. If the U.S. Dollar or Euro strengthens relative to the value of the local currency, we may be less competitive in bidding for those projects. In addition, currency variations can adversely affect margins on sales of our products in countries outside of the U.S. and margins on sales of products that include components obtained from suppliers located outside of the U.S. See Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" for additional information regarding our foreign currency exposure relating to operations.

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

We have significant goodwill and other intangible assets and future impairment of our goodwill and other intangible assets could have a material negative impact on our financial results.

We test goodwill and indefinite-life intangible assets for impairment on at least an annual basis, and more frequently if circumstances warrant, by comparing the estimated fair value of each of our reporting units to their respective carrying values. As of March 31, 2019, our goodwill and other intangible assets balance was \$332 million, which represented 51% of our total assets. Long-term declines in projected future cash flows could result in future goodwill and other intangible asset impairments. For example, we recognized a pre-tax, non-cash impairment charge of \$1.7 million for the year ended March 31, 2016 related to the goodwill and other intangible assets of Unitemp. Because of the significance of our goodwill and other intangible assets, any future impairment of these assets could have a material adverse effect on our financial results.

Our dependence on subcontractors and third-party suppliers 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 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 charges 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 project revenue and operating results. In addition, many of our customer contracts, including fixed-price contracts, contain liquidated damages provisions in the event that we fail to perform our obligations thereunder in a timely manner or in accordance with the agreed terms, conditions and standards.

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

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

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

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, 2019, we had \$206.5 million of outstanding indebtedness. If our cash flows and capital resources are insufficient to fund the interest payments on our outstanding borrowings under our credit facility and other debt service obligations and keep us in compliance with the covenants under our debt agreements or to fund our other liquidity needs, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot ensure that we would be able to take any of these actions, that these actions would permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, which may impose significant operating and financial restrictions on us and could adversely affect our ability to finance our future operations or capital needs; obtain standby letters of credit, bank guarantees or performance bonds required to bid on or secure certain customer contracts; make strategic acquisitions or investments or enter into alliances; withstand a future downturn in our business or the economy in general; engage in business activities, including future opportunities, that may be in our interest; and plan for or react to market conditions or otherwise execute our business strategies.

If we cannot make scheduled payments on our debt, or if we breach any of the covenants in our debt agreements, we will be in default and, as a result, our debt holders could declare all outstanding principal and interest to be due and payable, the

lenders under our credit facility could terminate their commitments to lend us money and foreclose against the assets securing our borrowings, and we could be forced into bankruptcy or liquidation.

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

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

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. Under the Dodd-Frank Act, the SEC has adopted requirements for companies that use certain minerals and metals, known as "conflict minerals", in their products, whether or not these products are manufactured by third parties. These regulations require companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries. We are required to perform sufficient due diligence to determine whether such minerals are used in the manufacture of our products. The implementation of these requirements could adversely affect the sourcing, availability and pricing of such minerals if they are found to be used in the manufacture of our products. In addition, we incur costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free.

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.

Significant developments arising from recent U.S. Government proposals concerning tariffs and other economic proposals could have a material adverse effect on us.

As a result of recent changes to U.S. administration policy and recent U.S. government proposals, there may be greater restrictions and economic disincentives on international trade that could include significant increases in tariffs on goods. Changes in U.S. or international social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently develop and sell our products, and any negative sentiment towards the United States as a result of such changes, could adversely affect our business.

Recent developments relating to the United Kingdom's referendum vote in favor of leaving the European Union and related actions could adversely affect us.

In June 2016, a majority of voters in the United Kingdom voted "for" the Referendum of the United Kingdom's Membership in the European Union, referred to as "Brexit", approving the exit of the United Kingdom from the European

Union, which triggered volatility in exchange rate fluctuations of the U.S. dollar against foreign currencies in which we conduct our business. We may experience volatility in exchange rates as the United Kingdom negotiates its exit from the European Union. If the U.S. dollar strengthens, our revenue denominated in foreign currencies may be adversely affected when translated into U.S. dollars.

The announcement of Brexit has also created global economic uncertainty, which may cause our customers to closely monitor their costs and reduce their spending on our products and services. The effects of Brexit depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. The measures could potentially disrupt the markets we serve and may cause us to lose customers and employees. In addition, Brexit could lead to legal uncertainty and potential divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects of Brexit, among others, could adversely affect our business, results of operations and financial conditions.

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

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

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

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

We have identified a material weakness in our internal control over financial reporting, which could, if not remediated, result in material misstatements in our financial statements and have a material adverse effect on our business and the market price of our common stock.

Effective internal controls are necessary for us to provide reliable financial statements and to effectively prevent fraud. We maintain a system of internal control over financial reporting, which is defined as a process designed by, or under the supervision of, our principal executive officer and principal financial officer, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Although we have concluded that our consolidated financial statements as of March 31, 2019 have been prepared in accordance with generally accepted accounting principles, and present fairly, in all material respects, the financial condition, results of operations and cash flows of the Company, we have identified a material weakness in internal control over financial reporting primarily related to the controls over project revenues accounted for using the cost-to-cost method our European, Middle East and Africa (EMEA) segment, as described in further detail in Part II - Item 9A. "Controls and Procedures" of this annual report. Under standards established by the Public Company Accounting Oversight Board, a material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected and corrected on a timely basis.

We are in the process of implementing a remedial plan, as described further in Item 9A, "Controls and Procedures", but if our remedial plan is insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our financial statements may contain material misstatements, and we could be required to restate our financial results. In addition, if we are unable to successfully remediate this material weakness and if we are unable to produce accurate and timely financial statements, the market price of our common stock may be adversely affected, and we may be unable to maintain compliance with the listing requirements of the New York Stock Exchange.

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

Our ability to successfully operate and grow our global business and implement our strategies is largely dependent on the efforts, abilities and services of our senior management and other key employees. If we lose the services of our senior management or other key employees and are unable to find qualified replacements with comparable experience in the industry, our business could be negatively affected. Competition for qualified management and key technical and sales personnel in our industry is intense.

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

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

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

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

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

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

Risks Related to Ownership of Our Common Stock

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

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

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

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

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

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

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

- fluctuations in the stock prices of our peer companies or in stock markets in general; and
- general economic or political conditions.

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters and principal executive offices are located at 7171 Southwest Parkway, Building 300, Austin, Texas.

Our principal manufacturing and warehousing is located at our San Marcos, Texas facility. In addition, we have offices and manufacturing locations in Canada, the Netherlands, France, United Kingdom, Germany, Russia, Mexico, China, Korea, Japan, India, Australia, Malaysia, Bahrain and South Africa. Most of our operations are registered to International Organization for Standardization (ISO) 9001 quality standards. We believe that our production facilities are suitable for their purpose and are adequate to support our businesses.

ITEM 3. LEGAL PROCEEDINGS

For information on legal proceedings, see Note 14, "Commitments and Contingencies" to our consolidated financial statements contained elsewhere in this annual report, which is hereby incorporated by reference into this Item 3.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

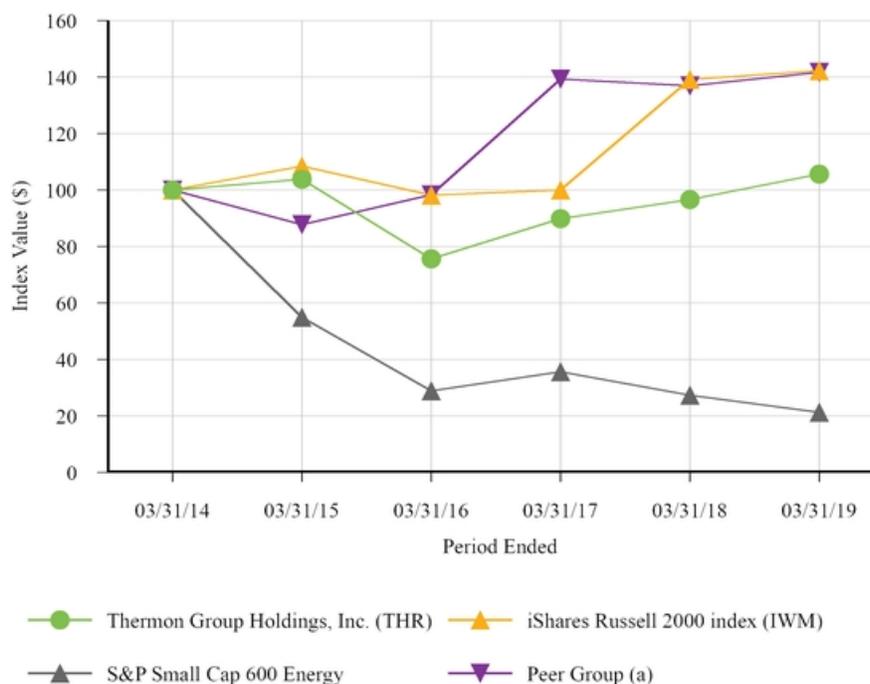
PART II

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

The common stock of the Company trades on the NYSE under the symbol "THR." On June 11, 2019, the closing sale price of our common stock, as reported by the NYSE, was \$24.24. As of June 11, 2019, there were approximately 15 holders of our common stock of record.

Stock Performance

The following line graph and table present a comparison of cumulative total returns for our common stock on an annual basis over the last five fiscal years as compared to (i) the Russell 2000 Index, (ii) a peer group selected by the Company and (iii) the S&P SmallCap 600 - Capped Energy Index, in each case over the same period. Our peer group was selected in good faith and is comprised of manufacturing companies who compete in similar industries and possess similar sales and market capitalizations. The returns of each company in the peer group have been weighted according to market capitalization. The plotted points in the line graph are based on the closing price on the last trading date of the fiscal year. The values assume an initial investment of \$100 was made in our common stock and the respective indexes on March 31, 2014 (the last day of fiscal 2014), and assumes the reinvestment of dividends. The stock price performance shown below is not necessarily indicative of future price performance.



	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019
Thermon Group Holdings, Inc.	\$ 100.00	\$ 103.84	\$ 75.75	\$ 89.91	\$ 96.68	\$ 105.74
iShares Russell 2000 Index	\$ 100.00	\$ 108.49	\$ 98.18	\$ 100.10	\$ 139.27	\$ 142.36
Peer Group (a)	\$ 100.00	\$ 87.74	\$ 98.30	\$ 139.41	\$ 136.89	\$ 141.71
S&P 600 Small Cap 600 Energy	\$ 100.00	\$ 54.91	\$ 28.94	\$ 35.75	\$ 27.44	\$ 21.32

(a) Our peer group is comprised of the following publicly traded companies, which we selected in good faith on the basis of being manufacturing companies that compete in similar industries and have comparable sales and market capitalizations as Thermon: Ampco-Pittsburgh Corp. (AP), AAON Inc. (AAON), Flotek Industries Inc. (FTK), Gorman-Rupp Co. (GRC), Advanced Energy Industries Inc. (AEIS), Allied Motion Technologies, Inc. (AMOT), ESCO Technologies Inc. (ESE), Aspen Aerogels, Inc. (ASPN), Badger Meter, Inc. (BMI), DMC Global, Inc. (BOOM), Brooks Automation, Inc. (BRKS), Cohu, Inc. (COHU), Hurco Companies, Inc. (HURC), Lydall, Inc. (LDL), Perma-Pipe International Holdings, Inc. (PIIH), and Powell Industries Inc. (POWL).

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

Dividend Policy

Since the completion of the CHS Transactions on April 30, 2010, we have not declared or paid any cash dividends on our capital stock, and we do not currently intend to pay any cash dividends on our common stock. We currently intend to retain earnings to finance the growth and development of our business and for working capital and general corporate purposes. Any payment of dividends will be at the discretion of our board of directors and will depend upon our earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by applicable law and other factors. In particular, our credit facility limits our ability to pay dividends from cash generated from operations. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

Equity Compensation Plan Information

For information on our equity compensation plans, see Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters-Equity Compensation Plan Information." See also Note 15, "Stock-Based Compensation Expense" to our consolidated financial statements included elsewhere in this annual report.

Issuer Purchases of Equity Securities

None.

Recent Sales of Unregistered Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected historical consolidated financial and operating data as of and for the fiscal years ended March 31, 2019 ("fiscal 2019"), March 31, 2018 ("fiscal 2018"), March 31, 2017 ("fiscal 2017"), March 31, 2016 ("fiscal 2016") and March 31, 2015 ("fiscal 2015"). The data set forth below should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is contained elsewhere in this annual report, and our consolidated financial statements and the notes thereto as of March 31, 2019 and 2018 and for fiscal 2019, fiscal 2018 and fiscal 2017, which are contained in Item 8 elsewhere in this annual report.

	Year Ended March 31,				
	2019	2018	2017	2016	2015
(dollars in thousands, except per share data)					
Consolidated Statements of Operations Data:					
Sales	\$ 412,642	\$ 308,609	\$ 264,130	\$ 281,928	\$ 308,578
Cost of sales	236,702	164,798	152,199	150,613	153,874
Gross profit	\$ 175,940	\$ 143,811	\$ 111,931	\$ 131,315	\$ 154,704
Operating expenses:					
Marketing, general and administrative and engineering	106,660	94,615	77,715	80,729	76,868
Amortization of intangible assets	20,771	16,458	11,772	12,112	10,775
Impairment of intangible assets and goodwill (1)	—	—	—	1,713	—
Income from operations	\$ 48,509	\$ 32,738	\$ 22,444	\$ 36,761	\$ 67,061
Interest income	238	606	566	423	460
Interest expense (2)	(15,714)	(8,984)	(3,518)	(4,142)	(4,565)
Loss on extinguishment of debt	—	(376)	—	—	—
Other income/(expense) (3)	109	(5,595)	(410)	(676)	(394)
Income from continuing operations before provision for income taxes	\$ 33,142	\$ 18,389	\$ 19,082	\$ 32,366	\$ 62,562
Income tax expense	9,973	5,170	4,098	8,716	13,176
Net income	\$ 23,169	\$ 13,219	\$ 14,984	\$ 23,650	\$ 49,386
Income attributable to non-controlling interests	413	1,306	343	641	—
Net income available to Thermon Group Holdings, Inc.	\$ 22,756	\$ 11,913	\$ 14,641	\$ 23,009	\$ 49,386
Net income per common share:					
Basic	0.70	\$ 0.37	\$ 0.45	\$ 0.72	\$ 1.54
Diluted	0.69	0.36	0.45	0.71	1.52
Weighted-average shares used in computing net income per common share (thousands)					
Basic	32,569	32,424	32,302	32,177	32,027
Diluted	33,054	32,797	32,633	32,593	32,407
Cash dividends per share	—	—	—	—	—
Other Financial and Operating Data:					
Capital expenditures (4)	11,055	9,072	8,370	12,581	6,075
Backlog at end of period (5)	119,956	159,624	106,880	81,242	75,745

	At March 31,				
	2019	2018	2017	2016	2015
	(dollars in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	\$ 31,402	\$ 33,879	\$ 42,842	\$ 84,570	\$ 93,774
Accounts receivable, net	105,323	94,411	63,719	57,432	60,441
Inventory, net	64,890	63,829	34,020	40,645	41,008
Total assets	655,762	662,477	454,080	468,677	449,757
Total debt, principal amount	206,500	225,000	81,000	94,500	108,000
Deferred debt issuance costs	6,271	7,967	524	888	1,217
Total debt, net of deferred debt issuance costs	200,229	217,033	80,476	93,612	106,783
Total equity	348,949	340,853	312,502	298,701	271,766

- (1) During fiscal 2016, the EMEA segment's financial results were negatively impacted by a \$1.7 million impairment charge to Unitemp's goodwill and other intangible assets.
- (2) Interest expense in fiscal 2019 and 2018 primarily represents interest expense on the term loan B on outstanding principal balances as of March 31, 2019 and 2018 of \$206.5 million and \$225.0 million, respectively, compared to \$81.0 million as of March 31, 2017. Further reductions in fiscal 2017 and thereafter of interest expense were due to the difference in interest rates on our term loan A that carried an interest rate that ranged from 2.87% to 3.62% after giving effect to our interest rate swaps and the interest rate reductions realized from the first and second amendments to our prior credit agreement.
- (3) Other expense in fiscal 2018 includes a foreign currency transaction loss of \$3.3 million in connection with the option contract entered into to secure the THS acquisition purchase price, and a \$2.3 million loss related to a derivative contract to hedge a \$112.8 million long-term intercompany loan between Canada and the United States for the THS acquisition.
- (4) Represents capital expenditures less the sales of rental equipment at net book value.
- (5) Represents the future revenue attributable to signed, but unperformed, purchase orders that set forth specific revenue amounts at the end of the applicable period.

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

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

Overview

We are one of the largest providers of highly engineered industrial process heating solutions for process industries. For over 60 years, we have served a diverse base of thousands of customers around the world in attractive and growing markets, including oil & gas, chemical processing and power generation. We are a global leader and one of the few thermal solutions providers with a global footprint. We offer a full suite of products (heating units, 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 through a global network of sales and service professionals and distributors in more than 30 countries and through our ten manufacturing facilities on three continents. These global capabilities and longstanding relationships with some of the largest multinational oil & gas, chemical processing, power and EPC companies in the world have enabled us to diversify our revenue streams and opportunistically access high growth

markets worldwide. For fiscal 2019, approximately 60% of our revenues were generated outside of the United States. Since March 2015, we have acquired four companies (THS, Unitemp, Sumac and IPI), that offer complementary products and services to our core thermal solution offerings. We actively pursue both organic and inorganic growth initiatives that serve to advance our corporate strategy.

Revenue. Our revenues are derived from providing customers with a full suite of innovative and reliable process heating solutions, including electric and steam heat tracing, tubing bundles, control systems, design optimization, engineering services, installation services and portable power solutions. Additionally, THS offers a complementary suite of advanced heating and filtration solutions for industrial and hazardous area applications. Historically, our sales are primarily to industrial customers for petroleum and chemical plants, oil and gas production facilities and power generation facilities. Our petroleum customers represent a significant portion of our business. We serve all three major categories of customers in the petroleum industry - upstream exploration/production, midstream transportation and downstream refining. Overall, demand for industrial heat tracing solutions falls into two categories: (i) new facility construction, which we refer to as Greenfield projects, and (ii) recurring maintenance, repair and operations and facility upgrades or expansions, which we refer to as MRO/UE. Greenfield construction projects often require comprehensive heat tracing solutions. We believe that Greenfield revenue consists of sales revenue by customer in excess of \$1 million annually (excluding sales to resellers), and typically includes most orders for projects related to facilities that are new or that are built independent of existing facilities. We refer to sales revenue 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. THS has been excluded from the Greenfield and MRO/UE calculations. Most of THS's revenue would be classified as MRO/UE under these definitions.

We believe that our pipeline of planned projects, in addition to our backlog of signed purchase orders, provides us with visibility into our future revenue. 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, 2019 was \$120.0 million, inclusive of \$26.3 million for THS, as compared to \$159.6 million at March 31, 2018. 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 sales includes primarily the cost of raw material items used in the manufacture of our products, cost of ancillary products that are sourced from external suppliers and construction labor cost. Additional costs of revenue include contract engineering cost directly associated to projects, direct labor cost, shipping and handling costs, and other costs associated with our manufacturing/fabrication operations. The other costs associated with our manufacturing/fabrication operations are primarily 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, our primary raw materials have been readily available from multiple suppliers and raw material costs have been stable, and we have been generally successful with passing along raw material cost increases to our customers. Therefore, increases in the cost of key raw materials of our products have not generally affected our gross margins. We cannot provide any assurance that we may be able to pass along such cost increases, including the potential impacts of tariffs, to our customers in the future, and if we are unable to do so, our results of operations may be adversely affected.

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

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

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

Cyclical nature of end-users' markets. Demand for our products and services depends in large part upon the level of capital and maintenance expenditures of our customers and end users, in particular those in the energy, chemical processing and power generation industries, and firms that design and construct facilities for these industries. These customers' expenditures historically have been cyclical in nature and vulnerable to economic downturns. Greenfield projects, and in particular large Greenfield projects (i.e., new facility construction projects generating in excess of \$5 million in annual sales), historically have been a substantial source of revenue growth, and Greenfield revenues tend to be more cyclical than MRO/UE revenues. A sustained decrease in capital and maintenance spending or in new facility construction by our customers could have a material adverse effect on the demand for our products and services and our business, financial condition and results of operations.

Acquisition strategy. In recent years, we have begun executing on a strategy to grow the Company through the acquisition of businesses that are either in the heat tracing solutions industry or provide complementary products and solutions for the markets and customers we serve. Since March 2015, we have completed four acquisitions: THS, Unitemp, Sumac and IPI. See Note 3. "Acquisitions" to our consolidated financial statements and accompanying notes thereto included below in Item 8. Financial Statements and Supplementary Data of this annual report for information on the THS acquisition.

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 units, heating cable, tubing bundle and control system products. We also tend to experience lower margins from our outsourced products, such as electrical switch gears and transformers, than we do from our manufactured products. Accordingly, our results of operations are impacted by our mix of products and services.

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

	Fiscal Year Ended March 31,*		
	2019	2018	2017
Greenfield	49%	37%	39%
MRO/UE	51%	63%	61%

*THS has been excluded from the table above. Most of THS's revenue would be classified as MRO/UE under the current definitions.

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

Large and growing installed base. Customers typically use the incumbent heat tracing provider for MRO/UE projects to avoid complications and compatibility problems associated with switching providers. Therefore, with the significant Greenfield activity we have experienced in recent years, our installed base has continued to grow, and we expect that such installed base will continue to generate ongoing high margin MRO/UE revenue. For fiscal 2019, MRO/UE sales comprised approximately 51% of our consolidated revenues (excluding THS).

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 for the legacy heat tracing business are typically highest during the second and third fiscal quarters, as most of our customers perform preventative maintenance prior to the winter season.

Results of Operations

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

	Fiscal Year Ended March 31,					
	2019		2018		2017	
	(dollars in thousands)					
Consolidated Statements of Operations Data:						
Sales	\$ 412,642	100 %	\$ 308,609	100 %	\$ 264,130	100 %
Cost of sales	236,702	57	164,798	53	152,199	58
Gross profit	\$ 175,940	43 %	\$ 143,811	47 %	\$ 111,931	42 %
Operating Expenses:						
Marketing, general, and administrative and engineering	102,512	25 %	91,096	30 %	74,313	28 %
Stock compensation expense	4,148	1	3,519	1	3,402	1
Amortization of intangible assets	20,771	5	16,458	5	11,772	4
Income from operations	\$ 48,509	12 %	\$ 32,738	11 %	\$ 22,444	8 %
Interest expense, net (1)	(15,476)	(4)	(8,754)	(3)	(2,952)	(1)
Other income/(expense) (2)	109	—	(5,595)	(2)	(410)	—
Income before provision for income taxes	\$ 33,142	8 %	\$ 18,389	6 %	\$ 19,082	7 %
Income tax expense	9,973	2	5,170	2	4,098	2
Net income	\$ 23,169	6 %	\$ 13,219	4 %	\$ 14,984	6 %
Income attributable to non-controlling interest (3)	413	— %	1,306	— %	343	— %
Net income available to Thermon Group Holdings, Inc.	\$ 22,756	6 %	\$ 11,913	4 %	\$ 14,641	6 %

(1) Interest expense in fiscal 2019 and 2018 primarily represents interest expense on the term loan B on outstanding principal balances as of March 31, 2019 and 2018 of \$206.5 million and \$225.0 million, respectively, compared to \$81.0 million as of March 31, 2017. Further reductions in fiscal 2017 interest expense were due to the difference in interest rates on our term loan A that carried an interest rate that ranged from 2.87% to 3.62% after giving effect to our interest rate swaps and the interest rate reductions realized from the first and second amendments to our prior credit agreement.

(2) Other expense in fiscal 2018 includes a foreign currency transaction loss of \$3.3 million in connection with the option contract entered into to secure the THS acquisition purchase price, and a \$2.3 million loss related to a

derivative contract to hedge a \$112.8 million long-term intercompany loan between Canada and the United States related to the THS acquisition.

- (3) Represents a 25% equity interest in Sumac retained by former sellers. Subsequent to July 20, 2018, income attributable to non-controlling equity interest represents 12.5%. See Note 12. "Related Party Transactions" to our consolidated financial statements included in Item 8 of this annual report for further discussion in connection with decrease in retained Sumac equity interest subsequent to March 31, 2018.

Year Ended March 31, 2019 ("fiscal 2019") Compared to the Year Ended March 31, 2018 ("fiscal 2018")

Revenue. Revenue for fiscal 2019 was \$412.6 million, compared to \$308.6 million for fiscal 2018, an increase of \$104.0 million, or 34%. The increase in revenue is primarily from our organic operations due to a series of competitively bid projects around the world we won during fiscal 2019 to expand our installed base of customers. The organic increase represented \$61.7 million of the total increase in revenue. The remaining increase of \$42.3 million was attributable to the full-year fiscal 2019 revenue contribution from THS that was acquired in October 2017. Our sales mix (excluding THS) in fiscal 2019 was 49% Greenfield and 51% MRO/UE compared to 37% Greenfield and 63% MRO/UE in fiscal 2018. Greenfield revenue is historically at or near 40% of our total revenue. Accordingly, the volume of Greenfield revenues in fiscal 2019 was substantially higher than fiscal 2018 primarily due to increased project revenues in our US-LAM segment.

Fiscal 2019 revenue increased in all reportable segments as compared to fiscal 2018. The increase was primarily due to an increase in US-LAM segment sales of \$51.1 million or 44.6%, as compared to fiscal 2018. Our US-LAM segment experienced sales growth in both Greenfield and MRO/UE with a return of both capital and maintenance spending by our customers. Fiscal 2019 revenues in the Canada segment increased by \$33.0 million or 34.9% as compared to fiscal 2018. Most of the revenue from THS is included in our Canadian segment which increased \$35.8 million as compared to the five months of operations that were included in the fiscal 2018 results. Our EMEA segment revenue increased \$9.2 million or 13% and the APAC segment revenue increased \$10.8 million or 35% as compared to fiscal 2018. Growth in each of these segments was primarily due to increased project activity.

