INDEPENDENT BANK CORP
Form 4
April 24, 2014

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
RIBEIRO CARL

(Last) (First) (Middle)

288 UNION STREET

(Street)

ROCKLAND, MA 02370

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
INDEPENDENT BANK CORP [INDB]

3. Date of Earliest Transaction (Month/Day/Year)
04/22/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/22/2014		P		58 (1)	A	$ 38.5529	16,092.8143 (2)	D	
Common Stock								3,950.176 (3)	I	by Spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
RIBEIRO CARL 288 UNION STREET ROCKLAND, MA 02370	X			

Signatures

Taylor Beckett, Power of Attorney for Carl Ribeiro	04/24/2014
**Signature of Reporting Person	Date

Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares acquired as a result of participation in the Independent Bank Corp. Directors Deferred Compensation Program.

(2) Holdings include 15.0775013 shares acquired as a result of participation in the 2010 Independent Bank Corp. Dividend Reinvestment and Stock Purchase Plan since the last Form 4 filing (1/14). Such transations are exempt from the reporting requirements of Section 16 of the Securities and Exchange Act of 1934, as amended.

(3) The filing of this statement should not be construed as an admission that the undersigned is, for purposes of Section 16 of the Securities Exchange Act, the beneficial owner of such securities.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. size:10pt;">

2013

2012

$

%
Consolidated Statements of Operations Data:

Sales
$
72,783

$
67,849

$
4,934

7.3
%
Cost of sales
37,428

35,210

2,218

6.3
%
Gross profit
$
35,355

$
32,639

$
2,716

8.3
%
Gross margin %
48.6
%

48.1
%

Operating expenses:

Marketing, general and administrative and engineering
$
17,579

$
14,158

$
3,421

24.2
%
Stock compensation expense
544

336

208

61.9
%
Amortization of intangible assets
2,779

2,798

(19
)

(0.7
)%
Income from operations
$
14,453

$
15,347

$
(894
)

(5.8
)%
Interest expense, net:

Interest income
49

30

19

63.3
 %
Interest expense
(1,188
)

(2,969
)

1,781

(60.0
)%
Acceleration of unamortized debt cost
—

(1,447
)

1,447

(100.0
)%
Amortization of debt costs
(135
)

(277
)

142

(51.3
)%
Interest expense, net
(1,274
)

(4,663
)

3,389

(72.7
)%
Miscellaneous income/(expense)
(262
)

93

(355
)

(381.7
)%
Income (loss) before provision for income taxes
$
12,917

$
10,777

$
2,140

19.9
%
Income tax expense (benefit)
2,345

3,790

(1,445
)

(38.1
)%
Net income (loss)
$
10,572

$
6,987

$
3,585

51.3
%

Three Months Ended September 30, 2013 (“Interim 2014”) Compared to the Three Months Ended September 30, 2012 (“Interim 2013”)

Revenues. Revenues for Interim 2014 were $72.8 million, compared to $67.8 million for Interim 2013, an increase of $4.9 million or 7.3%. We experienced revenue growth in Canada of $2.0 million where demand in the upstream oil and gas industry continues to be strong, as well as revenue growth in the United States and Europe of $4.8 million and $0.9 million, respectively. Increased sales in the United States are currently being driven by increased activity within the petroleum processing industry located around the Gulf coast. This activity is in relation to upgrade efforts at refineries that are now processing heavy crude oil which needs to be heated throughout the refining process and which is being delivered from hydraulic fracturing drilling sites in the United States and the Canadian oil sands region. We experienced revenue decline in Asia of $2.8 million due to a large Greenfield project in Interim 2013 whose revenue was not replaced in Interim 2014. Revenue from Greenfield projects as a percentage of total sales was slightly higher in Interim 2014, representing 39% of total sales as compared to 38% in Interim 2013. Both periods are in line with our historical mix of MRO/UE and Greenfield revenues.

