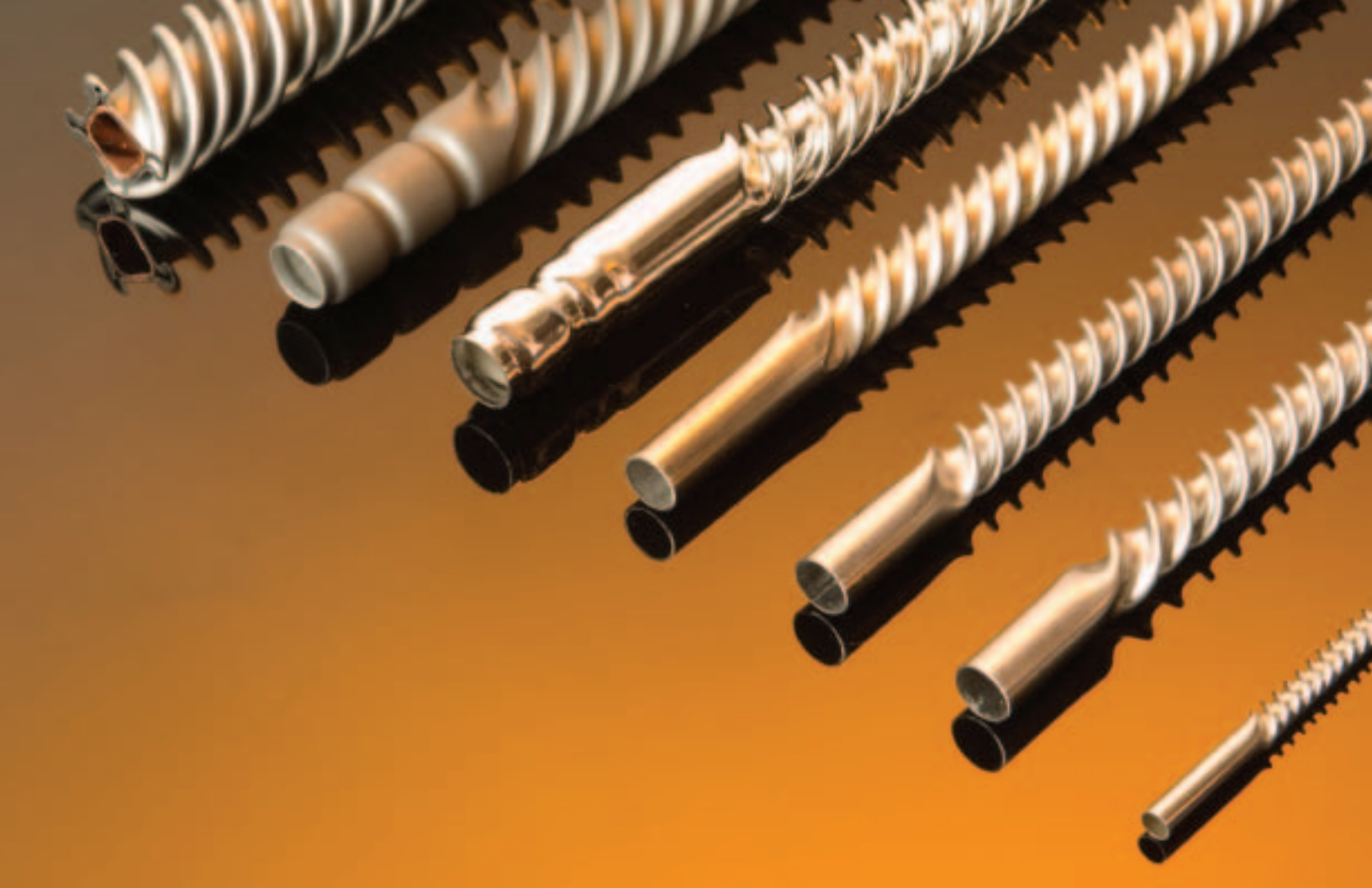


A World Leader in Enhanced Heat Transfer Technology

2006 ANNUAL REPORT





About Thermodynamics

THROUGH OUR TURBOTEC PRODUCTS PLC SUBSIDIARY, THERMODYNETICS IS A MANUFACTURER OF HIGH PERFORMANCE, HIGH QUALITY HEAT EXCHANGERS, FABRICATED METAL COMPONENTS AND FLEXIBLE CONNECTOR PRODUCTS FOR HEAT TRANSFER, TRANSPORTATION, AND PLUMBING APPLICATIONS. THE COMPANY MARKETS ITS TUBING PRODUCTS TO CUSTOMERS IN THE SPACE CONDITIONING, REFRIGERATION, AUTOMOTIVE, BIOMEDICAL, PLUMBING, APPLIANCE, WATER HEATING AND AEROSPACE INDUSTRIES. TURBOTEC IS QUOTED ON AIM (A MARKET OPERATED BY THE LONDON STOCK EXCHANGE) UNDER THE SYMBOL TRBO. THERMODYNETICS ALSO OWNS A NOMINAL INTEREST IN A PRIVATE BELGIUM COMPANY THAT IS ENGAGED IN THE NUTRACEUTICAL INDUSTRY THAT PROVIDES NATURAL, BIOACTIVE CHEMICAL COMPOUNDS THAT HAVE HEALTH PROMOTING, DISEASE PREVENTING OR MEDICINAL PROPERTIES.

FRONT COVER

CONDENSER / EVAPORATOR COAXIAL COILS FOR RESIDENTIAL AND COMMERCIAL HEATING AND COOLING APPLICATIONS



Robert A. Lerman
President and
Chief Executive Officer

< TRU-TWIST™ TUBES FOR HEAT EXCHANGER INNER TUBES AND FLEXIBLE CONNECTOR APPLICATIONS.

To Our Shareholders:

The 2006-year was a period of both challenge and of opportunity.

Thermodynetics began the year with two operating subsidiaries and ended with one. Vulcan Industries started the year by ramping up to handle a major automotive tubing contract and never quite achieved a stable operation nor positive cash generation. Accordingly it became prudent to close that operation, which was finalized in September 2005. The net result was a significant write off that impacted fiscal 2005 and 2006. We then concentrated our efforts on corporate and other subsidiary issues.

Turbotec Products continues to operate at an increasing pace. Business is strong and cash flow, earnings, along with revenues

are all increasing. Turbotec is included in our financial statements as a "continuing" operation while Vulcan is "discontinued."

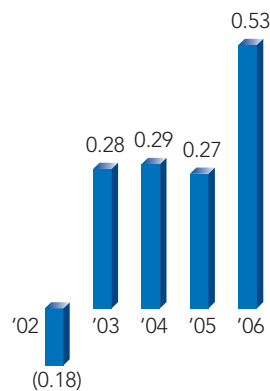
During the closure of the Vulcan operation, we initiated and then successfully concluded a search for new capital. As a result of a number of reasons, among them a desire to expand our corporate presence and Turbotec subsidiary's exposure in the outside world, the potential impact of the Sarbanes-Oxley Act on costs and operations, and the welcoming reception of our "story" overseas, we decided to pursue an initial public offering on the AIM (Alternative Investment Market) of the London Stock Exchange. I am pleased to report that effective May 8, 2006, shortly after the close of our



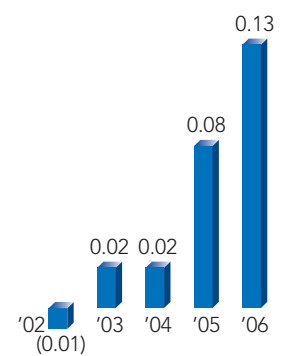
March 2006 fiscal year, the stock of a new subsidiary Turbotec Products Plc began trading on AIM under the symbol TRBO.