Gross profit and margin. Gross profit totaled \$175.9 million in fiscal 2019, compared to \$143.8 million in fiscal 2018, an increase of \$32.1 million, or 22%. The increase in gross profit in fiscal 2019 is due to the increase in revenues which include the THS revenue contribution, partially offset by a slight decrease in overall gross margins. Gross margins decreased from 47% in fiscal 2018 to 43% in fiscal 2019. The lower gross margins in fiscal 2019 is attributable to increased Greenfield project revenues in combination with turn-key Greenfield projects containing a higher proportion of labor and third-party materials. Gross margins from our Greenfield project sales were improved from fiscal 2018; however, the significant volume of Greenfield revenue reduced our overall gross margins. For fiscal 2019, gross margins from THS were slightly below the Company's historical range of 45% to 50%. Gross margins for our core heat tracing products have been relatively unaffected by tariffs or other inflationary factors through fiscal 2019.

Marketing, general and administrative and engineering. Marketing, general and administrative and engineering costs were \$102.5 million in fiscal 2019, compared to \$91.1 million in fiscal 2018, an increase of \$11.4 million, or 12.5%. As a percentage of total revenue, marketing, general and administrative and engineering costs were 24.8% and 29.5% in fiscal 2019 and fiscal 2018, respectively. The increase in fiscal 2019 marketing, general and administrative and engineering costs is primarily attributable to the THS acquisition. THS marketing, general and administrative and engineering expenses increased \$13.7 million, due to twelve months of operations in fiscal 2019, as compared to the five months of operations in fiscal 2018. Fiscal 2018 included \$4.1 million of THS acquisition related expenses. In fiscal 2019 we incurred an additional \$3.5 million of salaries and benefits (excluding THS) as compared to fiscal 2018, primarily attributable to the increase in headcount in our US-LAM segment. Additionally, our accrual for annual incentive (excluding THS) was \$3.2 million higher in fiscal 2019 than fiscal 2018. We accrue for an annual incentive bonus for our officers and employees based on quarterly results toward attainment levels established by our board of directors.

Stock compensation expense. Stock compensation expense increased \$0.6 million in fiscal 2019 over fiscal 2018.

Amortization of intangible assets. Amortization of intangible assets was \$20.8 million in fiscal 2019 and \$16.5 million in fiscal 2018. The increase in amortization expense is attributable to the acquired intangible assets of THS, which accounted for \$9.1 million in amortization in fiscal 2019.

Interest expense, net. Interest expense, net totaled \$15.5 million in fiscal 2019, compared to \$8.8 million in fiscal 2018, an increase of \$6.7 million. Interest expense on outstanding principal of long-term debt increased \$6.6 million and amortization of deferred debt costs increased \$0.1 million in fiscal 2019 as compared to fiscal 2018. The increase was due to

the \$250.0 million senior secured term loan B credit facility incurred to finance, in part, the THS acquisition in October 2017. During most of fiscal 2019, \$225 million principal remained outstanding at an interest rate of approximately 6% (see Note 11, "Long-Term Debt", for additional information on our long-term debt).

Other Income/Expense. Other income was \$0.1 million in fiscal 2019, compared to an expense of \$5.6 million in fiscal 2018, a comparative decrease of expense of \$5.7 million. During fiscal 2019, we recorded approximately \$0.2 million of foreign exchange income from foreign exchange gains due to favorable hedging activities offset in part by unrealized losses from the deferred compensation plan and other miscellaneous expense of \$0.1 million, as compared to \$5.6 million foreign exchange loss in fiscal 2018 related to the THS acquisition.

Income taxes. Income tax expense was \$10.0 million in fiscal 2019, on pre-tax net income of \$33.1 million compared to income tax expense of \$5.2 million in fiscal 2018 on pre-tax net income of \$18.4 million, an increase of \$4.8 million. Our effective tax rate was 30.1% and 28.1% in fiscal 2019 and fiscal 2018, respectively.

On December 22, 2017, the United States enacted significant changes to the U.S. tax law following the passage and signing of H.R.1, "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" (the "Tax Act") The Tax Act included significant changes to existing tax law, including a permanent reduction to the U.S. federal corporate income tax rate from 35% to 21%, a one-time repatriation tax on deferred foreign income ("Transition Tax"), deductions, credits and business-related exclusions.

See Note 17, "Income Taxes," to our audited condensed consolidated financial statements included elsewhere in this annual report, for further detail on income taxes.

Net income available to Thermon Group Holdings, Inc. Net income available to the Company, after non-controlling interest, was \$22.8 million in fiscal 2019 as compared to \$11.9 million in fiscal 2018, an increase of \$10.9 million or 91.6%. The increase in fiscal 2019 net income is primarily due to a \$32.1 million increase in gross profit and a \$5.7 million decrease in other expenses, partially offset by (i) a \$11.4 million increase in marketing, general and administrative and engineering expense primarily due to the twelve months of THS operations in fiscal 2019 as compared to five months in fiscal 2018, (ii) \$4.3 million in increased amortization expense as a result of the THS acquired intangible assets, (iii) an increase of \$6.7 million in interest expense and amortization of deferred debt costs relating to our new term loan B credit facility, and (iv) a \$4.8 million increase in income tax expense.

Year Ended March 31, 2018 ("fiscal 2018") Compared to the Year Ended March 31, 2017 ("fiscal 2017")

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K/A for the fiscal year ended March 31, 2018 filed with the SEC on June 8, 2018 for a discussion of the results of operations in fiscal 2018 as compared to fiscal 2017.

Contractual Obligations and Contingencies

Contractual Obligations. The following table summarizes our significant contractual payment obligations as of March 31, 2019 and the effect such obligations are expected to have on our liquidity position assuming all obligations reach maturity.

	Total	Payment Due By Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
(dollars in thousands)					
Variable rate term loan (1)	\$ 206,500	\$ 2,500	\$ 5,000	\$ 5,000	\$ 194,000
Interest payments on variable rate term loan (2)	54,593	10,086	19,748	19,285	5,474
Borrowings under revolving credit facility (3)	11,225	11,225	—	—	—
Operating lease obligations (4)	20,256	3,941	6,001	4,088	6,226
Information technology services agreements (5)	2,244	1,123	1,121	—	—
Total	\$ 294,818	\$ 28,875	\$ 31,870	\$ 28,373	\$ 205,700

- (1) Consists of quarterly scheduled principal payments commencing April 1, 2018 under our new term loan B credit facility of \$0.6 million through July 31, 2024, with the remaining principal balance being settled with a lump-sum

payment of \$192.8 million due at maturity in October 2024. Please see Note 11, “Long-Term Debt” in our financial statements, for more information on our new term loan B credit facility.

- (2) Consists of estimated future term loan interest payments under our credit facility based on our current interest rate as of March 31, 2019.
- (3) Consists of borrowings under our revolving line of credit facility. As of March 31, 2019, the interest rate on outstanding borrowings was 4.57%.
- (4) We enter into operating leases in the normal course of business. Our operating leases include the leases on certain of our manufacturing and warehouse facilities, in addition to certain offices of our affiliates.
- (5) Represents the future annual service fees associated with certain information technology service agreements with several vendors.

Contingencies. We are involved in various legal and administrative proceedings that arise from time to time in the ordinary course of doing business. Some of these proceedings may result in fines, penalties or judgments being assessed against us, which may adversely affect our financial results. In addition, from time to time, we are involved in various disputes, which may or may not be settled prior to legal proceedings being instituted and which may result in losses in excess of accrued liabilities, if any, relating to such unresolved disputes. As of March 31, 2019, management believes that adequate reserves have been established for any probable and reasonably estimable losses. Expenses related to litigation reduce operating income. We do not believe that the outcome of any of these proceedings or disputes would have a significant adverse effect on our financial position, long-term results of operations, or cash flows. It is possible, however, that charges related to these matters could be significant to our results of operations or cash flows in any one accounting period.

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

To bid on or secure certain contracts, we are required at times to provide a performance guaranty to our customers in the form of a surety bond, standby letter of credit or foreign bank guaranty. On March 31, 2019, we had in place standby letters of credit, bank guarantees and performance bonds totaling \$19.8 million to back our various customer contracts. Our Indian subsidiary also has \$5.2 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 debt service needs and potential future acquisitions. In October 2017, we entered into a new credit agreement that provides for (i) a seven-year \$250.0 million variable rate senior secured term loan B facility and (ii) a five-year \$60.0 million senior secured revolving credit facility. At March 31, 2019, outstanding principal under the term loan B facility was \$206.5 million.

Cash and cash equivalents. At March 31, 2019, we had \$31.4 million in cash and cash equivalents. We maintain cash and cash equivalents at various financial institutions located in many countries throughout the world. Approximately \$5.4 million, or 17%, of these amounts were held in domestic accounts with various institutions and approximately \$26.0 million, or 83%, of these amounts were held in accounts outside of the United States with various financial institutions.

Investments. At March 31, 2018, we had 1.0 million in investments. The investments have maturities that range from 90 days to one year. The investments are primarily in held in foreign accounts with various financial institutions.

Senior secured credit facility. See Note 11, “Long-Term Debt—Senior Secured Credit Facility” to our consolidated financial statements and accompanying notes thereto included in Item 8 below of this annual report for additional information on our senior secured term loan and revolving credit facilities, which is hereby incorporated by reference into this Item 2. At March 31, 2019, we had outstanding borrowings of \$11.2 million under our revolving credit facility and \$44.5 million of available capacity thereunder, after taking into account the borrowing base and letters of credit outstanding, which totaled \$4.3 million. From time to time, we may choose to utilize our revolving credit facility to fund operations, acquisitions or other investments despite having cash available within our consolidated group in light of the cost, timing and other business considerations.

As of March 31, 2019, we had \$206.5 million of outstanding principal on our term loan B facility. Commencing April 1, 2018, we will be required to make quarterly principal payments of the term loan of \$0.6 million through July 31, 2024. Thereafter, the remaining principal balance will be settled with a lump-sum payment of \$192.8 million due at maturity of the term loan in October 2024. During fiscal years 2019 and 2018, we made an optional debt prepayment of principal on the term loan B of \$16.0 million and \$25.0 million, respectively. From time to time, we may choose to make unscheduled and additional repayments of principal on the term loan B based on available cash flows.

Guarantees; security. The term loan is guaranteed by the Company and all of the Company's current and future wholly owned domestic material subsidiaries (the "US Subsidiary Guarantors"), subject to certain exceptions. Obligations of the Company under the revolving credit facility are guaranteed by the Company and the US Subsidiary Guarantors. The obligations of Thermon Canada Inc. (the "Canadian Borrower") under the revolving credit facility are guaranteed by the Company, Thermon Holding Corp. (the "US Borrower"), the US Subsidiary Guarantors and each of the wholly owned Canadian material subsidiaries of the Canadian Borrower, subject to certain exceptions. The term loan and the obligations of the US Borrower under the revolving credit facility are secured by a first lien on all of the Company's assets and the assets of the US Subsidiary Guarantors, including 100% of the capital stock of the US Subsidiary Guarantors and 65% of the capital stock of the first tier material foreign subsidiaries of the Company, the US Borrower and the US Subsidiary Guarantors, subject to certain exceptions. The obligations of the Canadian Borrower under the revolving credit facility are secured by a first lien on all of the Company's assets, the US Subsidiary Guarantors' assets, the Canadian Borrower's assets and the assets of the material Canadian subsidiaries of the Canadian Borrower, including 100% of the capital stock of the Canadian Borrower's material Canadian subsidiaries.

Financial covenants. The term loan is not subject to any financial covenants. The revolving credit facility requires the Company, on a consolidated basis, to maintain certain financial covenant ratios. The Company must maintain a consolidated leverage ratio on the last day of the following periods: 5.5:1.0 for December 31, 2017 through September 30, 2018; 5.0:1.0 for December 31, 2018 through September 30, 2019; 4.5:1.0 for December 31, 2019 through September 30, 2020; and 3.8:1.0 for December 31, 2020 and each fiscal quarter thereafter. In addition, on the last day of any period of four fiscal quarters, the Company must maintain a consolidated fixed charge coverage ratio of not less than 1.3:1.0. As of March 31, 2019, we were in compliance with all financial covenants of the credit facility.

Restrictive covenants. The credit agreement governing our credit facility contains various restrictive covenants that, among other things, restrict or limit our ability to (subject to certain negotiated exceptions): incur additional indebtedness; grant liens; make fundamental changes; sell assets; make restricted payments including cash dividends to shareholders; enter into sales and leasebacks; make investments; prepay certain indebtedness; enter into transactions with affiliates; and enter into restrictive agreements.

Repatriation considerations. Given the Tax Act's significant changes and potential opportunities to repatriate cash tax free, we have reevaluated our current indefinite assertions. Accordingly, we will no longer assert a permanent reinvestment position in most of our foreign subsidiaries. We expect to repatriate certain earnings which will be subject to withholding taxes. These additional withholding taxes are being recorded as an additional deferred tax liability associated with the basis difference in such jurisdictions. Any changes made by foreign jurisdictions to their respective withholding rates could impact future tax expense and cash flow.

Future capital requirements. Our future capital requirements will depend on a number of factors. We believe that, based on our current level of operations, 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 that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to service our indebtedness, including our credit facility borrowings, or to fund our other liquidity needs. In addition, upon the occurrence of certain events, such as a change of control, we could be required to repay or refinance our indebtedness. We cannot assure you that we will be able to refinance any of our indebtedness, including our credit facility, on commercially reasonable terms or at all.

In fiscal 2019, we invested \$12.0 million in capital expenditures. Sumac purchased \$2.0 million in property, plant and equipment, primarily related to leased equipment, of which \$1.0 million was sold to customers. We invested \$2.5 million in the implementation of our enterprise resource planning ("ERP") software, upgrading our external website and upgrading of other internally developed software. We invested \$4.8 million in upgrading various buildings and manufacturing equipment. The remaining \$3.7 million represents our annual investments in technology, furniture and fixture replacements, and capital maintenance. Going forward, we expect to invest approximately \$9.8 million in the fiscal year ending March 31, 2020, including \$2.2 million of investments in equipment used in our manufacturing facilities, and \$3.0 million in land and building improvements. The remaining amount primarily relates to investments in computers and technology equipment to support our

business. We will continue to invest in building portable power solutions used as rentals by our Sumac business based on market demand.

Year Ended March 31, 2019 ("fiscal 2019") Compared to the Year Ended March 31, 2018 ("fiscal 2018")

Net cash provided by operating activities totaled \$23.2 million for fiscal 2019 compared to \$22.9 million for fiscal 2018, an increase of \$0.3 million. Our net income increased from \$13.2 million in fiscal 2018 to \$23.2 million in fiscal 2019, an increase of \$10.0 million. Non-cash reconciling items such as depreciation and amortization, stock compensation expense, changes in deferred taxes and other non-cash charges were \$32.5 million and \$20.3 million in fiscal 2019 and fiscal 2018, respectively. Additionally, in fiscal 2019 total working capital accounts represented a use of cash of \$32.4 million compared to a use of cash of \$10.6 million in fiscal 2018.

In fiscal 2019 our working capital assets increased representing a use of cash of \$30.3 million, and in fiscal 2018 our working capital assets also increased representing a use of cash of \$30.6 million. The comparative increase in the fiscal 2019 use of cash of \$0.3 million is primarily the result of an increase, or use of cash, in accounts receivable and contract assets of \$0.7 million, and \$5.9 million, respectively, offset by a decrease in the use of cash for inventory and other current and non-current assets of \$5.6 million and \$1.3 million, respectively. The increase in accounts receivable is primarily attributable to the increase in revenue in fiscal 2019, and the increase in contract assets is primarily due to the increase of project revenues. The decrease in inventory is due to high inventory consumption as a result of increased sales during the peak of heating season. Our combined balances of accounts payable, accrued liabilities and other non-current liabilities were a source of cash of \$4.1 million in fiscal 2019, and a source of cash of \$16.0 million in fiscal 2018. The increase in accounts payable, accrued liabilities and other non-current liabilities is primarily attributable to vendor payment timing and an increase in accrued short-term incentives. Changes in our income taxes payable balances represented a use of cash of \$6.1 million in fiscal 2019 and a \$4.0 million source of cash in fiscal 2018 a comparative use of cash of \$10.1 million. The increase in the use of cash for income taxes payable reflects the timing of payments to satisfy the net income tax liability at the end of fiscal 2018 and the increase in estimated income tax payments toward higher pre-tax income in fiscal 2019.

Net cash used in investing activities totaled \$10.1 million for fiscal 2019 compared to \$166.5 million for fiscal 2018, a decrease of \$156.4 million in the use of cash, which is the net effect of the following items. In fiscal 2018, the Company paid, net of cash acquired, \$202.7 million for the THS acquisition resulting in a use of cash. In fiscal 2019 and fiscal 2018, proceeds from the sale of cash deposit investments totaled \$1.0 million and \$53.4 million, respectively, reflecting a comparative \$52.4 million decrease in the source of cash. During fiscal 2018, the Company purchased \$8.1 million in cash deposit investments reflecting a comparative increase in the source of cash of \$8.1 million. In fiscal 2019 and fiscal 2018, the Company purchased \$12.0 million and \$10.0 million, respectively, of property, plant and equipment representing a comparative increase in the use of cash of \$2.0 million.

Net cash provided by (used in) financing activities totaled \$(14.1) million in fiscal 2019, compared to \$133.9 million for fiscal 2018, a comparative decrease of \$148.0 million cash provided by financing activities. The decrease in the source of cash is primarily attributable to the funding of the term loan B credit facility which was a source of cash of \$250.0 million in fiscal 2018, offset in part by the repayment of the extinguished credit facility and additional revolver borrowings of \$116.0 million in fiscal 2018. During fiscal 2019, the Company made repayments of term loan principal and revolver borrowings of \$40.3 million offset by revolver borrowings of \$33.2 million representing a use of cash of \$7.1 million. Issuance costs and debt discounts associated with the term loan B were a use of cash of \$9.7 million in fiscal 2018. See Note 11, "Long-Term Debt" for additional information on our term loan B credit facility and revolving credit facility. Additionally, the Company purchased one-half (12.5%) of the existing 25% minority interest from the minority shareholder of the entities holding the Sumac business unit in the amount of \$5.7 million and made a distribution to such minority shareholder in the amount of \$0.9 million, both representing a use of cash in fiscal 2019.

Year Ended March 31, 2018 ("fiscal 2018") Compared to the Year Ended March 31, 2017 ("fiscal 2017")

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K/A for the fiscal year ended March 31, 2018 filed with the SEC on June 8, 2018 for a discussion of net cash provided by operating activities, net cash used in investing activities and net cash provided by (used in) financing activities in fiscal 2018 as compared to fiscal 2017.

Off-Balance Sheet Arrangements

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

Effect of Inflation

While inflationary increases in certain input costs, such as wages, have an impact on our operating results, inflation has had minimal net impact on our operating results during the last three years, as overall inflation has been offset by lower commodity prices for our core production materials. We cannot assure you, however, that we will not be affected by general inflation in the future.

Seasonality

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, chemical processing and transportation markets. These customers' expenditures historically have been cyclical in nature and vulnerable to economic downturns. In addition, quarterly revenues for the heat tracing business are impacted by the level and timing of large Greenfield projects that may be occurring at any given time. Our operating expenses remain relatively consistent with some variability related to overall headcount of the Company.

Our quarterly operating results may fluctuate based on the cyclical pattern of industries to which we provide heat tracing solutions and the seasonality of MRO/UE demand for our heat tracing products. Most of our heat tracing customers perform preventative maintenance prior to the winter season, typically making our second and third fiscal quarters the largest for MRO/UE revenue. However, revenues from Greenfield projects are not seasonal and depend on the capital spending environment and project timing.

THS typically experiences more pronounced seasonality than our legacy heat tracing business, with a noticeable increase in revenue and profitability typically beginning in the third fiscal quarter and continuing during the winter months through the end of the fourth fiscal quarter.

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Our critical accounting policies are those that materially affect our financial statements and involve difficult, subjective or complex judgments by management. Our most significant financial statement estimates include revenue recognition, allowances for bad debts, warranty reserves, project revenues, 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. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 "Revenue from Contracts with Customers", which significantly amended the existing revenue recognition requirements and guidance. Effective April 1, 2018, the Company adopted the amended guidance, please refer to Note 4 "Revenue from Contracts with Customers" of our consolidated financial statements included below in Item 8 of this annual report for further discussion, including the impact the adoption had on our condensed consolidated financial statements.

Estimating allowances, specifically the allowance for doubtful accounts and the adjustment for excess and obsolete inventories. The Company's receivables are recorded at cost when earned and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of allowance for doubtful accounts, represents their estimated net realizable value. If events or changes in circumstances indicate specific receivable balances may be impaired, further consideration is given to the Company's ability to collect those balances and the allowance is adjusted accordingly. The Company has established an allowance for doubtful accounts based upon an analysis of aged receivables. Past-due receivable balances are written-off when the Company's internal collection efforts have been unsuccessful in collecting the amounts due.

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

We perform credit evaluations of new customers and sometimes require deposits, prepayments or use of trade letters of credit to mitigate our credit risk. Allowance for doubtful account balances were \$1.0 million and \$1.2 million as of March 31, 2019 and 2018, respectively. Although we have fully provided for these balances, we continue to pursue collection of these receivables.

We write down our inventory for estimated excess or obsolete inventory equal to the difference between the cost of inventory and estimated net realizable value based on assumptions of future demand and market conditions. Net realizable value is determined quarterly by comparing inventory levels of individual products and components to historical usage rates, current backlog and estimated future sales and by analyzing the age and potential applications of inventory, in order to identify specific products and components of inventory that are judged unlikely to be sold. Our finished goods inventory consists primarily of completed electrical cable that has been manufactured for various heat tracing solutions. Most of our manufactured product offerings are built to industry standard specifications that have general purpose applications and therefore are sold to a variety of customers in various industries. Some of our products, such as custom orders and ancillary components outsourced from third-party manufacturers, have more specific applications and therefore may be at a higher risk of inventory obsolescence. Inventory is written-off in the period in which the disposal occurs. Actual future write-offs of inventory for salability and obsolescence reasons may differ from estimates and calculations used to determine valuation allowances due to changes in customer demand, customer negotiations, product application, technology shifts and other factors. Our allowance for excess and obsolete inventories was \$2.2 million and \$2.1 million at March 31, 2019 and 2018, respectively. Historically, inventory obsolescence and potential excess cost adjustments have been within our expectations, and management does not believe that there is a reasonable likelihood that there will be a material change in future estimates or assumptions used to calculate the inventory valuation reserves.

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

Valuation of long-lived, goodwill and other intangible assets. We evaluate goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. We operate as four reportable segments based on four geographic countries or regions. Within these four reportable segments, we have seven reporting units, each of which is assessed for potential impairments. We perform a qualitative analysis to determine whether it is more likely than not that the fair value of goodwill is less than its carrying amount. Some of the impairment indicators we consider include significant differences between the carrying amount and the estimated fair value of our assets and liabilities; macroeconomic conditions such as a deterioration in general economic condition or limitations on accessing capital; industry and market considerations such as a deterioration in the environment in which we operate and an increased competitive environment; cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows; overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods; other relevant events such as litigation, changes in management, key personnel, strategy or customers; the testing for recoverability of our long-lived assets; and a potential decrease in share price. We evaluate the significance of identified events and circumstances on the basis of the weight of evidence along with how they could affect the relationship between the reporting unit's fair value and carrying amount, including positive mitigating events and circumstances. If we determine it is more likely than not that the fair value of goodwill is less than its carrying amount, then a second step is performed to quantify the amount of goodwill impairment. If impairment is indicated, a goodwill impairment charge is recorded to write the goodwill down to its implied fair value. In fiscal 2016, we recorded a \$1.2 million goodwill impairment charge related to Unitemp, as our expectations of future revenue and profitability was below those estimated at the time of the acquisition, and impaired an additional \$0.5 million of other intangibles as their fair value was less than their carrying value. In fiscal 2019 and 2018, the Company determined that no impairment of goodwill existed.

Other intangible assets include indefinite lived intangible assets for which we must also perform an annual test of impairment. The Company's indefinite lived intangible assets consist primarily of trademarks. The fair value of the Company's trademarks is calculated using a "relief from royalty payments" methodology. This approach involves first estimating reasonable royalty rates for each trademark, then applying these royalty rates to a net sales stream and discounting the resulting cash flows to determine the fair value. The royalty rate is estimated using both a market and income approach. The market approach relies on the existence of identifiable transactions in the marketplace involving the licensing of trademarks similar to those owned by the Company. The income approach uses a projected pretax profitability rate relevant to the licensed income stream. We believe the use of multiple valuation techniques results in a more accurate indicator of the fair value of each trademark. This fair value is then compared with the carrying value of each trademark. The results of this test during the fourth

quarter of our fiscal year indicated that there was no impairment of our indefinite life intangible assets during fiscal 2019 or fiscal 2018.

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 revenue and expense 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 expect to repatriate certain foreign earnings from jurisdictions that are subject to withholding taxes. These additional withholding taxes are being recorded as an additional deferred tax liability associated with the basis difference in such jurisdictions.

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

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

As required by ASC 718, we recognize stock-based compensation expense for share-based payments that are expected to vest. In determining whether an award is expected to vest, we use an estimated, forward-looking forfeiture rate based upon

our historical forfeiture rates. Stock-based compensation expense recorded using an estimated forfeiture rate is updated for actual forfeitures quarterly. To the extent our actual forfeitures are different than our estimates, we record a true-up for the differences in the period that the awards vest, and such true-ups could materially affect our operating results. We also consider on a quarterly basis whether there have been any significant changes in facts and circumstances that would affect our expected forfeiture rate.

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

Recent Accounting Pronouncements

Revenue Recognition - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 "Revenue from Contracts with Customers" (Topic 606), which amends the existing revenue recognition requirements and guidance. The core principle of the new standard is to recognize revenue that reflects the consideration the Company expects to receive for goods or services when or as the promised goods or services are transferred to customers. Topic 606 requires more judgment than current guidance, as management will now be required to: (i) identify each performance obligation in contracts with customers, (ii) estimate any variable consideration included in the transaction price and (iii) allocate the transaction price to each performance obligation. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company adopted the amended guidance using the modified retrospective method as of April 1, 2018. Please refer to Note 4 "Revenue from Contracts with Customers" for further discussion, including the impact the adoption had on our condensed consolidated financial statements.