Gross profit and margin. Gross profit totaled $35.4 million in Interim 2014, compared to $32.6 million in Interim 2013, an increase of $2.7 million or 8.3%. The increase in gross profit is in line with the overall increase in revenue. As a percentage of revenues, gross margin increased to 48.6% in Interim 2014 from 48.1% in Interim 2013. Our gross margins in both periods are within our range of expected gross margin which is from 45% to 50%. No single factor is attributable to the slightly higher gross margins in Interim 2014 other than a slightly more favorable product mix.
Marketing, general and administrative and engineering. Marketing, general and administrative and engineering costs (including stock compensation expense) were $18.1 million for Interim 2014, compared to $14.5 million in Interim 2013, an increase of $3.6 million or 25.0%. Marketing, general and administrative and engineering costs (including stock compensation) were 24.9% of total revenue in Interim 2014 as compared to 21.4% in Interim 2013. The increases are primarily driven by increased personnel costs of $2.5 million. We have hired additional sales and engineering personnel in support of continued sales growth. Within the $2.5 million increase, the calculation for our annual incentive accrual generated $1.5 million of additional expense as compared to Interim 2013. Stock compensation expense was $0.2 million higher in Interim 2014 due to the awards granted in Interim 2014. In addition, during Interim 2014 we reserved $0.4 million in allowance for doubtful receivables related to collection efforts with a single customer.
Amortization of intangible assets. Amortization of intangible assets was $2.8 million in Interim 2014 and $2.8 million in Interim 2013. Intangible asset amortization is subject to foreign currency translation adjustments. We expect these amounts to be representative of our quarterly expense for amortization of intangible assets for the foreseeable future.
Interest expense, net. Interest expense, net, was $1.3 million in Interim 2014, compared to $4.7 million in Interim 2013, a decrease of $3.4 million. Interest expense on outstanding principal balances was $1.2 million in Interim 2014 compared to $3.0 million in Interim 2013, a decrease of $1.8 million. The decreased interest expense on outstanding principal balances is the result of the difference in the interest rate on our 9.5% senior secured notes, which were redeemed in the first quarter of fiscal 2014 and refinanced with a term loan whose rate has been fixed at approximately 3.62%. We expect our quarterly interest expense to be approximately $1.1 million after accounting for scheduled principal reductions. Amortization of deferred debt issuance costs represents the remaining $0.1 million of interest expense in Interim 2014.
Miscellaneous income/expense. We incurred $0.3 million of miscellaneous expense in Interim 2014 compared to income of $0.1 million in Interim 2013. In Interim 2014, miscellaneous expense was primarily due to our foreign exchange transactions. We incur foreign exchange gains and losses on the settlement of our intercompany transactions. We utilize foreign currency forward contracts to mitigate the risk of foreign exchange gains and losses on these transactions. See Item 3. "Quantitative and Qualitative Disclosures About Market Risks" for further discussion of the foreign currency forward contracts. Miscellaneous income in Interim 2013 consisted of non-recurring gains which were individually insignificant.
Income taxes. We reported an income tax expense of $2.3 million in Interim 2014 from our pre-tax income of $12.9 million, compared to income tax expense of $3.8 million in Interim 2013 from our pre-tax income of $10.8 million, a decrease of $1.4 million. Our effective tax rates were 18.2% in Interim 2014 and 35.2% in Interim 2013. During Interim 2014, we concluded an income tax audit in the United States and, as a result, released certain liabilities for uncertain tax positions in the amount of $1.0 million. Without this discrete tax benefit, our effective tax rate in Interim 2014 would have been 26.7%. The decrease from Interim 2013 is due to our adoption of a permanent reinvestment of foreign earnings position during the first quarter of fiscal 2014. Our anticipated annual effective tax rate of approximately 26.7% has been applied to our consolidated pre-tax income in calculating the amount of the income tax expense for Interim 2014. This anticipated annual tax rate is established by estimating anticipated tax rates in each of the countries where we earn taxable income as adjusted for known differences as well as our ability to apply any jurisdictional tax losses to prior or future periods. See Note 12, “Income Taxes”, to our unaudited consolidated financial statements included elsewhere in this quarterly report, for further detail on income taxes.
Net income. Our net income was $10.6 million in Interim 2014 as compared to net income of $7.0 million in Interim 2013, an increase of $3.6 million. The increase in net income is the result of the increase of gross profit of $2.7 million, which was offset by increased marketing, general and administrative and engineering expenses (including stock compensation expense) of $3.6 million. Interest expense, net decreased $3.4 million as a result of our reduced