The net result of the IPO was to raise a net of \$7 million US that was used to materially reduce debt and add to working capital at both the TDYT and Turbotec levels. TRBO is now the "parent" of Turbotec Products, Inc. and Thermodynetics owns 56.32% of TRBO. The value of the transaction leaves TDYT with an interest at the offering price that represents approximately \$12 million US or some \$3 plus per share of TDYT stock. With our other assets, it is our opinion that TDYT is severely undervalued and we are embarking on a program to bring the value of TDYT to the attention of the

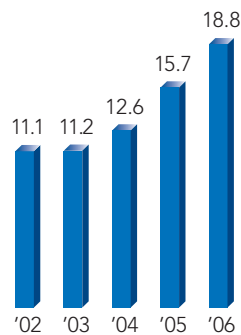
After Tax Income
(dollars in millions)



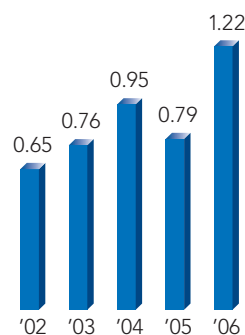
Earnings Per Share
(dollars)



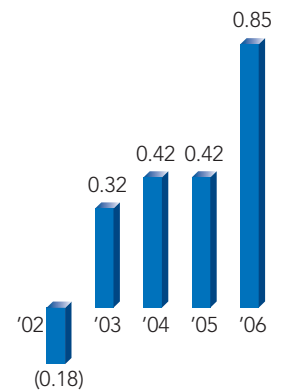
Net Sales
(dollars in millions)



Operating Income
(dollars in millions)



Pre Tax Income
(dollars in millions)



< TURBOTEC POOL SAFE™ COILS FOR SWIMMING POOL HEAT PUMPS

investing public. On our web site, www.thermodynamics.com, we post on-going press releases and interviews.

With the IPO completed, the new management team at Turbotec consists of Sunil Raina (President), Robert Lieberman (Chief Financial Officer), Floyd Lewis (Sales and Marketing Director), Fred Scheideman (Engineering Manager), and Timothy Mimitz (Director of Operations). Their efforts are already bearing fruit as new business opportunities are being brought to the table and by increasing Turbotec's management team's "critical mass" with an attendant alignment of personnel, it is expected that the results we will be reporting in the future will be pleasant reading.

Meanwhile a 20% increase in revenues was generated between the 2005 and 2006 March fiscal years, and earnings from continuing operations were \$1.22 million (vs. \$793,000 for fiscal 2005). Revenues are increasing and for the first quarter of fiscal 2007 (ending June 2006) were some 25% higher than the like quarter a year earlier, while income from operations were \$395,000 vs. \$310,000.

The operations of Turbotec are concentrated on increasing market share of its various energy-saving product lines, namely surface enhanced tubing, coaxial coils and boiler tubing. The pictures included in this report show some of these new products. It is anticipated that a new line of Heat Recovery Units will be beginning to



GROOVED BOILER FIRE TUBES FOR HIGH EFFICIENCY CONDENSING BOILERS

be marketed later this year under the Enviro-Pak brand, with formal introduction planned for the International AHR Exposition in Dallas at the end of January. Because of the significant increase in the cost of energy with oil and natural gas prices increasing sharply year to year, it is believed that the Enviro-Pak line of products will be well received. Simultaneously, an expansion of the marketing of "grooved" tubing for the boiler industry and the twisted titanium tubing marketed under the Tru-Twist trademark is expected to generate a new wave of revenues for Turbotec.

Although fiscal 2006 started with challenges, the Company's team of managers and employees have risen to the challenges and overcome the difficulties. We anticipate the coming years to be full of continuing growth and new opportunities. Further, because of the strides we have taken and continue to generate, we are hopeful that shareholder values will be more favorably recognized and enhanced in the future.

Robert A. Lerman
President and Chief Operating Officer

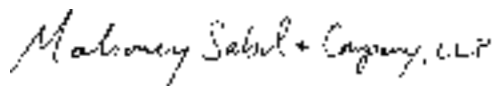
Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Thermodynamics, Inc.
Windsor, Connecticut

We have audited the consolidated balance sheets of Thermodynamics, Inc. and Subsidiaries (the "Company") as of March 31, 2006 and 2005, and the related consolidated statements of operations and stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thermodynamics, Inc. and Subsidiaries as of March 31, 2006 and 2005 and the results of its operations and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.



Certified Public Accountants
Glastonbury, Connecticut

May 24, 2006

Consolidated Balance Sheets

March 31,	2006	2005
ASSETS		
CURRENT ASSETS		
Cash	\$ —	\$ —
Accounts receivable, net of allowance for doubtful accounts of \$74,448 in 2006 and \$124,839 in 2005	2,050,106	1,951,902
Inventories	3,001,756	2,357,103
Prepaid expenses and other current assets	469,525	93,719
Assets from discontinued operations	—	4,941,924
Total current assets	5,521,387	9,344,648
PROPERTY, PLANT AND EQUIPMENT, net	7,155,441	7,178,776
DEFERRED INCOME TAXES	895,000	—
OTHER ASSETS	238,635	473,503
	\$13,810,463	\$16,996,927
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit	\$ 2,610,372	\$ 2,166,113
Accounts payable	2,258,769	1,540,243
Accrued expenses and taxes	336,769	239,353
Notes payable—private placement	300,000	—
Current portion of long-term debt	438,944	798,840
Current portion of liabilities from discontinued operations	1,242,750	3,596,622
Current portion of obligation under capital lease	9,679	29,683
Total current liabilities	7,197,283	8,370,854
LONG-TERM LIABILITIES		
Long-term debt, less current maturities above	2,829,681	2,776,144
Long-term liabilities from discontinued operations	2,997,945	4,369,748
Obligation under capital lease, less current maturities above	—	9,376
	5,827,626	7,155,268
COMMITMENTS AND CONTINGENCIES (Note 21)	—	—
STOCKHOLDERS' EQUITY		
Common stock, par value \$.01 per share; authorized 25,000,000 shares	39,897	39,477
Additional paid-in capital	5,783,090	5,758,430
Deficit	(5,037,433)	(4,327,102)
	785,554	1,470,805
	\$13,810,463	\$16,996,927

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

Consolidated Statements of Operations

For the years ended March 31,	2006	2005
NET SALES	\$18,750,323	\$15,650,800
COST OF SALES	14,255,302	11,406,179
Gross profit	4,495,021	4,244,621
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,275,344	2,974,829
IMPAIRMENT LOSS	—	476,376
Income from operations	1,219,677	793,416
OTHER INCOME (EXPENSE)		
Other, net	—	10,392
Interest expense	(368,911)	(387,582)
	(368,911)	(377,190)
Income (loss) before provision (benefit) for income taxes	850,766	416,226
PROVISION (BENEFIT) FOR INCOME TAXES	320,000	150,000
Income from continuing operations	530,766	266,226
DISCONTINUED OPERATIONS (Note 19)		
Loss from operations of discontinued component including loss of disposal of \$1,025,164 in 2006	(2,438,097)	(4,259,462)
Income taxes (benefit)	(1,197,000)	(384,000)
Net loss on discontinued operations	(1,241,097)	(3,875,462)
Net Loss	\$ (710,331)	\$ (3,609,236)
EARNINGS (LOSS) PER COMMON SHARE—CONTINUING OPERATIONS	\$ 0.13	\$ 0.08
EARNINGS (LOSS) PER COMMON SHARE—DISCONTINUED OPERATIONS	\$(0.31)	\$(0.98)
EARNINGS (LOSS) PER COMMON SHARE	\$(0.18)	\$(0.90)

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

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Deficit	Subscriptions Receivable	Total
	Number of Shares	Amount				
Balance, March 31, 2004	19,421,178	\$ 194,211	\$ 5,575,601	\$ (717,866)	\$(96,017)	\$ 4,955,929
Issuance of stock pursuant to bonus	55,000	550	6,200	—	—	6,750
Issuance of stock pursuant to 401(k) plan 2004	292,404	2,924	18,421	—	—	21,345
Subscriptions receivable	—	—	—	—	96,017	96,017
Retroactive effect of 1:5 reverse stock split (Note 9)	(15,820,800)	(158,208)	158,208	—	—	—
Net loss	—	—	—	(3,609,236)	—	(3,609,236)
Balance, March 31, 2005	3,947,782	\$ 39,477	\$ 5,758,430	\$ (4,327,102)	\$ —	\$ 1,470,805
Issuance of stock pursuant to 401(k) plan 2005	30,000	300	20,220	—	—	20,520
Issuance of stock pursuant to bonus (Note 17)	12,000	120	4,440	—	—	4,560
Net loss	—	—	—	(710,331)	—	(710,331)
Balance, March 31, 2006	3,989,782	\$ 39,897	\$5,783,090	\$(5,037,433)	\$ —	\$ 785,554