Statement of Cash Flows - In November 2016, the FASB issued Accounting Standards Update 2016-18, "Restricted Cash" ("Topic 230"), which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows and requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. Topic 230 became effective for public companies during interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company adopted Topic 230 during the current fiscal year, which resulted in an updated presentation of our statement of cash flows and enhanced disclosures. The following table provides a reconciliation of cash, cash equivalents, restricted cash included in prepaid expenses and other current assets and restricted cash included in other long term assets reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	March 31,		
	2019	2018	2017
Cash and cash equivalents	\$ 31,402	\$ 33,879	\$ 42,842
Restricted cash included in prepaid expenses and other current assets	1,624	1,703	1,202
Restricted cash included in other long term assets	815	745	248
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$ 33,841	\$ 36,327	\$ 44,292

Amounts shown in restricted cash included in prepaid expenses and other current assets and other long term assets represent those required to be set aside by a contractual agreement, which contain cash deposits pledged as collateral on performance bonds and letters of credit. Amounts shown in restricted cash in other long term assets represent such agreements that require a commitment term longer than one year.

Financial Instruments- In January 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-01 "Financial Instruments-Overall" (Subtopic 825-10), which amends the guidance on the classification and measurement of financial instruments. The amendment requires all equity investments to be measured at fair value with changes in the fair value recognized through earnings. The amendment also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the credit risk

when an entity has elected the fair value option. The guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. Early adoption is permitted for certain provisions of the accounting standards update. Upon the adoption of the standard, an entity will be required to make a cumulative-effect adjustment to retained earnings as of the beginning of such reporting period. We adopted this standard effective April 1, 2017 and it did not have a material impact on our consolidated financial statements.

Leases- In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02 "Leases" (Topic 842), which amended the guidance that requires lessees to recognize the assets and liabilities that arise from most leases on the balance sheet. Topic 842 also amended the guidance for transactions where the Company acts as a lessor, which is the case for our Sumac operating segment. The changes are effective for annual and interim periods beginning after December 15, 2018, and amendments should be applied using one of two modified retrospective transition methods.

We adopted these provisions on April 1, 2019 through a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The transition adjustment related to the adoption was immaterial. We elected one of the available practical expedients permitted under the transition guidance within the new standard (Topic 842). This expedient (ASC 842-20-25-2) allows us to not capitalize leases with a term of less than 12 months from the adoption date of April 1, 2019. While we continue to refine our analysis, we currently estimate that right-of-use ("ROU") assets may have amounted up to \$21,000 as of April 1, 2019, and lease liabilities did not significantly differ from ROU assets. We do not expect the guidance to have a material impact on our results of operations or cash flows. We intend to provide additional disclosures as required by the new standard, which we are currently assessing, in our quarterly report on Form 10-Q for the first quarter of the fiscal year ending March 31, 2020.

Financial Instruments- In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-13 "Financial Instruments-Credit Losses" (Topic 326), which amends the guidance on the impairment of financial instruments. The standard adds an impairment model, referred to as current expected credit loss, which is based on expected losses rather than incurred losses. The standard applies to most debt instruments, trade receivables, lease receivables, reinsurance receivables, financial guarantees and loan commitments. Under the guidance, companies are required to disclose credit quality indicators disaggregated by year of origination for a five-year period. The new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. We do not anticipate this will have a material impact to our consolidated financial statements.

Statement of Cash Flows- In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-15 "Statement of Cash Flows" (Topic 230), which amends Topic 230 of the accounting standards codification (ASC) to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The standard addresses eight types of cash flows, some of which we believe could or will impact our financial statements upon adoption, including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and proceeds from the settlement of insurance claims. Under the guidance, cash payments for debt prepayment or extinguishment costs must be classified as cash outflows from financing activities. Contingent consideration payments that were not made soon after a business combination must be separated and classified in operating and financing activities. Cash payments up to the amount of the contingent consideration liability recognized as of the acquisition dates, including any measurement-period adjustments, should be classified in financing activities, while any excess cash payments should be classified in operating activities. Cash proceeds from the settlement of insurance claims should be classified on the basis of the nature of the loss. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted for all entities. Entities must apply the guidance retrospectively to all periods presented but may be applied prospectively if retrospective application would be impracticable. We adopted this standard effective April 1, 2017 and it did not have a material impact on our consolidated financial statements.

Non-GAAP Financial Measures

Disclosure in this annual report of "Adjusted EPS," "Adjusted EBITDA," "Adjusted Net Income," and "Free cash flow," which are "non-GAAP financial measures" as defined under the rules of the Securities and Exchange Commission (the "SEC"), are intended as supplemental measures of our financial performance that are not required by, or presented in accordance with, U.S. generally accepted accounting principles ("GAAP"). "Adjusted Net Income" and "Adjusted fully diluted earnings per share (or "EPS")" represents net income attributable to Thermon before costs related to the consolidation of our operating footprint in Canada, THS acquisition-related expenses, a one-time loss on certain foreign currency hedges entered

into in connection with the THS acquisition, a one-time repatriation tax on deferred foreign income as a result of the tax reform legislation, adjustments to our deferred tax liability for a tax rate change, amortization of intangible assets, and the income tax effect on any non-tax adjustments, per fully-diluted common share in the case of Adjusted EPS. "Adjusted EBITDA" represents net income attributable to Thermon before interest expense (net of interest income), income tax expense, depreciation and amortization expense, stock-based compensation expense, income attributable to non-controlling interests, costs related to the consolidation of our operating footprint in Canada, THS acquisition-related expenses and a one-time loss on certain foreign currency hedges entered into in connection with the THS acquisition. "Free cash flow" represents cash provided by operating activities less cash used for the purchase of property, plant and equipment, net of sales of rental equipment and proceeds from sales of land and buildings.

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

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

	Year Ended March 31,		
	2019	2018	2017
Net income available to Thermon Group Holdings, Inc.	\$ 22,756	\$ 11,913	\$ 14,641
Interest expense, net	15,476	8,754	2,952
Income tax expense	9,973	5,170	4,098
Depreciation and amortization	29,965	24,420	17,832
Stock-based compensation	4,148	3,519	3,402
Income attributable to non-controlling interest in Sumac	413	1,306	343
Consolidation of operating footprint in Canada	757	—	—
THS acquisition related foreign exchange losses	—	5,594	—
THS acquisition related expenses	—	4,093	—
Adjusted EBITDA	\$ 83,488	\$ 64,769	\$ 43,268

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

	Year ended March 31,		
	2019	2018	2017
Net income available to Thermon Group Holdings, Inc.	\$ 22,756	\$ 11,913	\$ 14,641
Consolidation of operating footprint in Canada	757	—	—
THS acquisition related expense	—	4,093	—
THS acquisition related foreign exchange losses	—	5,594	—
Tax reform related expense	—	1,014	—
Acceleration of unamortized debt costs	394	880	—
Release of deferred tax liability for undistributed foreign earnings and uncertain tax positions	—	(554)	(555)
Amortization of intangible assets	20,771	16,458	11,772
Tax effect of financial adjustments	(5,499)	(6,947)	(3,626)
Adjusted net income (non-GAAP) (1)	\$ 39,179	\$ 32,451	\$ 22,232
Adjusted-fully diluted earnings per common share (non-GAAP) (1)	\$ 1.19	\$ 0.99	\$ 0.68
Fully-diluted common shares - non-GAAP basis (thousands)	33,054	32,797	32,633

(1) The Company now presents non-GAAP Adjusted Net Income and non-GAAP Adjusted EPS to include the impact of intangible amortization.

The following table reconciles cash provided by operating activities to Free Cash Flow for the periods presented:

	Year Ended March 31,		
	2019	2018	2017
Cash provided by operating activities	\$ 23,227	\$ 22,913	\$ 26,483
Less: Purchases of property, plant and equipment, net of rental equipment sales	(11,055)	(9,072)	(8,020)
Free cash flow provided	\$ 12,172	\$ 13,841	\$ 18,463

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 60% of our fiscal 2019 consolidated revenues were 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 manufacturing facilities located elsewhere, primarily the United States, Canada and 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, Brazilian Real, South African Rand, South Korean Won, Chinese Renminbi, Indian Rupee, Mexican Peso, and Japanese Yen.

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

have terms of 30 days or less. We do not use forward contracts for trading purposes nor do we designate these forward contracts as hedging instruments pursuant to ASC 815. We adjust the carrying amount of all contracts to their fair value at the end of each reporting period and unrealized gains and losses are included in our results of operations for that period. These gains and losses largely offset gains and losses resulting from settlement of payments received from our foreign operations which are settled in U.S. dollars. All outstanding foreign currency forward contracts are marked to market at the end of the period with unrealized gains and losses included in other expense. The fair value is determined by quoted prices on identical forward contracts (Level 2 fair value). The balance sheet reflects unrealized gains within accounts receivable and unrealized losses within accrued liabilities. Our ultimate realized gain or loss with respect to currency fluctuations will depend on the currency exchange rates and other factors in effect as the contracts mature. As of March 31, 2019 and 2018, the notional amounts of forward contracts we held to buy U.S. dollars in exchange for other major international currencies were \$7.4 million and \$18.7 million, respectively.

During fiscal 2019, 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 \$1.0 million for fiscal 2019. Conversely, a 10% depreciation of the U.S. dollar relative to the Canadian Dollar would result in a net increase in net income of \$1.3 million for fiscal 2019. A 10% appreciation of the U.S. dollar relative to the Euro would result in a net decrease in net income of \$0.7 million for fiscal 2019. Conversely, a 10% depreciation of the U.S. dollar relative to the Euro would result in a net increase in net income of \$0.8 million for fiscal 2019.

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 losses on our consolidated statements of operations were gains of \$0.2 million and \$5.7 million in fiscal 2019 and fiscal 2018, respectively.

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 increase or 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. In fiscal 2019, we estimate that our sales were negatively impacted by \$4.6 million when compared to foreign exchange translation rates that were in effect in fiscal 2018. Foreign currency impact on revenue is calculated by comparing actual current period revenue in U.S. dollars to the theoretical U.S. Dollar revenue we would have achieved based on the weighted-average foreign exchange rates in effect in the comparative prior periods for all applicable foreign currencies. In fiscal 2019, we were mostly impacted by the appreciation of the U.S. dollar relative to the Canadian Dollar and the Euro. At each balance sheet date, we translate our assets and liabilities denominated in foreign currency to U.S. dollars. The balances of our foreign equity accounts are translated at their historical value. The difference between the current rates and the historical rates are posted to our currency translation account and reflected in the shareholders' equity section of our balance sheet. The effect of foreign currency translation were losses of \$13.2 million in fiscal 2019 and gains of \$12.0 million in fiscal 2018. Currency translation gains or losses are reported as part of comprehensive income or loss in our accompanying consolidated financial statements.

Foreign currency risks related to intercompany notes. The Company has entered into a cross currency swap for the purposes of mitigating potential exposures to currency rate fluctuations related to an intercompany note of \$77.9 million with our wholly-owned Canadian subsidiary, Thermon Canada. See Note 2, "Fair Value Measurements" to our consolidated financial statements included below in Item 8 of this annual report for further information regarding our cross currency swap.

Interest rate risk and foreign currency risk relating to debt. Borrowings under both our variable rate term loan B credit facility and revolving credit facility incur interest expense that is variable in relation to the LIBOR rate. The interest rate for borrowings under our term loan B credit facility and revolving credit facility were 6.24% and 4.57%, respectively, as of March 31, 2019. Based on historical balances on our revolving credit facility, we do not anticipate that a one percent increase or decrease in our interest rate would have a significant impact on our operations. We cannot provide any assurances that historical revolver borrowings (if any) will be reflective of our future use of the revolving credit facility.

As of March 31, 2019, we had \$206.5 million of outstanding principal under our variable rate LIBOR-based term loan B credit facility. Based on the outstanding borrowings, a one percent change in the interest rate would result in a \$2.1 million increase or decrease in our annual interest expense. As of March 31, 2019, we had \$11.2 million of outstanding principal under

our revolving credit facility. Based on the outstanding borrowings, a one percent change in the interest rate would result in a \$0.1 million increase or decrease in our annual interest expense.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Thermon Group Holdings, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Thermon Group Holdings, Inc. and subsidiaries (the Company) as of March 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, equity, and cash flows for each of the years in the three-year period ended March 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 12, 2019 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

Austin, Texas
June 12, 2019

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Thermon Group Holdings, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Thermon Group Holdings, Inc.'s and subsidiaries' (the Company) internal control over financial reporting as of March 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of March 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, equity, and cash flows for each of the years in the three-year period ended March 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated June 12, 2019 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness has been identified and included in management's assessment related to the accounting for, and disclosure of, project revenues within the Company's Europe, Middle East and Africa (EMEA) segment. Specifically (i) the Company did not maintain an effective control environment, as the Company did not have sufficient competent personnel to support the effective operation of controls over project revenues within the Company's EMEA segment; (ii) the Company did not conduct an effective risk assessment process to ensure controls were designed and implemented to respond to the risks associated with the accounting and disclosure for project revenues, within the Company's EMEA segment; and (iii) the Company did not effectively monitor, or ensure timely correction of, prior control deficiencies associated with project revenues within the Company's EMEA segment. The material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in

accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Austin, Texas
June 12, 2019

Thermon Group Holdings, Inc.
Consolidated Statements of Operations and Comprehensive Income
(Dollars in Thousands, except share and per share data)

	Year Ended March 31, 2019	Year Ended March 31, 2018	Year Ended March 31, 2017
Sales	\$ 412,642	\$ 308,609	\$ 264,130
Cost of sales	236,702	164,798	152,199
Gross profit	175,940	143,811	111,931
Operating expenses:			
Marketing, general and administrative and engineering	106,660	94,615	77,715
Amortization of intangible assets	20,771	16,458	11,772
Income from operations	48,509	32,738	22,444
Other income/(expenses):			
Interest income	238	606	566
Interest expense	(15,714)	(8,984)	(3,518)
Loss on extinguishment of debt	—	(376)	—
Other income/(expense)	109	(5,595)	(410)
Income before provision for income taxes	33,142	18,389	19,082
Income tax expense	9,973	5,170	4,098
Net income	23,169	13,219	14,984
Income attributable to non-controlling interests	413	1,306	343
Net income available to Thermon Group Holdings, Inc.	\$ 22,756	\$ 11,913	\$ 14,641
Other comprehensive income (loss):			
Net income available to Thermon Group Holdings, Inc.	\$ 22,756	\$ 11,913	\$ 14,641
Foreign currency translation adjustment	(13,233)	12,030	(4,536)
Derivative valuation, net of tax	—	34	791
Other	825	(270)	(21)
Total comprehensive income	\$ 10,348	\$ 23,707	\$ 10,875
Net income per common share:			
Basic	\$ 0.70	\$ 0.37	\$ 0.45
Diluted	0.69	0.36	0.45
Weighted-average shares used in computing net income per common share:			
Basic	32,568,541	32,423,581	32,301,661
Diluted	33,054,304	32,797,351	32,633,281

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

Thermon Group Holdings, Inc.
Consolidated Balance Sheets
(Dollars in Thousands, except share and per share data)

	March 31, 2019	March 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,402	\$ 33,879
Investments	—	1,022
Accounts receivable, net of allowance for doubtful accounts of \$987 and \$1,231 as of March 31, 2019 and 2018, respectively	105,323	94,411
Inventories, net	64,890	63,829
Contract assets	26,454	16,114
Prepaid expenses and other current assets	7,320	9,054
Income tax receivable	4,389	1,885
Total current assets	239,778	220,194
Property, plant and equipment, net	74,955	74,485
Goodwill	204,995	210,566
Intangible assets, net	126,596	151,434
Deferred income taxes	3,829	3,425
Other long term assets	5,609	2,373
Total assets	\$ 655,762	\$ 662,477
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 22,705	\$ 22,995
Accrued liabilities	27,848	22,810
Current portion of long term debt	2,500	2,500
Borrowings under revolving credit facility	11,225	—
Contract liabilities	6,814	8,143
Income taxes payable	1,961	5,952
Total current liabilities	73,053	62,400
Long-term debt, net of current maturities and deferred debt issuance costs and debt discounts of \$6,271 and \$7,967 as of March 31, 2019 and 2018, respectively	197,729	214,533
Deferred income taxes	28,139	34,252
Other noncurrent liabilities	7,892	10,439
Total liabilities	306,813	321,624
Equity		
Common stock: \$.001 par value; 150,000,000 authorized; 32,624,200 and 32,492,339 shares issued and outstanding at March 31, 2019 and 2018, respectively	33	32
Preferred stock: \$.001 par value; 10,000,000 authorized; no shares issued and outstanding	—	—
Additional paid in capital	223,040	222,622
Accumulated other comprehensive loss	(48,949)	(36,541)
Retained earnings	170,621	148,812
Total Thermon Group Holdings, Inc. shareholders' equity	344,745	334,925
Non-controlling interests	4,204	5,928
Total equity	348,949	340,853
Total liabilities and equity	\$ 655,762	\$ 662,477

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

Thermon Group Holdings, Inc.
Consolidated Statements of Equity
(Dollars in Thousands)

	Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Non- controlling Interests	Accumulated Other Comprehensive Income (Loss)	Total
Balances at March 31, 2016	32,222,720	\$ 32	\$ 216,701	\$ 122,258	\$ 4,279	\$ (44,569)	\$ 298,701
Issuance of common stock in exercise of stock options	43,121	—	250	—	—	—	250
Issuance of restricted stock as deferred compensation to employees and directors	19,824	—	—	—	—	—	—
Issuance of common stock as deferred compensation to employees	47,179	—	—	—	—	—	—
Issuance of common stock as deferred compensation to named executive officers	32,709	—	—	—	—	—	—
Stock compensation expense	—	—	3,402	—	—	—	3,402
Excess tax deduction from stock options	—	—	(1,069)	—	—	—	(1,069)
Net income available to Thermon Group Holdings, Inc.	—	—	—	14,641	—	—	14,641
Foreign currency translation adjustment	—	—	—	—	—	(4,536)	(4,536)
Interest rate swap	—	—	—	—	—	791	791
Other	—	—	—	—	—	(21)	(21)
Income attributable to non-controlling interests	—	—	—	—	343	—	343
Balances at March 31, 2017	32,365,553	\$ 32	\$ 219,284	\$ 136,899	\$ 4,622	\$ (48,335)	\$ 312,502
Issuance of common stock in exercise of stock options	42,636	—	300	—	—	—	300
Issuance of common stock as deferred compensation to directors	20,216	—	—	—	—	—	—
Issuance of common stock as deferred compensation to employees	43,445	—	—	—	—	—	—
Issuance of common stock as deferred compensation to executive officers	20,489	—	—	—	—	—	—
Stock compensation expense	—	—	3,519	—	—	—	3,519
Repurchase of employee stock units on vesting	—	—	(481)	—	—	—	(481)
Net income available to Thermon Group Holdings, Inc.	—	—	—	11,913	—	—	11,913
Foreign currency translation adjustment	—	—	—	—	—	12,030	12,030
Interest rate swap	—	—	—	—	—	34	34
Other	—	—	—	—	—	(270)	(270)
Income attributable to non-controlling interests	—	—	—	—	1,306	—	1,306
Balances at March 31, 2018	32,492,339	\$ 32	\$ 222,622	\$ 148,812	\$ 5,928	\$ (36,541)	\$ 340,853
Issuance of common stock in exercise of stock options	37,906	—	396	—	—	—	396
Issuance of common stock as deferred compensation to directors	20,064	—	—	—	—	—	—
Issuance of common stock as deferred compensation to employees	51,775	1	—	—	—	—	1
Issuance of common stock as deferred compensation to executive officers	22,116	—	—	—	—	—	—
Stock compensation expense	—	—	4,148	—	—	—	4,148
Repurchase of employee stock units on vesting	—	—	(598)	—	—	—	(598)
Net income available to Thermon Group Holdings, Inc.	—	—	—	22,756	—	—	22,756
Foreign currency translation adjustment	—	—	—	—	—	(13,233)	(13,233)
Other	—	—	—	—	—	825	825
Remeasurement of non-controlling interest	—	—	(3,528)	—	3,528	—	—
Purchase of non-controlling interest	—	—	—	—	(5,665)	—	(5,665)
Distribution to non-controlling interest	—	—	—	(947)	—	—	(947)
Income attributable to non-controlling interests	—	—	—	—	413	—	413
Balances at March 31, 2019	32,624,200	\$ 33	\$ 223,040	\$ 170,621	\$ 4,204	\$ (48,949)	\$ 348,949

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

Thermon Group Holdings, Inc.
Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended March 31, 2019	Year Ended March 31, 2018	Year Ended March 31, 2017
Operating activities			
Net income	\$ 23,169	\$ 13,219	\$ 14,984
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	29,965	24,420	17,832
Amortization of debt costs	1,756	1,657	390
Amortization of inventory step-up	170	869	—
Loss on extinguishment of debt	—	376	—
Stock compensation expense	4,148	3,519	3,402
Deferred income taxes	(5,552)	(11,337)	(3,262)
Long term cross currency swap	(3,313)	1,540	—
Reserve (release) for uncertain tax positions	1,136	—	(128)
Remeasurement loss/(gain) on intercompany balances	4,147	(773)	152
Changes in operating assets and liabilities:			
Accounts receivable	(14,541)	(13,818)	(5,212)
Inventories	(3,432)	(9,059)	6,579
Contract assets	(11,990)	(6,067)	2,599
Other current and non-current assets	(370)	(1,627)	(527)
Accounts payable	(21)	2,003	(4,608)
Accrued liabilities and non-current liabilities	4,076	13,950	(3,173)
Income taxes payable and receivable	(6,121)	4,041	(2,545)
Net cash provided by operating activities	\$ 23,227	\$ 22,913	\$ 26,483
Investing activities			
Purchases of property, plant and equipment	\$ (12,036)	\$ (10,008)	\$ (8,370)
Sales of rental equipment	981	936	350
Proceeds from the sale of property, plant and equipment	33	13	811
Cash paid for acquisitions, net of cash acquired	—	(202,693)	—
Purchase of investments	—	(8,123)	(44,786)
Proceeds from the sale of investments	952	53,406	—
Net cash used in investing activities	\$ (10,070)	\$ (166,469)	\$ (51,995)
Financing activities			
Proceeds from senior secured notes	\$ —	\$ 250,000	\$ —
Payments on long term debt and revolving credit facility	(40,323)	(116,000)	(13,500)
Proceeds from revolving credit facility	33,241	10,000	—
Issuance costs associated with debt financing	—	(9,698)	—
Purchase of shares from non-controlling interests	(5,665)	—	—
Distribution to non-controlling interest	(947)	—	—
Lease financing	(205)	(264)	(257)
Issuance of common stock including exercise of stock options	396	383	168
Loss from excess tax deduction from option exercises	—	—	(448)
Repurchase of employee stock units on vesting	(598)	(481)	(621)
Net cash provided by (used in) financing activities	\$ (14,101)	\$ 133,940	\$ (14,658)
Effect of exchange rate changes on cash and cash equivalents	(1,542)	1,651	(1,516)
Change in cash and cash equivalents	\$ (2,486)	\$ (7,965)	\$ (41,686)
Cash, cash equivalents and restricted cash at beginning of period	36,327	44,292	85,978
Cash, cash equivalents and restricted cash at end of period	\$ 33,841	\$ 36,327	\$ 44,292
Cash paid for interest and income taxes			
Interest	\$ 13,959	\$ 7,348	\$ 3,085
Income taxes paid	22,260	7,728	9,280
Income tax refunds received	900	818	—

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

Thermon Group Holdings, Inc.
Notes to Consolidated Financial Statements
(Dollars in Thousands, Except Share and Per Share Data)
March 31, 2019

1. Organization and Summary of Significant Accounting Policies

Organization

On April 30, 2010, a group of investors led by entities affiliated with CHS Capital LLC ("CHS") and two other private equity firms acquired a controlling interest in Thermon Holding Corp. and its subsidiaries from Thermon Holdings, LLC ("Predecessor") for approximately \$321,500 in a transaction that was financed by approximately \$129,252 of equity investments by CHS, two other private equity firms and certain members of our current and former management team (collectively, the "management investors") and \$210,000 of debt raised in an exempt Rule 144A senior secured note offering to qualified institutional investors (collectively, the "CHS Transactions"). The proceeds from the equity investments and debt financing were used both to finance the acquisition and pay related transaction costs. As a result of the CHS Transactions, Thermon Group Holdings, Inc. became the ultimate parent of Thermon Holding Corp. Thermon Group Holdings, Inc. and its direct and indirect subsidiaries are referred to collectively as "we," "our," or the "Company" herein. We refer to CHS and the two other private equity fund investors collectively as "our former private equity sponsors."

Basis of Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiaries and entities in which the Company has a controlling financial interest. The ownership of noncontrolling investors is recorded as noncontrolling interests. All significant inter-company balances and transactions have been eliminated in consolidation. Consolidated subsidiaries domiciled in foreign countries comprised approximately 60%, 63% and 55%, of the Company's consolidated sales for fiscal 2019, fiscal 2018 and fiscal 2017, respectively, and 65% and 68%, of the Company's consolidated total assets at March 31, 2019 and 2018, respectively.

Segment Reporting

We operate in four reportable segments based on four geographic countries or regions in which we operate: (i) United States and Latin America ("US-LAM"), (ii) Canada, (iii) Europe, Middle East and Africa ("EMEA") and (iv) Asia-Pacific ("APAC"). Within our four reportable segments, our core products and services are focused on thermal solutions primarily related to the electrical heat tracing industry. Each of our reportable segments serves a similar class of customers, including engineering, procurement and construction companies, international and regional oil and gas companies, commercial sub-contractors, electrical component distributors and direct sales to existing plant or industrial applications. Profitability within our segments is measured by operating income. Profitability can vary in each of our reportable segments based on the competitive environment within the region, the level of corporate overhead, such as the salaries of our senior executives, and the level of research and development and marketing activities in the region, as well as the mix of products and services. Since March 2015, we acquired THS, Unitemp, IPI and Sumac. THS (formerly known as CCI) develops and produces advanced industrial heating and filtration solutions for industrial and hazardous area applications that closely align with Thermon's core business and serves similar end markets in North America. As such, we have elected to report THS's operations through our US-LAM and Canada reportable segments. Both Unitemp and IPI offer thermal solutions and have been included in our EMEA and US-LAM reportable segments, respectively. Sumac provides temporary power products that differ from our core thermal solutions business. As operating results from Sumac comprises less than 10% of our total sales and operating income, Sumac has been aggregated in our Canada segment. See Note 18, "Segment Information" for financial data relating to our four reportable geographic segments.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

Cash Equivalents

Cash and cash equivalents consist of cash in bank and money market funds. All highly liquid investments purchased with original maturities of three months or less are considered to be cash equivalents.

