Thermon Group Holdings, Inc.
Form 10-Q
February 14, 2013

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

FORM 10-Q

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

For the quarterly period ended December 31, 2012

OR

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

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

Commission File Number: 333-168915-05 (Thermon Holding Corp.)

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

Delaware (Thermon Group Holdings, Inc.) Delaware (Thermon Holding Corp.)	27-2228185 (Thermon Group Holdings, Inc.) 26-0249310 (Thermon Holding Corp.)
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

(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.
Thermon Group Holdings, Inc. x Yes o No Thermon Holding Corp. o Yes x No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

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

Thermon Group Holdings, Inc.

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

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Thermon Holding Corp.

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

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

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

As of February 11, 2013, each registrant had the following number of shares of common stock outstanding:

Thermon Group Holdings, Inc.: 31,139,628 shares, par value $0.001 per share.

Thermon Holding Corp.: 100,000 shares, par value $0.001 per share. Thermon Group Holdings, Inc. is the sole stockholder of Thermon Holding Corp. common stock.

Thermon Holding Corp. meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form with the reduced disclosure format.

EXPLANATORY NOTE

This quarterly report ("this quarterly report") combines the Quarterly Reports on Form 10-Q for the quarter ended December 31, 2012 of Thermon Group Holdings, Inc. and Thermon Holding Corp.

Unless stated otherwise or the context otherwise requires, references in this quarterly report to:

- "TGH" mean Thermon Group Holdings, Inc., a Delaware corporation;
- "THC" mean Thermon Holding Corp., a Delaware corporation; and
- "we," "our," "us" or "the Company" mean TGH, THC and their consolidated subsidiaries taken together as one company.

TGH was incorporated in Delaware in March 2010 in connection with the acquisition by an affiliate of CHS Capital LLC, or CHS, of a majority interest in us on April 30, 2010, which we refer to, together with certain transactions related to such acquisition described below, as the CHS Transactions. TGH is the sole stockholder of THC.

THC is a direct wholly-owned subsidiary of TGH and was incorporated in Delaware in 2007 in connection with the acquisition by an affiliate of the Audax Group private equity firm, or Audax, of a majority interest in us in August 2007, which we refer to as the Audax Transaction.

TGH is a holding company that conducts all of its business through THC and its subsidiaries. In May 2011, TGH completed an initial public offering (or "IPO") of its common stock. In the aggregate, 10,650,000 shares of TGH common stock were sold in the IPO at a price to the public of $12.00 per share. TGH's common stock, which we refer to as our common stock, is listed on the New York Stock Exchange under the symbol "THR."

THC owns 100% of the outstanding shares of common stock of Thermon Industries, Inc. ("TII"), which in connection with the CHS Transactions in April 2010, issued $210,000,000 aggregate principal amount of 9.500% Senior Secured Notes due 2017, which have been registered with the Securities and Exchange Commission (or "SEC") under the Securities Act of 1933, as amended (or the "Securities Act"), and which we refer to as our senior secured notes. THC and the domestic subsidiaries of TII are guarantors of our senior secured notes.

We believe combining the Quarterly Reports on Form 10-Q of TGH and THC into this single report provides the following benefits:

- it enhances investors' understanding of TGH and THC by enabling investors to view our business as a whole in the same manner that management views and operates the business;
- it eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both TGH and THC; and
- it creates time and cost efficiencies for both companies through the preparation of one combined report instead of two separate reports.

In order to highlight the differences between TGH and THC, there are sections in this quarterly report that separately discuss TGH and THC, including separate financial statements and notes thereto and separate Exhibit 31 and Exhibit 32 certifications. In the sections that combine disclosure for TGH and THC (i.e., where the disclosure refers to the consolidated company) references to our actions or holdings relate to the actions or holdings of TGH and THC and their respective subsidiaries, as one consolidated company, unless otherwise indicated therein.