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

Consolidated Statements of Cash Flows

For the years ended March 31,	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (710,331)	\$(3,609,236)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	375,721	779,066
Loss on disposal of assets from discontinued operations	1,025,164	—
Impairment loss	—	2,109,822
Deferred tax provision	(895,000)	(250,000)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(98,204)	500,112
Increase in inventories	(644,653)	(178,932)
(Increase) decrease in prepaid expenses and other current assets	(375,806)	209,468
Decrease in other assets	88,932	69,126
Increase (decrease) in accounts payable	718,526	(756,357)
Increase (decrease) in accrued expenses and taxes	72,360	(101,184)
Cash provided from operating activities of discontinued operations	1,616,213	1,345,963
Net cash provided by operating activities	1,172,922	117,848
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(352,386)	(456,613)
Purchases of property, plant and equipment from discontinued operations	—	(562,375)
Proceeds from sale of assets from discontinued operations	265,028	—
Other decrease in life insurance receivable	(4,080)	(5,895)
Net cash used in investing activities	(91,438)	(1,024,883)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from subscription receivable	—	96,017
Proceeds from long-term debt	300,000	159,535
Proceeds from issuance of stock	—	6,750
Proceeds from short-term borrowings	444,259	225,018
Principal payments on debt and capital lease obligations	(518,743)	(402,836)
Net cash provided by (used in) financing activities of discontinued operations	(1,307,000)	820,511
Net cash provided by (used in) financing activities	(1,081,484)	904,995
NET INCREASE (DECREASE) IN CASH	—	(2,040)
CASH, beginning of year	—	2,040
CASH, end of year	\$ —	\$ —

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

Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Consolidation: The consolidated financial statements include the accounts of Thermodynetics, Inc., and its wholly owned subsidiaries, Turbotec Products, Inc., Turbotec Products, Ltd., Vulcan Industries, Inc., TPI Systems, Inc. and National Energy Systems, Inc. All material intercompany balances and transactions have been eliminated in consolidation. On May 8, 2006, Thermodynetics completed the sale of a minority interest in Turbotec Products, Inc. (see Note 20).

Nature of Operations: Thermodynetics, Inc. is a manufacturer of high performance, high quality heat exchangers, fabricated metal components and plumbing flexible connector products serving the heat transfer, transportation and plumbing industries. The Company markets its products in the United States, Canada and abroad to customers in the space conditioning, refrigeration, automotive, biomedical, plumbing, appliance, water heating, aerospace and other industries.

Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents: The Company considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents. The Company had no cash equivalents as of March 31, 2006 and 2005.

Accounts Receivables: Trade receivables are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest, although finance charges may be applied to receivables that are past due. Trade accounts receivable are periodically evaluated for collectibility based on past credit history with customers and their financial condition. Allowances for potential losses are maintained and realized losses have been within management's expectations.

Inventories: Inventories are valued at the lower of cost or market, with cost determined on a standard cost basis which approximates a first-in, first-out basis.

Property, Plant and Equipment: Property, plant and equipment of the Company are carried at cost. For financial and income tax reporting purposes, depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the assets. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized; expenditures for maintenance and repairs are charged to expense as incurred.

Estimated useful lives to compute depreciation are as follows:

Office equipment, furniture and fixtures	7 years
Building and improvements	40 years
Machinery and equipment	5—20 years

Intangible Assets: Patent costs were capitalized and amortized on a straight-line basis over 17 years. Other intangibles were historically amortized on a straight-line basis over their estimated useful lives.

On April 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets." Under the provisions of this Statement, goodwill

and intangible assets deemed to have indefinite lives are no longer subject to amortization. Goodwill is assigned to specific reporting units and is reviewed for impairment at least annually and upon the occurrence of an event or when circumstances indicate that a reporting units' carrying value is greater than its fair value. All other intangible assets, classified as definite-lived assets, are amortized over their estimated future lives (see Notes 5 and 19).

Revenue Recognition: Revenues are recognized when title of products and risk of loss are transferred to the customer. When right of return exists, revenues are recorded at the time of sale with expected returns based on historical experience. Additional conditions for recognition of revenue are that collections of sale proceeds are reasonably assured and the Company has no further performance obligation according to the sales agreement.

Pre-production Design and Development Costs: Pre-production design and development costs are expensed as incurred.

Shipping and Handling Costs: Shipping and handling costs, including amounts billed to customers, are included in cost of goods sold.

Income Taxes: The Company files consolidated federal and combined state corporate income tax returns. Tax credits are recorded as a reduction of income taxes in the year realized. The Company utilizes the asset and liability method of accounting for deferred income taxes as prescribed by the Statement of Financial Accounting Standards No. 109 (SFAS 109) "Accounting for Income Taxes." This method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the tax return and financial statement reporting bases of certain assets and liabilities.

Stock Options: In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share Based Payment." This statement replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion 25, "Accounting for Stock Issued to Employees." SFAS No. 123 (revised 2004) requires that the cost of share-based payment transactions (including those with employees and non-employees) be recognized as compensation costs in the financial statements. SFAS No. 123 (revised 2004) applies to all share-based payment transactions in which an entity acquires goods or services by issuing (or offering to issue) its shares, share options, or other equity instruments (except those held by an ESOP) or by incurring liabilities in amounts based (even in part) on the price of the entity's shares or other equity instruments, or that require (or may require) settlement by the issuance of an entity's shares or other equity instruments. This statement applies to all new awards granted during fiscal years beginning after December 15, 2005 and to previous awards that are modified or cancelled after such date. The Company has not fully evaluated the effect of SFAS No. 123 (revised 2004) on the financial statements and has not determined the method of adoption to be used to implement SFAS No. 123 (revised 2004).

In fiscal 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which gives entities a choice of recognizing related compensation expense by adopting the fair value method or measuring compensation using the intrinsic value approach under Accounting Principles Board (APB) Opinion No. 25. The Company intends to continue using the measurement

prescribed by APB Opinion No. 25 (until required to change by FASB 123(R)), whereby the Company does not recognize compensation costs at the grant date; accordingly, this pronouncement does not affect the Company's consolidated financial position or results of operations.

Earnings Per Common Share: In fiscal 1999, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share." SFAS No. 128 simplifies the standards for computing earnings per share (EPS) and makes them comparable to international EPS standards. It replaced the presentation of primary EPS with a presentation of basic EPS.

Reclassification: Certain amounts as of March 31, 2005 have been reclassified to conform with the March 31, 2006 presentation. The reclassifications have no material effect on the financial statements.

New Pronouncements: In July 2002, the Public Company Accounting Reform and Investor Protection Act of 2002 (the Sarbanes-Oxley Act) was enacted. Section 404 stipulates that public companies must take responsibility for maintaining an effective system of internal control. The Act requires public companies to report on the effectiveness of their control over financial reporting and obtain an attest report from their independent registered public accountant about management's report. The Company is not required to comply with section 404 of the Act until the fiscal year ending March 31, 2007.

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4." This statement clarifies the accounting for abnormal amounts of idle facility expense, freight handling costs and wasted material (spoilage). This statement requires that these types of costs be recognized as current period charges. SFAS No. 151 is effective prospectively for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application permitted for such costs incurred during fiscal years beginning after November 24, 2004. Management does not expect the adoption SFAS No. 151 to have a material impact on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29." SFAS No. 153 amends Accounting Principles Board ("APB") Opinion 29 concerning the accounting for exchanges of similar productive assets. Such transactions should be accounted for at fair value, the basic principle for nonmonetary transaction, unless the exchange lacks commercial substance. The effective date for SFAS No. 153 is for nonmonetary asset exchanges taking place in fiscal years beginning after December 16, 2004. The Company adopted SFAS No. 153 in fiscal year 2006 and there was no material impact on the Company's consolidated financial statements.

NOTE 2 – FINANCIAL INSTRUMENTS:

Concentrations of Credit Risk: The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, trade accounts receivables and other assets:

- Cash—The Company does not maintain cash balances that exceed federal depository insurance limits.
- Trade accounts receivable—The Company's customers, who are primarily original equipment manufacturers, serve a wide variety of markets worldwide. The Company had two customers that represented 19% and 12% of accounts receivable at March 31, 2006 and two customers combined that represented 37% of accounts receivable at March 31, 2005.
- Other assets include a receivable relating to officers' life insurance which represents the net aggregate proceeds due

the Company for the reimbursement of past policy premiums (see Note 5).