Receivables

The Company's receivables are recorded at cost when earned and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of allowance for doubtful accounts, represents their estimated net realizable value. If events or changes in circumstances indicate specific receivable balances may be impaired, further consideration is given to the Company's ability to collect those balances and the allowance is adjusted accordingly. The Company has established an allowance for doubtful accounts based upon an analysis of aged receivables. Past-due receivable balances are written-off when the Company's internal collection efforts have been unsuccessful in collecting the amounts due.

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

The Company performs credit evaluations of new customers and sometimes requires deposits, prepayments or use of trade letters of credit to mitigate our credit risk. Allowance for doubtful account balances were \$987 and \$1,231 as of March 31, 2019 and 2018, respectively. Although we have fully provided for these balances, we continue to pursue collection of these receivables.

The following table summarizes the annual changes in our allowance for doubtful accounts:

Balance at March 31, 2016	\$	656
Reduction in reserve		307
Write-off of uncollectible accounts		(445)
Balance at March 31, 2017		518
Additions to reserve		787
Write-off of uncollectible accounts		(74)
Balance at March 31, 2018		1,231
Additions to reserve		354
Write-off of uncollectible accounts		(598)
Balance at March 31, 2019	\$	987

Inventories

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

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 "Revenue from Contracts with Customers", which significantly amended the existing revenue recognition requirements and guidance. Effective April 1, 2018, the Company adopted the amended guidance. Please refer to Note 4 "Revenue from Contracts with Customers" for additional information.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Expenditures for renewals and improvements that significantly extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs of assets are charged to operations as incurred when assets are sold or retired, the cost and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to operations.

Depreciation is computed using the straight-line method over the following lives:

	Useful Lives in Years	
Land improvements	15	- 20
Buildings and improvements	10	- 40
Machinery and equipment	3	- 25
Office furniture and equipment	3	- 10
Internally developed software	5	- 7

Goodwill and Other Intangible Assets

We evaluate goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. We operate as four reportable segments based on four geographic countries or regions. Within these four reportable segments we have seven reporting units, each of which is assessed for potential impairments. We perform a qualitative analysis to determine whether it is more likely than not that the fair value of goodwill is less than its carrying amount. Some of the impairment indicators we consider include significant differences between the carrying amount and the estimated fair value of our assets and liabilities; macroeconomic conditions such as a deterioration in general economic condition or limitations on accessing capital; industry and market considerations such as a deterioration in the environment in which we operate and an increased competitive environment; cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows; overall financial performance such as negative or declining cash

flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods; other relevant events such as litigation, changes in management, key personnel, strategy or customers; the testing for recoverability of our long-lived assets and a potential decrease in share price. We evaluate the significance of identified events and circumstances on the basis of the weight of evidence along with how they could affect the relationship between the reporting unit's fair value and carrying amount, including positive mitigating events and circumstances. If we determine it is more likely than not that the fair value of goodwill is less than its carrying amount, then we perform the first step of the two-step goodwill impairment test. In the first step of the goodwill impairment test, the reporting unit's carrying amount (including goodwill) and its fair value are compared. If the estimated fair value of a reporting unit is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an "implied fair value" of goodwill. The determination of the "implied fair value" requires us to allocate the estimated value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the "implied fair value" of goodwill, which is compared to the corresponding carrying value. If the "implied fair value" is less than the carrying value, an impairment charge will be recorded. In fiscal 2019 and 2018, the Company determined that no impairment of goodwill existed.

Other intangible assets include indefinite lived intangible assets for which we must also perform an annual test of impairment. The Company's indefinite lived intangible assets consist primarily of trademarks. The fair value of the Company's trademarks is calculated using a "relief from royalty payments" methodology. This approach involves first estimating reasonable royalty rates for each trademark then applying these royalty rates to a net sales stream and discounting the resulting cash flows to determine the fair value. The royalty rate is estimated using both a market and income approach. The market approach relies on the existence of identifiable transactions in the marketplace involving the licensing of trademarks similar to those owned by the Company. The income approach uses a projected pretax profitability rate relevant to the licensed income stream. We believe the use of multiple valuation techniques results in a more accurate indicator of the fair value of each trademark. This fair value is then compared with the carrying value of each trademark. The results of this test during the fourth quarter of our fiscal year indicated that there was no impairment of our indefinite life intangible assets during fiscal 2019, 2018 and 2017.

Debt Issuance Costs

The Company defers the costs associated with debt and financing arrangements. These costs are amortized over the life of the loan or financing as interest expense. Additionally, for any unscheduled principle payments the Company will record additional deferred debt charges on a pro rata basis of the unamortized deferred debt balance at the time of the repayment. When debt or the contract is retired prematurely, the proportionate unamortized deferred issuance costs are expensed as loss on retirement. Deferred debt issuance costs expensed as part of interest expense for fiscal 2019, fiscal 2018 and fiscal 2017 were \$1,756, \$1,657 and \$391, respectively.

Long-Lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amounts to the future undiscounted cash flows that the assets are expected to generate. If the long-lived assets are considered impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds the estimated fair value and is recorded in the period the determination was made.

Stock-based Compensation

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

As required by ASC 718, we recognize stock-based compensation expense for share-based payments that are expected to vest. In determining whether an award is expected to vest, we account for forfeitures as they occur, rather than estimate expected forfeitures.

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 and awards included a market condition for which we used a Monte Carlo pricing model to establish grant date fair value. These determinations require judgment, including estimating expected volatility. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be impacted.

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 revenue and expense 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.

During fiscal 2018, we revised our permanent reinvestment position whereby we expect to repatriate future earnings. Given the Tax Act's significant changes and potential opportunities to repatriate cash tax free, we have reevaluated our current permanent reinvestment position. Accordingly, we will no longer assert a permanent reinvestment position in most of our foreign subsidiaries. We expect to repatriate certain earnings which will be subject to withholding taxes. These additional withholding taxes are being recorded as an additional deferred tax liability associated with the basis difference in such jurisdictions. Please see Note 17, "Income Taxes" for more information on the impacts of the Tax Act.

Foreign Currency Transactions and Translation

Exchange adjustments resulting from foreign currency transactions are recognized in income as realized. For the Company's non-U.S. dollar functional currency subsidiaries, assets and liabilities of foreign subsidiaries are translated into U.S. dollars using year-end exchange rates. Income and expense items are translated at a weighted average exchange rate prevailing during the year. Adjustments resulting from translation of financial statements are reflected as a separate component of shareholders' equity.

Loss Contingencies

We accrue for probable losses from contingencies on an undiscounted basis, when such costs are considered probable of being incurred and are reasonably estimable. Legal expense related to such matters are expensed as incurred. 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 material 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.

Warranties

The Company offers a standard warranty on product sales in which we will replace a defective product for a period of one year. Warranties on construction projects are negotiated individually, are typically one year in duration, and may include the cost of labor to replace products. Factors that affect the Company's warranty liability include the amount of sales, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Research and Development

Research and development expenditures are expensed when incurred and are included in marketing, general and administrative and engineering expenses. Research and development expenses include salaries, direct costs incurred, and building and overhead expenses. The amounts expensed for fiscal 2019, fiscal 2018 and fiscal 2017 were \$6,289, \$5,240 and \$3,501, respectively.

Shipping and Handling Cost

The Company includes shipping and handling as part of cost of sales and freight collections from customers is included as part of sales.

Economic Dependence

As of March 31, 2019 and March 31, 2018, no one customer represented more than 10% of the Company's accounts receivable balance. In fiscal 2019, fiscal 2018 or fiscal 2017 no one customer represented more than 10% of sales.

Recent Accounting Pronouncements

Revenue Recognition - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 "Revenue from Contracts with Customers" (Topic 606), which amends the existing revenue recognition requirements and guidance. The core principle of the new standard is to recognize revenue that reflects the consideration the Company expects to receive for goods or services when or as the promised goods or services are transferred to customers. Topic 606 requires more judgment than current guidance, as management will now be required to: (i) identify each performance obligation in contracts with customers, (ii) estimate any variable consideration included in the transaction price and (iii) allocate the transaction price to each performance obligation. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company adopted the amended guidance using the modified retrospective method as of April 1, 2018. Please refer to Note 4 "Revenue from Contracts with Customers" for further discussion, including the impact the adoption had on our condensed consolidated financial statements.

Statement of Cash Flows - In November 2016, the FASB issued Accounting Standards Update 2016-18, "Restricted Cash" ("Topic 230"), which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows and requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. Topic 230 became effective for public companies during interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company adopted Topic 230 during the current fiscal year, which resulted in an updated presentation of our statement of cash flows and enhanced disclosures. The following table provides a reconciliation of cash, cash equivalents, restricted cash included in prepaid expenses and other current assets and restricted cash included in other long term assets reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	March 31,		
	2019	2018	2017
Cash and cash equivalents	\$ 31,402	\$ 33,879	\$ 42,842
Restricted cash included in prepaid expenses and other current assets	1,624	1,703	1,202
Restricted cash included in other long term assets	815	745	248
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$ 33,841	\$ 36,327	\$ 44,292

Amounts shown in restricted cash included in prepaid expenses and other current assets and other long term assets represent those required to be set aside by a contractual agreement, which contain cash deposits pledged as collateral on performance bonds and letters of credit. Amounts shown in restricted cash in other long term assets represent such agreements that require a commitment term longer than one year.

Financial Instruments- In January 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-01 "Financial Instruments-Overall" (Subtopic 825-10), which amends the guidance on the classification and measurement of financial instruments. The amendment requires all equity investments to be measured at fair value with changes in the fair value recognized through earnings. The amendment also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the credit risk when an entity has elected the fair value option. The guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. Early adoption is permitted for certain provisions of the accounting standards update. Upon the adoption of the standard, an entity will be required to make a cumulative-effect adjustment to retained earnings as of the beginning of such reporting period. We adopted this standard effective April 1, 2017 and it did not have a material impact on our consolidated financial statements.

Leases- In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02 "Leases" (Topic 842), which amended the guidance that requires lessees to recognize the assets and liabilities that arise from most leases on the balance sheet. Topic 842 also amended the guidance for transactions where the Company acts as a lessor, which is the case for our Sumac operating segment. The changes are effective for annual and interim periods beginning after December 15, 2018, and amendments should be applied using one of two modified retrospective transition methods.

We adopted these provisions on April 1, 2019 through a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The transition adjustment related to the adoption was immaterial. We elected one of the available practical expedients permitted under the transition guidance within the new standard (Topic 842). This expedient (ASC 842-20-25-2) allows us to not capitalize leases with a term of less than 12 months from the adoption date of April 1, 2019. While we continue to refine our analysis, we currently estimate that right-of-use ("ROU") assets may have amounted up to \$21,000 as of April 1, 2019, and lease liabilities did not significantly differ from ROU assets. We do not expect the guidance to have a material impact on our results of operations or cash flows. We intend to provide additional disclosures as required by the new standard, which we are currently assessing, in our quarterly report on Form 10-Q for the first quarter of the fiscal year ending March 31, 2020.

Financial Instruments- In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-13 "Financial Instruments-Credit Losses" (Topic 326), which amends the guidance on the impairment of financial instruments. The standard adds an impairment model, referred to as current expected credit loss, which is based on expected losses rather than incurred losses. The standard applies to most debt instruments, trade receivables, lease receivables, reinsurance receivables, financial guarantees and loan commitments. Under the guidance, companies are required to disclose credit quality indicators disaggregated by year of origination for a five-year period. The new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. We do not anticipate this will have a material impact to our consolidated financial statements.

Statement of Cash Flows- In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-15 "Statement of Cash Flows" (Topic 230), which amends Topic 230 of the accounting standards codification (ASC) to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The standard addresses eight types of cash flows, some of which we believe could or will impact our financial statements upon adoption, including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and proceeds from the settlement of insurance claims. Under the guidance, cash payments for debt prepayment or

extinguishment costs must be classified as cash outflows from financing activities. Contingent consideration payments that were not made soon after a business combination must be separated and classified in operating and financing activities. Cash payments up to the amount of the contingent consideration liability recognized as of the acquisition dates, including any measurement-period adjustments, should be classified in financing activities, while any excess cash payments should be classified in operating activities. Cash proceeds from the settlement of insurance claims should be classified on the basis of the nature of the loss. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted for all entities. Entities must apply the guidance retrospectively to all periods presented but may be applied prospectively if retrospective application would be impracticable. We adopted this standard effective April 1, 2017 and it did not have a material impact on our consolidated financial statements.

2. Fair Value Measurements

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

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

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

Financial assets and liabilities with carrying amounts approximating fair value include cash, trade accounts receivable, accounts payable, accrued expenses and other current liabilities. The carrying amount of these financial assets and liabilities approximates fair value because of their short maturities. At March 31, 2019 and 2018, no assets or liabilities were valued using Level 3 criteria.

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

	March 31, 2019		March 31, 2018		Valuation Technique
	Carrying Value	Fair Value	Carrying Value	Fair Value	
Financial Liabilities					
Outstanding principal amount of senior secured credit facility	\$ 206,500	\$ 206,500	\$ 225,000	\$ 225,000	Level 2 - Market Approach
Outstanding borrowings from revolving line of credit	\$ 11,225	\$ 11,225	\$ —	\$ —	Level 2 - Market Approach

At March 31, 2019 and 2018, the fair value of our variable rate term loan and revolving line of credit approximates its carrying value as we pay interest based on the current market rate. As the quoted price is only available for similar financial assets, the Company concluded the pricing is indirectly observable through dealers and has been classified as Level 2.

Acquisition Related Foreign Exchange Option

In connection with the execution of the purchase agreement for the THS acquisition on October 3, 2017, we entered into a combination of option contracts to secure the exchange rate of \$200,000 CAD that would be contributed by the Company at closing on October 30, 2017. The options were structured such that the \$200,000 CAD would be exchanged for no more than \$162,100 and no less than \$159,200 USD. At settlement date, Thermon took delivery of \$200,000 CAD for \$159,200. At closing of the THS acquisition, the Canadian dollar weakened such that the actual spot foreign exchange rate was \$155,900. The resulting difference of \$3,326 was recognized as realized loss on foreign exchange in fiscal 2018.

Cross Currency Swap

The Company has entered into a long term cross currency swap to hedge the currency rate fluctuations related to \$77,894 intercompany receivable from our wholly-owned Canadian subsidiary, Thermon Canada Inc., maturing on October 30, 2022. Periodic principal payments are to be settled twice annually with interest payments settled quarterly through the cross currency derivative contract. We do not designate the cross currency swap as a cash flow hedge under ASC 815. At March 31, 2019, we recorded \$1,768 of unrealized mark-to-market gains on the cross-currency swap which is reported as "Other non-current assets", in the condensed consolidated balance sheet. Cross currency swap contracts are measured on a recurring basis at fair value and are classified as Level 2 measurements. For the fiscal year ended March 31, 2019, the gain on the long-term cross currency swap derivative contract was offset by unrealized losses on the intercompany note of \$3,363 for a net loss of \$87.

Deferred Compensation Plan Assets

The Company provides a non-qualified deferred compensation plan for certain highly compensated employees where payroll contributions are made by the employees on a pre-tax basis. Included in "Other long-term assets" at March 31, 2019 and March 31, 2018 were \$1,557 and \$574, respectively, of deferred compensation plan assets (mutual funds) held by the Company. Deferred compensation plan assets (mutual funds) are measured at fair value on a recurring basis based on quoted market prices in active markets (Level 1). Please refer to Note 13 "Employee Benefits" for further discussion.

Foreign Currency Forward Contracts

We transact business in various foreign currencies and have established a program that primarily utilizes foreign currency forward contracts to offset the risk associated with fluctuations of certain foreign currencies. Under this program, increases or decreases in our foreign currency exposures are offset by gains or losses on the forward contracts to mitigate foreign currency transaction gains or losses. These foreign currency exposures typically arise from intercompany transactions. Our forward contracts generally have terms of 30 days. We do not use forward contracts for trading purposes or designate these forward contracts as hedging instruments pursuant to ASC 815. We adjust the carrying amount of all contracts to their fair value at the end of each reporting period and unrealized gains and losses are included in our results of operations for that period. These gains and losses are intended to offset gains and losses resulting from settlement of payments received from our foreign operations which are settled in U.S. dollars. All outstanding foreign currency forward contracts are marked to market at the end of the period with unrealized gains and losses included in other expense. The fair value is determined by quoted prices from active foreign currency markets (Level 2). The consolidated balance sheets reflect unrealized gains within accounts receivable, net and unrealized losses within accrued liabilities. Our ultimate realized gain or loss with respect to currency fluctuations will depend on the currency exchange rates and other factors in effect as the contracts mature. As of March 31, 2019 and 2018, the notional amounts of forward contracts were as follows:

Notional amount of foreign exchange forward contracts by currency

	March 31, 2019		March 31, 2018	
Russian Ruble	\$	—	\$	2,416
Euro		—		750
Canadian Dollar		1,500		4,000
South Korean Won		2,000		10,500
Mexican Peso		—		200
Australian Dollar		900		850
Great Britain Pound		3,000		—
Total notional amounts	\$	<u>7,400</u>	\$	<u>18,716</u>

	March 31, 2019				March 31, 2018			
	Fair Value		Fair Value		Fair Value		Fair Value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Foreign exchange contract forwards	\$	8	\$	53	\$	229	\$	25

Recognized foreign currency gains or losses related to our forward contracts in the accompanying consolidated statements of operations and comprehensive income were losses of \$125, \$96 and \$453 for fiscal 2019, fiscal 2018 and fiscal 2017, respectively. Gains and losses from our forward contracts are intended to be offset by transaction gains and losses from the settlement of transactions denominated in foreign currencies. Our net foreign currency losses were \$228, \$5,725, and \$628 for fiscal 2019, fiscal 2018, and fiscal 2017, respectively. Foreign currency gains and losses are recorded within other expense in our consolidated statements of operations and comprehensive income.

3. Acquisitions

THS acquisition

On October 30, 2017, we, through a wholly-owned subsidiary, acquired 100% of the equity interests of CCI Thermal Technologies Inc. and certain related real estate assets for \$262,415 CAD (approximately \$204,596 USD at the exchange rate as of October 30, 2017) in cash (such purchase price inclusive of final working capital adjustments). Such subsidiary and CCI Thermal Technologies Inc. amalgamated immediately after the closing of the acquisition to form Thermon Heating Systems, Inc. ("THS"), an indirect, wholly-owned subsidiary of the Company. THS is engaged in industrial process heating, focused on the development and production of advanced heating and filtration solutions for industrial and hazardous area applications and is headquartered in Edmonton, Alberta, Canada. THS markets its products through several diverse brands known for high quality, safety and reliability, and serves clients in the energy, petrochemical, electrical distribution, power, transit and industrial end markets globally. We believe we will be able to leverage our existing global sales force to further expand the reach of THS's product offerings. We recognized \$85,637 of goodwill in connection with the THS transaction.

The following table details the purchase price of the THS transaction:

Consideration to or on behalf of sellers at close	\$	204,596
Fair value of total consideration transferred	\$	<u>204,596</u>

The following table summarizes the fair value of the assets acquired and liabilities assumed:

Assets acquired:

Cash	\$	1,534
Accounts receivable		14,351
Inventories		20,085
Other current assets		1,181
Property, plant and equipment		29,464
Identifiable intangible assets		79,002
Goodwill		<u>85,637</u>
Total assets		231,254
Liabilities assumed:		
Current liabilities		6,832
Other non-current liabilities		500
Non-current deferred tax liability		<u>19,326</u>
Total liabilities		26,658
Total consideration	\$	<u>204,596</u>

In total, \$4,093 of transaction costs were incurred related to the THS acquisition, all of which were incurred in the fiscal year ended March 31, 2018.

Our identifiable intangible assets at March 31, 2019 that were related to the THS acquisition, inclusive of currency translation adjustments for the period, consisted of the following:

	Amortization period	Gross Carrying Amount at March 31, 2019	Accumulated Amortization	Net Carrying Amount at March 31, 2019	Gross Carrying Amount at March 31, 2018	Accumulated Amortization	Net Carrying Amount at March 31, 2018
Products	10 years	\$ 62,343	\$ 8,832	\$ 53,511	\$ 64,611	\$ 2,692	\$ 61,919
Customer relationships	17 years	10,763	897	9,866	11,155	273	10,882
Backlog	1 year	3,117	3,117	—	3,230	1,346	1,884
Total		\$ 76,223	\$ 12,846	\$ 63,377	\$ 78,996	\$ 4,311	\$ 74,685

The weighted average useful life of acquired finite lived intangible assets related to THS transaction is 10.6 years.

During the year to date period ended October 30, 2018, we finalized our provisional purchase accounting for the THS acquisition. The table below summarizes our provisional estimates of the fair value of assets and liabilities assumed as well as the final fair value of assets and liabilities assumed:

	Provisional Fair Value	Final Fair Value
Inventories	\$ 20,489	\$ 20,085
Other current assets	731	1,181
Goodwill	87,540	85,637
Current liabilities	6,255	6,832
Non-current deferred tax liability	22,121	19,326

4. Revenue from Contracts with Customers

On April 1, 2018, we adopted Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("ASC Topic 606") using the modified retrospective method and applying ASC Topic 606 to all revenue contracts with customers which were not completed as of the date of adoption. Results for reporting periods beginning after April 1, 2018 are presented under ASC Topic 606. In accordance with the modified retrospective approach, prior period amounts were not adjusted and are reported under ASC Topic 605, "Revenue Recognition." As a result of the adoption, the cumulative impact to our retained earnings at April 1, 2018 was immaterial. Additionally, revenues recognized under ASC Topic 606 in the interim period and year to date period did not materially differ from revenues that would have been recorded under ASC Topic 605. We expect the impact of the adoption of the new standard to continue to be immaterial to revenues and net income on an ongoing basis.

For purposes of calculating the cumulative transition adjustment the amended guidance has been applied to all contracts at the initial application date.

The core principle of the new standard is to recognize revenue that reflects the consideration the Company expects to receive for goods or services when or as the promised goods or services are transferred to customers. ASC Topic 606 requires more judgment than previous guidance, as management will need to consider the terms of the contract and all relevant facts and circumstances when applying the revenue recognition standard. Management performs the following five steps when applying the revenue recognition standard: (i) identify each contract with customers, (ii) identify each performance obligation in the contracts with customers, (iii) estimate the transaction price (including any variable consideration), (iv) allocate the transaction price to each performance obligation and (v) recognize revenue as each performance obligation is satisfied.

Description of product and service offerings and revenue recognition policies

We principally provide a (i) suite of products (heating units, heating cables, tubing bundles and control systems) and (ii) services including design optimization, engineering, installation and maintenance services required to deliver comprehensive solutions to complex projects. The performance obligations associated with our products sales are generally recognized at a point in time. Where products and services are provided together under a time and materials contract, the performance obligations are satisfied over time. We also provide fixed-fee turnkey solutions consisting of products and services under which the related performance obligations are satisfied over time.

In addition, we offer temporary power products that are designed to provide a safe and efficient means of supplying temporary electrical power distribution and lighting at energy infrastructure facilities for new construction and during maintenance and turnaround projects at operating facilities. Revenues associated with the rental of the temporary power products have historically been less than 5% of our total revenues and are recognized under ASC Topic 840, "Leases".

Revenue is recognized when control of the promised goods or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to receive in exchange for transferring such goods or providing such services. We account for a contract when a customer provides us with a firm purchase order or other contract that identifies the goods or services to be provided, the payment terms for those services, and when collectability of the consideration due is probable. Generally, our payment terms do not exceed 30 days.

Performance obligations

A performance obligation is a promise to provide the customer with a good or service. At contract inception, the Company will assess the goods or services promised in the contract with a customer and shall identify, as a performance obligation, each promise to transfer to the customer either: (i) a good or service (or a bundle of goods or services) or (ii) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. For contracts with multiple performance obligations, standalone selling price is generally readily observable.

Revenue from products transferred to customers at a point in time is recognized when obligations under the terms of the contract with the customer are satisfied; generally this occurs with the transfer of control upon shipment. Revenue from products transferred to customers at a point in time accounted for approximately 60.0% of revenue for the fiscal year ended March 31, 2019.

Our revenues that are recognized over time include (i) products and services which are billed on a time and materials basis, and (ii) fixed fee contracts for complex turnkey solutions. Revenue from products and services transferred to customers over time accounted for approximately 40.0% of revenue for the fiscal year ended March 31, 2019.

For our time and materials service contracts, we recognize revenues as the products and services are provided over the term of the contract and have determined that the stated rate for installation services and products is representative of the stand-alone selling price for those services and products.

Our turnkey projects, or fixed fee projects, offer our customers a comprehensive solution for heat tracing from the initial planning stage through engineering/design, manufacture, installation and final proof-of-performance and acceptance testing. Turnkey services also include project planning, product supply, system integration, commissioning and on-going maintenance. Turnkey solutions, containing multiple deliverables, are customer specific and do not have an alternative use and present an unconditional right to payment, and thus are treated as a single performance obligation with revenues recognized over time as work progresses.

For revenue recognized under fixed fee turnkey contracts, we measure the costs incurred that contribute towards the satisfaction of our performance obligation as a percentage of the total estimated cost of production (the "cost-to-cost method"), and we recognize a proportionate amount of contract revenue, as the cost-to-cost method appropriately depicts performance towards satisfaction of the performance obligation. Changes to the original cost estimates may be required during the life of the contract and such estimates are reviewed on a regular basis. Sales and gross profits are adjusted using the cumulative catch-up method for revisions in estimated contract costs. Reviews of estimates have not resulted in significant adjustments to our results of operations.

At March 31, 2019, revenues associated with our open performance obligations totaled \$119,956, representing our combined backlog and deferred revenue. Within this amount, approximately \$15,459 will be earned as revenue in excess of one year. We expect to recognize the remaining revenues associated with unsatisfied or partially satisfied performance obligations within twelve months. During the fiscal year ended March 31, 2019, we recognized approximately \$77,752 of revenues, associated with partially satisfied performance obligations as of April 1, 2018.

