Risk Factors Comparison 2024-05-29 to 2023-05-25 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Risks Related to Our Business and Industry Macroeconomic and Industry Risks The markets we serve are subject to general economic conditions and cyclical demand, which could harm our business and lead to significant shifts in our results of operations from quarter to quarter that make it difficult to project long- term performance. Our operating results have been and may in the future be adversely affected by general economic conditions and the cyclical pattern of certain industries in which our customers and end- users operate. Demand for our products and services depends in large part upon the level of capital and maintenance expenditures by many of our customers and end- users, in particular those in the energy, chemical processing and power generation industries, and firms that design and construct facilities for these industries. These customers' expenditures historically have been cyclical in nature and vulnerable to economic downturns. Prolonged periods of little or no economic growth could ~~decrease demand for oil and gas which, in turn, could~~ result in lower demand for our products and a negative impact on our results of operations and cash flows. In addition, this historically cyclical demand may lead to significant shifts in our results of operations from quarter to quarter, which limits our ability to make accurate long- term predictions about our future performance. Suspensions and delays in large capital projects ~~within the energy sector~~, especially in the United States and Canada, have adversely affected our results of operations in recent years. Continued significant volatility in ~~the~~ **these** ~~energy industry~~ **capital projects** could further decrease demand for some of our products and services and adversely affect our business, financial condition and results of operations. A significant portion of our revenue historically has been generated by end- users in **connection with** ~~the oil and gas markets where we serve all three~~ -- **the development** ~~major categories~~ of **large capital projects** ~~customers in the petroleum industry- upstream exploration / production, midstream transportation and downstream refining~~ . The businesses of most of our **large capital project** customers ~~in the energy industry~~ are, to varying degrees, cyclical and historically have experienced periodic downturns. Profitability in the ~~energy industry~~ **development of large capital projects** is highly sensitive to supply and demand cycles and commodity prices, which historically have been volatile, and our customers in this industry have tended to delay large capital projects, including expensive maintenance and upgrades, during industry downturns. Customer project delays and cancellations may limit our ability to realize value from our backlog as expected and cause fluctuations in the timing or the amount of revenue earned and the profitability of our business in a particular period. In addition, such delays and cancellations may lead to significant fluctuations in results of operations from quarter to quarter, making it difficult to predict our financial performance on a quarterly basis. Demand for a significant portion of our products and services **in connection with large capital projects** depends upon the level of capital expenditure by companies in the energy industry, which depends, in part, on energy prices, which can be volatile. In recent years, we have experienced suspensions or delays in large capital projects within the energy sector, especially in the upstream exploration and production sector, and most notably in the ~~United States~~ **U. S.** and Canada. The impact on oil and gas commodity markets has further been impacted by the ~~Russo- Ukrainian war~~ **heightened level of global instability** . A sustained downturn in the capital expenditures of our customers, whether due to the significant volatility in the market price of oil and gas or demand for oil and gas products, may delay projects, decrease demand for our products and services, which, in turn, could have an adverse effect on our business, financial condition and results of operations. Such volatility, including the perception that it might continue, could also have a significant negative impact on the market price of our common stock. As a global business, we are exposed to economic, political and other risks in a number of countries, which could materially reduce our revenues, profitability, cash flows, or materially increase our liabilities. If we are unable to continue operating successfully in one or more foreign countries, it may have an adverse effect on our business and financial condition. For fiscal ~~2023~~ **2024** , approximately ~~56~~ **51** % of our revenues were generated outside of the ~~United States~~ **U. S.** , and approximately ~~21~~ **17** % **of our revenues** were generated outside of North America. One of our key growth strategies is to continue to expand our global footprint in emerging and high growth markets around the world; however, we may be unsuccessful in expanding our international business. Conducting business outside the U. S. subjects us to additional risks that may impact our revenues, profitability or cash flows or increase our liabilities, including the following: • changes in a specific country' s or region' s political, social or economic conditions, particularly in emerging markets; • changes in trade relations between the ~~United States~~ **U. S.** , Canada or Europe and foreign countries in which our customers and suppliers operate, including protectionist measures such as tariffs, import or export licensing requirements and trade sanctions; • restrictions on our ability to own or operate subsidiaries in, expand in and, if necessary, repatriate cash from, foreign jurisdictions; • exchange controls and currency restrictions; • the burden of complying with numerous and potentially conflicting legal requirements; • potentially negative consequences from changes in U. S. and foreign tax laws; • difficulty in staffing and managing (including ensuring compliance with internal policies and controls) geographically widespread operations; • different regulatory regimes controlling the protection of our intellectual property; • difficulty in the enforcement of contractual obligations in non- U. S. jurisdictions and the collection of accounts receivable from foreign accounts; and • transportation delays or interruptions. One or more of these factors could prevent us from successfully expanding our presence in international markets, could have an adverse effect on our revenues, profitability or cash flows or cause an increase in our liabilities. We may not succeed in developing and implementing policies and strategies to counter the foregoing factors effectively in each location where we do business. In addition, the imposition of trade restrictions, economic sanctions or embargoes by the ~~United States~~ **U. S.