interest rate in Interim 2014 as well as a non-recurring acceleration of deferred debt issuance costs in Interim 2013. Miscellaneous expense increased $0.4 million, primarily due to losses related to foreign currency transactions and income taxes decreased $1.4 million as a result of our permanent reinvestment of foreign earnings position adopted in fiscal 2014, and the release of liabilities for uncertain tax positions.

18

Results of Operations (Six-month periods ended September 30, 2013 and 2012)

The following table sets forth our statements of operations for the six months ended September 30, 2013 and the six months ended September 30, 2012 and indicates the amount of change and percentage change between periods.

	Six Months Ended September 30,				Increase/ (Decrease)			
	(dollars in thousands)							
	2013		2012		$		%	
Consolidated Statements of Operations Data:								
Sales	$138,383		$135,539		$2,844		2.1	%
Cost of sales	72,014		69,561		2,453		3.5	%
Gross profit	$66,369		$65,978		$391		0.6	%
Gross margin %	48.0	%	48.7	%				
Operating expenses:								
Marketing, general and administrative and engineering	$33,384		$30,115		$3,269		10.9	%
Stock compensation expense	910		394		516		131.0	%
Amortization of intangible assets	5,567		5,592		(25	)	(0.4	)%
Income from operations	$26,508		$29,877		$(3,369	)	(11.3	)%
Interest expense, net (1):								
Interest income	75		57		18		31.6	%
Interest expense	(2,982	)	(6,156	)	3,174		(51.6	)%
Acceleration of unamortized debt cost	(4,010	)	(2,318	)	(1,692	)	73.0	%
Loss on retirement of debt	(15,485	)	—		(15,485	)	—	%
Amortization of debt costs	(332	)	(586	)	254		(43.3	)%
Interest expense, net	(22,734	)	(9,003	)	(13,731	)	152.5	%
Miscellaneous income/(expense)	(232	)	137		(369	)	(269.3	)%
Income before provision for income taxes	$3,542		$21,011		$(17,469	)	(83.1	)%
Income tax expense (benefit)	(92	)	7,424		(7,516	)	(101.2	)%
Net income	$3,634		$13,587		$(9,953	)	(73.3	)%

---

(1) In both YTD 2014 and YTD 2013, we made redemption payments on our 9.5% senior secured notes, in addition to terminating our prior revolving line of credit in YTD 2013, both of which resulted in the acceleration of the amortization of deferred debt issuances costs, and during YTD 2014, the redemptions resulted in a $15.5 million loss on retirement of debt. We have presented the breakdown of these charges in order to present our expected interest and deferred debt issuance cost amortization separately in future periods.

Six Months Ended September 30, 2013 (“YTD 2014”) Compared to the Six Months Ended September 30, 2012 (“YTD 2013”)

Revenues. Revenues for YTD 2014 were $138.4 million, compared to $135.5 million for YTD 2013, an increase of $2.8 million or 2.1%. We experienced revenue growth in Canada of $5.5 million where demand in the upstream oil and gas industry continues to be strong, as well as the United States where revenue grew $5.1 million. Increased sales in the United States are currently being driven by increased activity within the petroleum processing industry located around the Gulf coast. This activity is in relation to upgrade efforts at refineries that are now processing heavy crude oil which needs to be heated throughout the refining process and which is being delivered from hydraulic fracturing drilling sites in the United States and the Canadian oil sands region. We experienced revenue declines in Asia and Europe of $4.4 million and $3.4 million, respectively.