Pricing and sales incentives

Pricing is established at or prior to the time of sale with our customers and we record sales at the agreed-upon net selling price. Generally, we do not enter into sales contracts with customers that offer sales discounts or incentives.

Optional exemptions, practical expedients and policy elections

We expense the incremental costs of obtaining a contract when incurred because the amortization period would be less than one year.

The Company has elected to treat shipping and handling activities as a cost of fulfillment rather than a separate performance obligation.

The Company has elected to exclude all sales and other similar taxes from the transaction price. Accordingly, the Company presents all collections from customers for sales and other similar taxes on a net basis, rather than having to assess whether the Company is acting as an agent or a principal in each taxing jurisdiction.

The Company adopted ASC Topic 606 as of April 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. For contracts that were modified before the effective date, the Company utilized the practical expedient to consider the aggregate effect of all modifications when identifying performance obligations and allocating transaction price.

Contract Assets and Liabilities

Contract assets and liabilities are presented on our condensed consolidated balance sheet. Contract assets consist of unbilled amounts resulting from sales under long-term contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. In addition, contract assets contain labor and material costs incurred under our time and material service contracts that have not been billed to the customer. Contract liabilities represent deferred revenue from advanced customer payments or billings in excess of costs incurred or revenue earned. The Company invoices customers pursuant to the terms of their related contract. Invoiced amounts are applied to individual contracts and an associated amount is either classified as a contract asset or contract liability depending on whether the revenue associated with the amounts billed had been earned (contract asset) or not (contract liability).

The following table provides information about contract assets and contract liabilities from contracts with customers:

	Contract Assets	Contract Liabilities
Balance as of April 1, 2018	\$ 16,114	\$ (8,143)
Revenue recognized under contracts	157,357	7,679
Billed amounts to customers	(147,017)	(6,350)
Total activity	\$ 10,340	\$ 1,329
Balance as of March 31, 2019	\$ 26,454	\$ (6,814)

The \$10,340 increase in contract assets from March 31, 2018 to March 31, 2019 was primarily the result of timing of progress billings under long-term contracts and increased project revenues. The majority of contract liabilities at March 31, 2018 were recognized in revenue as of March 31, 2019. There were no impairment losses recognized on our contract assets for the fiscal year ended March 31, 2019.

Disaggregation of Revenue

We disaggregate our revenue from contracts with customers by geographic location, revenues recognized at point in time and revenues recognized over time, as we believe these best depict how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

Disaggregation of revenues from contracts with customers for fiscal 2019 are as follows:

	Fiscal Year Ended March 31, 2019		
	Revenues recognized at point in time	Revenues recognized over time	Total
United States and Latin America	\$ 71,865	\$ 93,783	\$ 165,648
Canada	102,997	24,395	127,392
Europe, Middle East and Africa	46,210	31,298	77,508
Asia-Pacific	26,534	15,560	42,094
Total revenues	<u>\$ 247,606</u>	<u>\$ 165,036</u>	<u>\$ 412,642</u>

5. Net Income per Common Share

Basic net income per common share is computed by dividing net income available to Thermon Group Holdings, Inc. by the weighted average number of common shares outstanding during each period. Diluted net income per common share is computed by dividing net income available to Thermon Group Holdings, Inc. by the weighted average number of common shares and common share equivalents outstanding (if dilutive) during each period. The number of common share equivalents, which includes options and both restricted and performance stock units, is computed using the treasury stock method. With regard to the performance stock units, we assumed that the associated performance targets will be met at the target level of performance for purposes of calculating diluted net income per common share.

The reconciliations of the denominators used to calculate basic net income per common share and diluted net income per common share for fiscal 2019, fiscal 2018, and fiscal 2017, respectively, is as follows:

	Year Ended March 31, 2019	Year Ended March 31, 2018	Year Ended March 31, 2017
<i>Basic net income per common share</i>			
Net income available to Thermon Group Holdings, Inc.	\$ 22,756	\$ 11,913	\$ 14,641
Weighted-average common shares outstanding	32,568,541	32,423,581	32,301,661
Basic net income per common share	<u>\$ 0.70</u>	<u>\$ 0.37</u>	<u>\$ 0.45</u>
<i>Diluted net income per common share</i>			
Net income available to Thermon Group Holdings, Inc.	\$ 22,756	\$ 11,913	\$ 14,641
Weighted-average common shares outstanding	32,568,541	32,423,581	32,301,661
Common share equivalents:			
Stock options issued	235,802	218,693	216,041
Restricted and performance stock units issued	249,961	155,077	115,579
Weighted average shares outstanding – dilutive	<u>33,054,304</u>	<u>32,797,351</u>	<u>32,633,281</u>
Diluted net income per common share	<u>\$ 0.69</u>	<u>\$ 0.36</u>	<u>\$ 0.45</u>

For the years ended March 31, 2018 and 2017, 76,205 and 59,950 equity awards, respectively, were not included in the calculation of diluted net income per common share since they would have had an anti-dilutive effect.

6. Inventories

Inventories consisted of the following at March 31:

	2019	2018
Raw materials	\$ 32,892	\$ 31,516
Work in process	5,696	7,186
Finished goods	28,501	27,204
	67,089	65,906
Valuation reserves	(2,199)	(2,077)
Inventories, net	\$ 64,890	\$ 63,829

The following table summarizes the annual changes in our valuation reserve accounts:

Balance at March 31, 2016	\$ 1,287
Additions in reserve	348
Charged to reserve	(306)
Balance at March 31, 2017	1,329
Additions in reserve	721
Charged to reserve	27
Balance at March 31, 2018	2,077
Additions in reserve	166
Charged to reserve	(44)
Balance at March 31, 2019	\$ 2,199

7. Property, Plant and Equipment

Property, plant and equipment consisted of the following at March 31:

	2019	2018
Land, buildings and improvements	\$ 51,834	\$ 50,808
Machinery and equipment	23,685	24,182
Office furniture and equipment	21,660	20,818
Internally developed software	4,979	4,069
Construction in progress	2,995	2,183
Property, plant and equipment at cost	105,153	102,060
Accumulated depreciation	(30,198)	(27,575)
Property, plant and equipment, net	\$ 74,955	\$ 74,485

Depreciation expense was \$9,194, \$7,962 and \$6,060, in fiscal 2019, fiscal 2018, and fiscal 2017, respectively.

Included within depreciation expense was amortization of internally developed software of \$479, \$495, and \$496, in fiscal 2019, fiscal 2018 and fiscal 2017, respectively.

8. Goodwill and Other Intangible Assets

The carrying amount of goodwill for all reporting segments as of March 31, 2019, 2018 and 2017 is as follows:

	United States	Canada	Europe	Asia	Total
Balance as of March 31, 2017	\$ 52,016	\$ 43,444	\$ 18,437	\$ 8,624	\$ 122,521
Goodwill acquired	—	85,156	—	—	85,156
Foreign currency translation impact	—	167	2,722	—	2,889
Balance as of March 31, 2018	\$ 52,016	\$ 128,767	\$ 21,159	\$ 8,624	\$ 210,566
Allocation of Goodwill	10,709	(10,709)	—	—	—
Purchase price adjustment	—	481	—	—	481
Foreign currency translation impact	—	(4,157)	(1,895)	—	(6,052)
Balance as of March 31, 2019	\$ 62,725	\$ 114,382	\$ 19,264	\$ 8,624	\$ 204,995

Goodwill is tested for impairment on an annual basis and between annual tests if indicators of potential impairment exist. We perform a qualitative analysis to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If required, we also perform a quantitative analysis using the income approach, based on discounted future cash flows, which are derived from internal forecasts and economic expectations, and the market approach based on market multiples of guideline public companies. The most significant inputs in the Company's quantitative goodwill impairment tests are projected financial information, the weighted average cost of capital and market multiples for similar transactions. Our annual impairment test is performed during the fourth quarter of our fiscal year. No triggering events were identified that indicated the fair value of any of our reporting units was less than its carrying amount during the fiscal year ended March 31, 2019.

Our total intangible assets at March 31, 2019, and 2018 consisted of the following (including THS):

	Gross Carrying Amount at March 31, 2019	Accumulated Amortization	Net Carrying Amount at March 31, 2019	Gross Carrying Amount at March 31, 2018	Accumulated Amortization	Net Carrying Amount at March 31, 2018
Products	\$ 62,343	\$ 8,832	\$ 53,511	\$ 64,611	\$ 2,719	\$ 61,892
Trademarks	44,819	1,052	43,767	46,156	832	45,324
Developed technology	9,854	4,464	5,390	10,160	4,106	6,054
Customer relationships	110,802	87,319	23,483	113,378	77,646	35,732
Certifications	445	—	445	458	—	458
Other	5,742	5,742	—	5,863	3,889	1,974
Total	\$ 234,005	\$ 107,409	\$ 126,596	\$ 240,626	\$ 89,192	\$ 151,434

Trademarks and certifications have indefinite lives with the exception of IPI and Unitemp trademarks, which have gross carrying amounts of \$1,820 and \$387, respectively, that are subject to amortization. The useful life of the trademarks amortized is estimated at 8 years. Developed technology, customer relationships and other intangible assets have estimated lives of 20 years, 10 years and 6 years, respectively. The weighted average useful life for the group is 10 years. Portions of intangible assets are valued in foreign currencies; accordingly changes in indefinite life intangible assets at March 31, 2019 and 2018 were the result of foreign currency translation adjustments.

The Company recorded amortization expense of \$20,771, \$16,458, and \$11,772 in fiscal 2019, fiscal 2018 and fiscal 2017, respectively for intangible assets. Annual amortization of intangible assets for the next five years and thereafter will approximate the following:

2020	\$ 17,742
2021	9,388
2022	8,366
2023	8,363
2024	7,674
Thereafter	32,016
Total	\$ 83,549

9. Accrued Liabilities

Accrued current liabilities consisted of the following:

	March 31, 2019	March 31, 2018
Accrued employee compensation and related expenses	\$ 18,109	\$ 16,449
Accrued interest	1,172	1,154
Customer prepayment	783	519
Warranty reserve	365	300
Professional fees	2,326	1,854
Sales tax payable	2,185	1,546
Other	2,908	988
Total accrued current liabilities	<u>\$ 27,848</u>	<u>\$ 22,810</u>

10. Short-Term Revolving Credit Facilities

Under the Company's senior secured revolving credit facility described below in Note 11, "Long-Term Debt," the Company had \$11,225 in outstanding borrowings at March 31, 2019. There were no outstanding borrowings at March 31, 2018.

11. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2019	March 31, 2018
Variable Rate Term Loan, due October 2024, net of deferred debt issuance costs and debt discounts of \$6,271 and \$7,967 as of March 31, 2019 and 2018, respectively	\$ 200,229	\$ 217,033
Less current portion	(2,500)	(2,500)
	<u>\$ 197,729</u>	<u>\$ 214,533</u>

Senior secured credit facility

On October 30, 2017, the Company, as a credit party and a guarantor, Thermon Holding Corp. (the "US Borrower") and Thermon Canada Inc. (the "Canadian Borrower" and together with the US Borrower, the "Borrowers"), as borrowers, entered into a credit agreement with several banks and other financial institutions or entities from time to time (the "Lenders") and JPMorgan Chase Bank, N.A. as administrative agent (the "Agent"), that provides for a \$250,000 seven-year term loan B facility made available to the US Borrower and a \$60,000 five-year senior secured revolving credit facility made available to the US Borrower and the Canadian Borrower, which we refer to collectively as our "credit facility". The proceeds of the term loan B were used to (1) pay in full \$70,875 principal and interest on a previously issued term loan due April 2019; (2) repay \$6,000 in unpaid principal and interest on the US Borrower's revolving line of credit; (3) to fund approximately \$201,900 CAD of the purchase price of the acquisition of THS and certain related real estate assets for approximately \$164,900; and (4) pay certain transaction fees and expenses in connection with the THS transaction and the credit facility.

Interest rates and fees. The US Borrower will have the option to pay interest on the term loan B at a base rate, plus an applicable margin, or at a rate based on LIBOR, (subject to a floor of 1.00%), plus an applicable margin. The applicable margin for base rate loans is 275 basis points and the applicable margin for LIBOR loans is 375 basis points. The US Borrower may borrow revolving loans in US dollars and the Canadian Borrower may also borrow revolving loans in Canadian dollars. Borrowings under the revolving credit facility (a) made in US dollars will bear interest at a rate equal to a base rate, plus an applicable margin of 225 basis points or at a rate based on LIBOR, plus an applicable margin of 325 basis points and (b) made in Canadian dollars will bear interest at a rate equal to a Canadian base rate, plus an applicable margin of 225 basis points or at a rate based on CDOR, plus an applicable margin of 325 basis points, provided that, following the completion of the fiscal quarter ended March 31, 2018, the applicable margins in each case will be determined based on a leverage-based performance grid, as set forth in the credit agreement. In addition to paying interest on outstanding principal under the revolving credit

facility, the US Borrower is required to pay a commitment fee in respect of unutilized revolving commitments of 0.50% per annum. Following the completion of the fiscal quarter ended March 31, 2018, the commitment fee will be determined based on a leverage-based performance grid.

Maturity and repayment. The revolving credit facility terminates on October 28, 2022. The scheduled maturity date of the term loan facility is October 30, 2024. Commencing April 1, 2018, the term loan will amortize in equal quarterly installments of 0.25% of the \$250,000 term loan, with the payment of the balance at maturity. The US Borrower will be able to voluntarily prepay the principal of the term loan without penalty or premium (subject to breakage fees) at any time in whole or in part; provided that for the first six months after the October 30, 2017 closing date, the US Borrower is required to pay a 1% premium for prepayments of the term loan with the proceeds of certain re-pricing transactions. The US Borrower is required to repay the term loan with certain asset sale and insurance proceeds, certain debt proceeds and, commencing for the fiscal year ended March 31, 2019, 50% of excess cash flow (reducing to 25% if the Company's leverage ratio is less than 4.0 to 1.0 but greater than or equal to 3.5 to 1.0 and 0% if the Company's leverage ratio is less than 3.5 to 1.0).

Accordion. The credit facility allows for incremental term loans and incremental revolving commitments in an amount not to exceed \$30,000 and an unlimited additional amount that would not cause the consolidated secured leverage ratio to exceed 4.0 to 1.0 (or, if less, the maximum consolidated leverage ratio permitted by the revolving credit facility on such date).

At March 31, 2019, we had \$11,225 of outstanding borrowings under our revolving credit facility. The interest rate on outstanding borrowings on March 31, 2019 was 4.57%. As of March 31, 2019, we had \$44,469 of available borrowing capacity under our revolving credit facility after taking into account the borrowing base and letters of credit outstanding. The variable rate term loan bears interest at the LIBOR rate plus an applicable margin dictated by our leverage ratio (as described above). Commencing April 1, 2018, the Company will be required to make quarterly principal payments of the term loan of \$625 through July 31, 2024. The remaining balance will be due at maturity of the term loan facility on October 30, 2024. During fiscal year 2019 and 2018, the Company made unscheduled repayments of principal on the term loan facility in the amount of \$16,000 and \$25,000, respectively. From time to time, we may choose to make unscheduled principal repayments on the term loan credit facility based on available cash.

Guarantees; security. The term loan is guaranteed by the Company and all of the Company's current and future wholly-owned domestic material subsidiaries (the "US Subsidiary Guarantors"), subject to certain exceptions. Obligations of the US Borrower under the revolving credit facility are guaranteed by the Company and the US Subsidiary Guarantors. The obligations of the Canadian Borrower under the revolving credit facility are guaranteed by the Company, the US Borrower, the US Subsidiary Guarantors and each of the wholly owned Canadian material subsidiaries of the Canadian Borrower, subject to certain exceptions. The term loan and the obligations of the US Borrower under the revolving credit facility are secured by a first lien on all of the Company's assets and the assets of the US Subsidiary Guarantors, including 100% of the capital stock of the US Subsidiary Guarantors and 65% of the capital stock of the first tier material foreign subsidiaries of the Company, the US Borrower and the US Subsidiary Guarantors, subject to certain exceptions. The obligations of the Canadian Borrower under the revolving credit facility are secured by a first lien on all of the Company's assets, the US Subsidiary Guarantors' assets, the Canadian Borrower's assets and the assets of the material Canadian subsidiaries of the Canadian Borrower, including 100% of the capital stock of the Canadian Borrower's material Canadian subsidiaries.

Financial covenants. The term loan is not subject to any financial covenants. The revolving credit facility requires the Company, on a consolidated basis, to maintain certain financial covenant ratios. The Company must maintain a consolidated leverage ratio on the last day of the following periods: 5.5:1.0 for December 31, 2017 through September 30, 2018; 5.0:1.0 for December 31, 2018 through September 30, 2019; 4.5:1.0 for December 31, 2019 through September 30, 2020; and 3.75:1.0 for December 31, 2020 and each fiscal quarter thereafter. In addition, on the last day of any period of four fiscal quarters, the Company must maintain a consolidated fixed charge coverage ratio of not less than 1.25:1.0. As of March 31, 2019, we were in compliance with all financial covenants of the credit facility.

Restrictive covenants. The credit agreement governing our facility contains various restrictive covenants that, among other things, restrict or limit our ability to (subject to certain negotiated exceptions): incur additional indebtedness; grant liens; make fundamental changes; sell assets; make restricted payments including cash dividends to shareholders; enter into sales and leasebacks; make investments; prepay certain indebtedness; enter into transactions with affiliates; and enter into restrictive agreements.

Maturities of long-term debt principal payments are as follows for the fiscal years ended March 31:

2020	\$	2,500
2021		2,500
2022		2,500
2023		2,500
2024		2,500
2025		194,000
Total	\$	<u>206,500</u>

12. Related-Party Transactions

In connection with the Sumac transaction, one of the former principals retained 25% of the ownership of the entities holding the Sumac business unit. This individual is employed by the Company and serves as general manager of the Sumac business unit. During fiscal 2017, this individual, together with the two other former principals of Sumac, who are not employed by the Company were paid \$5,805 in the aggregate in full satisfaction of the Company's obligations under the \$5,905 non-interest bearing performance-based note issued in connection with the Sumac transaction.

On April 2, 2018, the minority shareholder of the entities holding the Sumac business unit provided the Company notice that he was exercising his option to sell one-half (12.5%) of his remaining equity interest in the entities holding the Sumac business unit to the Company, and such sale was completed and effective as of July 20, 2018. The terms of the April 2015 Sumac purchase agreement prescribed a valuation formula for such a sale based on Sumac's financial results for the fiscal year ended March 31, 2018. During the first quarter of the fiscal year ended March 31, 2019, the Company paid \$5,665 to purchase the 12.5% non-controlling interest.

Similarly, on April 2, 2019, the minority shareholder of the entities holding the Sumac business unit provided the Company notice that he was exercising his option to sell the entirety of his remaining equity interest (12.5% of the entities holding the Sumac business unit) to the Company. The terms of the April 2015 Sumac purchase agreement prescribed a valuation formula for such a sale based on Sumac's financial results for the fiscal year ending March 31, 2019. We estimate that Thermon will pay \$4,204 to purchase the remaining 12.5% Sumac equity interest, which is expected to be completed in June 2019.

13. Employee Benefits

The Company has defined contribution plans covering substantially all domestic employees and certain foreign subsidiary employees who meet certain service and eligibility requirements. Participant benefits are 100% vested upon participation. The Company matches employee contributions, limited to 50% of the first 6% of each employee's salary contributed. The Company's matching contributions to defined contribution plans on a consolidated basis were approximately \$2,315, \$2,119, and \$1,634 in fiscal 2019, fiscal 2018, and fiscal 2017, respectively.

The Company has an incentive compensation program to provide employees with incentive pay based on the Company's ability to achieve certain profitability objectives. The Company recorded approximately \$9,885, \$6,656, and \$2,324 for incentive compensation earned in fiscal 2019, fiscal 2018, and fiscal 2017, respectively.

Thermon Europe B.V., our European subsidiary, maintains defined benefit pension plans for qualifying employees located in The Netherlands. The Company is currently under contract with an insurance company to fund a defined benefit (average pay) pension plan to provide for estimated post-retirement pension income. As of March 31, 2018, the plan had an estimated net benefit obligation of \$2,185, which is included in non-current liabilities. The obligation is based on an actuarial calculation of the pension obligation for the participants. Effective January 1, 2019, the plan was terminated and the Company purchased replacement annuity contracts transferring the obligation. As such, the Company's net benefit obligation (inclusive of actuarial gains or losses previously deferred in other comprehensive income and other minor amounts related to the pension plan) of \$1,840 as of December 31, 2018 was recorded as income at the settlement date into Marketing, general and administrative and engineering expense on the condensed consolidated statements of comprehensive income.

The Company provides a non-qualified deferred compensation plan for certain highly compensated employees where payroll contributions are made by the employees on a pre-tax basis. Included in "Other long-term assets" at March 31, 2019

and 2018 were \$1,557 and \$574, respectively, of deferred compensation plan assets (mutual funds) held by the Company. Deferred compensation plan assets (mutual funds) are measured at fair value on a recurring basis based on quoted market prices in active markets. The Company has a corresponding liability to participants of \$1,520 and \$569 included in "Other long-term liabilities" in the condensed consolidated balance sheet at March 31, 2019 and 2018, respectively. Deferred compensation expense included in marketing, general and administrative and engineering were \$21 and \$51 for the fiscal year ended March 31, 2019 and 2018, respectively. Expenses and income from our deferred compensation plan were offset by unrealized gains and losses for the deferred compensation plan included in other expense on our consolidated statements of operations and comprehensive income. Our unrealized gains and losses on investments were losses of \$50 and gains of \$36 for the fiscal year ended March 31, 2019 and 2018, respectively.

14. Commitments and Contingencies

At March 31, 2019, the Company had in place letter of credit guarantees and performance bonds securing performance obligations of the Company. These arrangements totaled approximately \$19,797. Of this amount, \$2,439 is secured by cash deposits at the Company's financial institutions and an additional \$4,306 represents a reduction of the available amount of the Company's short term and long term revolving lines of credit. Included in prepaid expenses and other current assets at March 31, 2019 and 2018, was approximately \$2,439 and \$2,448, respectively, of cash deposits pledged as collateral on performance bonds and letters of credit.

The Company leases various property and equipment under operating leases. Lease expense was approximately \$4,421, \$3,738, and \$3,441 in fiscal 2019, fiscal 2018 and fiscal 2017, respectively. Future minimum annual lease payments under these leases are as follows for the fiscal years ended March 31:

2020	\$	3,941
2021		3,143
2022		2,858
2023		2,568
2024		1,520
Thereafter		6,226
	<u>\$</u>	<u>20,256</u>

The Company has entered into information technology service agreements with several vendors. The service fees expense amounted to \$3,809, \$3,439, and \$3,095 in fiscal 2019, fiscal 2018 and fiscal 2017, respectively. The future annual service fees under the service agreements are as follows for the fiscal years ended March 31:

2020	\$	1,123
2021		1,041
2022		80
	<u>\$</u>	<u>2,244</u>

We are involved in various legal and administrative proceedings that arise from time to time in the ordinary course of doing business. Some of these proceedings may result in fines, penalties or judgments being assessed against us, which may adversely affect our financial results. In addition, from time to time, we are involved in various disputes, which may or may not be settled prior to legal proceedings being instituted and which may result in losses in excess of accrued liabilities, if any, relating to such unresolved disputes. As of March 31, 2019, management believes that adequate reserves have been established for any probable and reasonably estimable losses. Expenses related to litigation reduce operating income. We do not believe that the outcome of any of these proceedings or disputes would have a significant adverse effect on our financial position, long-term results of operations, or cash flows. It is possible, however, that charges related to these matters could be significant to our results of operations or cash flows in any one accounting period.

The Company has no outstanding legal matters outside of matters arising in the ordinary course of business that would materially impact our results of operations or our financial position. We can give no assurances we will prevail in any of these matters.

Changes in the Company's warranty reserve are as follows

Balance at March 31, 2016	\$	460
Reserve for warranties issued during the period		143
Settlements made during the period		(303)
Balance at March 31, 2017	\$	300
Reserve for warranties issued during the period		281
Settlements made during the period		(281)
Balance at March 31, 2018	\$	300
Reserve for warranties issued during the period		300
Settlements made during the period		(235)
Balance at March 31, 2019	\$	365

15. Stock-Based Compensation Expense

Since the completion of the CHS Transactions on April 30, 2010, the Board of Directors has adopted and the shareholders have approved two stock option award plans. The 2010 Thermon Group Holdings, Inc. Restricted Stock and Stock Option Plans ("2010 Plan") was approved on July 28, 2010. The plan authorized the issuance of 2,767,171 stock options or restricted shares (on a post stock split basis). On April 8, 2011, the Board of Directors approved the Thermon Group Holdings, Inc. 2011 Long-Term Incentive Plan ("2011 LTIP"). The 2011 LTIP made available 2,893,341 shares of the Company's common stock that may be awarded to employees, directors or non-employee contractor's compensation in the form of stock options or restricted stock awards. Collectively, the 2010 Plan and the 2011 LTIP are referred to as the "Stock Plans." The Company does not hold any shares of its own stock as treasury shares. Accordingly, the vesting of restricted stock units and performance stock units and the exercise of stock options result in the issuance of additional new shares of the Company's stock.

Unvested options outstanding are scheduled to vest over five years with 20% vesting on the anniversary date of the grant each year. Stock options must be exercised within 10 years from date of grant. Stock options were issued with an exercise price which was equal to the market price of our common stock at the grant date. We account for forfeitures as they incur, rather than estimate expected forfeitures.

Stock Options

A summary of stock option activity under our Stock Plans for fiscal 2019, fiscal 2018 and fiscal 2017 are as follows:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balance at March 31, 2016	433,726	\$ 8.07
Granted	28,499	19.64
Exercised	(47,484)	6.77
Forfeited	(2,802)	19.58
Balance at March 31, 2017	411,939	\$ 8.94
Exercised	(42,956)	7.00
Forfeited	(1,412)	19.83
Balance at March 31, 2018	367,571	\$ 9.12
Exercised	(37,906)	10.44
Forfeited	(279)	21.52
Balance at March 31, 2019	329,386	\$ 8.96

For fiscal 2019, fiscal 2018 and fiscal 2017 the intrinsic value of stock option exercises was \$555, \$648, and \$627, respectively.