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

QUARTERLY REPORT
FOR THE QUARTER ENDED December 31, 2012

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Item 1 — Financial Statements of Thermon Group Holdings, Inc.
Condensed Consolidated Balance Sheets
(Dollars in Thousands, except share and per share data)

	December 31, 2012 (unaudited)	March 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$28,389	$21,468
Accounts receivable, net of allowance for doubtful accounts of $858 and $1,434 as of December 31, 2012 and March 31, 2012, respectively	55,899	50,037
Inventories, net	40,923	38,453
Costs and estimated earnings in excess of billings on uncompleted contracts	2,674	1,996
Income taxes receivable	5,070	5,193
Prepaid expenses and other current assets	7,099	6,853
Deferred income taxes	3,396	3,664
Total current assets	143,450	127,664
Property, plant and equipment, net	31,097	27,661
Goodwill	117,984	118,007
Intangible assets, net	136,320	144,801
Debt issuance costs, net	4,570	7,446
Total assets	$433,421	$425,579
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$24,156	$15,728
Accrued liabilities	15,057	22,442
Current portion of long term debt	—	21,000
Billings in excess of costs and estimated earnings on uncompleted contracts	2,178	2,446
Income taxes payable	2,385	1,374
Obligations due to settle the CHS Transactions	3,325	3,528
Total current liabilities	47,101	66,518
Long-term debt, net of current maturities	118,145	118,145
Deferred income taxes	43,073	45,999
Other noncurrent liabilities	2,702	2,437
Common stock: $.001 par value; 150,000,000 authorized; 31,110,662 and 30,208,084 shares issued and outstanding at December 31, 2012 and March 31, 2012, respectively	31	30
Preferred stock: $.001 par value; 10,000,000 authorized; no shares issued and outstanding	—	—
Additional paid in capital	200,808	191,998
Accumulated other comprehensive income	3,146	3,362
Retained earnings (accumulated deficit)	18,415	(2,910)
Shareholders' equity	222,400	192,480
Total liabilities and shareholders' equity	$433,421	$425,579

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

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Thermon Group Holdings, Inc.

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

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Sales	$76,750	$69,197	$211,951	$202,483
Cost of sales	41,799	35,506	111,022	104,852
Gross profit	34,951	33,691	100,929	97,631
Operating expenses:				
Marketing, general and administrative and engineering	16,885	15,300	47,394	59,603
Amortization of intangible assets	2,813	2,809	8,405	8,572
Income from operations	15,253	15,582	45,130	29,456
Other income/(expenses):				
Interest income	36	72	93	239
Interest expense	(3,116)	(4,203)	(12,176)	(16,023)
Loss on retirement of senior secured notes	—	(229)	—	(3,195)
Miscellaneous income (expense)	(274)	(215)	(137)	(1,402)
Income before provision for income taxes	11,899	11,007	32,910	9,075
Income tax expense	4,161	4,074	11,585	3,294
Net income	$7,738	$6,933	$21,325	$5,781
Comprehensive income (loss):				
Net income	$7,738	$6,933	$21,325	$5,781
Foreign currency translation adjustment	(180)	113	(216)	(11,017)
Comprehensive income (loss)	$7,558	$7,046	$21,109	$(5,236)
Income per common share:				
Basic	$0.25	$0.23	$0.70	$0.20
Diluted	0.24	0.22	0.67	0.19
Weighted-average shares used in computing net income per common share:				
Basic	30,947,064	29,586,956	30,672,803	28,937,292
Diluted	31,871,097	31,216,493	31,725,724	30,480,160

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

Thermon Group Holdings, Inc.