** or foreign governments could adversely affect our future sales and results of operations. The outbreak of a global pandemic, such as the pandemic caused by the novel strain of coronavirus (COVID- 19) and its variants, and the measures taken in response thereto could have an adverse effect on our business, results of operations and financial condition. Our business, financial condition, results of operations and cash flows may be adversely affected if a global pandemic, including the COVID- 19 pandemic and its variants, interferes with the ability of our employees, vendors and customers to perform our and their respective responsibilities and obligations relative to the conduct of our business. The COVID- 19 pandemic has caused significant volatility in the global economy. Public health problems resulting from COVID- 19 and safety measures instituted by governments and businesses to mitigate its spread, including travel restrictions and quarantines, have contributed to a general slowdown in the global economy, adversely impacted the businesses of our customers, suppliers and distribution partners, and disrupted our operations, and may continue to do so on an ongoing basis. For example, precautionary measures instituted by government authorities and sanitization procedures adopted to protect our employees in response to the COVID- 19 pandemic required us to temporarily suspend operations at certain of our sales offices and manufacturing facilities during the initial onset of the COVID- 19 pandemic in 2020. Changes in our operations around the world in response to a global pandemic or employee illnesses resulting therefrom may result in inefficiencies or delays, including delays in sales and product development efforts, delays to our strategic plans, and additional costs related to business continuity initiatives, that cannot be fully mitigated through succession planning, employees working remotely or teleconferencing technologies. In addition, changes in the operations of our suppliers in response to a pandemic may also result in disruptions in our manufacturing and supply arrangements caused by the loss or disruption of essential manufacturing and supply elements such as raw materials or other finished product components, transportation, workforce or other manufacturing and distribution capability. Finally, a pandemic could negatively affect our internal controls over financial reporting as a portion of our workforce is required to work from home, potentially requiring new processes, procedures, and controls. An economic downturn due to a global pandemic has in the past resulted, and could in the future result in reduced demand for our products and services. The severity and longevity of such pandemic may cause customers to suspend their decisions on using our products and / or services and give rise to significant changes in regional and global economic conditions that could delay or interfere with the capital spending of our customers, which could have a material impact on our consolidated business, results of operations and financial condition in our fiscal year ending March 31, ~~2023~~ **2024** and beyond. A global pandemic could also have the effect of heightening other risks described elsewhere in these Risk Factors. Business Risks If we are unable to successfully develop and improve our products and successfully implement new technologies in the markets that we serve and develop solutions for diversified new markets, our business and results of operations could be adversely affected. Our future success will depend upon our continued investment in research and development of new products, improvement and enhancement of our existing product offerings and our ability to continue to achieve new technological advances in the process heating industry. Our inability to continue to successfully develop and market new products or our inability to implement technological advances on a pace consistent with that of our competitors could adversely affect our business and results of operations. We may be unable to compete successfully in the highly competitive markets in which we operate. We operate in domestic and international markets and compete with highly competitive domestic and international manufacturers and service providers. The fragmented nature of the process heating industry and the similarly fragmented nature of the industrial process heating industry makes the market for our products and services highly competitive. A number of our direct and indirect competitors are major multinational corporations, some of which have substantially greater technical, financial and marketing resources, and additional competitors may enter these markets at any time. In addition, we compete against many regional and lower- cost manufacturers. Our competitors may develop products that are superior to our products, develop methods of more efficiently and effectively providing products and services, adapt more quickly than we do to new technologies or evolving customer requirements, or attempt to compete based primarily on price, localized expertise and local relationships. If we are unable to continue to differentiate our products and services or if we experience an increase in competition, it may cause us to lose market share or compel us to reduce prices to remain competitive, which could result in a reduction in our revenues and results of operations. Our backlog may fluctuate and a failure to deliver our backlog on time could affect our future sales, profitability and our relationships with our customers, and if we were to experience a material amount of modifications or cancellations of orders, our sales could be negatively impacted. Our backlog is comprised of the portion of firm signed purchase orders or other written contractual commitments received from customers that we have not recognized as revenue. Backlog may increase or decrease based on the addition of large multi- year projects and their subsequent completion. Backlog may also be favorably or unfavorably affected by foreign currency rate fluctuations. The dollar amount of backlog as of March 31, ~~2023~~ **2024 ,** was $ ~~163~~ **186** . ~~3~~ **1** million. The timing of our recognition of revenue out of our backlog is subject to a variety of factors that may cause delays, many of which, including fluctuations in our customers' delivery schedules, are beyond our control and difficult to forecast. Such delays may lead to significant fluctuations in results of operations from quarter to quarter, making it difficult to predict our financial performance on a quarterly basis. Further, while we have historically experienced few order cancellations and the amount of order cancellations has not been material compared to our total contract volume, if we were to experience a significant amount of cancellations of or reductions in purchase orders, it would reduce our backlog and, consequently, our future sales and results of operations. Our ability to meet customer delivery schedules for our backlog is dependent on a number of factors including, but not limited to, access to raw materials, an adequate and capable workforce, engineering expertise for certain projects, sufficient manufacturing capacity and, in some cases, our reliance on subcontractors. The availability of these factors may in some cases be subject to conditions outside of our control. A failure to deliver in accordance with our performance obligations may result in financial penalties and damage to existing customer relationships, our reputation and a loss of future bidding opportunities, which could cause the loss of future business and could negatively impact our future sales and results of operations. Our future revenue depends in part on our ability to bid and win new contracts. Our failure to effectively obtain future contracts could adversely affect our profitability. Our future revenue and overall results of operations require us to successfully bid on new contracts and, in particular, contracts for large projects, which are frequently subject to competitive bidding processes. Our revenue from major projects depends in part on the level of capital expenditures in our principal end markets, including the ~~energy~~ **general industrial** , chemical ~~processing~~ and **petrochemical, oil, gas,** power generation **, commercial, food and beverage, energy transition / decarbonization, rail and transit, and other** industries. If we fail to replace completed or canceled large projects with new order volume of the same magnitude, our backlog will decrease and our future revenue and financial results may be adversely affected. The number of such projects we win in any year fluctuates, and is dependent upon the number of projects available and our ability to bid successfully for such projects. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which is affected by a number of factors, such as competitive position, market conditions, financing arrangements and required governmental approvals. For example, a client may require us to provide a bond or letter of credit to protect the client should we fail to perform under the terms of the contract. If we fail to secure adequate financial arrangements or required governmental approvals, we may not be able to pursue particular projects, which could adversely affect our profitability. Our current or future indebtedness could impair our financial condition and reduce the funds available to us for other purposes. Our debt agreements impose certain operating and financial restrictions, with which failure to comply could result in an event of default that could adversely affect our results of operations. ~~We have substantial indebtedness.~~ At March 31, ~~2023~~ **2024** , we had $ ~~98~~ **172** . ~~4~~ **5** million of outstanding indebtedness. If our cash flows and capital resources are insufficient to fund the interest payments on our outstanding borrowings under our credit facility and other debt service obligations and keep us in compliance with the covenants under our debt agreements or to fund our other liquidity needs, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot guarantee that we would be able to (i) take any of these actions or that these actions would permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, which may impose significant operating and financial restrictions on us and could adversely affect our ability to finance our future operations or capital needs; (ii) obtain standby letters of credit, bank guarantees or performance bonds required to bid on or secure certain customer contracts; (iii) make strategic acquisitions or investments or enter into alliances; (iv) withstand a future downturn in our business or the economy in general; (v) engage in business activities, including future opportunities, that may be in our interest; and (vi) plan for or react to market conditions or otherwise execute our business strategies. If we cannot make scheduled payments on our debt, or if we breach any of the covenants in our debt agreements, we will be in default under such agreements and, as a result, our debt holders could declare all outstanding principal and interest to be due and payable, the lenders under our credit facility could terminate their commitments to lend us money and foreclose against the assets securing our borrowings, and we could be forced into bankruptcy or liquidation. In addition, we and certain of our subsidiaries may incur significant additional indebtedness, including additional secured indebtedness. Although the terms of our debt agreements contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and additional indebtedness incurred in compliance with these restrictions could be significant. Incurring additional indebtedness could increase the risks associated with our substantial indebtedness, which may impact our ability to meet our debt service obligations. Our gross margins depend, in part, on our revenue mix. Although large project revenues, which provide for an ongoing stream of future high- margin revenues, are critical to our success and growth, increased large project revenues can adversely affect our gross margin. Typically, both large project and maintenance customers require our products as well as our engineering and construction services. We tend to experience lower margins from our design optimization, engineering, installation and maintenance services than we do from sales of our heating cable, tubing bundle and control system products. We also tend to experience lower margins from our outsourced products, such as electrical switch gears and transformers, than we do from our manufactured products. Accordingly, our gross margins are impacted by our mix of products and services. Although our product mix varies from period to period due to a variety of factors, during fiscal year ended March 31, ~~2023~~ **2024** , ~~project- related~~ revenue **recognized over time** accounted for approximately ~~37~~ **39** % of our total revenue. Although ~~project~~ **over time** revenues, which provide for an ongoing stream of future high- margin maintenance revenues, are critical to our long- term success and growth, a revenue mix higher in lower- margin ~~project~~ **over time** revenues relative to historical levels could adversely affect our gross margins and results of operations. Our business strategy includes growth and product diversification through strategic acquisitions. These acquisitions and investments could be unsuccessful or consume significant resources, which could adversely affect our results of operations. Acquisitions and investments may involve cash expenditures, debt incurrence, operating losses and expenses that could have an adverse effect on our financial condition and results of operations. Acquisitions involve numerous other risks, including: • diversion of management time and attention from daily operations; • difficulties integrating acquired businesses, technologies and personnel into our business; • difficulties in realization of expected synergies and revenue creation or cross- selling opportunities; • potential loss of key employees, key contractual relationships or key customers of acquired companies or of us; and • assumption of the liabilities and exposure to unforeseen liabilities of acquired companies. We have limited experience in acquiring or integrating other businesses or making investments or undertaking joint ventures with others. It may be difficult for us to complete transactions quickly and to integrate acquired operations efficiently into our current business operations. It may also be difficult for us to identify suitable acquisition candidates, which may inhibit our growth rate. Any acquisitions or investments may ultimately harm our business or financial condition if they are unsuccessful and any acquisitions or investments ultimately result in impairment charges. We carry insurance against many potential liabilities, but our management of risk may leave us exposed to unidentified or unanticipated risks. Although we maintain insurance policies with respect to our related exposures, including certain casualty, property and business interruption programs, these policies contain deductibles, self- insured retentions and limits of coverage. In addition, we may not be able to continue to obtain insurance at commercially reasonable rates or may be faced with liabilities not covered by insurance, such as, but not limited to, environmental contamination, conflicts, or terrorist attacks. We estimate our liabilities for known claims and unpaid claims and expenses based on information available as well as projections for claims incurred but not reported. However, insurance liabilities, some of which are self- insured, are difficult to estimate due to various factors. If any of our insurance policies or programs are not effective in mitigating our risks, we may incur losses that are not covered by our insurance policies, that are subject to deductibles or that exceed our estimated accruals or our insurance policy limits, which could adversely impact our business and results of operations. Volatility in currency exchange rates may adversely affect our financial condition, results of operations or cash flows. We may not be able to effectively manage our exchange rate and / or currency transaction risks. Volatility in currency exchange rates may decrease our revenue and profitability, adversely affect our liquidity and impair our financial condition. While we have entered into hedging instruments to manage our exchange rate risk as it relates to certain intercompany balances with certain of our foreign subsidiaries, these hedging activities do not eliminate exchange rate risk, nor do they reduce risk associated with total foreign sales. In addition, we may not be able to obtain hedging instruments with respect to certain currencies. ~~For example, we were unable to renew our foreign currency hedges in respect of the Russian Ruble in light of the Russo- Ukrainian war and related sanctions imposed by the United States and European Union.