Unvested Options		
	Number of Shares	Weighted Average Grant Date Fair Value
Balance at March 31, 2016	\$ 40,810	\$ 7.39
Granted	28,499	19.64
Vested	(28,678)	6.93
Forfeited	(2,802)	7.53
Balance at March 31, 2017	\$ 37,829	\$ 8.86
Vested	(17,417)	6.93
Forfeited	(1,412)	19.83
Balance at March 31, 2018	\$ 19,000	\$ 5.89
Vested	(9,500)	5.89
Balance at March 31, 2019	\$ 9,500	\$ 5.89

For fiscal 2019, fiscal 2018 and fiscal 2017, we recorded stock based compensation of \$4,148, \$3,519, and \$3,402, respectively. Total unrecognized expense related to non-vested stock option awards was approximately \$51 as of March 31, 2019. We anticipate this expense will be recognized over a weighted average period of approximately 0.76 years.

The following table summarizes information about stock options outstanding as of March 31, 2019:

Exercise Price	Options Outstanding			Options Vested and Exercisable							
	Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Number Vested and Exercisable	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value at March 31, 2019	Number Vested and Exercisable	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value at March 31, 2019
\$5.20	216,952	1.55	\$ 5.20	216,952	1.55	\$ 5.20	\$ 4,189,343	216,952	1.55	\$ 5.20	\$ 4,189,343
\$9.82	13,339	1.91	9.82	13,339	1.91	9.82	195,950	13,339	1.91	9.82	195,950
\$12.00	40,690	2.09	12.00	40,690	2.09	12.00	508,407	40,690	2.09	12.00	508,407
\$19.64	28,499	7.76	19.64	18,999	7.76	19.64	138,790	18,999	7.76	19.64	92,525
\$21.52	29,906	3.34	21.52	29,906	3.34	21.52	89,689	29,906	3.34	21.52	89,689
\$5.20-\$21.52	329,386	2.33	\$ 8.96	319,886	2.17	\$ 8.64	\$ 5,122,179	319,886	2.17	\$ 8.64	\$ 5,075,914

The aggregate intrinsic value in the preceding table represents the total intrinsic value based on our closing stock price of \$24.51 as of March 31, 2019, which would have been received by the option holders had all option holders exercised as of that date.

Stock options are valued by using a Black-Scholes-Merton option pricing model. We calculate the value of our stock option awards when they are granted. Accordingly, we update our valuation assumptions for volatility and the risk free interest rate each quarter that option grants are awarded. Annually, we prepare an analysis of the historical activity within our option plans as well as the demographic characteristics of the grantees of options within our stock option plan to determine the estimated life of the grants and possible ranges of estimated forfeiture. The expected life was determined using the simplified method for estimating expected option life, which qualify as "plain-vanilla" options. The risk-free interest rate is based on the rate of a zero-coupon U.S. Treasury instrument with a remaining term approximately equal to the expected term. We do not expect to pay dividends in the near term and therefore do not incorporate the dividend yield as part of our assumptions.

Restricted Stock Awards and Units

Restricted stock awards have been issued to members of our board of directors and restricted stock units have been issued to certain employees. For restricted stock awards, the actual common shares have been issued with voting rights and are included as part of our total common shares outstanding. The common shares may not be sold or exchanged until the vesting period is completed. For restricted stock units, no common shares are issued until the vesting period is completed. For restricted stock units, the Company allows its employees to withhold a portion of their units upon the vesting dates in order to satisfy their tax obligation. For both restricted stock awards and units, fair value is determined by the market value of our common stock on the date of the grant.

During fiscal 2015, we established a plan to issue our directors awards of fully vested common stock in lieu of restricted stock awards. During fiscal 2019 and fiscal 2018, we issued 20,064 and 20,216 fully vested common shares which had a total fair value of \$454 and \$411 based on the closing price of our common stock on the date of issuance, respectively. As of March 31, 2019, there were no outstanding restricted stock awards.

The following table summarizes the activity with regard to unvested restricted stock units issued to employees during fiscal 2019, fiscal 2018, and fiscal 2017.

Restricted Stock Units	Number of Shares	Weighted Average Grant Fair Value
Balance of unvested units at March 31, 2016	192,221	\$ 23.36
Granted	135,855	18.65
Released	(111,611)	22.74
Forfeited	(8,319)	21.25
Balance of unvested units at March 31, 2017	208,146	\$ 20.64
Granted	119,302	19.16
Released	(88,084)	21.51
Forfeited	(10,252)	20.05
Balance of unvested units at March 31, 2018	229,112	\$ 19.55
Granted	115,378	23.44
Released	(101,874)	19.93
Forfeited	(5,591)	19.98
Balance of unvested units at March 31, 2019	237,025	\$ 21.26

Based on our closing stock price of \$24.51, the aggregate intrinsic value of the unvested restricted stock units at March 31, 2019 was \$5,809. Total unrecognized expense related to unvested restricted stock awards was approximately \$3,058 as of March 31, 2019. We anticipate this expense to be recognized over a weighted average period of approximately 1.45 years.

Performance Stock Units. During fiscal 2019, fiscal 2018 and fiscal 2017, performance stock unit awards were issued to our executive officers and other members of management and had total estimated grant date fair values of \$1,654, \$1,420 and \$881, respectively. For the fiscal 2019 awards, the performance indicator for these awards is a combination of stock price and the Company's Adjusted EBITDA over a three year period. The target number of shares is 11,533 and 46,032 for the stock price awards and Adjusted EBITDA awards, respectively. The stock price indicator measures our stock price compared to a pre-determined peer group of companies with similar business characteristics as ours. Since the stock price indicator is market based, we prepared a Monte Carlo valuation model to calculate the probable outcome of the market for our stock to arrive at the fair value. The fair value of the market based units will be expensed over three years, whether or not the market condition is met. The Adjusted EBITDA indicator establishes target for the combined total of Adjusted EBITDA for the three years ending March 31, 2021. Since this is a performance based stock award, the Company will make estimates of periodic expense until the Adjusted EBITDA target is known and the expense for actual number of shares earned is determinable. Additionally, during fiscal 2019, we made a one-time grant to our named executive officers of a target amount of 10,613 performance stock units based on the Adjusted EBITDA contribution of the acquired THS operations for the period beginning on October 30, 2017, the closing date of the THS acquisition, and ending on March 31, 2020. The total grant date fair value, as determined by the closing price of our common stock on the date of grant, was \$250. The expense will be recognized ratably over the vesting period. At the end of the performance period, the performance stock units will be evaluated and the requisite number of shares will be issued. The possible number of shares that could be issued under such performance stock units ranges from zero to 15,920 in the aggregate. Shares that are not awarded after the end of the performance period will be forfeited.

During fiscal 2019 and 2017, performance stock awards that were scheduled to vest, did not meet the minimum market based indicator. Accordingly 14,660 and 50,799 of previously outstanding performance stock units were forfeited during fiscal 2019 and fiscal 2017, respectively. Fiscal 2019 performance stock award forfeitures will be transacted during the first quarter of the fiscal year ending March 31, 2020. During fiscal 2018, there were no performance stock unit forfeitures. For performance stock units, the performance period will end on the third fiscal year end subsequent to the award being granted. It will then be determined how many shares of stock will be issued. In each year of the performance period, the possible number of shares will range from zero percent to two hundred percent of the target shares.

The following table summarized the target number of performance stock units outstanding and the minimum and maximum number of shares that can be earned as of March 31, 2019.

Fiscal Year Granted	Target	Minimum	Maximum
Fiscal 2017	47,486	—	94,972
Fiscal 2018	73,684	—	147,368
Fiscal 2019	68,178	—	131,050

In fiscal 2018 and 2017, there were no performance awards earned or released. In fiscal 2019, the performance objectives for 36,611 awards were earned and the shares will be issued in fiscal 2020.

At March 31, 2019, there was \$1,622 in stock compensation that remained to be expensed, which will be recognized over a period of 1.76 years.

16. Other Expense

Other expense consisted of the following:

	Year Ended March 31, 2019	Year Ended March 31, 2018	Year Ended March 31, 2017
Foreign currency transaction gain/(expense)	\$ 353	\$ (5,629)	\$ (176)
Loss on foreign exchange forwards	(125)	(96)	(453)
Other income/(expense)	(119)	130	219
	<u>\$ 109</u>	<u>\$ (5,595)</u>	<u>\$ (410)</u>

17. Income Taxes

Income taxes included in the consolidated income statement consisted of the following:

	Year Ended March 31, 2019	Year Ended March 31, 2018	Year Ended March 31, 2017
Current provision:			
Federal provision	\$ 3,507	\$ 3,937	\$ 1,588
Foreign provision	11,951	12,768	6,341
State provision	681	301	155
Deferred provision:			
Federal deferred benefit	(2,083)	(8,506)	(1,907)
Foreign deferred benefit	(3,964)	(3,178)	(2,025)
State deferred benefit	(119)	(152)	(54)
Total provision for income taxes	<u>\$ 9,973</u>	<u>\$ 5,170</u>	<u>\$ 4,098</u>

Deferred income tax assets and liabilities were as follows:

	March 31,	
	2019	2018
Deferred tax assets:		
Accrued liabilities and reserves	\$ 2,489	\$ 1,987
Stock option compensation	1,072	821
Foreign deferred benefits	2,915	3,575
Net operating loss carry-forward	1,440	1,688
Inventories	385	371
Interest limitation	359	—
Capitalized transaction costs	178	207
Foreign tax credit carry forward	149	104
Valuation allowance	(605)	(878)
Total deferred tax assets	\$ 8,382	\$ 7,875
Deferred tax liabilities:		
Intangible assets	\$ (7,847)	\$ (9,498)
Intangible assets - foreign	(20,980)	(25,674)
Property, plant and equipment	(3,245)	(2,522)
Prepaid expenses	(39)	(104)
Unrealized loss on hedge	—	(45)
Undistributed foreign earnings	(581)	(859)
Total deferred tax liabilities	\$ (32,692)	\$ (38,702)
Net deferred tax asset (liability)	\$ (24,310)	\$ (30,827)

The Company expects that it is more likely than not that the results of future operations will generate sufficient taxable income to realize its domestic and foreign deferred tax assets net of valuation allowance reserves.

The U.S. and non-U.S. components of income (loss) from continuing operations before income taxes were as follows:

	Year Ended March 31, 2019	Year Ended March 31, 2018	Year Ended March 31, 2017
U.S.	\$ 44	\$ (13,568)	\$ (83)
Non-U.S.	33,098	31,957	19,165
Income from continuing operations	\$ 33,142	\$ 18,389	\$ 19,082

The difference between the provision for income taxes and the amount that would result from applying the U.S. statutory tax rate to income before provision for income taxes is as follows:

	Year Ended March 31, 2019	Year Ended March 31, 2018	Year Ended March 31, 2017
Notional U.S. federal income tax expense at statutory rate	\$ 6,960	\$ 5,792	\$ 6,679
Adjustments to reconcile to the income tax provision:			
Rate difference-international subsidiaries	1,366	(1,769)	(2,622)
Transition tax for United States tax reform	(1,118)	5,125	—
Impact on deferred tax liability for statutory rate change	—	(5,849)	—
Impact of U.S. global intangible tax	946	—	—
Undistributed foreign earnings	313	1,786	—
U.S. state income tax provision, net	408	111	45
Charges/(benefits) related to uncertain tax positions	1,137	(533)	(128)
Non-deductible charges	517	758	296
Foreign purchase price adjustment	—	—	(379)
Change in valuation allowance	(280)	219	490
Other, net	(276)	(470)	(283)
Provision for income taxes	<u>\$ 9,973</u>	<u>\$ 5,170</u>	<u>\$ 4,098</u>

On December 22, 2017, the United States enacted significant changes to U.S. tax law following the passage and signing of H.R.1, “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018” (the “Tax Act”) (previously known as “The Tax Cuts and Jobs Act”). The Tax Act included significant changes to existing tax law, including a permanent reduction to the U.S. federal corporate income tax rate from 35% to 21%, a one-time repatriation tax on deferred foreign income (“Transition Tax”), deductions, credits and business-related exclusions.

Accordingly, our income tax provision as of March 31, 2019 and 2018 reflects (i) the current fiscal year impacts of the Tax Act on the estimated annual effective tax rate and (ii) the following discrete items resulting directly from the enactment of the Tax Act based on the information available, prepared, or analyzed (including computations) in reasonable detail.

	Year Ended March 31, 2019	Year Ended March 31, 2018
Transition Tax (provisional)	\$ —	\$ 5,126
Net impact on U.S. deferred tax assets and liabilities (provisional)	—	(6,030)
Benefit on final calculation of Transition Tax	(1,118)	—
Net changes in deferred tax liability associated with anticipated repatriation taxes (provisional)	—	1,704
Net discrete impacts of the enactment of the Tax Act	<u>\$ (1,118)</u>	<u>\$ 800</u>

Consistent with provisions allowed under the Tax Act, the net \$4,008 calculated Transition Tax liability will be paid over an eight year period beginning in fiscal year 2019. The non-current portion of the estimated Transition Tax liability has been included in “Other liabilities- long term” in the Condensed Consolidated Balance Sheets.

The net benefit of \$6,030 related to deferred tax assets and liabilities is primarily associated with a reduction in deferred liabilities for unamortized intangible assets. Since these intangible assets are not tax deductible, the reduction of the liability is non-cash and will not reduce future tax payments.

Given the Tax Act's significant changes and the opportunities to repatriate cash tax free, we have reevaluated our current permanent reinvestment position. Accordingly, we no longer assert a permanent reinvestment position in most of our foreign subsidiaries. We expect to repatriate certain earnings which will be subject to withholding taxes. These additional withholding taxes are being recorded as an additional deferred tax liability associated with the basis difference in such jurisdictions.

While the Tax Act provides for a modified territorial tax system, beginning in January 1, 2018, global intangible low-taxed income, or ("GILTI"), provisions will be applied by the United States providing an incremental tax on certain foreign income. The GILTI provisions require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. Under GAAP, the Company is allowed to make an accounting policy choice of either (1) treating taxes due on the future U.S. inclusions in taxable income related to GILTI provisions as a current-period expense when incurred, or the period cost method, or (2) factoring such amounts into the Company's measurement of its deferred taxes, or the deferred method. The Company has selected the period cost method as its accounting policy with respect to the new GILTI tax rules.

As of March 31, 2019, the Company had foreign tax net operating loss carry-forwards ("NOLs") of \$5,046. Of this amount, \$3,579 may be carried forward indefinitely. As of March 31, 2019, the tax years 2015 through 2018 remain open to examination by the major taxing jurisdictions to which we are subject.

During the fiscal year ended March 31, 2019, the Company reserved \$674 related to uncertain tax positions related to the final Transition Tax and and \$463 related to current tax elections that we determined could be overturned if the calculations were examined by tax authorities. The reserves for the Transition Tax will remain subject to examination until January 2025. The reserves for other tax elections are expected to be released within twelve months. During the fiscal year ended March 31, 2018, the Company released its remaining reserve for uncertain tax positions as the tax periods to which they relate had closed. Activity within our reserve for uncertain tax positions as well as the penalties and interest are recorded as a component of the Company's income tax expense. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Year Ended March 31, 2019	Year Ended March 31, 2018
Beginning balance	\$ —	\$ 533
Additions for tax positions of prior years	1,137	—
Reductions for tax positions of prior years	—	(533)
Reserve for uncertain income taxes	<u>\$ 1,137</u>	<u>\$ —</u>

18. Segment Information

We operate in four reportable segments based on four geographic countries or regions in which we operate: (i) United States and Latin America ("US-LAM"), (ii) Canada, (iii) Europe, Middle East and Africa ("EMEA") and (iv) Asia-Pacific ("APAC"). Within our four reportable segments, our core products and services are focused on thermal solutions primarily related to the electrical heat tracing industry. Each of our reportable segments serves a similar class of customers, including engineering, procurement and construction companies, international and regional oil and gas companies, commercial sub-contractors, electrical component distributors and direct sales to existing plant or industrial applications. Profitability within our segments is measured by operating income. Profitability can vary in each of our reportable segments based on the competitive environment within the region, the level of corporate overhead, such as the salaries of our senior executives, and the level of research and development and marketing activities in the region, as well as the mix of products and services. Since March 2015, we acquired THS, Unitemp, IPI and Sumac. THS (formerly known as CCI Thermal Technologies Inc.) develops and produces advanced industrial heating and filtration solutions for industrial and hazardous area applications that closely align with Therman's core business and serves similar end markets in North America. As such, we have elected to report THS's operations through our US-LAM and Canada reportable segments. Both Unitemp and IPI offer thermal solutions and have been included in our EMEA and US-LAM reportable segments, respectively. Sumac provides temporary power products that differ from our core thermal solutions business. As operating results from Sumac comprise less than 10% of our total sales and operating income, Sumac has been aggregated in our Canada segment. For purposes of this note, revenue is attributed to

individual countries or regions on the basis of the physical location and jurisdiction of organization of the subsidiary that invoices the material and services.

Total sales to external customers, inter-segment sales, depreciation expense, amortization expense, income from operations and total assets classified by major geographic area in which the Company operates are as follows:

	<u>Year Ended March 31, 2019</u>	<u>Year Ended March 31, 2018</u>	<u>Year Ended March 31, 2017</u>
Sales to External Customers:			
United States and Latin America	\$ 165,648	\$ 114,548	\$ 119,791
Canada	127,392	94,427	41,721
Europe, Middle East and Africa	77,508	68,352	71,133
Asia-Pacific	42,094	31,282	31,485
	<u>\$ 412,642</u>	<u>\$ 308,609</u>	<u>\$ 264,130</u>
Inter-segment Sales:			
United States and Latin America	\$ 52,662	\$ 50,155	\$ 45,966
Canada	6,231	7,294	3,610
Europe, Middle East and Africa	3,406	1,614	1,580
Asia-Pacific	859	1,668	1,407
	<u>\$ 63,158</u>	<u>\$ 60,731</u>	<u>\$ 52,563</u>
Depreciation Expense:			
United States and Latin America	\$ 4,935	\$ 4,326	\$ 3,632
Canada	3,616	3,019	1,933
Europe, Middle East and Africa	466	476	301
Asia-Pacific	177	141	194
	<u>\$ 9,194</u>	<u>\$ 7,962</u>	<u>\$ 6,060</u>
Amortization of Intangibles:			
United States and Latin America	\$ 5,841	\$ 6,018	\$ 5,860
Canada	12,515	7,979	3,538
Europe, Middle East and Africa	1,351	1,398	1,310
Asia-Pacific	1,064	1,063	1,064
	<u>\$ 20,771</u>	<u>\$ 16,458</u>	<u>\$ 11,772</u>
Income from Operations:			
United States and Latin America	\$ 16,421	\$ 484	\$ 5,359
Canada	20,601	26,198	8,040
Europe, Middle East and Africa	11,295	6,842	9,095
Asia-Pacific	5,847	4,111	4,512
Unallocated:			
Public company costs	(1,507)	(1,378)	(1,160)
Stock compensation	(4,148)	(3,519)	(3,402)
	<u>\$ 48,509</u>	<u>\$ 32,738</u>	<u>\$ 22,444</u>
	<u>March 31, 2019</u>	<u>March 31, 2018</u>	
Fixed Assets:			
United States and Latin America	\$ 40,691	\$ 37,112	
Canada	30,045	33,076	
Europe, Middle East and Africa	3,497	3,567	
Asia-Pacific	722	730	
	<u>\$ 74,955</u>	<u>\$ 74,485</u>	
Total Assets:			
United States and Latin America	\$ 230,149	\$ 213,099	
Canada	298,233	317,635	
Europe, Middle East and Africa	84,214	89,379	
Asia-Pacific	43,166	42,364	
	<u>\$ 655,762</u>	<u>\$ 662,477</u>	

At March 31, 2019 and 2018, non-current deferred tax assets of \$4,483 and \$3,490 respectively, were applicable to the United States.

Capital expenditures by geographic area were as follows:

	Year Ended March 31, 2019	Year Ended March 31, 2018	Year Ended March 31, 2017
Capital Expenditures:			
United States and Latin America	\$ 8,432	\$ 4,257	\$ 3,882
Canada	2,753	5,295	3,286
Europe, Middle East and Africa	612	118	1,074
Asia-Pacific	239	338	128
	\$ 12,036	\$ 10,008	\$ 8,370

19. Quarterly Results (Unaudited)

The following quarterly results have been derived from unaudited consolidated financial statements that, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of such quarterly information. The operating results for any quarter are not necessarily indicative of the results to be expected for any future period. The unaudited quarterly financial data for each of the eight quarters in the two years ended March 31, 2019 are as follows:

Three Months Ended

	March 31, 2019		December 31, 2018		September 30, 2018		June 30, 2018	
Sales	\$	114,230	\$	119,356	\$	90,154	\$	88,902
Gross Profit		44,969		50,883		40,359		39,729
Income from operations		13,710		17,887		8,672		8,240
Net income available to Thermon Group Holdings, Inc.	\$	6,768	\$	9,719	\$	3,227	\$	3,042
Net income per common share								
Basic	\$	0.21	\$	0.30	\$	0.10	\$	0.09
Diluted		0.20		0.29		0.10		0.09

Three Months Ended

	March 31, 2018		December 31, 2017		September 30, 2017		June 30, 2017	
Sales	\$	102,582	\$	92,660	\$	61,631	\$	51,736
Gross Profit		46,823		42,214		30,960		23,814
Income from operations		13,553		10,210		7,417		1,558
Net income available to Thermon Group Holdings, Inc.	\$	6,057	\$	599	\$	4,778	\$	479
Net income per common share								
Basic	\$	0.19	\$	0.02	\$	0.15	\$	0.01
Diluted		0.18		0.02		0.15		0.01

The basic and diluted income per common share for each respective three month period is calculated independently. Therefore, the sum of the periods does not necessarily total the full year net income or loss per common share.

20. Subsequent Events

On April 2, 2019, the minority shareholder of the entities holding the Sumac business unit provided the Company notice that he was exercising his option to sell the entirety of his remaining equity interest (12.5% of the entities holding the Sumac business unit) to the Company. The terms of the April 2015 Sumac purchase agreement prescribed a valuation formula for such a sale based on Sumac's financial results for the fiscal year ending March 31, 2019. We estimate that Thermon will pay \$4,204 to purchase the remaining 12.5% Sumac equity interest, which is expected to be completed in first half of fiscal 2020.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15(b) under the Exchange Act as of the end of the period covered by this annual report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this annual report, due to the material weakness in the Company's internal control over financial reporting described below, the Company's disclosure controls and procedures were not effective as of March 31, 2019.

The Company completed additional substantive procedures prior to the filing of this annual report. Based on these additional substantive procedures, the Company's management has concluded that the consolidated financial statements included in this annual report have been prepared in accordance with GAAP, and present fairly, in all material respects, the financial condition, results of operations and cash flows of the Company, as of and for the periods presented.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and they may not prevent or detect misstatements. Projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, and oversight by the Audit Committee of the Company's Board of Directors (the "Audit Committee"), the Company conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2019 using the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management identified that the Company failed to design appropriate controls over project revenues accounted for using the cost-to-cost method within the Company's European, Middle East and Africa (EMEA) segment. Specifically, (i) the Company did not maintain an effective control environment, as the Company did not have sufficient competent personnel to support the effective operation of controls over project revenues within the Company's EMEA segment, (ii) the Company did not conduct an effective risk assessment process to ensure controls were designed and implemented to respond to the risks associated with the accounting and disclosure for project revenues, within the Company's EMEA segment; and (iii) the Company did not effectively monitor, or ensure timely correction of, prior control deficiencies associated with project revenues within the Company's EMEA segment.

The control deficiencies described above resulted in immaterial misstatements in sales, cost of sales, contract assets and contract liabilities in the interim condensed consolidated financial statements as of and for the quarterly and year-to-date periods ended June 30, 2018, September 30, 2018 and December 31, 2018, and the related disclosures. However, these control deficiencies create a reasonable possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis, and therefore the Company has concluded that these control deficiencies represent a

material weakness in internal control over financial reporting and the Company's internal control over financial reporting was not effective as of March 31, 2019.

The Company's independent registered public accounting firm, KPMG LLP, has audited the effectiveness of the Company's internal control over financial reporting and has issued their report, which contains an adverse opinion on the effectiveness of the Company's internal control over financial reporting as of March 31, 2019. The KPMG LLP report is included in Item 8 of this annual report.

Remediation Plan

The Company is committed to maintaining a strong internal control environment and, with respect to the material weakness described above, management, with the oversight of the Audit Committee, has designed a remediation plan to address the material weakness and enhance the Company's internal control environment, which includes, but is not limited to, the following:

- the Company intends to hire additional personnel within the Corporate Accounting and Internal Control departments to assist with risk assessment, technical accounting and reporting matters;
- incremental reviews related to the EMEA segment's project revenue accounting will be performed within the Corporate Accounting department on a quarterly basis;
- additional policies and procedures will be implemented around risk assessment when there are changes in the Company's business, including the adoption of new accounting pronouncements, which may include engagement of third party assistance; and
- at the direction and oversight of the Audit Committee, management will create a deficiency remediation plan, whereby all identified control deficiencies will be tracked and followed up on through their ultimate remediation. Management will report the progress made with respect to the remediation of each matter to the Audit Committee on a periodic basis.

The Company believes these remediation actions will strengthen the Company's internal control over financial reporting, but there can be no assurance that the Company will not conclude that additional measures are required to remediate the material weakness identified above as the Company tests and evaluates the effectiveness of the Company's remediation, which may necessitate additional implementation and evaluation time.

Changes in Internal Control Over Financial Reporting

Other than the material weakness described above, there were no changes in the Company's internal control over financial reporting (as such item is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal year ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our directors and executive officers is incorporated herein by reference to the "Directors and Executive Officers" section of our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated herein by reference to the "Section 16(a) Beneficial Ownership Reporting Compliance" section of our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

Information regarding the audit committee financial expert and the audit committee is incorporated herein by reference to the sections entitled "Corporate Governance-Committees of the Board" and "Audit Committee Report" in our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

Code of Business Conduct and Ethics

We have adopted a written code of business conduct and ethics, which we refer to as our "code of conduct," that applies to all of our employees, officers and directors. Our code of conduct is available on our Investor Relations website located at <http://ir.thermon.com>. Stockholders can also obtain a free copy of our code of conduct by writing to the Director of Investor Relations, Thermon Group Holdings, Inc., 7171 Southwest Parkway, Building 300, Suite 200, Texas 78735. We will post any amendments to our code of conduct, and any waivers that are required to be disclosed pursuant to SEC or NYSE rules, on our Investor Relations website.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive and director compensation is incorporated by reference to the "Compensation Discussion and Analysis" section of our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

The material incorporated herein by reference to the information set forth under the "Compensation Committee Report" in our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders shall be deemed furnished, and not filed, in this Annual Report on Form 10-K and shall not be deemed incorporated by reference into any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 as a result of this furnishing, except to the extent that we have specifically incorporated such materials by reference.