Fair Value of Financial Instruments: Statement of Financial Accounting Standards (SFAS) No. 107, "Fair Value of Financial Instruments," requires disclosure of the fair value of financial instruments for which the determination of fair value is practicable. SFAS No. 107 defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties.

The carrying amounts of the Company's financial instruments approximate their fair value as outlined below:

- Cash, trade receivables, trade payables—The carrying amounts approximate their fair value because of the short maturity of those instruments.
- Management has determined that it is not practicable to estimate the fair value of the receivable relating to officers' life insurance since these advances have been made to related parties and have no scheduled repayment terms.
- Line of credit—The carrying amount approximates fair value as the line of credit has a variable interest rate which fluctuates with the market.
- Long-term debt and capital leases—The carrying amount approximates fair value as the interest rates on the various notes/leases approximate the Company's estimated incremental borrowing rate.

The Company's financial instruments are held for other than trading purposes.

NOTE 3 – INVENTORIES:

The major classes of inventories consist of the following as of March 31:

	2006	2005
Finished goods	\$1,605,589	\$1,334,456
Raw materials	1,424,765	1,070,603
Work-in-process	102,036	157,678
	3,132,390	2,562,737
Less:		
Specific reserves	95,634	150,634
General reserves	35,000	55,000
	\$3,001,756	\$2,357,103

NOTE 4 – NET PROPERTY AND EQUIPMENT:

Property and equipment are summarized by major classifications as follows at March 31:

	2006	2005
Machinery and equipment	\$ 6,981,181	\$ 6,656,392
Buildings	4,915,480	4,915,480
Furniture and equipment	1,082,625	1,059,376
Leasehold improvements	979,396	975,048
Land	204,484	204,484
	14,163,166	13,810,780
Less accumulated depreciation and amortization	7,007,725	6,632,004
	\$ 7,155,441	\$ 7,178,776

NOTE 5 – OTHER ASSETS AND GOODWILL:

Other assets consist of the following at March 31:

	2006	2005
Intangibles not subject to amortization (less an impairment loss of \$700,000 in 2005) (see Note 19)	\$ —	\$ —
Deferred assets	38,911	127,378
Intangible assets—Vulcan (net of amortization of \$30,000 at March 31, 2005 less an impairment loss of \$469,735 in 2005) (see Note 19)	—	—
Officers' life insurance receivable, net	2,437	148,357
Investments	94,856	94,856
Intangible assets, (net of prior amortization of \$410,630)	93,741	93,741
Other	8,690	9,171
	\$238,635	\$473,503

In accordance with SFAS No. 142, the Company has determined that the carrying value of its intangible assets with indefinite lives, related to Vulcan, as of March 31, 2005 were impaired. The Company estimated the fair value of the reporting unit utilizing a future discounted cash flow analysis. Accordingly, the financial statements recognized an impairment loss of \$700,000, which is included in discontinued operations at March 31, 2005 (see Note 19).

The Company has determined that the amortizable intangible assets related to Vulcan were impaired and recorded an impairment loss of \$469,735, which is included in discontinued operations at March 31, 2005 (see Note 19). The estimated annual amortization expense for each of the five years succeeding March 31, 2005 is therefore zero. Amortization expense was \$18,000 for the year ended March 31, 2005 for intangible assets with definite lives.

Goodwill assigned to a specific reporting unit is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value. Subsequent to March 31, 2005, the Company determined that the carrying amount of the Automotive Products unit exceeded its fair value, which was estimated based on the present value of expected future cash inflows. Accordingly, a goodwill impairment loss of \$573,035 was recognized relating to that reporting unit, of which, \$93,659 is included in discontinued operations at March 31, 2005 (see Note 19).

During the fourth quarter of fiscal year 2005, the Company expensed pre-production design and development costs which had been previously capitalized because the amount of reimbursement can no longer be objectively measured and verified. The change had the effect of decreasing net income for fiscal year 2005 by \$1,193,446 (\$.30 per share).

NOTE 6 – LINE OF CREDIT:

The Company has a revolving line of credit (LOC) with a bank originally dated October 31, 1994. The agreement, most recently amended in July 2005, provides for a borrowing base equal to the sum of the following (as defined within the agreement): 80% of unpaid qualified receivables, the lesser of \$1,500,000 or 50% of the lower of cost or market value of eligible raw and work-in-process

inventory, plus the lesser of \$500,000 or 50% of the lower of cost or market value of eligible finished goods inventory less 100% of the aggregate amount of then undrawn on all letters of credit and acceptances issued by the bank to a maximum of \$3,250,000. Interest is charged at the bank's prime rate (7.75% and 5.75% at March 31, 2006 and 2005, respectively). The LOC contains various financial and non-financial covenants. At March 31, 2006, the Company had additional borrowing availability of \$415,376 under this facility (Note 20).

At March 31, 2005, the Company, through its Vulcan subsidiary, had a \$1,750,000 revolving demand note dated February 23, 2004. On November 10, 2005, this line of credit was converted into a term loan. The loan is payable in 84 monthly installments of \$7,431 including principal and interest at the bank's prime rate (7.75% at March 31, 2006) plus 1%. (Note 7) This loan was repaid in full in May 2006 (Note 20).

NOTE 7 – NOTES PAYABLE AND LONG-TERM DEBT:

On May 10, 2005, two officer/directors and four unaffiliated investors loaned the Company, \$150,000 and \$300,000, respectively or \$450,000 in the aggregate. Such loans are evidenced by promissory notes bearing 10% interest, and payment terms as follows: (a) interest shall be payable monthly in arrears commencing on June 15, 2005; and (b) seven (7) monthly payments of sixty-four thousand two hundred eighty-six (\$64,286) dollars of principal in the aggregate together with accrued and unpaid interest commencing June 15, 2006, and maturing on December 31, 2006. Further, the investors received warrants to purchase common stock at an exercise price of \$1.40 per share. The warrants expire June 30, 2008, and provide for the purchase of 225,000 shares of common stock in the aggregate. The officer/director notes were paid in 2006; the four unaffiliated investor loans were outstanding at March 31, 2006 and repaid in full in May 2006 (Note 20).

The Company has a term loan dated November 10, 2005, which is payable in 84 month principal payments of \$2,179 plus interest at the bank's prime rate (7.75%) plus 1%. The note is secured by substantially all assets of the Company (Note 6).

The Company had a \$1,847,580 term loan dated July 25, 2003 from a financial institution. The note was payable in 60 monthly installments of \$36,115 including principal and interest at 6.46% to March 31, 2009. The note was secured by specific equipment. The note was repaid during 2006 (Note 19).

The Company has a \$700,000 secured term note originally dated July 30, 2003 from a bank. On November 10, 2005, the terms of this note were modified. The modification agreement requires 84 monthly principal payments of \$1,236 plus interest at the bank's prime rate (7.75% at March 31, 2006) plus 1%. The note, which was secured by substantially all assets of the Company, was repaid in full in May 2006 (Note 20).

The Company had a \$400,000 note payable to the City of Sturgis dated September 12, 2003 (amended March 2005). The note called for principal payments of \$5,749 to September 12, 2010. This note was repaid during the year ended March 31, 2006 (Note 19).

The Company has various subordinated notes to the former shareholders of Vulcan totaling \$581,500. These notes are subordinated in priority to any and all commercial financing. All scheduled payments can only be made at such time as the Company is not in default of such financing agreements. All notes bear interest on the outstanding principal balance at a fixed interest rate of 6%. Interest is payable quarterly commencing March 31, 2004 until the notes are fully paid (Note 19). The Company is reviewing and

discussing certain rights of set off and indemnification against these notes, and believes it has actionable claims that exceed the entire outstanding balances of such notes.

The Company had non-subordinated notes to the former shareholders of Vulcan with an aggregate remaining balance of \$77,354 at March 31, 2005. These notes were payable in quarterly installments through December 2005 and bear interest at 6% and 9% per year.