19

The decline in Asia was due to a large Greenfield project that was completed at the end of fiscal year 2013 and not replaced in YTD 2014. The year-over-year decline in Europe is due to the overall economic weakness in the region.
Gross profit and margin. Gross profit totaled $66.4 million in YTD 2014, compared to $66.0 million in YTD 2013, an increase of $0.4 million or 0.6%, which is attributable to our higher revenue base, offset in part by a slightly less favorable product mix in YTD 2014. As a percentage of revenues, gross profit decreased to 48.0% in YTD 2014 from 48.7% in YTD 2013. Our gross margins in both periods are within our range of expected gross margin which is from 45% to 50%. No single factor is attributable to the slightly lower gross margins in YTD 2014 other than a slightly less favorable product mix.
Marketing, general and administrative and engineering. Marketing, general and administrative and engineering costs (including stock compensation) were $34.3 million for YTD 2014, compared to $30.5 million in YTD 2013, an increase of $3.8 million or 12.4%. As a percentage of total revenue marketing, general and administrative and engineering costs (including stock compensation) were 24.8% and 22.5% in YTD 2014 and YTD 2013, respectively. The increases are primarily driven by increased personnel costs of $1.7 million. We have hired additional sales and engineering personnel in support of continued sales growth. Within the $1.7 million increase, the calculation for our annual incentive accrual generated $0.8 million of additional expense as compared to YTD 2013. Stock compensation expense was $0.5 million higher in Interim 2014 due to awards granted in YTD 2014 and YTD 2013. In addition, during Interim 2014 we reserved $0.4 million in allowance for doubtful receivables related to collection efforts with a single customer.
Amortization of intangible assets. Amortization of intangible assets was $5.6 million in YTD 2014 and YTD 2013 Intangible asset amortization is subject to foreign currency translation adjustments. We expect these amounts to be in line with our estimated expense for amortization of intangible assets for the foreseeable future.
Interest expense. Interest expense, net, was $22.7 million in YTD 2014, compared to $9.0 million in YTD 2013, an increase of $13.7 million. In YTD 2014 we redeemed all $118.1 million of the outstanding aggregate principal amount of our 9.5% senior secured notes. In connection with the redemption, we incurred acceleration of deferred debt issuance costs of $4.0 million and a loss on retirement of debt of $15.5 million, related to call premiums paid with the redemption, both of which are included in interest expense. In YTD 2013, we made partial redemptions of our 9.5% senior secured notes with $21.0 million of aggregate principal being redeemed, as well as negotiated a new revolving line of credit facility. In connection with the YTD 2013 bond redemptions and the termination of the previous revolving line of credit, we incurred deferred debt issuance cost acceleration of $2.3 million. Interest on outstanding principal was $3.0 million and $6.2 million in YTD 2014 and YTD 2013 respectively. The decrease in interest expense on outstanding principal balances is the result of the difference in the interest rate on our redeemed 9.5% senior secured notes and that of our term loan, whose interest rate is fixed at approximately 3.62%. We expect quarterly interest expense to be approximately $1.1 million after accounting for scheduled principal reductions payments.
Miscellaneous income/expense. Miscellaneous expense was $0.2 million in YTD 2014 compared to miscellaneous income of $0.1 million in YTD 2013. In YTD 2014, the miscellaneous expense was primarily due to our foreign exchange transactions. We incur foreign exchange gains and losses on the settlement of our intercompany transactions. We utilize foreign currency forward contracts to mitigate the risk of foreign exchange gains and losses on these transactions. See Item 3. "Quantitative and Qualitative Disclosures About Market Risks" for further discussion of the foreign currency forward contracts. Miscellaneous income in YTD 2013 consisted of non-recurring gains which were individually insignificant.
Income taxes. We reported an income tax benefit of $0.1 million in YTD 2014 from our pre-tax income of $3.5 million compared to income tax expense of $7.4 million from our pre-tax net income of $21.0 million, a decrease of $7.5 million. Our effective tax rates were a benefit of 2.6% in YTD 2014 and 35.3% in YTD 2013. During YTD 2014, we concluded an income tax audit in the United States and, as a result, released certain liabilities for uncertain tax positions in the amount of $1.0 million. Without this discrete tax benefit, our effective tax rate in YTD 2014 would have been 26.7%. The decrease in income tax expense from YTD 2013 is attributable to our reduced pre-tax net income in YTD 2014, the adoption of a permanent reinvestment of foreign earnings position during the first quarter of fiscal 2014, and the release of $1.0 million in certain liabilities for uncertain tax positions. Our anticipated annual