Information regarding compensation committee interlocks and insider participation is incorporated herein by reference to the information under the heading "Corporate Governance-Compensation Committee Interlocks and Insider Participation" section of our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the "Security Ownership of Certain Beneficial Owners and Management" section of our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

Information related to compensation plans under which our equity securities are authorized for issuance as of March 31, 2019 is set forth in the table below.

Equity Compensation Plan Information

The following table sets forth information regarding our equity compensation plans as of March 31, 2019. Specifically, the table provides information regarding our 2010 Plan and the LTIP, described elsewhere in this annual report.

Plan Category	Number of securities to be issued upon exercise of outstanding equity awards	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuances under equity compensation plans (1)
Equity compensation plans approved by security holders (2)	329,386	(3)	1,433,871
Equity plans not approved by security holders (4)	230,291	\$ 5.47	—

- (1) Excludes securities reflected in the column entitled "Number of securities to be issued upon exercise of outstanding equity awards."
- (2) On April 8, 2011, our board of directors and pre-IPO stockholders approved the Thermon Group Holdings, Inc. 2011 Long-Term Incentive Plan ("2011 LTIP"). The 2011 LTIP authorized the issuance of 2,893,341 equity awards.
- (3) At March 31, 2019, the Company had outstanding under the LTIP: (i) 99,095 stock options, with a weighted average exercise price of \$17.07, (ii) 237,025 unvested restricted stock units, with a weighted average grant date fair value of \$21.26, and (iii) 227,434 performance units (assuming satisfaction of the performance metric at target and 449,562 at maximum), with a weighted average grant date fair value of \$21.49.
- (4) The 2010 Thermon Group Holdings, Inc. Restricted Stock and Stock Option Plans (the "2010 Plan") was approved by our board of directors on July 28, 2010. The 2010 Plan authorized the issuance of 2,767,171 equity awards and provides for the grant of non-qualified stock options and restricted stock. In connection with our May 2011 IPO, all 2,757,524 of the unvested stock options that were then outstanding under the 2010 Plan became fully vested and exercisable. The 2010 Plan will terminate as of the earlier of (i) the date on which all equity awards under the 2010 Plan have been issued, (ii) the termination of the 2010 Plan by our board of directors, or (iii) the tenth anniversary of the effective date of the 2010 Plan; however, no further grants or equity awards will be made under the 2010 Plan. Under the 2010 Plan, the compensation committee of our board of directors has the authority to designate participants in the plan, determine the form of awards, the number of shares subject to individual awards, and the terms and conditions, including the vesting schedule, of each award granted under the 2010 Plan. The term of any option shall be fixed by the compensation committee and shall not exceed ten years from the date of grant. At March 31, 2019, the Company had outstanding under the 2010 Plan 230,291 non-qualified stock options, with a weighted average exercise price of \$5.47.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions and director independence is incorporated herein by reference to the "Certain Relationships and Related Party Transactions" and "Corporate Governance-Director Independence" sections, respectively, of our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding our principal accountant fees and services is incorporated herein by reference to the "Audit and Non-Audit Fees" section of our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this annual report:

1. **Financial Statements:** Included herein at pages 50 through 84
2. **Financial Statement Schedules:** None. Financial statement schedules have been omitted because the required information is included in our consolidated financial statements contained elsewhere in this annual report.
3. **Exhibits:** See the Exhibit Index below. Each management contract and compensatory plan or arrangement required to be filed as an exhibit to this annual report is identified in the Exhibit Index by a single asterisk following its exhibit number.

Certain of the agreements included as exhibits to this annual report contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in such agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors;
and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in such agreement and are subject to more recent developments.

The registrant acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this annual report not misleading.

EXHIBIT INDEX

Exhibit Number	Description
2.1+	Share Purchase Agreement, dated October 3, 2017, by and among 2071827 Alberta Ltd., Camary Holdings Ltd. and Rocor Holdings Ltd. (incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on October 10, 2017)
2.2+	Employee Share Agreement, dated October 3, 2017, by 2071827 Alberta Ltd. and certain current and former employee shareholders of CCI Thermal Technologies Inc. (incorporated by reference to Exhibit 2.2 to the registrant's Current Report on Form 8-K filed on October 10, 2017)
2.3	Real Property Agreement, dated October 30, 2017, by and between 2071827 Alberta Ltd. and Whitemud Place Properties (incorporated by reference to Exhibit 2.3 to the registrant's Current Report on Form 8-K filed on November 3, 2017)
3.1	Second Amended and Restated Certificate of Incorporation of Thermon Group Holdings, Inc., effective as of May 10, 2011 (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on May 13, 2011)
3.2	Amended and Restated Bylaws of Thermon Group Holdings, Inc., effective as of June 15, 2017 (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on June 16, 2017)
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to Registration Statement on Form S-1 of the registrant filed on April 1, 2011)
4.2*	Description of Thermon Group Holdings, Inc.'s Common Stock
10.1	Credit Agreement, dated October 30, 2017, by and among Thermon Group Holdings, Inc., Thermon Holding Corp, Thermon Canada Inc., and the several lenders from time to time parties hereto, Bank of Montreal and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed November 3, 2017)
10.2	Amended and Restated Securityholder Agreement, dated as of April 30, 2010, among Thermon Group Holdings, Inc. and the other parties identified therein (incorporated by reference to Exhibit 10.5 to Registration Statement on Form S-4 of Thermon Industries, Inc. and additional registrants named therein filed on August 18, 2010)
10.3	Amendment No. 1, dated as of April 1, 2011 and effective May 10, 2011, to Amended and Restated Securityholder Agreement, dated as of April 30, 2010, among Thermon Group Holdings, Inc. and the other parties identified therein (incorporated by reference to Exhibit 10.24 to Amendment No. 2 to the registrant's Registration Statement on Form S-1 (filed on April 1, 2011)
10.4	Amendment No. 2, dated as of May 4, 2012, to Amended and Restated Securityholder Agreement, dated as of April 30, 2010, as previously Amended by Amendment No. 1, dated as of April 1, 2011 and effective as of May 10, 2011, among Thermon Group Holdings, Inc. and the other parties identified therein (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K of Thermon Group Holdings, Inc. filed on May 10, 2012)
10.5†	Thermon Group Holdings, Inc. Restricted Stock and Stock Option Plan, as adopted on July 28, 2010 (incorporated by reference to Exhibit 10.7 to Registration Statement on Form S-4 of Thermon Industries, Inc. and additional registrants named therein filed on August 18, 2010)
10.6†	Amendment No. 1 to the Thermon Group Holdings, Inc. Restricted Stock and Stock Option Plan, as adopted on October 27, 2010 (incorporated by reference to Exhibit 10.9 to Amendment No. 3 to Registration Statement on Form S-4 of Thermon Industries, Inc. and additional registrants named therein filed on November 22, 2010)
10.7†	Form of Stock Option Agreement under Thermon Group Holdings, Inc. Restricted Stock and Stock Option Plan (incorporated by reference to Exhibit 10.9 to Amendment No. 2 to Registration Statement on Form S-4 of Thermon Industries, Inc. and additional registrants named therein filed on October 22, 2010)
10.8†	Amended & Restated Thermon Group Holdings, Inc. 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on August 6, 2013)
10.9†	Amendment No. 1 to the Thermon Group Holdings, Inc. 2011 Long-Term Incentive Plan, as adopted on July 31, 2014 (incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q filed November 4, 2014)
10.10†	Form of Option Award Notice and Stock Option Agreement under Thermon Group Holdings, Inc. 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.14 to Amendment No. 3 to Registration Statement on Form S-1 of the registrant filed on April 13, 2011)
10.11†	Form of Employee Performance Unit Award Agreement under the Thermon Group Holdings, Inc. 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q filed November 4, 2014)

Exhibit Number	Description
10.12†	Form of Non-Employee Director Restricted Stock Award Agreement under Thermon Group Holdings, Inc. 2011 Long Term Incentive Plan (incorporated by reference to Exhibit 10.15 to the registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2011)
10.13†	Second Amended and Restated Employment Agreement, effective as of May 1, 2014, between Jay Peterson and Thermon Holding Corp. (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed May 8, 2014)
10.14†	Second Amended and Restated Employment Agreement, effective as of May 1, 2014, between Johannes (René) van der Salm and Thermon Holding Corp. (incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K filed May 8, 2014)
10.15†	Employment Agreement, effective as of April 1, 2016, between Bruce Thames and Thermon Holding Corp. (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed May 13, 2016)
10.16†*	Employment Agreement, effective as of January 14, 2019 between Thomas Cerovski and Thermon Holding Corp.
10.17†	Form of Manager Equity Agreement among Thermon Group Holdings, Inc., CHS Private Equity V LP, and the management investors (incorporated by reference to Exhibit 10.17 to Registration Statement on Form S-1 of the registrant filed on February 2, 2011)
10.18†	Form of indemnification agreement for directors and certain officers of Thermon Group Holdings, Inc. (incorporated by reference to Exhibit 10.22 to Amendment No. 2 to Registration Statement on Form S-1 of the registrant filed on April 1, 2011)
10.19†	Form of Amendment No. 1 to the Manager Equity Agreement among Thermon Group Holdings, Inc., CHS Private Equity V LP, and the management investors (incorporated by reference to Exhibit 10.25 to Amendment No. 3 to Registration Statement on Form S-1 of the registrant filed on April 13, 2011)
10.20†	Form of Employee Restricted Stock Award Agreement under Thermon Group Holdings, Inc. 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.28 to the registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2012)
10.21†	Thermon Group Holdings, Inc. 2012 Short-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on August 6, 2012)
10.22†	Form of Performance Unit Award Agreement under Thermon Group Holdings, Inc. 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q filed on November 13, 2012)
10.23†	Form of Restricted Stock Unit Award Agreement under Thermon Group Holdings, Inc. 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to registrant's Quarterly Report on Form 10-Q filed on November 13, 2012)
10.24†	Form of Employee Adjusted EBITDA Performance Unit Award Agreement under Thermon Group Holdings, Inc. Amended and Restated 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.30 to the registrant's Annual Report on Form 10-K filed on May 31, 2016)
10.25†	Form of Employee RTSR Performance Unit Award Agreement under Thermon Group Holdings, Inc. Amended and Restated 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.31 to the registrant's Annual Report on Form 10-K filed May 31, 2016)
10.26†	Form of Employee Restricted Stock Unit Award Agreement under Thermon Group Holdings, Inc. Amended and Restated 2011 Long-Term Incentive Plan (effective as of fiscal 2017) (incorporated by reference to Exhibit 10.32 to the registrant's Annual Report on Form 10-K filed May 31, 2016)
10.27†	Thermon Manufacturing Company Deferred Compensation Plan, effective as of July 1, 2016 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed June 21, 2016)
10.28†	Independent Contractor Agreement between Thermon Group Holdings, Inc. and Eric Reitler dated January 1, 2019 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed January 7, 2019)
21.1*	Subsidiaries of Thermon Group Holdings, Inc.
23.1*	Consent of KPMG LLP
31.1*	Certification of Bruce Thames, Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Jay Peterson, Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Bruce Thames, Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit Number	Description
32.2*	Certification of Jay Peterson, Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) Consolidated Statements of Shareholders'/Members' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements

+ The schedules to this exhibit have been omitted in accordance with Regulation S-K Item 601(b)(2). A copy of any omitted schedule will be furnished to the Securities and Exchange Commission upon request.

† Management contract and compensatory plan or arrangement

* Filed herewith

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 12, 2019

THERMON GROUP HOLDINGS, INC. (registrant)

By: /s/ Jay Peterson

Jay Peterson

Chief Financial Officer, Senior Vice President, Finance and Assistant
Secretary

(Principal Financial and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed below by the following persons on behalf of the registrants and in the capacities and on the date indicated.

<u>Date</u>	<u>Title</u>	<u>Signatures</u>
June 12, 2019	President and Chief Executive Officer (Principal Executive Officer); Director	By: <u> /s/ Bruce Thames </u> Bruce Thames
June 12, 2019	Chief Financial Officer, Senior Vice President, Finance and Assistant Secretary (Principal Financial and Principal Accounting Officer)	By: <u> /s/ Jay Peterson </u> Jay Peterson
June 12, 2019	Chairman of the Board	By: <u> /s/ Charles A. Sorrentino </u> Charles A. Sorrentino
June 12, 2019	Director	By: <u> /s/ Linda Dalgetty </u> Linda Dalgetty
June 12, 2019	Director	By: <u> /s/ Marcus J. George </u> Marcus J. George
June 12, 2019	Director	By: <u> /s/ Kevin J. McGinty </u> Kevin J. McGinty
June 12, 2019	Director	By: <u> /s/ John T. Nesser III </u> John T. Nesser III
June 12, 2019	Director	By: <u> /s/ Michael W. Press </u> Michael W. Press

DESCRIPTION OF THERMON GROUP HOLDINGS, INC.'S CAPITAL STOCK

The following description of the capital stock of Thermon Group Holdings, Inc. (the "Company") and certain provisions of the Second Amended and Restated Certificate of Incorporation of the Company (the "Certificate of Incorporation") and the Second Amended and Restated Bylaws of the Company (the "Bylaws") is intended as a summary only, and is qualified in its entirety by reference to the Certificate of Incorporation and the Bylaws, each of which has been filed with the Securities and Exchange Commission.

The authorized capital of the Company consists of 150,000,000 shares of common stock, \$0.001 par value per share (the "Common Stock"), and 10,000,000 shares of undesignated preferred stock, \$0.001 par value per share (the "Preferred Stock"). The rights, powers, preferences and privileges of holders of Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of Preferred Stock that the Company may designate and issue in the future.

Common Stock

Shares of Common Stock have the following rights, preferences and privileges:

- *Voting Rights.* Each outstanding share of Common Stock entitles its holder to one vote on all matters submitted to a vote of the Company's stockholders, including the election of directors. There are no cumulative voting rights. Directors of the Company will be elected by a plurality of the votes cast in the election of directors. Generally, all other matters to be voted on by stockholders must be approved by a majority of the votes which could be cast by the holders of shares of Common Stock present in person or represented by proxy and entitled to vote.
- *Dividends.* Subject to the rights of the holders of any Preferred Stock which may be outstanding from time to time, the holders of Common Stock are entitled to receive dividends as, when and if dividends are declared by the Board of Directors of the Company (the "Board") out of assets legally available for the payment of dividends.
- *Liquidation.* In the event of a liquidation, dissolution or winding up of the Company's affairs, whether voluntary or involuntary, after payment of the Company's liabilities and obligations to creditors and any holders of Preferred Stock, the Company's remaining assets will be distributed ratably among the holders of shares of Common Stock on a per share basis.
- *Other Rights and Preferences.* The holders of Common Stock have no preemptive, conversion or subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. The Common Stock is not subject to liability for further calls or to assessments by the Company.
- *Merger.* In the event the Company merges or consolidates with or into another entity, holders of each share of Common Stock will be entitled to receive the same per share consideration.

The Common Stock is listed on the New York Stock Exchange under the symbol "THR".

The transfer agent and registrar for the Common Stock is American Stock Transfer & Trust Company.

Undesignated Preferred Stock

The Certificate of Incorporation provides that the Board has the authority, without action by the stockholders, to designate and issue up to 10,000,000 shares of Preferred Stock in one or more classes or series and to fix for each class or series the powers, rights, preferences and privileges of each series of Preferred Stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any class or series, which may be greater than the rights of the holders of Common Stock. There are no shares of Preferred Stock currently outstanding as of the date hereof, and the Company has no present plans to issue any shares of Preferred Stock. Any issuance of shares of Preferred Stock could adversely affect the voting power of holders of Common Stock, and the likelihood that any Preferred Stock holders will receive dividend payments and payments upon liquidation could have the effect of delaying, deferring or preventing a change in control of the Company.

Anti-Takeover Effect of Certain Provisions of the Certificate of Incorporation, the Bylaws and Delaware Law

Certain provisions of the Certificate of Incorporation, the Bylaws and the General Corporation Law of the State of Delaware, as amended (the "DGCL"), contain provisions that could have the effect of delaying, deterring or preventing another party from acquiring or seeking to acquire control of the Company. These provisions are intended to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage anyone seeking to acquire control of the Company to negotiate first with the Board. However, these provisions may also delay, deter or prevent a change in control or other takeover

of the Company that the stockholders of the Company might consider to be in their best interests, including transactions that might result in a premium being paid over the market price of the Common Stock, and also may limit the price that investors are willing to pay in the future for the Common Stock. These provisions may also have the effect of preventing changes in Company management.

Certificate of Incorporation and Bylaws

The Certificate of Incorporation and the Bylaws include anti-takeover provisions that:

- authorize the Board, without further action by the stockholders, to issue up to 10,000,000 shares of preferred stock in one or more series, and with respect to each series, to fix the number of shares constituting that series and establish the rights and other terms of that series;
- require that actions to be taken by the stockholders may be taken only at an annual or special meeting of the Company's stockholders and not by written consent;
- specify that special meetings of the Company's stockholders can be called only by the Board, the Chairman of the Board, the Company's chief executive officer or the Company's president;
- establish advance notice procedures for stockholders to submit nominations of candidates for election to the Board and other proposals to be brought before a stockholders meeting;
- provide that the Bylaws may be amended by the Board without stockholder approval;
- allow the Board to establish the size of the Board by action of the Board, subject to a minimum of three members;
- provide that vacancies on the Board or newly created directorships resulting from an increase in the number of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- do not give the holders of Common Stock cumulative voting rights with respect to the election of directors;
- and
- prohibit the Company from engaging in certain business combinations with any interested stockholder (as defined below) unless specified conditions are satisfied as described below under "Business Combinations under Section 203 of the DGCL."

Business Combinations under Section 203 of the DGCL

The Company has opted out of Section 203 of the DGCL, which regulates corporate takeovers. However, the Certificate of Incorporation contains provisions that are similar to Section 203 of the DGCL. Specifically, the Certificate of Incorporation provides that the Company may not engage in certain "business combinations" with any "interested stockholder" for a three-year period following the time that the person became an interested stockholder, unless:

- prior to the time that person became an interested stockholder, the Board approved either the business combination or the transaction which resulted in the person becoming an interested stockholder;
- upon consummation of the transaction which resulted in the person becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the Company outstanding at the time the transaction commenced, excluding certain shares; or
- at or subsequent to the time the person became an interested stockholder, the business combination is approved by the Board and by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a "business combination" includes a merger, consolidation, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an "interested stockholder" is a person who, together with that person's affiliates and associates, owns, or within the previous three years owned, 15% or more of the Company's voting stock. These provisions could prohibit or delay mergers or other takeover or change in control attempts with respect to the Company and, accordingly, may discourage attempts to acquire the Company.

Limitations on Liability and Indemnification of Officers and Directors

The Certificate of Incorporation and Bylaws limit the liability of the Company's directors to the fullest extent permitted by the DGCL and provide that the Company will indemnify its officers and directors to the fullest extent permitted by the DGCL. The Company currently maintains director and officer liability insurance as of the date hereof, and intends to continue doing so if such insurance remains available on commercially reasonable terms.

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT ("Agreement") is effective as of January 14, 2019, between Thomas Cerovski ("Executive") and Thermon Holding Corp., a Delaware corporation (the "Company").

Whereas, subject to the terms and conditions of this Agreement, the Company desires to employ Executive as its Senior Vice President, Global Sales; and

Therefore, in consideration for the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which both parties expressly acknowledge, Executive and the Company agree as follows:

1. **Employment.** Company hereby agrees to employ Executive as Senior Vice President, Global Sales, and Executive accepts such employment and agrees to remain so employed, upon the terms and conditions stated herein.
2. **Term.** Executive's employment under this Agreement shall begin on January 14, 2019, and shall automatically renew for successive one (1) year renewal periods beginning on April 1, 2020 (the initial term through March 31, 2020 and each one year period herein after are referred to as a "Term"), unless (a) either party provides written notice to the other party of its intention not to renew this Agreement at least thirty (30) days prior to the expiration of the then-current Term (a "Notice of Non-Renewal") or (b) sooner terminated in accordance with Section 9 below.
3. **Duties and Responsibilities.** Executive shall perform such duties as are reasonably assigned to Executive by the Company's President and Chief Executive Officer, to whom Executive shall report and shall be accountable. Such duties shall include those duties and responsibilities traditionally provided by or associated with a Senior Vice President, Global Sales, and may involve Company affiliates. Executive shall faithfully, diligently, and competently perform such services to the reasonable satisfaction of the Company's President and Chief Executive Officer, and Executive shall devote his full time and best efforts, skill, and attention to the diligent performance and discharge of such duties and responsibilities.
4. **Exclusivity and Conflict of Interest.** Executive's employment with Company shall be exclusive. Accordingly, during Executive's employment with the Company, Executive shall not engage in any business activity other than on the Company's behalf without the express prior written approval of the Company's Board of Directors. It shall not be a violation of this exclusivity provision for Executive to serve on charitable or civic boards or committees provided that such activity does not interfere with the performance of Executive's duties and responsibilities under this Agreement or otherwise interfere with or violate the obligations of the Executive under this Agreement. Under no circumstance shall Executive engage in any activity that could create a conflict of interest between Executive and the Company or its affiliates.
5. **Base Salary.** For services rendered by Executive on the Company's behalf during Executive's employment, the Company shall pay Executive a base salary ("Base Salary") at the annual rate of \$300,000. Base Salary may be changed periodically at the discretion of the Compensation Committee of the Company's Board of Directors (the "Compensation Committee"). The Company shall pay Executive's pro-rata Base Salary on the Company's regular paydays.

6. **Incentives.**

(a) **Annual Bonus.** Beginning in fiscal year 2020 and each fiscal year thereafter while he is employed by the Company, Executive shall be eligible to receive an annual performance-based bonus ("Annual Bonus") based on the attainment of annual performance targets set by the Company and approved by the Compensation Committee.

For fiscal year 2020, Executive's Annual Bonus opportunity at each of the threshold, target and maximum levels are set forth in the table below (expressed as a percentage of Executive's Base Salary):

Short-Term Incentive	
Below Threshold:	0%
Threshold:	37.5%
Target:	75%
Maximum:	150%

The Annual Bonus shall be paid within two and half months following the end of the fiscal year in which such bonus was earned, provided that if by such time the determination of whether the Annual Bonus was earned (and the

calculation of the amount thereof) is not complete, the Annual Bonus, if any, shall be paid as soon as practicable after such determination and calculation is complete. If (a) Executive is employed by the Company for at least nine months of a fiscal year, but not on the last day of such fiscal year, (b) Executive's employment is terminated by the Company for reasons other than Cause (as defined in Section 9(g) below) or Executive resigns with Good Reason (as defined in Section 9(i) below), and (c) based on the results of operations and financial performance of the Company for the entire fiscal year, Executive would have been entitled to an Annual Bonus in respect of such fiscal year had Executive remained employed by the Company on the last day of such fiscal year, Executive shall be entitled to a pro-rata portion of the Annual Bonus (payable at the time set forth above) based upon the portion of the fiscal year during which Executive was employed (e.g., 9 months of employment = 75% of Annual Bonus).

Notwithstanding anything herein to the contrary, Executive shall be eligible to receive a pro-rata Annual Bonus for the period beginning on his first date of employment through March 31, 2019, with the payout to be determined based on the Company's performance against the performance goals established for the fiscal year 2019 Annual Bonus program. In the event the Company's performance does not meet or exceed the target performance level for fiscal year 2019, Executive shall be entitled to receive a pro-rata Annual Bonus at the target performance level (the "Minimum Annual Bonus Guarantee"). In the event the Company's performance meets or exceeds the target performance level for fiscal year 2019, Executive shall be entitled to receive the actual pro-rata Annual Bonus payout. The Minimum Annual Bonus Guarantee shall be effective for fiscal year 2019 only.

(b) Annual Equity Awards. Beginning in fiscal year 2020 and each fiscal year thereafter while he is employed by the Company, Executive shall be eligible to receive equity awards pursuant to the Company's long-term incentive program (the "Annual Equity Awards"). The fiscal year 2020 Annual Equity Award shall have a target grant date fair value equal to \$250,000. The form and substance of the Annual Equity Awards, including but not limited to the type of awards, grant date fair values, applicable performance metrics, performance targets, grant dates and vesting periods, shall be determined by the Compensation Committee and subject to such further terms and conditions set forth in the applicable award agreements.

(c) Sign-On Equity. Executive shall receive a one-time sign-on restricted stock unit award on Executive's first day of his employment with the Company with a grant date fair value equal to \$150,000 and the number of shares subject to such award determined by dividing the grant date fair value by the closing stock price on the date of grant (the "Sign-On Equity"). The Sign-On Equity shall cliff vest on February 1, 2022, subject to the Executive's continued employment with the Company and its affiliates through the applicable vesting date. In addition, the Sign-On Equity shall be subject to such further terms and conditions as set forth in a separate restricted stock unit award agreement.

7. Vacation and Other Employment Benefits. During Executive's employment with the Company, Executive shall be entitled to four weeks (20 days) of personal time off per calendar year (pro-rated for partial years), taken at times mutually acceptable to Executive and the Company. Executive may carry over one week of unused personal time off from one calendar year to another. In addition, Executive may participate in those other employee benefit plans that the Company may make generally available to its salaried employees provided that Executive otherwise meets the eligibility requirements of those plans.

8. Expense Reimbursement. Executive shall be entitled to reimbursement for ordinary, necessary and reasonable out-of-pocket business expenses which Executive incurs in connection with performing Executive's duties under this Agreement, including reasonable business travel and meal expenses. The reimbursement of all such expenses shall be made in accordance with the Company's customary practice and policies (including presentation of evidence reasonably satisfactory to the Company of the amounts and nature of such expenses).

