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Thermon Group Holdings, Inc.
Form 10-Q
August 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35159

THERMON GROUP HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware 27-2228185
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

100 Thermon Drive, San Marcos, Texas 78666
(Address of principal executive offices)

(512) 396-5801
(Registrant's telephone number, including area code)

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

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Non-accelerated filer ☐ (Do not check if a smaller reporting company)

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

As of August 7, 2018, the registrant had 32,560,632 shares of common stock, par value \$0.001 per share, outstanding.

THERMON GROUP HOLDINGS, INC.

QUARTERLY REPORT
FOR THE QUARTER ENDED JUNE 30, 2018

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Thermon Group Holdings, Inc.

Condensed Consolidated Balance Sheets

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

	June 30, 2018 (Unaudited)	March 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,118	\$33,879
Investments	152	1,022
Accounts receivable, net of allowance for doubtful accounts of \$1,207 and \$1,231 as of June 30, 2018 and March 31, 2018, respectively	82,606	94,411
Inventories, net	69,300	63,829
Contract assets	20,528	16,114
Prepaid expenses and other current assets	8,556	9,054
Income tax receivable	2,545	1,885
Total current assets	214,805	220,194
Property, plant and equipment, net	73,710	74,485
Goodwill	207,484	210,566
Intangible assets, net	143,220	151,434
Deferred income taxes	3,157	3,425
Other long term assets	3,049	2,373
Total assets	\$ 645,425	\$ 662,477
Liabilities		
Current liabilities:		
Accounts payable	\$ 24,547	\$22,995
Accrued liabilities	15,524	22,810
Current portion of long term debt	2,500	2,500
Borrowings under revolving credit facility	5,519	—
Contract liabilities	6,077	8,143
Income taxes payable	551	5,952
Total current liabilities	54,718	62,400
Long-term debt, net of current maturities and deferred debt issuance costs and debt discounts of \$7,664 and \$7,967 as of June 30, 2018 and March 31, 2018, respectively	214,211	214,533
Deferred income taxes	32,108	34,252
Other non-current liabilities	7,773	10,439
Total liabilities	308,810	321,624
Equity		
Common stock: \$.001 par value; 150,000,000 authorized; 32,547,662 and 32,492,339 shares issued and outstanding at June 30, 2018 and March 31, 2018, respectively	33	32
Preferred stock: \$.001 par value; 10,000,000 authorized; no shares issued and outstanding	—	—
Additional paid in capital	223,309	222,622
Accumulated other comprehensive loss	(44,808)	(36,541)
Retained earnings	151,817	148,812
Total Thermon Group Holdings, Inc. shareholders' equity	330,351	334,925
Non-controlling interests	6,264	5,928

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Total equity	336,615	340,853
Total liabilities and equity	\$ 645,425	\$ 662,477
The accompanying notes are an integral part of these condensed consolidated financial statements		

Thermon Group Holdings, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)
(Dollars in Thousands, except share and per share data)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Sales	\$ 88,902	\$ 51,736
Cost of sales	49,173	27,922
Gross profit	39,729	23,814
Operating expenses:		
Marketing, general and administrative and engineering	25,712	19,317
Amortization of intangible assets	5,777	2,939
Income from operations	8,240	1,558
Other income/(expenses):		
Interest income	75	153
Interest expense	(3,603)	(802)
Other expense	(118)	32
Income before provision for income taxes	4,594	941
Income tax expense	1,216	227
Net income	\$ 3,378	\$ 714
Income attributable to non-controlling interests	336	235
Net income available to Thermon Group Holdings, Inc.	\$ 3,042	\$ 479
Comprehensive income (loss):		
Net income available to Thermon Group Holdings, Inc.	\$ 3,042	\$ 479
Foreign currency translation adjustment	(8,264)	5,719
Derivative valuation, net of tax	—	(2)
Comprehensive income (loss)	\$ (5,222)	\$ 6,196
Net Income per common share:		
Basic	\$ 0.09	\$ 0.01
Diluted	0.09	0.01
Weighted-average shares used in computing net income per common share:		
Basic	32,501,280	32,370,013
Diluted	32,935,832	32,861,203