effective tax rate of approximately 26.7% has been applied to our consolidated pre-tax income in calculating the amount of income tax expense for YTD 2014. This anticipated annual tax rate is established by estimating anticipated tax rates in each of the countries where we earn taxable income as adjusted for known differences as well as our ability to apply any jurisdictional tax losses to prior or future periods. See Note 12, "Income Taxes", to our unaudited consolidated financial statements for the six months ended September 30, 2013, included elsewhere in this quarterly report, for further detail on income taxes.

Net income. Net income was $3.6 million in YTD 2014 as compared to $13.6 million in YTD 2013, a decrease of $10.0 million, which was primarily attributable to the acceleration of debt issuance costs and the loss on retirement of debt related to the redemption of our senior secured notes, which resulted in $19.5 million of expenses recognized in the first quarter of fiscal 2014. In YTD 2014 our gross profit improved $0.4 million due to increased revenue. We experienced an increase of $3.8 million from our marketing, general and administrative and engineering costs (including stock compensation). Interest expense, net increased $13.7 million as a result of transaction expenses associated with the full redemption of our senior secured notes. The increases in marketing, general and administrative and engineering costs (including stock compensation) and interest expense were offset by a decrease of income tax expense of $7.5 million attributable to lower pre-tax net income, the release of liabilities for uncertain tax positions and the adoption of a permanent reinvestment of foreign earnings position.

Contractual Obligations and Contingencies

Contractual Obligations. The following table summarizes our significant contractual payment obligations as of September 30, 2013 and the effect such obligations are expected to have on our liquidity position assuming all obligations reach maturity.

		Payment due by period (dollars in thousands)			
	TOTAL	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Variable rate term loan(1)	$128,250	$13,500	$30,375	$84,375	$—
Interest payments on variable rate term loan(2)	15,893	4,480	7,457	3,956	—
Operating lease obligations(3)	9,194	2,464	3,505	1,590	1,635
Obligations in settlement of the CHS Transactions(4)	3,144	3,144	—	—	—
Raw material supply agreement(5)	1,376	1,376	—	—	—
Information technology services agreements(6)	4,315	2,357	1,955	3	—
Total	$162,172	$27,321	$43,292	$89,924	$1,635

---

(1) Consists of monthly principal payments of $1,125 through March 31, 2016; increasing to $1,688 through maturity with a lump-sum payment of $54,000 due April 19, 2018.

(2) Consists of estimated future interest payments at an interest rate of 3.62%, based on our interest rate swap agreement effective July 31, 2013.

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

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

(5) Represents the future committed supply purchases of nickel alloy tubing, a raw material used in our manufacturing process. We have six months left on our commitment to take delivery of the remaining pieces of nickel alloy tubing, at a fixed price.

(6) 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 and disputes that arise from time to time in the ordinary course of doing business. Some of these proceedings may result in fines, penalties or judgments being assessed against us, which may or may not be settled prior to legal proceedings being instituted, and which may result in losses in excess of accrued liabilities. For a discussion of contingencies that may adversely affect our results of operations, see Note 10, “Commitments and Contingencies” to our unaudited condensed consolidated financial statements contained elsewhere in this quarterly report. We have considered these proceedings and disputes in determining the necessity of any reserves for losses that are probable and reasonably estimable. Our recorded reserves are based on estimates developed with consideration given to the potential merits of claims or quantification of any performance obligations. In doing so, we take into account our history of claims, the limitations of any insurance coverage, advice from outside counsel, the possible range of outcomes to such claims and obligations and their associated financial impact (if known and reasonably estimable) and management’s strategy with regard to the settlement or defense of such claims and obligations. While the ultimate outcome of those claims, lawsuits or performance obligations cannot be predicted with certainty, we believe, based on our understanding of the facts of these claims and performance obligations, that adequate provisions have been recorded in the accounts where required. In addition, we do

21

---

not believe that the outcome of any of these proceedings would have a significant adverse effect on our financial position, long-term results of operations or cash flows. It is possible, however, that charges related to these matters could be significant to our results of operations or cash flows in any one accounting period.