~~ Our non- U. S. subsidiaries generally sell their products and services in the local currency, but obtain a significant amount of their products from our facilities located elsewhere, primarily the ~~United States~~ **U. S.** , Canada or Europe. In particular, significant fluctuations in the Canadian Dollar ~~, the Russian Ruble~~ , the Euro or the Pound Sterling against the U. S. Dollar could adversely affect our results of operations **. During fiscal 2024, the value of the U. S. Dollar overall strengthened in relation to the principal non- U. S. currencies from which we derive revenue, which negatively impacted revenue by $ 4. 3 million** . During fiscal 2023, the value of the U. S. Dollar overall strengthened in relation to the principal non- U. S. currencies from which we derive revenue, which negatively impacted revenue by $ 15. 1 ~~million. During fiscal 2022, the value of the U. S. Dollar overall weakened in relation to the principal non- U. S. currencies from which we derive revenue, which positively impacted revenue by $ 5. 9~~ million. Any further appreciation in the U. S. Dollar relative to such non- U. S. currencies could continue to have a significant negative impact on our results of operations in future periods. We also bid for certain foreign projects in U. S. Dollars or Euros. If the U. S. Dollar or Euro strengthen relative to the value of the local currency, we may be less competitive in bidding for those projects. In addition, currency variations can adversely affect margins on sales of our products in countries outside of the U. S. and margins on sales of products that include components obtained from suppliers located outside of the U. S. See Item 7A," Quantitative and Qualitative Disclosures about Market Risk" for additional information regarding our foreign currency exposure relating to operations. Because our consolidated financial results are reported in U. S. Dollars and we generate a substantial amount of our sales and earnings in other currencies, the translation of those results into U. S. Dollars can result in a significant decrease in the amount of those sales and earnings. Fluctuations in currencies relative to the U. S. Dollar may make it more difficult to perform period- to- period comparisons of our reported results of operations. In addition, the net asset values of foreign operations are adjusted upward and downward based on currency exchange rate fluctuations and are reported in our foreign currency translation adjustment as part of other comprehensive income in our consolidated statements of operations and comprehensive income ~~/ (loss)~~ . Additional liabilities related to taxes, potential tax adjustments or changes to tax policy in foreign jurisdictions could adversely impact our financial results, financial condition and cash flows. We are subject to tax and related obligations in the jurisdictions in which we operate or do business, including state, local, federal and foreign taxes. The taxing laws of the various jurisdictions in which we operate or do business often are complex and subject to varying interpretations. Tax authorities may challenge tax positions that we take or historically have taken, and may assess taxes where we have not made tax filings or may audit the tax filings we have made and assess additional taxes, as they have done from time to time. Some of these assessments may be substantial, and may involve the imposition of substantial penalties and interest. Significant judgment is required in evaluating our tax positions and in establishing appropriate reserves. The resolutions of our tax positions are unpredictable. The payment of substantial additional taxes, penalties or interest resulting from any assessments could adversely impact our results of operations, financial condition and cash flows. We have significant goodwill and other intangible assets and future impairment of our goodwill and other intangible assets could have a material negative impact on our financial results. We test goodwill and indefinite- life intangible assets for impairment on an annual basis, and more frequently if circumstances warrant, by comparing the estimated fair value of each of our reporting units to their respective carrying values. As of March 31, ~~2023~~ **2024** , our goodwill and other intangible assets balance was $ ~~313~~ **397** . ~~6~~ **9** million, which represented ~~48~~ **52** % of our total assets. Long- term declines in projected future cash flows could result in future goodwill and other intangible asset impairments. Because of the significance of our goodwill and other intangible assets, any future impairment of these assets could have a material adverse effect on our financial results. If we lose our senior management or other key employees or cannot successfully execute succession plans, our business may be adversely affected. Competition for qualified management and key technical and sales personnel in our industry is intense. Our ability to successfully operate and grow our global business and implement our strategies is largely dependent on the efforts, abilities and services of our senior management and other key employees. If we lose the services of our senior management or other key employees for any reason and are unable to timely find and secure qualified replacements with comparable experience in the industry, our business could be negatively affected. We rely heavily on trade secrets to gain a competitive advantage in the market and the unenforceability of our nondisclosure agreements may adversely affect our operations. The process heating industry is highly competitive and subject to the introduction of innovative techniques and services using new technologies. We rely significantly on maintaining the confidentiality of our trade secrets and other information related to our operations. Accordingly, we require all employees to sign a nondisclosure agreement to protect our trade secrets, business strategy and other proprietary information. If the provisions of these agreements are found unenforceable in any jurisdiction in which we operate, the disclosure of our proprietary information may place us at a competitive disadvantage. Even where the provisions are enforceable, the confidentiality clauses may not provide adequate protection of our trade secrets and proprietary information in every such jurisdiction and our trade secrets and proprietary information could be compromised as a result. Intellectual property challenges may hinder our ability to develop, engineer and market our products, and we may incur significant costs in our efforts to successfully avoid, manage, defend and litigate intellectual property matters. Patents, non- compete agreements, proprietary technologies, trade secrets, customer relationships, trademarks, trade names and brand names are important to our business. Intellectual property protection, however, may not preclude competitors from developing products similar to ours or from challenging our trade names or products. Our pending patent applications and our pending copyright and trademark registration applications may not be allowed or competitors may challenge the validity or scope of our patents, copyrights or trademarks. In addition, our patents, copyrights, trademarks and other intellectual property rights may not provide us a significant competitive advantage, particularly in those countries where the laws do not protect our intellectual property rights as fully as in the ~~United States~~ **U. S** . Participants in our markets may use challenges to intellectual property as a means to compete. Patent and trademark challenges increase our costs to develop, engineer and market our products. We may need to spend significant resources monitoring our intellectual property rights and we may or may not be able to detect infringement by third parties. If we fail to successfully enforce our intellectual property rights or register new