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

Thermon Group Holdings, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in Thousands)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Operating activities		
Net income	\$3,378	\$714
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,056	4,652
Amortization of deferred debt issuance costs	318	89
Amortization of inventory step-up	173	—
Stock compensation expense	1,004	785
Deferred income taxes	534	(674)
Long term cross currency swap	(2,368)	—
Remeasurement loss on intercompany balances	2,336	319
Changes in operating assets and liabilities:		
Accounts receivable	10,206	13,032
Inventories	(7,027)	(4,057)
Contract assets	(6,827)	(1,562)
Other current and noncurrent assets	(3,104)	(1,284)
Accounts payable	1,674	(2,442)
Accrued liabilities and noncurrent liabilities	(7,082)	(2,382)
Income taxes payable and receivable	(5,493)	(1,689)
Net cash provided by (used in) operating activities	(4,222)	5,501
Investing activities		
Purchases of property, plant and equipment	(2,866)	(1,805)
Sale of rental equipment at net book value	81	4
Proceeds from sale of property, plant and equipment	—	8
Purchases of investments	—	(4,095)
Proceeds from the sale of investments	819	35,373
Net cash provided by (used in) investing activities	(1,966)	29,485
Financing activities		
Proceeds from revolving credit facility	9,549	—
Payments on long term debt and revolving credit facility	(4,625)	(5,063)
Proceeds from exercise of stock options	81	82
Repurchase of employee stock units on vesting	(398)	(163)
Benefit from excess tax deduction from option exercises	—	(54)
Lease financing	(62)	(70)
Net cash provided by (used in) financing activities	4,545	(5,268)
Effect of exchange rate changes on cash and cash equivalents	(1,118)	2,017
Change in cash and cash equivalents	(2,761)	31,735
Cash and cash equivalents at beginning of period	33,879	42,842
Cash and cash equivalents at end of period	\$31,118	\$74,577

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

Thermon Group Holdings, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

1. Basis of Presentation and Accounting Policy Information

Thermon Group Holdings, Inc. and its direct and indirect subsidiaries are referred to collectively as “we,” “our,” or the “Company” herein. We are a provider of highly engineered industrial process heating solutions for process industries. Our core 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. As a manufacturer, we provide a 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. On October 30, 2017, we, through a wholly-owned subsidiary, consummated the acquisition of 100% of the equity interests of CCI Thermal Technologies Inc., which was amalgamated with such subsidiary 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. In addition to our thermal solution offerings, 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.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended March 31, 2018. In our opinion, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly our financial position at June 30, 2018 and March 31, 2018, and the results of our operations for the three months ended June 30, 2018 and 2017.

Use of Estimates

Generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. While our management has based their assumptions and estimates on the facts and circumstances existing at June 30, 2018, actual results could differ from those estimates and affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the corresponding revenues and expenses as of the date of the financial statements. The operating results for the three months ended June 30, 2018 are not necessarily indicative of the results that may be achieved for the fiscal year ending March 31, 2019.

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 13 “Revenue from Contracts with

Customers" for further discussion, including the impact the adoption had on our condensed consolidated financial statements.

Financial Instruments- In January 2016, the FASB 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 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, 2018 and it did not have a material impact on our consolidated financial statements.

Leases - In February 2016, the FASB issued Accounting Standards Update 2016-02 “Leases” (Topic 842), which provides guidance on the recognition, measurement, presentation and disclosure on leases. Under the standard, substantially all leases will be reported on the balance sheet as right-of-use assets and lease liabilities. The new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Early adoption is permitted. We have begun to evaluate the impact of this amended guidance on our financial position, results of operations, disclosures and internal controls but have not yet finalized our determination regarding the expected financial impact of this amended guidance. We plan to adopt Topic 842 in the first quarter of the fiscal year ending March 31, 2020.