Notice of Tax Dispute with the Canada Revenue Agency. On June 13, 2011, we received notice from the Canada Revenue Agency, which we refer to as the "Agency", advising us that they disagree with the tax treatment we proposed with respect to certain asset transfers that were completed in August 2007 by our predecessor owners. During fiscal 2013, we were informed by the Agency that their initial audit was concluded but they intended to make an assessment under Canada's General Anti Avoidance Rule. Under this rule, the Agency may assess a withholding tax on dividends deemed to have been made on loans made to our Canadian subsidiary during 2007. Such assessment could be $3.0 million plus penalties and interest. At September 30, 2013, we have not recorded a tax liability reserve due for this matter with the Agency as we consider it more likely than not that our tax position will be fully sustained. While we intend to vigorously contest any assessment the Agency may make against us in this matter, we expect that any liability will be covered under an indemnity agreement with the predecessor owners.

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. At September 30, 2013, we had in place standby letters of credit, bank guarantees and performance bonds totaling $15.4 million to support our various customer contracts. Our Indian subsidiary also has $3.7 million in customs bonds outstanding.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and funds available under our revolving credit facility and other revolving lines of credit. Our primary liquidity needs are to finance our working capital, capital expenditures and debt service needs.

Cash and cash equivalents. At September 30, 2013, we had $53.4 million in cash and cash equivalents. We maintain cash and cash equivalents at various financial institutions located in many countries throughout the world. Approximately $16.6 million, or 31% of these amounts were held in domestic accounts with various institutions and approximately $36.8 million, or 69%, of these amounts were held in accounts outside of the United States with various financial institutions.

Credit facility and senior secured notes.

See Note 9, “Long-Term Debt—Revolving Credit Facility and Senior Secured Debt” to our unaudited interim condensed consolidated financial statements and accompanying notes thereto included above in Item 1. Financial Statements (Unaudited) of this quarterly report for information on our revolving credit facility and senior secured debt, which is hereby incorporated by reference into this Item 2. At September 30, 2013, we had no borrowings under our revolving line of credit. From time to time, we may choose to utilize our revolving line of credit to fund operations or investments despite having cash available within our consolidated group in light of the cost, timing and other business considerations.

As of September 30, 2013, we had $128.3 million outstanding on our variable rate term loan. The amended and restated credit agreement requires monthly principal payments of $1.1 million through March 31, 2016. Principal payments increase to $1.7 million through the remaining loan period with a lump-sum payment of $54.0 million due in April of 2018.

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

During the first quarter of fiscal 2014 and in connection with the refinancing of our senior secured notes, we estimate that domestic U.S. cash flow will be able to service our future debt obligations. We adopted a permanent reinvestment position whereby we expect to reinvest our foreign earnings for most of our foreign subsidiaries and do not expect to repatriate future earnings generated by our foreign operations. As a result of this policy change, we will no longer accrue a tax liability in anticipation of future dividends from our foreign subsidiaries. This policy change resulted in the lowering of our estimated effective tax rate from 35.3% of pretax income in YTD 2013 to an effective rate of 26.7%, before discrete events, for YTD 2014.

Future capital requirements. Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our revolving credit facility, will be adequate to meet our liquidity needs for the next 12 months. We cannot assure you, however, that our business will generate sufficient cash flow from

22

operations or that future borrowing 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 the variable rate term loan or our credit facility, on commercially reasonable terms or at all.