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

	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Operating activities		
Net income	$21,325	$5,781
Adjustment to reconcile net income to net cash (used in), provided by operating activities:		
Depreciation and amortization	10,306	10,623
Amortization of debt costs	3,124	4,100
Stock compensation expense	869	6,457
Benefit for deferred income taxes	(2,975)	(175)
Premiums paid on redemptions, included as financing activities	—	3,825
Changes in operating assets and liabilities:		
Accounts receivable	(5,902)	(8,209)
Inventories	(2,811)	(10,413)
Costs and estimated earnings in excess of billings on uncompleted contracts	(356)	(591)
Other current and noncurrent assets	371	1,013
Accounts payable	8,375	4,904
Accrued liabilities and noncurrent liabilities	(6,928)	(11,488)
Income taxes payable	746	(12,308)
Net cash (used in) provided by operating activities	26,144	(6,481)
Investing activities		
Purchases of property, plant and equipment	(5,245)	(6,179)
Cash paid for Thermon Holding Corp.	(203)	(663)
Net cash used in investing activities	(5,448)	(6,842)
Financing activities		
Payments on senior secured notes	(21,000)	(70,855)
Proceeds from revolving line of credit	—	9,000
Payments on revolving lines of credit and long term debt	—	(2,063)
Issuance costs associated with revolving line of credit	(248)	—
Capital contributions	—	48,459
Proceeds from exercise of stock options	4,571	1,579
Benefit from excess tax deduction from option exercises	3,369	—
Premium paid on retirement of senior secured notes	(630)	(3,825)
Net cash (used in) financing activities	(13,938)	(17,705)
Effect of exchange rate changes on cash and cash equivalents	163	(462)
Change in cash and cash equivalents	6,921	(31,490)
Cash and cash equivalents at beginning of period	21,468	51,266
Cash and cash equivalents at end of period	$28,389	$19,776

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
On April 30, 2010, a group of investors led by entities affiliated with CHS Capital LLC ("CHS") and two other private equity firms (together with CHS, our "private equity sponsors") acquired a controlling interest in Thermon Holding Corp. and its subsidiaries from Thermon Holdings, LLC ("Predecessor") for approximately $321,500 in a transaction that was financed by approximately $129,252 of equity investments by our private equity sponsors and certain members of our current and former management team (collectively, the "management investors") and $210,000 of debt raised in an exempt Rule 144A senior secured note offering to qualified institutional investors (collectively, the "CHS Transactions"). The proceeds from the equity investments and debt financing were used both to finance the acquisition and pay related transaction costs. As a result of the CHS Transactions, Thermon Group Holdings, Inc. became the ultimate parent of Thermon Holding Corp. Thermon Group Holdings, Inc. ("TGH") and its direct and indirect subsidiaries are referred to collectively as "we", "our", the "Company" or "Successor" herein.
In the CHS Transactions, the senior secured notes were issued by Thermon Finance, Inc., which immediately after the closing of the CHS Transactions was merged into our wholly-owned subsidiary Thermon Industries, Inc.
The CHS Transactions were accounted for as a purchase combination. The purchase price was allocated to the assets and liabilities acquired based on their estimated fair values. While the Company takes responsibility for the allocation of assets acquired and liabilities assumed, it consulted with an independent third party to assist with the appraisal process.
Pushdown accounting was employed to reflect the purchase price paid by our new owner.
The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of TGH for the year ended March 31, 2012. In our opinion, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly our financial position at December 31, 2012 and March 31, 2012, and the results of our operations for the three and nine months ended December 31, 2012 and 2011. Certain reclassifications have been made to the prior period presentation of cash flows to conform to the current period presentation. Specifically, we have provided further detail to the condensed consolidated statement of cash flows related to premiums paid on redemptions included within cash used in operating activities. The reclassification did not change total cash used in operating activities.
Use of Estimates
GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. While our management has based their assumptions and estimates on the facts and circumstances existing at December 31, 2012, actual results could differ from those estimates and affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements. The operating results for the three and nine month period ended December 31, 2012 are not necessarily indicative of the results that may be achieved for the fiscal year ending March 31, 2013.