Financial Instruments- In June 2016, the FASB 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 FASB 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, 2018 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.

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

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

Financial assets and liabilities with carrying amounts approximating fair value include cash, trade accounts receivable, accounts payable, accrued expenses and other current liabilities. The carrying amount of these financial assets and liabilities

approximates fair value because of their short maturities. At June 30, 2018 and March 31, 2018, no assets or liabilities were valued using Level 3 criteria.

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

	June 30, 2018		March 31, 2018		Valuation Technique
	Carrying Value	Fair Value	Carrying Value	Fair Value	
Financial Assets					
Certificates of deposits with maturities greater than 90 days	\$152	\$152	\$1,022	\$1,022	Level 2 - Market Approach
Financial Liabilities					
Outstanding principal amount of senior secured credit facility	\$224,375	\$224,375	\$225,000	\$225,000	Level 2 - Market Approach
Outstanding borrowings from revolving line of credit	\$5,519	\$5,519	\$—	\$—	Level 2 - Market Approach
Long-term cross currency swap derivative contract (receivable)	\$(814)	\$(814)	\$1,540	\$1,540	Level 2 - Market Approach

At June 30, 2018 and March 31, 2018, the fair value of our variable rate term loan 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.

Investments

At June 30, 2018 and March 31, 2018, the Company maintained \$152 and \$1,022, respectively, of term deposit accounts at several foreign financial institutions with whom we have an established relationship. Maturities on these deposits are greater than 90 days and less than one year and accordingly are classified as investments. The Company concluded that since the interest rates for these term deposits are based on the quoted rates from the various financial institutions that the pricing is indirectly observable and has been classified as a Level 2 market approach.

Cross Currency Swap

The Company has entered into a long term cross currency swap to hedge the currency rate fluctuations related to a \$101,184 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 June 30, 2018, we recorded \$814 of unrealized mark to market gain on the cross currency swap which is reported as "Other non-current liabilities", in the Condensed Consolidated Balance Sheet. The mark to market valuation has been determined by actual quoted prices (Level 2). For the three months ended June 30, 2018, the gain on the long-term cross currency swap derivative contract was offset by unrealized losses on the intercompany note of \$2,130 for a net gain of \$196.

Trade Related 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 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 foreign currency transaction gains or losses. These foreign currency exposures arise from intercompany transactions as well as third party accounts receivable or payable that are denominated in foreign currencies. 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 designed to offset gains and losses resulting from settlement of receivables or payables by our foreign operations which are settled in currency other than

the local transactional currency. The fair value is determined by quoted prices from active foreign currency markets (Level 2). The condensed 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 June 30, 2018 and March 31, 2018, the notional amounts of forward contracts were as follows:

Notional amount of foreign currency
forward contracts by currency

	June 30, 2018	March 31, 2018
Russian Ruble	\$ 1,500	\$ 2,416
Euro	1,000	750
Canadian Dollar	4,000	4,000
South Korean Won	3,000	10,500
Mexican Peso	200	200
Australian Dollar	650	850
Total notional amounts	\$ 10,350	\$ 18,716

The following table represents the fair value of our foreign currency forward contracts:

	June 30, 2018 Fair Value	March 31, 2018 Fair Value
	Assets	Liabilities
Foreign currency forward contracts	\$ 24	\$ 131
	\$ 131	\$ 229
	\$ 25	\$ 25

Foreign currency gains or losses related to our forward contracts in the accompanying condensed consolidated statements of operations and comprehensive income were losses of \$95 and \$47 in the three months ended June 30, 2018 and 2017, respectively. Gains and losses from our forward contracts were offset by transaction gains or losses incurred with the settlement of transactions denominated in foreign currencies. For the three months ended June 30, 2018 and 2017, our net foreign currency transactions were losses of \$75 and \$20, respectively.

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 acquisition.