On January 23, 2002, the Company refinanced a mortgage, granted in 1999, and various secured term loans with the proceeds from a \$2,025,000 secured term loan (Mortgage Loan) and a \$700,000 secured term loan (Equipment Loan).

The Mortgage Loan is payable in sixty monthly principal installments of \$8,438 plus interest at a fixed rate of 7.65% per annum with a balloon payment including all remaining principal and accrued interest due and payable on January 1, 2007. The Mortgage Loan is secured by a first position on the Company's principal facility; is cross collateralized with the Equipment Loan, the LOC, the Vulcan Revolving Demand Note and the Equipment LOC; all are secured by substantially all the assets of the Company (Note 19).

The Equipment Loan is payable in sixty monthly principal installments of \$11,667 plus interest at the bank's prime rate (7.75% and 5.75% at March 31, 2005 and 2004, respectively). The Equipment Loan is cross-collateralized with the Mortgage Loan and is secured by substantially all the assets of the Company (Note 19). This note was repaid in May 2006 (Note 20).

In August 2004, the Company refinanced the mortgage on its multi-purpose building by obtaining a 10-year, \$1,000,000 mortgage note payable. The mortgage note is secured by a first mortgage on the multi-purpose building (see Note 11). The note is payable in eighty-four monthly installments of principal and interest of \$8,932 and has a fixed interest rate of 6.9%, as defined in the note.

	2006	2005
Mortgage loan	\$1,594,688	\$1,695,938
Mortgage note payable—		
multi-purpose building	937,698	977,733
Equipment loan and line of credit	566,308	901,313
Note payable—bank	169,926	—
Notes payable—private placement	300,000	—
	3,568,625	3,574,984
Less: current maturities	738,944	798,840
	\$2,829,681	\$2,776,144

Long-term debt from discontinued operations

	2006	2005
Note payable—financial institution	\$ —	\$1,523,555
Subordinated notes—		
Vulcan shareholders	581,500	581,500
Notes payable—a bank	684,721	478,327
Note payable—City of Sturgis	—	361,644
Non-subordinated notes—		
Vulcan shareholders	—	77,352
Auto loan	—	34,952
	1,266,221	3,057,330
Less: current maturities	1,050,471	1,200,126
	\$ 215,750	\$1,857,204

Maturities of notes payable and long-term debt from continuing operations for each of the years succeeding March 31, 2006 are as follows:

Year ending March 31,	
2007	\$ 738,944
2008	283,398
2009	274,161
2010	223,398
2011 and thereafter	2,048,724
	\$3,568,625

NOTE 8 – LEASES:

On July 24, 2001, the Company entered into a capital lease for certain computer equipment. The lease calls for 60 monthly payments of \$2,689 including principal and interest at 9.6% per annum.

Computer equipment under capital lease included in net property, plant and equipment at March 31, 2006 is as follows:

Furniture and equipment	\$127,691
Less accumulated amortization	119,179
	\$ 8,512

Future minimum rental payments required under the above lease as of March 31, 2006 is \$9,679 for 2007.

NOTE 9 – STOCKHOLDERS' EQUITY:

Reverse Stock Split: Effective April 18, 2005, the Company implemented a reverse stock split whereby each outstanding five shares of common stock were exchanged for one share of common stock. The effect of this reverse stock split was to reduce the number of issued and outstanding common shares to approximately 3,950,000. The effects of this reverse stock split have been retroactively applied to the March 31, 2005 consolidated financial statements and all EPS calculations.

Stock Options: In October 2002, the Company adopted the 2002 Incentive Stock Option Plan ("2002 ISO Plan") and the 2002 Non Qualified Stock Incentive Plan ("2002 NQ Plan"). The 2002 ISO Plan provides for an aggregate number of shares available for grant of options, not to exceed 100,000 shares (post split). The option price is not to exceed 100% of fair market value for the stock. The 2002 NQ Plan provides for an aggregate number of shares available for stock options, stock bonuses and stock appreciation rights (SARS), not to exceed 100,000 shares (post split).

The option price and the value awarded for bonuses shall not exceed 33.33% of the fair market value on the effective date of the option or bonus. The value awarded for stock appreciation rights shall be equal to the excess of fair market value on the day of exercise less the fair market value on the effective date of the award. Through March 31, 2006, no options, shares or SARS had been granted under these plans.

NOTE 10 – EARNINGS PER COMMON SHARE:

A reconciliation of the numerators and denominators of the basic and diluted Earnings per Common Share (EPS) computations for the years ended March 31:

	2006		2005	
	Income (Numer- ator)	Shares (Denom- inator)	Income (Numer- ator)	Shares (Denom- inator)
Net income (loss)	\$(710,331)		\$(3,609,236)	
Basic EPS				
Income (loss) available to common stockholders	(710,331)	3,974,856	(3,609,236)	3,946,439
Effect of Dilutive Securities				
Stock warrants	—	—	—	—
Diluted EPS				
Income (loss) available to common stockholders including assumed conversions	\$(710,331)	3,974,856	\$(3,609,236)	3,946,439

NOTE 11 – RENTAL OF MULTI-PURPOSE BUILDING:

The Company leases a portion of its multi-purpose building (see Note 7) to an unrelated tenant under an agreement which expires August 31, 2010. Rental income aggregated \$63,250 for the years ended March 31, 2006 and 2005, respectively, and is included in other income (expense) net in the accompanying consolidated statements of operations and comprehensive income.

NOTE 12 – RESEARCH AND DEVELOPMENT COSTS:

Research and development costs charged to selling, general and administrative expenses amounted to \$212,966 and \$190,157 for the years ended March 31, 2006 and 2005, respectively.

NOTE 13 – ADVERTISING:

The Company expenses the production costs of advertising when the costs are incurred. Advertising expense charged to selling, general and administrative expenses totaled \$49,298 and \$75,268 for the years ended March 31, 2006 and 2005, respectively.

NOTE 14 – INCOME TAXES:

The provision (benefit) for income taxes consists of the following:

	2006	2005
Current		
State	\$ 18,000	\$ 16,000
Deferred	(895,000)	(250,000)
	\$(877,000)	\$234,000

The alternative minimum tax (AMT) had no effect on the tax provision for financial reporting purposes, as the Company's AMT income was completely offset by application of AMT net operating loss carryforwards and the AMT exemption. State taxes accrued were based on net income on a separate company basis.

The provision for income taxes differs from the amount computed by applying the statutory rates to income before income taxes for continuing operations fiscal years 2006 and 2005. The principal reasons for this difference are listed in the following table:

	2006	2005
Statutory federal and state income tax	34%	34%
Amortization and other	(8)	11
Utilization of net operating loss carryforwards	(7)	0
Change in valuation allowance	19	(9)
	38%	36%

The significant components of the deferred tax provision are as follows:

	2006	2005
Net operating loss	\$(811,000)	\$ (466,000)
Property and equipment, net	35,000	67,000
Other	(18,000)	—
Uniform capitalization	46,000	(3,000)
Asset impairment	720,000	(720,000)
Capital Loss	13,000	(8,000)
Valuation allowance	(880,000)	880,000
	\$(895,000)	\$(250,000)

The components of the net deferred tax accounts as of March 31, 2006 and 2005 are as follows:

	2006	2005
Deferred tax assets:		
Net operating loss	\$ 1,749,000	\$ 938,000
Investment tax credits	144,000	144,000
Uniform capitalization	4,000	50,000
Asset impairment	—	720,000
Capital loss	162,000	149,000
Valuation reserve	—	(880,000)
Research and development credit	10,000	10,000
Other	46,000	54,000
Total deferred tax assets	2,115,000	1,185,000
Deferred tax liabilities:		
Property and equipment, net	(1,220,000)	(1,185,000)
Net deferred tax asset (liability)	\$ 895,000	\$ —

The Company has approximately \$1,800,000 of net operating losses for federal income tax reporting purposes available for carryforward, which expire in years ending March 31, 2006 through 2012. Differences between financial reporting and tax reporting relate primarily to inventory reserves and allowances for doubtful accounts recorded for financial reporting purposes, inventory capitalization adjustments recorded for tax reporting purposes, asset impairment losses recorded for financial reporting purposes and differences between depreciation for financial reporting and tax reporting purposes. Investment tax credits are accounted for using the flow-through method. Unused tax credit carryovers total approximately \$154,000 as of March 31, 2006 and expire in years beginning in March 31, 2009.