Corrections of classification errors in previously reported Condensed Consolidated Statement of Comprehensive Income (Loss)

During the third quarter of fiscal 2013, we identified a classification error in our consolidated statements of operations and comprehensive income for all previously reported periods. We determined that freight charges that were invoiced to customers had been recorded as a reduction to cost of sales instead of as additional sales. The result of this error was an understatement of sales and cost of sales of $313 for the three months ended September 30, 2012, $317 for the three months ended June 30, 2012, $360 for the three months ended December 31, 2011, $328 for the three months ended September 30, 2011 and $317 for the three months ended June 30, 2011. The classification errors had no effect on the reported gross profit, income from operations or net income and also had no effect on the consolidated balance sheet, the consolidated statement of cash flows or the consolidated statement of shareholders' equity.

Though the correction of the classification errors had no effect on our gross profit, it did result in a slight reduction to our previously reported gross margin as a percentage of revenue as follows below:

	Three Months Ended September 30, 2012	Three Months Ended June 30, 2012	Three Months Ended December 31, 2011	Three Months Ended September 30, 2011	Three Months Ended June 30, 2011
As reported:					
Sales	$67,358	$67,213	$68,837	$68,023	$64,618
Cost of sales	34,719	33,874	35,146	36,072	32,629
Gross profit	32,639	33,339	33,691	31,951	31,989
Gross profit as a percentage of revenue	48.5 %	49.6 %	48.9 %	47.0 %	49.5 %

	Three Months Ended September 30, 2012	Three Months Ended June 30, 2012	Three Months Ended December 31, 2011	Three Months Ended September 30, 2011	Three Months Ended June 30, 2011
As corrected:					
Sales	$67,671	$67,530	$69,197	$68,351	$64,935
Cost of sales	35,032	34,191	35,506	36,400	32,946
Gross profit	32,639	33,339	33,691	31,951	31,989
Gross profit as a percentage of revenue	48.2 %	49.4 %	48.7 %	46.7 %	49.3 %

Corrections of classification errors in previously reported Condensed Consolidated Statement of Cash Flows

During the second quarter of fiscal 2013, the Company identified a classification error in its cash flow statements for the year ended March 31, 2012 and for the three months ended June 30, 2012 related to the classification of excess income tax benefits associated with stock option exercises. Such benefits were improperly classified as a cash inflow from operating activities rather than a cash inflow from financing activities in the fourth quarter of fiscal year 2012 and in the first quarter of fiscal year 2013. The result of this error was an overstatement of cash flows from operating activities of $2,181 for the year ended March 31, 2012 and $1,243 in the first quarter of fiscal 2013. The classification errors had no effect on the reported changes in cash and cash equivalents, and also had no effect on the consolidated balance sheet, the consolidated statement of comprehensive income (loss), or the consolidated statement of stockholders' equity.

The reduction to cash flows from operating activities for the excess tax deduction has been properly reflected in the cash flow statement for the nine months ended December 31, 2012. Based on our evaluation of relevant quantitative and qualitative factors, we determined that the classification errors are immaterial to our prior period financial statements and did not warrant an amendment of our financial statements for fiscal 2012 or the first quarter of fiscal 2013. The Company plans to correct the comparative presentation of the prior periods in future filings as follows:

	Three Months Ended	Year Ended
	June 30, 2012	March 31, 2012
Cash flows from operating activities:		
As reported	$1,600	$5,293
Error correction	(1,243)	(2,181)
As adjusted	357	3,112
Cash flows from financing activities:		
As reported	$(6,949)	$(24,852)
Error correction	1,243	2,181
As adjusted	(5,706)	(22,671)

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") updated FASB ASC 820 that resulted in common fair value measurement and disclosure requirements in U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. We have adopted ASC 820 effective April 1, 2012, and it is being applied prospectively. In conjunction with adopting ASC 820, we disclosed the fair value of investments and the inputs used to estimate that fair value.

In June 2011, the FASB updated FASB ASC 220, Comprehensive Income (FASB ASC 220) that gives an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. We have adopted ASC 220 effective April 1, 2012 and in conjunction with adopting ASC 220, we chose to present the components of comprehensive income within a single statement of other comprehensive income or loss. ASC 220 affects presentation and disclosure only and therefore adoption did not affect our results as reported in our consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, which updated the guidance in ASC Topic 350, Intangibles – Goodwill and Other. The amendments in this Update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is not more likely than not that the indefinite-lived intangible asset is impaired. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The amendments are not expected to have an impact on our financial condition or results of operations.