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

Consideration to or on behalf of sellers	\$ 204,596
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Fair value of total consideration transferred 204,596

The Company is in the process of obtaining all necessary information required to complete the THS acquisition accounting. Pending matters principally include receipt of final valuation estimates on acquired intangible and tangible assets, and final review of tax related matters. The following table summarizes the preliminary 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	85,637
Total assets	231,254

Liabilities assumed:

Current liabilities	6,832
Other non-current liabilities	500
Non-current deferred tax liability	19,326
Total liabilities	26,658
Total consideration	\$204,596

In total, \$4,093 of transaction costs were incurred related to the THS acquisition, all of which were incurred prior to the three months ended June 30, 2018. During the three months ended June 30, 2018, we finalized the working capital adjustment related to the THS acquisition, and accordingly, recorded an adjustment to goodwill in the amount of \$481 and recorded other minor adjustments to current liabilities.

Our provisional estimate of identifiable intangible assets at June 30, 2018 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 June 30, 2018	Accumulated Amortization	Net Carrying Amount at June 30, 2018	Gross Carrying Amount at March 31, 2018	Accumulated Amortization	Net Carrying Amount at March 31, 2018
Products	10 Years	\$ 63,266	\$ 4,218	\$ 59,048	\$ 64,611	\$ 2,692	\$ 61,919
Customer relationships	17 Years	10,923	428	10,495	11,155	273	10,882
Backlog	1 Year	3,163	2,109	1,054	3,230	1,346	1,884
Total		\$ 77,352	\$ 6,755	\$ 70,597	\$ 78,996	\$ 4,311	\$ 74,685

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

4. 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 and diluted net income per common share for the three months ended June 30, 2018 and 2017, respectively, are as follows:

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Basic net income per common share		
Net income available to Thermon Group Holdings, Inc.	\$ 3,042	\$ 479
Weighted-average common shares outstanding	32,501,280	32,370,013
Basic net income per common share	\$ 0.09	\$ 0.01
	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Diluted net income per common share		
Net income available to Thermon Group Holdings, Inc.	\$ 3,042	\$ 479
Weighted-average common shares outstanding	32,501,280	32,370,013
Common share equivalents:		
Stock options	215,037	203,769
Restricted and performance stock units	219,515	287,421
Weighted average shares outstanding – dilutive (1)	32,935,832	32,861,203
Diluted net income per common share	\$ 0.09	\$ 0.01

(1) For the three months ended June 30, 2018 and 2017, 5,767 and 48,514 equity awards, respectively, were not included in the calculation of diluted net income per common share, as they would have had an anti-dilutive effect.

5. Inventories

Inventories consisted of the following:

	June 30, 2018	March 31, 2018
Raw materials	\$34,710	\$31,516
Work in process	6,868	7,186
Finished goods	29,741	27,204
	71,319	65,906
Valuation reserves (2,019)	(2,077)	
Inventories, net	\$69,300	\$63,829

6. Goodwill and Other Intangible Assets

Goodwill

The carrying amount of goodwill by operating segment as of June 30, 2018 is as follows:

	United States	Canada	Europe	Asia	Total
Balance as of March 31, 2018	\$52,016	\$128,767	\$21,159	\$8,624	\$210,566
Adjustments to purchase price allocation	—	481	—	—	481
Foreign currency translation impact	—	(2,453)	(1,110)	—	(3,563)
Balance as of June 30, 2018	\$52,016	\$126,795	\$20,049	\$8,624	\$207,484

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

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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 during the period ended June 30, 2018 which indicated the fair value of any of our reporting units was less than its carrying amount.

Our total intangible assets consisted of the following:

	Gross Carrying Amount at June 30, 2018	Accumulated Amortization	Net Carrying Amount at June 30, 2018	Gross Carrying Amount at March 31, 2018	Accumulated Amortization	Net Carrying Amount at March 31, 2018
Products	\$ 63,267	\$ 4,236	\$ 59,031	\$ 64,611	\$ 2,719	\$ 61,892
Trademarks	45,360	870	44,490	46,156	832	45,324