The Company established a valuation allowance in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." The Company periodically reviews the adequacy of the valuation allowance and recognizes a benefit from income taxes only when reassessment indicates that it is more likely than not that the benefits will be realized.

NOTE 15 – 401(k) PLAN:

The Company has a defined contribution 401(k) plan which covers all participating employees who are over the age of 21 years and have at least four months of service. The Company may elect to make a matching contribution equal to a percentage of employee contributions, subject to IRS regulations. Matching contributions have been previously made in the form of Company common stock, subsequent to the close of the Company's fiscal year. Contributions for the years ended March 31, 2006 and 2005 totaled \$10,417 and \$24,500, respectively.

NOTE 16 – EMPLOYMENT CONTRACTS:

A subsidiary of the Company has one year employment agreements with two of its employees. These agreements provide for combined annual base salaries of \$295,000 for the fiscal years ended March 31, 2006 and 2005, respectively. The employees may also earn a discretionary bonus based on criteria established by the Board of Directors.

The Company has also entered into employment agreements with two employees and directors through March 2009. These agreements provide for annual base salaries of approximately \$250,000 and \$180,000, respectively, updated annually for increases in the Consumer Price Index, as well as certain medical, life and disability insurance coverage.

In the event of termination, all four agreements provide for the continuation of compensation and benefits. However, the employees may not compete with the Company within the United States for a period of two years after termination and are subject to the terms and conditions of confidentiality agreements.

NOTE 17 – STOCK BONUSES:

On October 30, 2003, the Company's Board of Directors approved the award of an aggregate of 1,050,000 shares (210,000 shares post split) issued on February 20, 2004 to officers of the Company. The shares were released pursuant to a vesting schedule ending on July 31, 2005; therefore, compensation expense is being amortized over this period.

In January 2006, the Company issued 12,000 shares to its Board of Directors.

NOTE 18 – CASH FLOW INFORMATION:

Cash paid for interest was \$368,911 and \$533,309 for the years ended March 31, 2006 and 2005.

Long-term debt of \$300,000 was incurred when the Company acquired equipment and vehicles during the year ended March 31, 2005.

Issuance of stock pursuant to the 401(k) plan was \$22,800 and \$21,345 for the years ended March 31, 2006 and 2005, respectively.

Long-term debt and short-term borrowings of 1,969,648 were paid off from sales of equipment during 2006.

Long-term debt was reduced by \$150,000 as settlement to the life insurance receivable.

NOTE 19 – DISCONTINUED OPERATIONS:

On July 5, 2005, the Company and its Vulcan Industries, Inc. subsidiary (Vulcan), received a notice of default dated July 1, 2005 from an equipment finance institution on a term loan secured by equipment. On July 6, 2005, the Company received a notice from its bank stating that it was in default of the bank's term loan as a result of, among other reasons, the acceleration of the equipment term loan.

On July 18, 2005, the Company consummated an agreement with a major customer whereby the customer purchased certain manufacturing equipment located in the Vulcan facility by paying the balance on the related outstanding debt due the equipment finance institution plus half of the balance due on a term loan to the City of Sturgis, Michigan (Sturgis). The Company recognized an impairment loss on these long-lived assets of \$367,052 at March 31, 2005. The repayment of this debt was made during the grace period allowed by the bank. As these loans were paid in full, the equipment finance institution and Sturgis each released the Company and Vulcan from any further obligation. As the manufacturing equipment sold to the customer was to be used to generate a significant portion of Vulcan's future operating cash flows, the Company reviewed the Vulcan intangible assets and recorded an impairment loss of \$1,742,770 at March 31, 2005.

On July 27, 2005, the Company and its bank (as the only remaining secured creditor) entered into an agreement whereby the bank waived the existing defaults on all debt instruments (except those relating to the Vulcan debt which continued) and modified a financial covenant to exclude the operations of Vulcan from the compliance calculation.

In August 2005, the Company discontinued the operations of Vulcan and began liquidating its remaining assets and paid all sums received to the bank. At March 31, 2006, all operating assets of Vulcan had been liquidated and the Company and the bank restructured the balance of the secured debt resulting from the Vulcan closure.

The Company allocates interest expense based on the named debtor of all interest bearing debt. Interest expense included in discontinued operations was \$70,791 and \$194,532 for the years ended March 31, 2006 and 2005, respectively.

Assets and liabilities of Vulcan were reported as assets and liabilities of discontinued operations at March 31, 2006 and 2005, and were as follows:

	2006	2005
Current assets of discontinued operations:		
Accounts receivable	\$ —	\$ 1,024,654
Inventories	—	1,097,029
Property, plant and equipment, net	—	2,799,345
Other	—	20,896
	—	4,941,924
Current liabilities of discontinued operations:		
Accounts payable	175,000	385,580
Accrued liabilities	17,279	141,505
Debt	1,050,471	3,069,537
	1,242,750	3,596,622
Long-term liabilities of discontinued operations:		
Long-term payables	2,782,195	2,781,474
Long-term debt	215,750	1,588,274
	2,997,945	4,369,748
Total net liabilities of discontinued operations	\$(4,240,695)	\$(3,024,446)

The following amounts of Vulcan are included in discontinued operations on the consolidated statement of operations:

	2006	2005
Revenues	\$ 3,796,686	\$ 8,808,627
Pre-tax loss	\$(2,438,097)	\$(4,238,037)

NOTE 20 – SUBSEQUENT EVENTS:

Sale of Minority Interest in Subsidiary: On May 8, 2006, the Company completed the sale of a minority interest of its subsidiary, Turbotec Products Plc, (the "Plc"), whereby approximately 43.68% of that company was sold to institutional investors pursuant to an offering on the AIM Market of the London Stock Exchange. Prior to the offering, Turbotec Products Plc was established in the United Kingdom as a holding company for the Company's operating subsidiary, Turbotec Products, Inc. Pursuant to the offering, the Company and Turbotec Products Plc jointly sold a total of 5,594,366 ordinary shares of the Plc at the price of 85 pence per ordinary share, resulting in gross proceeds of 4,755,211 British Pounds. Under the terms of the offering the two companies shared equally in the net proceeds of \$6,739,000, after fees and expenses. From the net proceeds received, an aggregate of approximately \$4,334,000 was used by the companies to repay term and revolving bank debt.

Pursuant to the offering documents, all shares were sold to non United States investors. In addition, under a Relationship Agreement, the Company has agreed that for the next twenty-four months it will not dispose of any additional ordinary shares except through or with the consent of Plc's nominated advisor to the AIM Market. The Company and its Board of Directors (the "Board") have further undertaken, inter alia, not to exercise its voting rights, except with the consent of the nominated advisor and Plc (on the authority of its non-executive Directors) in favor of any resolution to give the Board authority under British law to allot shares in the Company, or under British law to remove or reduce any pre-emption rights that shareholders may have. The Relationship Agreement contains further provisions regarding an annual administration fee; restrictions on related party transactions; restrictions on appointments to the Board and mutual confidentiality and reporting undertakings. The Relationship Agreement also contains non-competition undertakings from both the Company and its Board. The Relationship Agreement contains provisions restricting the ability of the Company to dispose of its interest in the ordinary shares into the United States in a manner that would require registration of any such disposition under the US Securities Act.

As part of the transaction a reorganization of senior management and directors of the Company and senior management and directors of its subsidiaries was effected, whereby the Company and the Plc established independent officers and directors. Accordingly, certain officers and directors of the Company and of Turbotec Products, Inc. were reassigned and/or appointed to new positions, with the principal changes being the establishment of new directors of the London subsidiary and new officers and directors of the US subsidiary where certain individuals moved from their prior role with the Company to the Turbotec subsidiaries and additional positions were assumed by certain of the Company's officers and directors.

Loan Modifications: The Company, certain of its subsidiaries, and their bank, entered into certain loan modification agreements to provide for the separation of the credit facilities between the Company and Turbotec Products, Inc., and the release of certain cross collateral guarantees. Principally, the Company's remaining indebtedness with its principal bank are: a secured mortgage term loan in the original principal amount of \$2,025,000 secured by the real estate and building at 651 Day Hill Road, Windsor, CT and the term loan of the original principal amount of \$183,000, secured by all of the assets of the Company. The Company remains indebted on its mortgage secured by the real estate and building at 50 Baker Hollow Road, Windsor, CT. The Company has also pledged \$337,000 as cash collateral at its principal bank to secure certain obligations. Turbotec Products, Inc. will remain indebted on an equipment term note and the revolving line of credit (Note 6).