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.

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- 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 December 31, 2012 and March 31, 2012, no assets or liabilities were valued using Level 3 criteria.

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

	December 31, 2012		March 31, 2012		
	Carrying Value	Fair Value	Carrying Value	Fair Value	Valuation Technique
Financial Liabilities					
Long-term debt	$118,145	$132,027	$139,145	$153,755	Level 2 - Market Approach

Our senior secured notes trade on over the counter markets. As the quoted price is only available through a dealer, the Company concluded the market is not active enough to be classified as a Level 1 valuation. However, the pricing is indirectly observable through dealers and has been classified as Level 2. Differences between carrying value and fair value are primarily due to instruments that provide fixed interest rates or contain fixed interest rate elements. Inherently, such instruments are subject to fluctuations in fair value due to movements in interest rates.

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 typically arise from intercompany transactions. Our forward contracts generally have terms of 90 days or less. We do not use forward contracts for trading purposes 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 largely offset gains and losses resulting from settlement of payments received from our foreign operations which are settled in U.S. dollars. All outstanding foreign currency forward contracts are marked to market at the end of the period with unrealized gains and losses included in miscellaneous expense. The fair value is determined by quoted prices from active foreign currency markets (Level 2 fair value). The balance sheet reflects unrealized gains within 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 December 31, 2012 and March 31, 2012, the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were as follows:

Notional amount of foreign exchange forward contracts by currency

	December 31, 2012	March 31, 2012
Russian Ruble	$5,904	$5,625
Euro	2,909	7,495
Canadian Dollar	1,219	1,309
South Korean Won	1,490	—
Other	497	—
Total notional amounts	$12,019	$14,429

The condensed consolidated balance sheets reflects unrealized gains and losses at their fair value as of the reporting date. Unrealized gains are reflected in accounts receivable, net and unrealized losses within accrued liabilities.

	December 31, 2012		March 31, 2012	
	Fair Value		Fair Value	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange contract forwards	$17	$67	$8	$196

Foreign currency gains or losses related to our forward contracts in the accompanying condensed consolidated statements of operations were a loss of $425 and a gain of $126 for the three months ended December 31, 2012 and 2011, respectively and a loss of $164 and a gain of $126 for the nine months ended December 31, 2012 and 2011, 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. Our net foreign currency gains and losses were losses of $242 and $213 for the three months ended December 31, 2012 and 2011, respectively, and losses of $181 and $1,456 for the nine months ended December 31, 2012 and 2011, respectively.

3. Earnings and Net Income per Common Share

Basic earnings per share (EPS) and net loss per share is computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted net loss per share is computed by dividing net loss by the weighted average number of common shares and common share equivalents outstanding (if dilutive) during each period. The number of common share equivalents, which includes options 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 target number of shares would be issued within the calculation of diluted net income per common share.

The reconciliation of the denominators used to calculate basic EPS and diluted EPS for the three and nine months ended December 31, 2012 and 2011, respectively, are as follows:

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Basic net income per common share				
Net income	$7,738	$6,933	$21,325	$5,781
Weighted-average common shares outstanding	30,947,064	29,586,956	30,672,803	28,937,292
Basic net income per common share	$0.25	$0.23	$0.70	$0.20
	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Diluted net income per common share				
Net income	$7,738	$6,933	$21,325	$5,781
Weighted-average common shares outstanding	30,947,064	29,586,956	30,672,803	28,937,292
Common share equivalents:				
Stock options issued	868,110	1,629,537	1,028,056	1,542,868
Restricted and performance stock units issued	55,923	—	24,865	—
Weighted average shares outstanding – dilutive	31,871,097	31,216,493	31,725,724	30,480,160
Diluted net income per common share	$0.24	$0.22	$0.67	$0.19