Net cash provided by operating activities totaled $17.1 million for YTD 2014, compared to $13.8 million provided in YTD 2013, an increase of $3.2 million. Net income was $3.6 million in YTD 2014, whereas YTD 2013 had net income of $13.6 million, a decrease of $10.0 million. The decrease of net income in YTD 2014 was substantially the result of $15.5 million of call premiums paid for the redemption of our senior notes. This use of cash is added back to operating activities and reduced from financing activities to more accurately reflect cash provided by operations in YTD 2014. When adjusting for the $15.5 million premium on the redemption of our senior secured notes, our net income would have represented an increase of $5.5 million. Non-cash reconciling items such as depreciation and amortization, amortization of debt costs, stock compensation expense and changes in deferred taxes amounted to a source of cash of $6.4 million and $7.1 million in YTD 2014 and YTD 2013, respectively, a decrease of $0.7 million. In both periods our assets increased representing a use of cash of $3.5 million and $8.3 million in YTD 2014 and YTD 2013, respectively, an improvement of $4.8 million. During YTD 2014, our combined balances of accrued liabilities and payables decreased, representing a use of cash of $4.3 million and whereby in YTD 2013 accrued liabilities and payables increased, resulted in a source of cash $0.8 million, resulting in a decrease of cash of $5.1 million. The comparative change in our income tax payable balance represented a comparative use of cash of $1.3 million in YTD 2014.

Net cash used in investing activities totaled $1.6 million for YTD 2014, compared to $3.0 million used in YTD 2013. Substantially all of the cash used in investing activities related to capital expenditures in both periods.

Net cash used in financing activities totaled $5.8 million used in YTD 2014 and $15.8 million used in YTD 2013 reflecting a decrease in the use of cash of $10.0 million. In YTD 2014, we paid $15.5 million in prepayment call premiums in connection with the $118.1 million redemption of our senior secured notes. This was accomplished by the borrowing of $135.0 million from a group of banks under a term loan. Net financing activities in YTD 2014 are reflective of the $6.8 million loan payments made on the term loan. In addition during YTD 2014, we received $1.3 million from stock option exercises. In YTD 2013, we received net proceeds on stock options exercised of $3.3 million plus a tax benefit of $2.6 million related to the tax deduction for stock option exercises in excess of the GAAP stock based compensation expense. In YTD 2013, we used cash to redeem $21.6 million in aggregate principal of our senior secured notes and related prepayment premiums.

Off-Balance Sheet Arrangements

As of September 30, 2013, we do not have any off balance sheet arrangements. In addition, we do not have any interest in entities referred to as variable interest entities, which includes special purposes entities and other structured finance entities.

Effect of Inflation

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

Critical Accounting Polices

See Part I, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013 for a discussion of the Company’s critical accounting policies and estimates.

Recent Accounting Pronouncements

See Note 1, “Basis of Presentation and Accounting Policy Information” to our unaudited interim condensed consolidated financial statements and accompanying notes thereto included above in Item 1. Financial Statements (Unaudited) of this quarterly report for information on recent accounting pronouncements, which is hereby incorporated by reference into this Item 2.

23

24

Explanation of Responses:

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposures are 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 68% of our YTD 2014 consolidated revenue was generated by sales from our non-U.S. subsidiaries. Our non-U.S. subsidiaries generally sell their products and services in the local currency, but obtain a significant amount of their products from our facilities located in another country, primarily the United States, Canada or Europe. Significant changes in the relevant exchange rates could adversely affect our margins on foreign sales of products. Our non-U.S. subsidiaries incur most of their expenses (other than intercompany expenses) in their local functional currency. These currencies include the Canadian Dollar, Euro, British Pound, Russian Ruble, Australian Dollar, South Korean Won, Chinese Renminbi, Indian Rupee, Mexican Peso and Japanese Yen.

During YTD 2014, 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 decrease in net income of $1.0 million for YTD 2014. Conversely, a 10% depreciation of the U.S. Dollar relative to the Canadian Dollar would result in an increase in net income of $1.3 million for YTD 2014. A 10% appreciation of the U.S. Dollar relative to the Euro would result in a decrease in net income of $0.2 million for YTD 2014. Conversely, a 10% depreciation of the U.S. Dollar relative to the Euro would result in an increase in net income of $0.2 million for YTD 2014.

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 net impact of foreign currency transactions on our condensed consolidated statements of operations was a loss of $0.2 million and a gain of $0.1 million in YTD 2014 and 2013, respectively.