9. Termination. Either party may terminate Executive's employment upon written notice to the other party. Anything contained in this Agreement to the contrary notwithstanding:

(a) If Executive resigns his employment with Good Reason or the Company terminates Executive's employment other than for Cause, death, or Disability at any time during the Term.

- (i) The Company shall pay Executive the Base Salary and any accrued employment benefit as required by applicable law (such accrued benefit, for clarity, not to include any Annual Bonus, which is addressed in clause (ii) below), each pro-rated through Executive's employment termination date;
 - (ii) The Company shall pay Executive any Annual Bonus earned from a prior year but not yet paid and any portion of the Annual Bonus from the current fiscal year that is payable pursuant to Section 6 above, each payable in accordance with Section 6;
 - (iii) The Company shall pay Executive for any unreimbursed business expenses incurred by Executive through Executive's last day of employment pursuant to Section 8 above; and
 - (iv) Provided that (A) Executive delivers to the Company within sixty days following Executive's termination of employment a release of claims in form and substance satisfactory to the Company, and (B) does not otherwise violate this Agreement prior to or
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during the severance payment period, the Company shall (i) continue to pay Executive's regular Base Salary in equal installments in accordance with the Company's normal payroll practices for a period of twelve months following Executive's termination of employment (the "Severance Period"), with the first payment to occur on the Company's first payroll after the 60th day following Executive's termination of employment and which payment shall include the severance amounts payable from the termination of employment through such payment date and (ii) the Company shall, within ninety days following Executive's termination of employment, make an additional one-time lump-sum cash severance payment calculated by the Company in its discretion equal to the cost of the Executive's monthly COBRA premiums (determined as of the date of Executive's termination of employment) multiplied by the number of months in the applicable Severance Period. Executive shall not be entitled to any benefits under this Section 9(a) if, at the time Executive's employment with the Company was terminated, grounds existed for the termination of Executive's employment for Cause under Section 9(f) below.

(b) Should Executive resign his employment with Good Reason or should the Company terminate Executive's employment other than for Cause, death, or Disability within twelve (12) months following a Change In Control (as defined in Section 9(j) below), the Company shall pay Executive all of the benefits listed in Section 9(a) above, except that the Severance Period shall be extended to eighteen months.

(c) Should the Company terminate Executive's employment for Cause at any time or should Executive resign without Good Reason from employment at any time, the Company shall only pay (i) Executive's Base Salary and any accrued employment benefit as required by applicable law (such accrued benefit, for clarity, not to include any Annual Bonus), each pro-rated through Executive's employment termination date, and (ii) any unreimbursed business expenses incurred by Executive through Executive's last day of employment pursuant to Section 8 above.

(d) Should Executive's employment terminate by reason of death or by the Company due to Disability, the Company shall pay Executive or Executive's estate, as applicable, (i) any earned but unpaid portion of the Base Salary and any accrued but unpaid employment benefit as required by applicable law, each pro-rated through Executive's employment termination date, (ii) any Annual Bonus earned from a prior year but not yet paid (payable in accordance with Section 6), and (iii) any unreimbursed business expenses incurred by Executive through Executive's last day of employment pursuant to Section 8 above.

(e) On or before the employment termination date, Executive shall return to the Company all of its and its affiliates' property including all of the Company's documents, keys, credit cards, computer software, and all copies thereof. Other than as set forth in this Section 9, Executive shall not be entitled to any other compensation or benefits (including any bonus) upon termination of employment.

(f) For purposes of this Agreement, "Cause" means any of the following, as reasonably determined by the Company's Board of Directors and includes: (i) the commission by Executive of a felony (or a crime involving moral turpitude); (ii) the theft, conversion, embezzlement or misappropriation by Executive of funds or other assets of the Company or any of its affiliates or any other act of fraud or dishonesty with respect to the Company or any of its affiliates (including acceptance of any bribes or kickbacks or other acts of self-dealing); (iii) intentional, grossly negligent, or unlawful misconduct by Executive which causes harm or embarrassment to the Company or any of its affiliates or exposes the Company or any of its affiliates to a substantial risk of harm or embarrassment; (iv) the violation by Executive of any law or Company policy regarding employment discrimination or sexual harassment; (v) the failure by Executive to comply with any material policy generally applicable to Company employees, which failure is not cured within 30 days after notice to Executive; (vi) the repeated failure by Executive to follow the reasonable directives of any supervisor or the Company's Board of Directors, which failure is not cured within 30 days after notice to Executive; (vii) the unauthorized dissemination by Executive of confidential information in violation of Section 11 of this Agreement; (viii) any material misrepresentation or materially misleading omission in any resume or other information regarding Executive (including Executive's work experience, academic credentials, professional affiliations or absence of criminal record) provided by or on behalf of Executive; (ix) the Company's discovery that, prior to Executive's employment with the Company, Executive engaged in conduct of the type described in clauses (i) through (iv) above; or (x) any other material breach by Executive of this Agreement that is not cured within 30 days after notice to Executive.

(g) For purposes of this Agreement, "Disability" means (i) a physical or mental health condition that causes Executive to be unable to perform his essential job functions for at least 90 consecutive days or for 120 days during any 180 day period, or (ii) that Executive is receiving long term disability benefits under any policy, plan, or program.

(h) For purposes of this Agreement, "Good Reason" means any of the following without Executive's consent: (i) the assignment to Executive of any duties or responsibilities materially inconsistent with Executive's position and title, a material change in Executive's title, or a material reduction in Executive's responsibilities and authority, except in connection with the termination of Employee's employment for Cause, Disability or death; (ii) a reduction by the Company in Executive's Base Salary below \$300,000, except for a non-permanent reduction that is part of a program applied to other senior executives of the Company necessitated by economic or other financial conditions; or (iii) requiring

Executive to relocate or perform services on a regular basis more than 50 miles from the Company's principal place of business as of the date hereof, or, in the event Executive consents to any relocation, the failure by the Company to pay (or reimburse Executive) for reasonable moving expenses under the Company's Relocation Policy in effect at the time of the relocation; provided that Executive must notify the Company by written notice of his intention to terminate his employment for "Good Reason;" and provided, further, that such notice shall be provided to the Company within ninety (90) days of the initial existence of such event constituting "Good Reason;" and the Company shall have thirty (30) days to cure such event after receipt of such notice and, if the Good Reason event is not cured, the Executive shall terminate his employment within 30 days following the expiration of the Good Reason cure period.

- (i) For purposes of this Agreement, "Change in Control" means the occurrence of any of the following:
- (i) the acquisition, other than from the Company, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either the then outstanding shares of Common Stock of the Company or the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors, but excluding, for this purpose, any such acquisition by the Company or any of its Subsidiaries, or any employee benefit plan (or related trust) of the Company or its Subsidiaries, or any entity with respect to which, following such acquisition, more than 50% of, respectively, the then outstanding equity of such entity and the combined voting power of the then outstanding voting equity of such entity entitled to vote generally in the election of all or substantially all of the members of such entity's governing body is then beneficially owned, directly or indirectly, by the individuals and entities who were the beneficial owners, respectively, of the Common Stock and voting securities of the Company immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding shares of Common Stock of the Company or the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors, as the case may be; or
 - (ii) the consummation of a reorganization, merger or consolidation of the Company, in each case, with respect to which all or substantially all of the individuals and entities who were the respective beneficial owners of the Common Stock and voting securities of the Company immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of Common Stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation; or
 - (iii) a complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company.

Notwithstanding the foregoing, any bona fide primary or secondary public offering shall not constitute a Change in Control.

10. **Patents, Copyrights, Trademarks, and Other Property Rights.** Any and all inventions, improvements, discoveries, formulas, technology, business strategies, management, administration, and accounting systems, processes, and computer software relating to the Company's or its affiliates' business (whether or not patentable), discovered, developed, or learned by Executive during his employment with the Company or used by the Company or its affiliates in the conduct of their respective businesses are the sole and absolute property of Company and are "works made for hire" as that term is defined in the copyright laws of the United States. The Company is the sole and absolute owner of all patents, copyrights, trademarks, and other property rights to those items and Executive shall fully assist the Company to obtain the patents, copyrights, trademarks, or other property rights to all such inventions, improvements, discoveries, formulas, technology, business strategies, management, administration, and accounting systems, processes, or computer software. Executive has been notified by the Company and understands that the foregoing provisions of this Section 9(i) do not apply to an invention for which no equipment, supplies, facilities, confidential, proprietary, or trade secret information of the Company or its affiliates was used and which was developed entirely on Executive's own time, unless the invention: (a) relates to the business of the Company or its affiliates or to their actual or demonstrably anticipated research and development, or (b) results from any work performed by Executive for the Company or its affiliates.

11. **Non-Disclosure and Use of Confidential and Proprietary Information.**

(a) The Company's employment of Executive has resulted and shall result in Executive's exposure and access to confidential and proprietary information, to which the Company agrees to provide Executive after this Agreement

becomes effective, that includes (among other things) the Company's and its affiliates' formulas, processes, administration and accounting systems, computer software, customer lists, vendor lists, due diligence files, financial information, technology, business strategies, business track record, and personal information about the Company's and its affiliates' owners, directors, officers, and employees, which information is of great value to the Company, its affiliates, their owners, directors, officers, and employees. Executive shall not, other than on the Company's behalf, at any time during Executive's employment with the Company and thereafter, make available, divulge, disclose, or communicate in any manner whatsoever to anyone including any person, firm, corporation, investor, member of the media, or entity, any such confidential or proprietary information, or use any such confidential or proprietary information for any purpose other than on the Company's behalf, unless authorized to do so in writing by Company's Chairman of the Board of Directors, required by law or court order, such information has become publicly available other than by reason of a breach by Executive of this Section 11 or of another individual's or entity's violation of an obligation not to disclose such information, or as otherwise contemplated under Section 11(b). Should Executive be required by law or court order to disclose such confidential or proprietary information, Executive shall give the Company's Chairman of the Board of Directors reasonable notice so as to allow the Company sufficient opportunity to challenge such application of the law or court order, or to otherwise attempt to limit the scope of such disclosure. This Agreement applies to all confidential and proprietary information of the Company and its affiliates, regardless of when such information is or was disclosed to Executive.

(b) The Executive understands that nothing contained in this Agreement limits Executive's ability to report possible violations of law or regulation to, or file a charge or complaint with, the Securities and Exchange Commission, the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Department of Justice, the Congress, any Inspector General, or any other federal, state or local governmental agency or commission ("Government Agencies"). The Executive further understands that this Agreement does not limit Executive's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. Nothing in this Agreement shall limit Executive's ability under applicable U.S. Federal law to (i) disclose in confidence trade secrets to federal, state, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law or (ii) disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure.

12. **Restrictive Covenants.** During Executive's employment with the Company and for a period of one (1) year after the termination of that employment, Executive agrees to not, directly or indirectly, other than on the Company's behalf:

(a) Engage or participate, in any country in the world in which the Company does business or has begun to formulate a plan to do business during the term of Executive's employment with the Company, as an owner, partner, member, shareholder, independent contractor, employee, consultant, agent, advisor or (without limitation by the specific enumeration of the foregoing) otherwise in any business involving a Competitive Business Activity (as defined below), provided that nothing in this Section 12 shall prevent Executive from owning less than five percent (5%) of any class of publicly traded securities of any such business so long as such investment is passive and Executive has no other involvement with the issuer of such securities. For purposes of this Agreement, "Competitive Business Activity" means (i) the design, engineering, manufacture or sale of heat tracing systems (for example, products involving the application of external heat to pipes, vessels, instruments or other equipment for the purposes of freeze protection, process temperature maintenance, environmental monitoring or surface snow and ice melting, heat tracing equipment, heat tracing tubing bundles, and heat tracing control systems), heat tracing system consultation, heat tracing system installation, heat tracing system maintenance, heat tracing insulation, (ii) the design, engineering, manufacture or sale of heating and filtration equipment for industrial and commercial applications (for example, products and services involving space and environmental heating, transportation heating, industrial process heating and gas and liquid filtration systems), and (iii) the design, engineering, manufacture, fabrication or sale of temporary power solutions and power distribution for industrial applications, and any other products sold or services provided by the Company Group and the provision of related services;

(b) Solicit any customer or potential customer of the Company or any of its affiliates that Executive had contact with during the term of his employment with respect to the sale or provision of any Competitive Business Activity that the Company or its affiliates manufactured, sold, or was in the process of developing during Executive's employment with the Company. For purposes of this subsection 12(b), (i) a customer means any individual or entity to which the Company or any of its affiliates sold products or rendered services within the 24 month period immediately preceding Executive's employment termination date, and (ii) potential customer means any individual or entity to which the Company or any of its affiliates solicited (or had active plans to solicit) within the 12 month period that immediately preceded Executive's employment termination date; or

(c) Induce or assist in the inducement of any individual or independent contractor (including sales representatives or agents) to terminate or otherwise limit their relationship with the Company or any of its affiliates.

The period of time in which Executive is required to act, or refrain from acting, pursuant to this Section 12 shall be tolled (shall not run) for so long as Executive is in breach of any of Executive's obligations thereunder.

13. **Non-Disparagement.** At no time shall Executive, directly or indirectly, ever make (or cause to be made) any disparaging, derogatory or other negative or false statement regarding the Company, its affiliates, their products, services, practices, policies, operations, owners, directors, officers, partners, employees, sales representatives, or agents. The Company shall direct the members of its Board of Directors and its senior executives to not make (or cause to be made) at any time, directly or indirectly, any disparaging, derogatory or other negative or false statement regarding Executive.

14. **Injunctive Relief.** Executive acknowledges and agrees that the covenants contained in Sections 9(i) - 13 above are reasonable in scope and duration, do not unduly restrict Executive's ability to engage in Executive's livelihood, and are necessary to protect the Company's legitimate business interests (including without limitation, the protection of its confidential and proprietary information). Without limiting the rights of the Company to pursue any other legal and/or equitable remedies available to it for any breach by Executive of the covenants contained in Sections 9(i) - 13 above, Executive acknowledges that a breach of those covenants would cause a loss to the Company for which it could not reasonably or adequately be compensated by damages in an action at law, that remedies other than injunctive relief could not fully compensate the Company for a breach of those covenants and that, accordingly, the Company shall be entitled to injunctive relief (without the requirement of posting a bond or other security) to prevent any breach or continuing breaches of Executive's covenants as set forth in Sections 9(i) - 13 above. It is the intention of the parties that if, in any action before any court empowered to enforce such covenants, any term, restriction, covenant, or promise is found to be unenforceable, then such term, restriction, covenant, or promise shall be deemed modified to the extent necessary to make it enforceable by such court to the fullest extent possible. If any provision of this Agreement (including, without limitation, Sections 10 - 13) is held invalid or unenforceable for any reason (after any such modification or limitation pursuant to the preceding sentence, as applicable), such provision shall be ineffective only to the extent of such invalidity or unenforceability without invalidating the remainder of such provision or the remaining provisions of this Agreement.

15. **The Company's Disclosure to Executive's Prospective or Subsequent Employers.** Executive expressly authorizes the Company to disclose this Agreement, any provision hereof, or any other policy or agreement between the Company and Executive to Executive's prospective or subsequent employers.

16. **Mandatory Mediation.** Other than disputes involving the covenants and obligations set forth in Sections 9(i) - 13 above which may be directly filed in a court of competent jurisdiction, Executive and the Company agree that all other disputes and claims of any nature that Executive may have against the Company including all statutory, contractual, and common law claims (including all employment discrimination claims), and all other disputes and claims of any nature that the Company may have against Executive, shall be submitted exclusively first to mandatory mediation in a mutually agreed-upon location, under the National Rules for the Resolution of Employment Disputes of the American Arbitration Association or under such other rules or under the auspices of such other organization as the parties may mutually agree. All information regarding the dispute or claim or mediation proceedings, including any mediation settlement, shall not be disclosed by Executive, the Company, or any mediator to any third party without the written consent of the Company.

17. **Assignment.** The services rendered by Executive to the Company are unique and personal. Accordingly, Executive may not assign any of the rights or delegate any of the duties or obligations under this Agreement. This Agreement is enforceable by the Company and its affiliates and may, upon written notice to Executive, be assigned or transferred by the Company to, and shall be binding upon and inure to the benefit of, any parent, subsidiary or other affiliate of the Company or any entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets, stock or business of the Company.

18. **Notices.** All notices hereunder shall be in writing and shall be delivered by hand, by facsimile (or photo or other electronic means), by local messenger or by reputable overnight courier. Notices shall be deemed given: (a) when received, if delivered by hand or local messenger; (b) when sent, if sent by facsimile, photo or other electronic means during the recipient's normal business hours; (c) on the first business day after being sent, if sent by facsimile, photo or other electronic means other than during the recipient's normal business hours; and (d) one business day after being delivered to a reputable overnight courier for next day delivery. A notice delivered by facsimile, photo or other electronic means shall only be effective on the date set forth above, however, if the notice is also given by hand, local messenger or courier no later than two business days after its delivery by facsimile, photo or other electronic means. All notices shall be addressed as follows: (i) **if to the Company:** Thermon Holding Corp., 7171 Southwest Parkway, Building 300, Suite 200, Austin, Texas 78735, Attention: Chief Executive Officer; (ii) **if to Executive:** to the home address last shown on the records of the Company; or (iii) (in each case) to such other addresses or addressees as may be designated by notice given in accordance with the provisions of this Section 18.

19. **Clawback Right.** Notwithstanding any other provision of this Agreement, any incentives provided under this Agreement shall be subject to recovery or clawback under the Company's Policy on Recoupment of Incentive Compensation, as may be amended from time to time.

20. **Waiver.** The Company's waiver of a breach by Executive of any provision of this Agreement or failure to enforce any such provision with respect to Executive shall not operate or be construed as a waiver of any subsequent breach by Executive of any such provision or of any other provision or of the Company's right to enforce any such provision or any other provision with respect to Executive. No act or omission of the Company shall constitute a waiver of any of its rights hereunder except for a written waiver signed by the Company's Chairman of the Board of Directors.

21. **Governing Law.** This Agreement shall in all respects be governed by the substantive laws of the State of Texas without regard to its or any other state's conflict of law rules.
22. **Amendment.** The terms of this Agreement may be modified only by a writing signed by both Executive and the Company's Chief Executive Officer.
23. **Post-Employment Effectiveness.** Executive expressly acknowledges that Sections 10 - 28 of this Agreement remain in effect after the termination of Executive's employment with Company.
24. **Withholding.** All payments and benefits under this Agreement are subject to withholding of all applicable taxes.
25. **Section 409A.** This Agreement is intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and shall be interpreted and construed consistently with such intent. The payments to Executive pursuant to this Agreement are also intended to be exempt from Section 409A of the Code to the maximum extent possible, under either the separation pay exemption pursuant to Treasury regulation §1.409A-1(b)(9)(iii) or as short-term deferrals pursuant to Treasury regulation §1.409A-1(b)(4), and for such purposes, each installment paid to Executive under this Agreement shall be considered a separate payment. In the event the terms of this Agreement would subject Executive to taxes or penalties under Section 409A of the Code ("409A Penalties"), the Company and Executive shall cooperate diligently to amend the terms of the Agreement to avoid such 409A Penalties, to the extent possible; provided that in no event shall the Company be responsible for any 409A Penalties that arise in connection with any amounts payable under this Agreement. To the extent any amounts under this Agreement are payable by reference to Executive's "termination of employment" such term and similar terms shall be deemed to refer to Executive's "separation from service," within the meaning of Section 409A of the Code. Notwithstanding any other provision in this Agreement, if Executive is a "specified employee," as defined in Section 409A of the Code, as of the date of Executive's separation from service, then to the extent any amount payable under this Agreement (a) constitutes the payment of nonqualified deferred compensation, within the meaning of Section 409A of the Code, (b) is payable upon Executive's separation from service and (c) under the terms of this Agreement would be payable prior to the six-month anniversary of Executive's separation from service, such payment shall be delayed until the earlier to occur of (i) the six-month anniversary of the separation from service or (ii) the date of Executive's death. In addition, each payment of nonqualified deferred compensation, within the meaning of Section 409A of the Code, which is conditioned upon Executive's execution of a release and which is to be paid during a designated period that begins in a first taxable year and ends in a second taxable year shall be paid in the second taxable year. Any reimbursement payable to Executive pursuant to this Agreement shall be conditioned on the submission by Executive of all expense reports reasonably required by the Company under any applicable expense reimbursement policy, and shall be paid to Executive within 30 days following receipt of such expense reports, but in no event later than the last day of the calendar year following the calendar year in which Executive incurred the reimbursable expense. Any amount of expenses eligible for reimbursement during a calendar year shall not affect the amount of expenses eligible for reimbursement during any other calendar year. The right to any reimbursement pursuant to this Agreement shall not be subject to liquidation or exchange for any other benefit.
26. **Entire Agreement.** This Agreement constitutes the entire agreement and understanding of the parties hereto with respect to the matters described herein, and supersedes any and all prior and/or contemporaneous agreements, understandings or offers, oral or written, between the parties.
27. **Counterparts; Facsimiles.** This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one agreement. A facsimile, photo or other electronic copy of this Agreement (or any counterpart hereof) shall be deemed to be an original.
28. **Construction.** The headings contained in this Agreement are for convenience of reference only and shall not affect the meaning or interpretation of this Agreement. This Agreement shall not be construed strictly against the drafter (and any rule of construction to that effect shall not be applied).

EXECUTIVE AND THE COMPANY EACH REPRESENT AND WARRANT THAT EACH HAS READ THIS AGREEMENT, EACH UNDERSTANDS ITS TERMS, AND EACH AGREES TO BE BOUND THEREBY.

In Witness Whereof, the parties have executed this Employment Agreement as of the ____ day of December, 2018.

Thomas Cerovski
/s/ Thomas Cerovski

THERMON HOLDING CORP.
By: /s/ Bruce A. Thames

Name: Bruce A. Thames
Its: President & Chief Executive Officer

Subsidiaries of Thermon Group Holdings, Inc.

Name of Subsidiary	State or Other Jurisdiction of Incorporation or Organization
Thermon Holding Corp.	Delaware
CCI Thermal Technologies Delaware Inc. d/b/a Thermon Heating Systems, Inc.	Delaware
CCI Thermal Technologies Texas Inc. d/b/a Thermon Heating Systems, Inc.	Texas
CCI Thermal Technologies Colorado Inc. d/b/a Thermon Heating Systems, Inc.	Colorado
Thermon Canada Inc.	Nova Scotia, Canada
Thermon Power Solutions, Inc.	Alberta, Canada
Thermon Canada Services, Inc.	Alberta, Canada
Thermon Heating Systems, Inc.	Alberta, Canada
Thermon Industries, Inc.	Texas
1962235 Alberta Ltd.	Canada
Thermon, Inc.	Texas
Thermon Heat Tracing Services, Inc.	Texas
Thermon Heat Tracing Services-I, Inc.	Texas
Industrial Process Insulation, Inc.	Texas
Thermon Heat Tracing Services-II, Inc.	Louisiana
Thermon Latinoamericana, S. de R.L. de C.V.	Mexico DF, Mexico
Thermon Soluções de Aquecimento LTDA	Brazil
Thermon Australia Pty. Ltd.	Australia
Thermon Far East, Ltd.	Japan
Thermon India Pvt. Ltd.	India
Thermon Heat Tracing and Engineering (Shanghai) Co. Ltd.	China
Thermon Korea, Ltd.	Korea
Thermon Europe B.V.	Netherlands
Thermon Deutschland GmbH	Germany
OOO Thermon Eurasia	Russian Federation
Thermon France SAS	France
Thermon U.K. Ltd.	United Kingdom
Thermon South Africa Pty. Ltd.	South Africa
Thermon Middle East, WLL	Bahrain

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Thermon Group Holdings, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-174039) on Form S-8 and registration statements (Nos. 333-181821 and 333-218848) on Form S-3 of Thermon Group Holdings, Inc. of our reports dated June 12, 2019, with respect to the consolidated balance sheets of Thermon Group Holdings, Inc. as of March 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income, equity, and cash flows for each of the years in the three-year period ended March 31, 2019, and the related notes (collectively the consolidated financial statements) and the effectiveness of internal control over financial reporting as of March 31, 2019, which reports appear in the March 31, 2019 Form 10-K of Thermon Group Holdings, Inc.

Our report dated June 12, 2019, expresses our opinion that Thermon Group Holdings, Inc. did not maintain effective internal control over financial reporting as of March 31, 2019 because of the effect of a material weakness on the achievement of the objectives of the control criteria. Our report contains an explanatory paragraph that states the material weakness related to the accounting for, and disclosure of, project revenues within the Company's Europe, Middle East and Africa (EMEA) segment. Specifically (i) the Company did not maintain an effective control environment, as the Company did not have sufficient competent personnel to support the effective operation of controls over project revenues within the Company's EMEA segment, (ii) the Company did not conduct an effective risk assessment process to ensure controls were designed and implemented to respond to the risks associated with the accounting and disclosure for project revenues, within the Company's EMEA segment; and (iii) the Company did not effectively monitor, or ensure timely correction of, prior control deficiencies associated with project revenues within the Company's EMEA segment.

/s/ KPMG LLP

Austin, Texas
June 12, 2019

**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Bruce Thames, certify that:

1. I have reviewed this Annual Report on Form 10-K of Thermon Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 12, 2019

By: /s/ Bruce Thames
Name: Bruce Thames
Title: President and Chief Executive Officer

**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Jay Peterson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Thermon Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 12, 2019

By: /s/ Jay Peterson
Name: Jay Peterson
Title: Chief Financial Officer, Senior Vice President, Finance and Assistant Secretary

**CERTIFICATION PURSUANT TO SECTION 1350
OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE**

In connection with the Annual Report on Form 10-K of Thermon Group Holdings, Inc. (the "Company") for the fiscal year ended March 31, 2019 (the "Report"), I, Bruce Thames, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and
- (2) Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 12, 2019

By: /s/ Bruce Thames
Name: Bruce Thames
Title: President and Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 1350
OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE**

In connection with the Annual Report on Form 10-K of Thermon Group Holdings, Inc. (the "Company") for the fiscal year ended March 31, 2019 (the "Report"), I, Jay Peterson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and
- (2) Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 12, 2019

By: /s/ Jay Peterson
Name: Jay Peterson
Title: Chief Financial Officer, Senior Vice President, Finance and Assistant Secretary