Commercial Leases: The Company and Turbotec Products, Inc. entered into formal real estate leases effective May 8, 2006, for approximately 54,500 square feet at 651 Day Hill Road, Windsor, CT, and approximately 17,000 square feet at 50 Baker Hollow Road, Windsor, CT. The leases commenced April 1, 2006 with a five-year term, and one extension option for three years, and a second extension option for two years. Rent charges with respect to the 651 Day Hill Road property are equal to seven dollars per square foot in years one and two, escalating annually thereafter through each of the extension terms; monthly fixed rent in year one equals \$31,792, escalating to \$42,010 monthly in year ten, assuming both lease extensions are exercised. Rent charges with respect to the 50 Baker Hollow Road property are equal to \$5.50 per square foot in year one, escalating annually thereafter through each of the extension terms; monthly fixed rent in year one equals \$7,792, escalating to \$10,979 monthly in year ten, assuming both lease extensions are exercised.

NOTE 21 – COMMITMENTS AND CONTINGENCIES:

As shown in the accompanying consolidated financial statements, the Company incurred a net loss of \$710,331 (which includes a net loss from discontinued operations of \$1,408,097) during the year ended March 31, 2006 which relates solely to its Automotive Products segment. Additionally, as of that date, the Company's current liabilities exceeded its current assets. Those factors create an uncertainty about the Company's ability to continue as a going concern. The stock offering (Note 20) and the anticipated cash flow from the Heat Transfer Products segment provide management with a course of action they believe will allow the Company to deal with the adverse effects and conditions and continue operations in its other business segment.

Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

Reverse Stock Split: In November 2004, the shareholders at their 2004 annual meeting, approved a 1-for-5 reverse stock split that became effective April 18, 2005, in which shareholders received one share of common stock in exchange for each five shares of common stock outstanding on the record date; any fractional shares were rounded-up. Unless otherwise noted, share amounts and per share amounts (including exercise or conversion prices of options, warrants or convertible securities) in this Annual Report have been adjusted to reflect the impact of the reverse stock split.

Market for Common Equity and Related Stockholder Matters

The Company's Common Stock is quoted and traded in the over-the-counter market on the non-NASDAQ OTC Bulletin Board system under the symbol "TDYT" after the Company's 1-for-5 reverse split effective April 18, 2005, and had been quoted under the symbol "TDYN" prior to the reverse split. The following table indicates high and low bid and asked quotations, without adjustment for the reverse split prior to March 31, 2005 and adjusted for the reverse split after April 18, 2005, for the Company's Common Stock for the periods indicated based upon information compiled by the Pink Sheets LLC and represent prices between dealers and do not include retail mark-up, mark-down or commissions; and may not represent actual transactions.

Quarter Ended	Bid Prices		Asked Prices	
	High	Low	High	Low
March 31, 2006	\$2.25	\$ 0.30	\$2.60	\$1.25
December 31, 2005	1.25	0.75	2.00	1.05
September 30, 2005	1.20	0.25	1.50	0.70
June 30, 2005	2.25	0.50	5.00	1.30
(After a 1-for-5 reverse split)				
March 31, 2005	\$ 0.43	\$ 0.34	\$ 0.48	\$ 0.38
December 31, 2004	0.42	0.265	0.48	0.31
September 30, 2004	0.45	0.29	0.48	0.32
June 30, 2004	0.33	0.27	0.38	0.31

At March 31, 2006, the number of holders of the Company's Common Stock was 2,284 (based upon the number of record holders).

Management's Discussion and Analysis or Plan of Operations

RESULTS OF OPERATIONS

2006 Compared to 2005

Net sales from continuing operations for the year ended March 31, 2006 increased by \$3,100,000, or 20% over the prior year. Current year sales totaled \$18,750,000 compared to \$15,651,000 recorded in 2005.

The Company formerly operated in two business segments, heat transfer products and automotive products. A major storm in Lower Michigan in early June 2005 caused a multi-week disruption to operations that severely impacted the ability of the automotive products segment to meet its manufacturing commitments. The revenue shortfall eventually led to the closure and discontinuance of those operations (Vulcan Industries, Inc.) and the liquidation of all of Vulcan's assets. The resultant proceeds of the disposition of the assets were paid to the bank as secured lender. As of December 1, 2005, all operating assets of Vulcan had been liquidated. The Company and the bank have restructured the terms under which the balance of the secured debt obligations are to be repaid. This subsidiary has been reflected as a discontinued operation for the current period and all prior periods presented. The Company now operates in only one business segment—heat transfer products.

Significant risk factors and economic considerations associated with heat transfer products include, but are not limited to, seasonality of purchasing and building cycles, the cost of energy, incentives provided by manufacturers, marketers and municipalities to encourage the use of more efficient equipment, interest rate changes that may stimulate or depress demand, the cost and availability of materials used in manufacturing processes, and regulatory directives relating to energy consumption, conservation and the environment.

The increase in net sales from continuing operations is due largely to the continued strong performance in the domestic housing market and marine air conditioning applications. The Company's marketing of heat exchangers containing high efficiency special purpose enhanced surface titanium tubing met with strong demand as this product is heavily utilized by the swimming pool and spa heat pump market, an industry that also exhibited significant growth in FY2006.

Cost of sales aggregated 76% for the current year compared to 73% percent in the prior year. The cost of metals, principally copper, copper alloys, nickel and titanium has risen sharply to their highest levels in the past six years and it is uncertain when the market will experience significant material cost relief or stabilize. Copper, in particular, has exhibited both significant cost increases as well as major price fluctuations over relatively short time spans. Although the effects of metal cost changes are shared with customers, the impact is a net reduction of gross margin, as reflected in the 3% increase in cost of sales. Further, the pass through of a portion of material price increases is a "catch up" process as pricing is periodically adjusted as the market price of the metal portion of our products change. Aggregate manufacturing overhead expenses were generally in line with the increased production requirements in the current year; however, the Company did incur additional increases in employee benefit expenses and facility occupancy expenses such as property taxes and utility costs.

The Company has qualified for and is currently ISO 9001:2001 certified and is also implementing programs to improve its opera-

tions through a lean manufacturing and six sigma quality initiative.

Selling, general and administrative expenses increased by \$301,000 over the prior year. Personnel were added in sales, marketing, customer service and engineering in fiscal 2006 to support the additional sales base, to identify new markets and to assist in the development of future products. The Company plans on further additions to its marketing and engineering staff in fiscal 2007 to continue and expand its engineering research and development programs and to provide support to new products and markets. Interest expense decreased in fiscal 2006 from the prior year as the significant increase in sales created higher levels of gross profit (on an absolute basis) and pre-tax income from continuing operations was also higher. The increase in revolving debt and notes payable in the current year is attributable to cash advances made to, and outside funds raised by, the Company for its Vulcan subsidiary during the year.

As Vulcan is classified as a discontinued operation, the losses from operations of that company were \$2,438,000 and \$4,259,000 in fiscal years 2006 and 2005, respectively. Included in the loss in the current year is a loss on disposal of assets of \$1,025,000. Federal income tax benefits of \$1,197,000 were recorded in fiscal 2005 and 2006, respectively, relating to the cessation of operations at Vulcan.

2005 Compared to 2004

Events Subsequent to March 31, 2005 through July 27, 2005

On July 11, 2005 and July 21, 2005, the Company filed reports on Form 8-K which reports are incorporated herein. In addition and supplemental to such events, the Company reported:

On July 5, 2005, the Company and its subsidiary, Vulcan Industries, Inc., received a notice of default dated July 1, 2005 from an equipment finance institution on a term loan secured by equipment. On July 6, 2005, the Company, Vulcan and the Company's subsidiary Turbotec Products, Inc. received a notice from its primary lender stating that events of default have occurred and are continuing in respect of the Bank's term loan as a result of, among other reasons, the acceleration of an equipment term loan.