patents, our competitive position could suffer, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, any dispute or litigation involving intellectual property could be costly and time- consuming due to the complexity and the uncertainty of intellectual property litigation. Our intellectual property portfolio may not be useful in asserting a counterclaim, or negotiating a license, in response to a claim of infringement or misappropriation. In addition, as a result of such claims, we may lose our rights to utilize critical technology, may be required to pay substantial damages or license fees with respect to the infringed rights or may be required to redesign our products at a substantial cost, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Operational Risks Breaches of our information technology systems could occur that materially damage business partner and customer relations and subject us to significant reputational, financial, legal and operational consequences. As a company we store company, customer, employee and business partner information, which may include, among other information, trade secrets, names, addresses, phone numbers, email addresses, tax identification numbers, payment account information and customer facility information. We could be subject to sophisticated and targeted attacks attempting to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, including via the introduction of computer viruses or malware and cyber- attacks. These attacks are constantly evolving in nature, increasing the efforts and controls required to prevent, detect and defend against them. We require user names and passwords as well as multi- factor authentication (" MFA") in order to access our information technology systems. These security measures are subject to potential third- party security breaches, employee error, malfeasance and faulty password management, among other limitations. Third parties may attempt to fraudulently induce employees or customers into disclosing user names, passwords or other sensitive information, which may in turn be used to access our information technology systems. We may not be able to anticipate, detect or recognize threats to our system or to implement effective preventive measures against all security breaches. If we were to experience a breach of our systems and were unable to protect sensitive data, such a breach could, among other things: • risk exposing our confidential manufacturing processes and other trade secreted information that may lead to new and increased entrants and competitors in our business or cause other damage to the business; • expose our customers' facilities and projects to increased safety and security risk; • materially damage business partner and customer relationships; • impact our reputation in the markets in which we compete for business; • adversely impact our financial results and expose us to potential risk of loss or litigation; and / or • require us to incur substantial costs or require us to change our business practices. A material disruption at any of our manufacturing facilities could adversely affect our financial performance and results of operations. If operations at any of our manufacturing facilities were to be disrupted as a result of significant equipment failures, natural disasters, pandemics, power outages, fires, explosions, terrorism, adverse weather conditions, labor disputes or other reasons, we may be unable to fill customer orders and meet customer demand for our products, which could adversely affect our financial performance and results of operations. For example, our marketing and research & development buildings, located on the same campus as our former corporate headquarters and primary manufacturing facility in San Marcos, Texas, were destroyed by a tornado in January 2007. In addition, during fiscal 2021 and 2022, precautionary measures instituted by government authorities in certain markets and sanitization procedures adopted to protect our employees in response to the COVID- 19 pandemic have required us to temporarily suspend operations at certain of our manufacturing facilities. Interruptions in production, in particular at our manufacturing facilities in the ~~United States~~ **U. S.** or Canada, at which we manufacture the majority of our products, could increase our costs and reduce our sales. Any interruption in production capability could require us to make substantial capital expenditures to fill customer orders, which could negatively affect our profitability and financial condition. We maintain property damage insurance that we believe to be adequate to provide for reconstruction of facilities and equipment, as well as business interruption insurance to mitigate losses resulting from any production interruption or shutdown caused by an insured loss. However, any recovery under our insurance policies may not offset the lost sales or increased costs that may be experienced during the disruption of operations, which could adversely affect our financial performance and results of operations. Our dependence on subcontractors and third- party suppliers could adversely affect our results of operations. We often rely on third- party subcontractors, suppliers and manufacturers to produce our products and complete our projects. To the extent we cannot engage subcontractors or acquire supplies or raw materials from third parties, our ability to produce our products or complete our projects in a timely fashion or at a profit may be impaired. If the amount we are required to pay for these goods and services exceeds the amount we have estimated in bidding for fixed- price contracts, we could experience losses on these contracts. In addition, if a subcontractor or supplier is unable to deliver its services or materials according to the negotiated contract terms for any reason, including the deterioration of its financial condition or over- commitment of its resources, we may be required to purchase the services or materials from another source at a higher price or, if unavailable, limit the availability of products critical to our operations. Such shortages or disruptions could be caused by factors beyond the control of our subcontractors, our suppliers or us, including inclement weather, natural disasters, conflicts, increased demand, problems in production or distribution, disruptions in third party logistics or transportation systems or the inability of our subcontractors or suppliers to obtain credit. These factors could be exacerbated by the impact of ~~COVID- 19 pandemic or~~ geopolitical instability **or pandemics** . This may reduce the profit we realize or result in a loss on a project for which the services or materials were needed or, if the product is unavailable, prevent us from accepting orders. We may lose money on fixed- price contracts, and we are exposed to liquidated damages charges and warranty claims in many of our customer contracts. We often agree to provide products and services under fixed- price contracts, including our turnkey solutions. Under these contracts, we are typically responsible for all cost overruns, other than the amount of any cost overruns resulting from requested changes in order specifications. Our actual costs and any gross profit realized on these fixed- price contracts could vary from the estimated costs on which these contracts were originally based. This may occur for various reasons, including errors in estimates or bidding, changes in availability and cost of labor and raw materials and unforeseen technical and logistical challenges, including with managing our geographically widespread operations and use of third party subcontractors, suppliers and manufacturers in many countries. These variations and the risks inherent in our projects may result in reduced profitability or losses on projects. Depending on the size of a project, variations from estimated contract performance could have a material adverse impact on our project revenue and operating results. In addition, many of our