As of September 30, 2013, we had approximately $9.7 million in notional forward contracts to purchase foreign currencies on a pre-determined future date. These forward contracts were in place to offset in part the foreign currency exchange risk to intercompany payables due from our foreign operations to be settled in U.S. Dollars. See Note 2, “Fair Value Measurements” to our unaudited interim condensed financial statements and accompanying notes thereto included above in Item 1. Financial Statements (Unaudited) of this quarterly report for further information regarding our foreign currency forward contracts, as described below.

Because our consolidated financial results are reported in U.S. Dollars, and we generate a substantial amount of our sales and earnings in other currencies, the translation of those results into U.S. Dollars can result in a significant decrease in the amount of those sales and earnings. In addition, fluctuations in currencies relative to the U.S. Dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations. For YTD 2014, we estimate that our sales were negatively affected by $1.3 million as compared to foreign exchange translation rates that were in effect in YTD 2013. The negative impact was primarily attributed to the appreciation of the U.S. Dollar relative to the Canadian Dollar. 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 condensed consolidated balance sheets. The unrealized effect of foreign currency translation was a gain of $0.5 million in YTD 2014, compared to a loss of $36.0 thousand in YTD 2013. Currency translation gains or losses are reported as part of comprehensive income or loss which is after net income in the condensed consolidated statements of comprehensive income (unaudited). As discussed above, foreign currency transactions gains and losses are the result of the settlement of payables and receivables in foreign currency. These gains or losses are included in net income or loss as part of miscellaneous income in the condensed consolidated statements of comprehensive income (unaudited).

Interest rate risk and foreign currency risk relating to debt. The interest rate for the variable rate term loan was 2.69% as of September 30, 2013. During the three months ended June 30, 2013, we entered into an interest rate swap agreement which became effective as of July 31, 2013. Based on the terms of the agreement we expect our interest rate to be fixed at 3.62% for the life of the loan. Borrowings on our revolving credit facility will incur interest expense that is variable in relation to the LIBOR rate. At September 30, 2013, the interest rate on amounts outstanding on our revolving credit facility would have been approximately 2.69%, had there been any borrowings outstanding. During the six months ended September 30, 2013, we did not draw on our revolving credit facility. Based on historical balances on our revolving credit

25

---

facility, we do not anticipate that a one percent increase or decrease in our interest rate would have a significant effect on our operations. We cannot provide assurance that historical borrowings will be reflective of our future use of the revolving credit facility.

As of September 30, 2013, we had $128.3 million of outstanding principal on our variable rate LIBOR-based term loan. Based on the outstanding borrowings, a 1% change in the interest rate could result in a $1.2 million increase or decrease in our annual interest expense. Although we cannot provide assurance, we believe that the increase or decrease in interest rates will be largely offset by gains or losses from our variable to fixed interest rate swap.

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 4. Controls and Procedures

Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including its Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the “Exchange Act”) as of the end of the period covered by this quarterly report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, these disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurances that the objectives of the control system are met. The design of a control system reflects resource constraints, and the benefits of controls must be considered relative to their costs. Because there are inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of error or fraud, if any, within our company have been or will be detected.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes from the legal proceedings previously disclosed in Item 1 of our Annual Report on Form 10-K for the year ended March 31, 2013 filed with the SEC on June 10, 2013.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2013 filed with the SEC on June 10, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of our equity securities during the three months ended September 30, 2013.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index on the page immediately following the signature page hereto for a list of exhibits filed as part of this quarterly report, which Exhibit Index is incorporated herein by reference.

SIGNATURE

Pursuant to the requirements 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.

	THERMON GROUP HOLDINGS, INC. (registrant)	
Date: November 7, 2013	By:	/s/ Jay Peterson
	Name:	Jay Peterson
	Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

28

EXHIBIT INDEX

Exhibit Number	Description
10.1	Amended and 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)**
31.1	Certification of Rodney Bingham, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Jay Peterson, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Rodney Bingham, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Jay Peterson, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements

* Filed herewith.

** Management contract and compensatory plan or arrangement.

29