customer contracts, including fixed- price contracts, contain liquidated damages and warranty provisions for which we are responsible in the event that we fail to perform our obligations thereunder in a timely manner or our products or services fail to perform, in accordance with the agreed terms, conditions and standards. We extend credit to customers in conjunction with our performance under fixed- price contracts which subjects us to potential credit risks. We typically agree to allow our customers to defer payment on projects until certain milestones have been met or until the projects are substantially completed, and customers typically withhold some portion of amounts due to us as retainage. Our payment arrangements subject us to potential credit risk related to changes in business and economic factors affecting our customers, including material changes in our customers' revenues or cash flows. These credit risks may be exacerbated by the effects of the global pandemic. If we are unable to collect amounts owed to us, or retain amounts paid to us, our cash flows would be reduced, and we could experience losses if those amounts exceed current allowances. Any of these factors could adversely impact our business and results of operations. We may not achieve some or all of the expected benefits of our operational initiatives. In order to align our operational resources with our business strategies, operate more efficiently and control costs, we may periodically announce plans to restructure certain of our operations, such as consolidation of manufacturing facilities, transitions to cost- competitive regions and product line rationalizations. We may also undertake restructuring actions and workforce reductions. For example, ~~during fiscal 2021,~~ we enacted certain restructuring initiatives to ~~align~~ **streamline certain operations, reduce** our **manufacturing footprint, and position us** ~~current cost structure with the decline in demand~~ for **more profitable growth** ~~our products and services primarily due to COVID- 19 and supply / demand fluctuations in commodity prices~~ . Refer to Item 8, Financial Statements and Supplementary Data for more discussion. Risks associated with these actions include delays in execution, additional unexpected costs, realization of fewer than estimated productivity improvements and adverse effects on employee morale. If these risks materialize, we may not realize all or any of the anticipated benefits of such restructuring plans, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Unforeseen difficulties with expansions, relocations or consolidations of existing facilities could adversely affect our operations. From time to time we may decide to enter new markets, build or lease additional facilities, expand our existing facilities, relocate or consolidate one or more of our operations or exit a facility we may own or lease. Increased costs and production delays arising from the staffing, relocation, sublease, expansion or consolidation of our facilities could adversely affect our business and results of operations. Legal and Regulatory Risks Due to the nature of our business, we may be liable for damages based on product liability claims. We are also exposed to potential indemnity claims from customers for losses due to our work or if our employees are injured performing services. We face a risk of exposure to legal claims and costs of litigation in the event that the failure, use or misuse of our products results in, or is alleged to result in, death, bodily injury, property damage or economic loss. Although we maintain quality controls and procedures, we cannot be sure that our products will be free from defects. If any of our products prove to be defective, we may be required to replace the product. In addition, we may be required to recall or redesign such products, which could result in significant unexpected costs. Some of our products contain components manufactured by third parties, which may also have defects. In addition, if we are installing our products, we may be subject to claims that our installation has caused damage or loss. Our products are often installed in our customers' or end- users' complex and capital intensive facilities involved in inherently hazardous or dangerous industries, including energy, chemical processing and power generation, where the potential liability from risk of loss could be substantial. Although we currently maintain product liability coverage, which we believe is adequate for the continued operation of our business, we cannot be certain that this insurance coverage will continue to be available to us at a reasonable cost or, if available, will be adequate to cover any potential liabilities. With respect to components manufactured by third- party suppliers, the contractual indemnification that we seek from our third- party suppliers may be insufficient to cover claims made against us. In the event that we do not have adequate insurance or contractual indemnification, product liabilities and other claims could have a material adverse effect on our business, financial condition or results of operations. Under our customer contracts, we often indemnify our customers from damages and losses they incur due to our work or services performed by us, as well as for losses our customers incur due to any injury or loss of life suffered by any of our employees or our subcontractors' personnel occurring on our customer' s property. Substantial indemnity claims may exceed the amount of insurance we maintain and could have a material adverse effect on our reputation, business, financial condition or results of operations. We operate in many different jurisdictions and we could be adversely affected by violations of the U. S. Foreign Corrupt Practices Act and similar foreign anti- corruption laws. The U. S. Foreign Corrupt Practices Act (the " FCPA ") and similar foreign anti- corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to influence foreign government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage. Recent years have seen a substantial increase in the global enforcement of anti- corruption laws, with more frequent voluntary self- disclosures by companies, aggressive investigations and enforcement proceedings by both the DOJ and the SEC resulting in record fines and penalties, increased enforcement activity by non- U. S. regulators, and increases in criminal and civil proceedings brought against companies and individuals. Because many of our customers, sales channels and end- users are involved in infrastructure construction and energy production, they are often subject to increased scrutiny by regulators. Our internal policies mandate compliance with these anti- corruption laws. However, we operate in many parts of the world that are recognized as having governmental corruption problems to some degree and where strict compliance with anti- corruption laws may conflict with local customs and practices. Our continued operation and expansion outside the U. S., including in developing countries, could increase the risk of such violations in the future. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures always will protect us from unauthorized reckless or criminal acts committed by our employees or agents. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti- corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may result in severe criminal or civil sanctions, which could disrupt our business and result in adverse effects on our reputation, business, results of operations or financial condition. Our international operations and non- U. S. subsidiaries are subject to a variety of complex and continually changing laws and regulations and, in particular, export control regulations or sanctions. Due to the international scope of our operations, we are subject to a complex system of laws and regulations, including regulations issued by the U. S. Department of Justice (the " DOJ "), the SEC, the IRS, the U. S. Department of Treasury, the U. S. Department of State, Customs and Border Protection, Bureau of Industry and Security (" BIS "), Office of Anti- Boycott Compliance (" OAC ") and Office of Foreign Asset Control (" OFAC "), as well as the counterparts of these agencies in foreign countries. Since the commencement of the Russo- ~~Ukranian~~ **Ukrainian** war in 2022, many of these regulations have expanded significantly and become increasingly complex. While we believe we are in material compliance with these regulations and maintain programs intended to achieve compliance, we may currently or may in the future be in violation of these regulations. For example, in 2009, we entered into settlement agreements with BIS and OFAC, and in 2010, we entered into a settlement agreement with OAC, in each case with respect to matters we voluntarily disclosed to such agencies. Any alleged or actual violations of these regulations may subject us to government scrutiny, investigation and civil and criminal penalties and may limit our ability to export our products or provide services outside the U. S. Additionally, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted. In addition, our geographically widespread operations, coupled with our relatively smaller offices in many countries and our reliance on third party subcontractors, suppliers and manufacturers in the completion of our projects, make it more difficult to oversee and ensure that all our offices and employees comply with our internal policies and control procedures. We have experienced immaterial employee theft in the past, and we cannot assure you that we can ensure our employees compliance with our internal control policies and procedures. Changes in government administrative policy, including changes to existing trade agreements and government sanctions, could have a material adverse effect on us. As a result of changes to government administrative policy, there may be changes to existing trade agreements, greater restrictions on free trade generally, significant increases in tariffs on goods imported into the U. S., Canada or the European Union, particularly tariffs on products manufactured in China and Mexico, among other possible changes. Changes in social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently manufacture and sell products, and any resulting negative sentiments towards U. S. companies as a result of such changes, could have an adverse effect on our business, financial condition, results of operations and cash flows. ~~The current geopolitical instability in Russia and Ukraine and related sanctions by the U. S. and Canadian governments and European Union against certain companies and individuals may hinder our ability to conduct business with potential or existing customers and vendors in these countries and may otherwise adversely affect our global business and results of operations. We derived approximately 2 %, 5 %, and 8 % of our revenue from our subsidiary incorporated in Russia in the fiscal years ended March 31, 2023, 2022 and 2021, respectively. The Russo- Ukrainian war has negatively impacted our operations, sales, and future growth prospects in that region. The U. S., Canada, and European Union and other governments have imposed sanctions restricting companies from conducting business with specified Russian, Belarusian and Ukrainian individuals and companies. As a result of the continued impact of the Russo- Ukrainian war, including the sanctions related thereto, the Company commenced a strategic assessment of its operations in Russia, and, on January 31, 2023, the board of directors authorized the Company to withdraw from its operations in the Russian Federation, through a planned disposition of its Russian subsidiary. Further escalation of geopolitical tensions related to the war, including increased trade barriers or restrictions on global trade, could result in, among other things, cyberattacks, supply disruptions, lower customer demand, and changes to foreign exchange rates and financial markets, any of which may adversely affect our business and supply chain. We cannot provide assurance that current sanctions or potential future changes in sanctions will not have a material impact on our operations in the region or on our financial results. At March 31, 2023, backlog associated with our Russian affiliate was $ 12. 1 million. The Russo- Ukrainian war could also have the effect of heightening other risks described elsewhere in these Risk Factors.~~ We are subject to numerous environmental and health and safety laws and regulations, as well as potential environmental liabilities, which may require us to make substantial expenditures. Our operations and properties are subject to a variety of federal, state, local and foreign environmental laws and regulations, including those governing the discharge of pollutants into the air or water, the management and disposal of hazardous substances or wastes, the cleanup of contaminated sites and workplace health and safety. As an owner or operator of real property, or generator of waste, we could become subject to liability for environmental contamination, regardless of whether we caused such contamination. Certain environmental laws, including the Comprehensive Environmental Response, Compensation, and Liability Act, impose joint and several liability for cleanup costs, without regard to fault, on persons who have disposed of or released hazardous substances into the environment. In addition, we could become liable to third parties for damages resulting from the disposal or release of hazardous substances into the environment. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. From time to time, we could be subject to requests for information, notices of violation, and / or investigations initiated by environmental regulatory agencies relating to our operations and properties. Violations of environmental and health and safety laws can result in substantial penalties, civil and criminal sanctions, permit revocations, and facility shutdowns. Environmental and health and safety laws may change rapidly and have tended to become more stringent over time. As a result, we could incur costs for past, present, or future failure to comply with all environmental and health and safety laws and regulations. In addition, we could become subject to potential regulations concerning **the use of per- or polyfluoroalkyl substances (" PFAS"),** the emission of greenhouse gases or disclosure regarding such emissions, and while the effect of such future regulations cannot be determined at this time, they could require us to incur substantial costs in order to achieve and maintain compliance **. For example, European Union regulatory authorities and certain other governmental authorities are contemplating regulations to restrict and phase- out PFAS** . In the ordinary course of business, we may be held responsible for any environmental damages we may cause to our customers' premises. The effects of climate change and any related regulation of greenhouse gases could have a negative impact on our business. Governments around the world are increasingly focused on enacting laws and regulations regarding climate change and regulation of greenhouse gases. Lawmakers and regulators in the jurisdictions where we operate have proposed or enacted regulations requiring reporting of greenhouse gas emissions and the restriction thereof, including the SEC' s recent rule proposal for climate change disclosure, increased fuel efficiency standards, carbon taxes or cap and trade systems, restrictive permitting, and incentives for renewable energy. In addition, efforts have been made and continue to be made in the international community toward the adoption of international treaties or protocols that would address global climate change issues and impose reductions of hydrocarbon- based fuels, including plans developed in connection with the Paris climate conference in December 2015 and the Katowice climate conference in December 2018. Laws or regulations incentivizing or mandating the use of alternative energy sources such as wind power and solar energy have also been enacted in certain jurisdictions. Additionally, numerous large cities globally and several countries have adopted programs to mandate or incentivize the conversion from internal combustion engine powered vehicles to electric- powered vehicles and placed restrictions on non- public transportation. Such policies or other laws, regulations, treaties and international agreements related to greenhouse gases and climate change may negatively impact the price of oil relative to other energy sources, reduce demand for hydrocarbons, or otherwise unfavorably impact our customers in the oil, gas, power generation and petrochemical industries. To the extent our customers, particularly our energy and industrial customers, are subject to any of these or other similar proposed or newly enacted laws and regulations or impacted by the change in energy prices due to such laws and regulations, we are exposed to risks that the additional costs incurred by customers to comply with such laws and regulations or that the deterioration of customers' financial results as a result of changing energy prices could impact our customers' ability or desire to continue to operate at similar levels in certain jurisdictions as historically seen or as currently anticipated, which could negatively impact their demand for our products and services. These laws and regulations could also increase costs associated with our operations, including costs for raw materials and transportation and compliance with enhanced climate change- related disclosure requirements. The ultimate impact of greenhouse gas emissions- related agreements, legislation, disclosure requirements and related measures on our financial performance is highly uncertain because we are unable to predict with certainty, for a multitude of individual jurisdictions, the outcome of political decision- making processes and the variables and trade- offs that inevitably occur in connection with such processes. In addition to potential impacts on our business resulting from climate- change legislation or regulations, our business also could be negatively affected by climate- change related physical changes or changes in weather patterns. An increase in severe weather patterns could result in damages to or loss of our manufacturing facilities, impact our ability to conduct our operations and / or result in a disruption of our customers' operations. In addition, volatility in weather patterns could exacerbate the cyclicality of demand for our heating products. Risks Related to Ownership of Our Common Stock Our quarterly operating results may vary significantly, which could negatively impact the price of our common stock. Our quarterly results of operations have fluctuated in the past and will continue to fluctuate in the future. You should not rely on the results of any past quarter or quarters as an indication of future performance in our business operations or the price of our common stock. Factors that might cause our operating results to vary from quarter to quarter include, but are not limited to: • general economic conditions and cyclicality in the end markets we serve; • the effects of the ongoing COVID- 19 pandemic or other global pandemics, conflicts, or catastrophes; • future growth of energy and chemical processing capital investments; • a material disruption at any of our manufacturing facilities; • delays in our customers' projects for which our products are a component; • the timing of completion of large projects; • costs associated with regulatory compliance; • competition from various other sources providing similar heat tracing products and services, or other alternative technologies, to customers; and • the seasonality of demand for maintenance orders, which is typically highest during our second and third fiscal quarters. If our results of operations from quarter to quarter fail to meet the expectations of securities analysts and investors, the price of our common stock could be negatively impacted. The market price of our common stock may fluctuate significantly, and this may make it difficult for holders to resell our common stock when they want or at prices that they find attractive. The price of our common stock on the NYSE constantly changes. We expect that the market price of our common stock will continue to fluctuate. The market price of our common stock may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include, but are not limited to: • quarterly fluctuations in our operating results; • changes in investors' and analysts' perception of the business risks and conditions of our business or our competitors; • our ability to meet the earnings estimates and other performance expectations of financial analysts or investors; • unfavorable commentary or downgrades of our stock by equity research analysts; • the emergence of new sales channels in which we are unable to compete effectively; • disruption to our operations; • fluctuations in the stock prices of our peer companies or in stock markets in general; and • general economic or political conditions, including the effects of the COVID- 19 pandemic. In addition, in recent years, global equity markets have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating results and cash flows. Anti- takeover provisions contained in our charter and bylaws could impair a takeover attempt that our stockholders may find beneficial. Our second amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that could have the effect of rendering more difficult, or discouraging, an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions: • authorizing our board of directors, without further action by the stockholders, to issue blank check preferred stock; • limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting; • requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors; • authorizing our board of directors, without stockholder approval, to amend our amended and restated bylaws; • limiting the determination of the number of directors on our board of directors and the filling of vacancies or newly created seats on our board of directors to our board of directors then in office; and • subject to certain exceptions, limiting our ability to engage in certain business combinations with an" interested stockholder" for a three- year period following the time that the stockholder became an interested stockholder. These provisions, alone or together, could delay hostile takeovers and changes in control of the Company or changes in our management. Though we have opted out of the Delaware anti- takeover statute, our second amended and restated certificate of incorporation contains provisions that are similar to the Delaware anti- takeover statute, which may impair a takeover attempt that our stockholders may find beneficial. Any provision of our second amended and restated certificate of incorporation or amended and restated bylaws that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock. We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock. We do not expect to pay dividends on our common stock. Any future dividend payments are within the discretion of our board of directors or a duly authorized committee of the board of directors and will depend on, among other things, our results of operations, working capital requirements, capital expenditure requirements, financial condition, level of indebtedness, contractual restrictions with respect to payment of dividends, business opportunities, anticipated cash needs, provisions of applicable law and other factors that our board of directors may deem relevant. In particular, our credit facility limits our ability to pay dividends from cash generated from operations. We may not generate sufficient cash from operations in the future to pay dividends on our common stock. See Item 5," Market for Registrant' s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities- Dividend Policy."