On July 18, 2005, the Company consummated an agreement with a major customer whereby the customer purchased certain manufacturing equipment located in the Sturgis, Michigan facility by paying the balance on the related outstanding debt due the equipment finance institution plus half of the balance due the City of Sturgis. Accordingly, the Company recognized an impairment loss on these long-lived assets of \$367,052 at March 31, 2005. The payoff of this debt was made during the grace period allowed by the financial institution. The City of Sturgis debt, which was paid down as a result of this asset sale, was paid by the Company with proceeds from their primary lender. The equipment finance institution and the City each released the Company and its subsidiary from any further obligation as such loans were satisfied in full.

The sale of the manufacturing equipment, which represents a significant portion of the future cash flows of Vulcan, required the Company to review the intangibles related to this reporting unit for impairment. As a result of this review, an impairment loss of \$1,742,770 was recorded during the year ended March 31, 2005.

The asset sale severely reduced Vulcan's revenues, but also removed a significant amount of debt from the Company's balance sheet. Further, if the customer does not continue to fund certain operations of Vulcan, Vulcan's ability to operate afterwards may not be economically feasible. Therefore, the long-term viability of Vulcan was then highly uncertain.

On July 27, 2005, the Company and its primary lender entered into a Limited Waiver and Modification Agreement (Modification Agreement) as a result of certain covenant defaults and other events described above. Under the terms of the agreement, the bank is waiving the defaults through July 27, 2005 and modifying the debt service coverage ratio to exclude the operations of Vulcan. The agreement does not waive the demand rights the bank has on the term loan dated July 30, 2003 (in the original amount of \$700,000) and that debt has been reflected as a current liability at March 31, 2005.

Year Ended March 31, 2005 Compared to 2004

Net sales for the year ended March 31, 2005 increased by \$7,955,000, or 48% over the prior year. Sales of heat transfer products increased by 24% over fiscal 2004, while sales of automotive products increased by 125% during the same period. Consolidated total revenues of \$24.459 million represented a record level of shipments for the Company.

In August 2003, the Company acquired Vulcan Industries, Inc., of Sturgis, Michigan ("Vulcan"), a manufacturing company that supplies fabricated metal tubing components principally to the automotive, furniture and appliance industries. Results for the Company for fiscal 2005 include a full year of the operations of Vulcan, while fiscal 2004 include the operations of Vulcan for the period August 2003 through March 2004.

The Company operates in two business segments, heat transfer products and automotive products. Heat transfer products are somewhat seasonal with lower customer demand in the fall months as this period lies between the heating and cooling requirements in most regions of the United States. The automotive segment is also seasonal as new models are generally introduced in the fall months creating additional demand during that period shifting demand from other periods. Also, the winter months tend to have lower sales of automobiles, creating a pent up spring demand.

Significant risk factors and economic considerations associated with heat transfer products include the cost of energy and incentives provided by producers, sellers and municipalities to encourage the use of more efficient equipment, interest rates in the United States and abroad that can stimulate or depress purchasing demand, the cost and availability of materials used in the production of these products, and regulatory directives relating to energy consumption, conservation and environmental issues. Significant risk factors and economic considerations associated with automotive products include incentives provided by automobile manufacturers to stimulate sales, general domestic economic and employment conditions, interest and other money factor rates charges by banks and other lenders, the cost and availability of materials used in the production of these products, and regulatory directives relating to fuel mileage and environmental issues.

The increase in sales in the heat transfer segment is due largely to the strong housing market augmented by marine air conditioning applications and commercial/industrial building HVAC needs. The Company has recently developed the capability to produce special purpose enhanced surface tubing in titanium, an offering that is unique to the markets it is now serving. Initial reception has

been strong and significant orders have been received from many current and new customers. The Company has also developed a line of heat exchangers that use plastic shell casings for its helical coaxial coils. The plastic shells allow for maximum heat transfer and protection from highly erosive and corrosive environments at a substantial cost reduction from traditional metal jacketed products. Initial response to these products has been quite favorable from swimming pool and spa heat pump manufacturers.

Automotive shipments increased dramatically during fiscal 2005 as it represented the first full year of inclusion of Vulcan's sales. Also, a program for automotive exhaust system tubing moved into full production during the current year. This program is scheduled to run for at least five years; the parts will be used in a variety of trucks and sport utility vehicles. In order to support the new business received since the acquisition, personnel were added in production, technical and quality control areas.

Cost of sales to produce heat transfer products increased from 72% of net sales in fiscal 2004 to 74% in the current year. The cost of metals (principally steel, copper, stainless steel and nickel) has risen sharply during the current year to their highest levels in the past six years. Although the effects of these cost increases are shared with customers, the impact is a net reduction of gross margin. The cost of these metals has continued to increase and it is uncertain when the market will experience cost relief or stability. Manufacturing overhead expenses largely remained flat between the years as higher labor rates were largely offset by improvements in efficiency and productivity resulting from the current overall product mix. The automotive products manufacturing costs were significantly impacted by startup costs of \$1.2 million associated with the development of the multi-year program to supply exhaust systems to a major Tier I automotive supplier. Costs directly associated with the start up of this program, aggregating \$1.193 million, were charged to operations during the year. In addition, the introduction of this program into the operation created other inefficiencies during the development and pre-production stages resulting in an overall negative gross profit margin of 19% in fiscal 2005. Gross margin for this segment for the prior year period was 8% in the period from August 2003 through March 2004. The Company's automotive related applications have large volume requirements with higher direct costs as a percentage of selling price than the Company's heat transfer products. On a consolidated basis, gross margin decreased from 25% in 2004 to 11% in fiscal 2005. Excluding the impact of the write-off of start up expenses of the automotive segment, gross margin for fiscal 2005 was 15%, reflecting the increase in shipments related to automotive applications.

As a result of the large sales increase in the current year, selling, general and administrative expenses decreased as a percentage of sales compared to fiscal 2004, although expenses in absolute terms were higher for the current year to date period. Personnel were added in customer service, engineering and other support functions at both operating subsidiaries in fiscal 2005. As the Company plans on further additions to its marketing and engineering staff, operating expenses are expected to increase.

Interest expense increased from \$405,000 in fiscal 2004 to \$582,000 in the current year. Additions to debt obligations in fiscal 2004 related to the Vulcan acquisition and increases in revolving lines of credit at both subsidiaries in fiscal 2005 were made to fund business growth and new product development. The increase in the prime rate charged by lending institutions increased steadily during the current year, adding to the interest burden absorbed by the Company.

Despite the decrease in gross margin, income from operations as a percentage of net sales for the heat transfer segment remained flat at approximately 8% of net sales for both years. The large sales volume increase offset a proportionally smaller increase in operating expenses and interest charges, enabling most of the increased cost in direct materials to be absorbed by the operating performance of the segment. The automotive segment suffered from the significant start-up costs associated with the large program, thereby generating a loss from operations of \$2,413,000 in 2005 compared to a nominal loss of \$7,000 in the prior year. Operating performance for this segment is expected to improve in future periods as these start-up costs are of a non-recurring nature.

As a result of the large loss recorded by the automotive products, the consolidated deferred tax liability existing as of the prior year end was no longer required and eliminated during the current year. A significant net operating loss carryforward currently exists and future tax provisions and/or benefits will be recorded based on the operating performance of the consolidated group.

FINANCIAL ACCOUNTING STANDARDS

In July 2002, the Public Company Accounting Reform and Investor Protection Act of 2002 (the Sarbanes-Oxley Act) was enacted. Section 404 stipulates that public companies must take responsibility for maintaining an effective system of internal control. The Act requires public companies to report on the effectiveness of their control over financial reporting and obtain an attest report from their independent registered public accountant about management's report. The Company is not required to comply with Section 404 of the Act until the fiscal year ending March 31, 2007.

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4." This statement clarifies the accounting for abnormal amounts of idle facility expense, freight handling costs and wasted material (spoilage). This statement requires that these types of costs be recognized as current period charges. SFAS No. 151 is effective prospectively for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application permitted for such costs incurred during fiscal years beginning after November 24, 2004. Management does not expect the adoption SFAS No. 151 to have a significant impact on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29." SFAS No. 153 amends Accounting Principles Board ("APB") Opinion 29 concerning the accounting for exchanges of similar productive assets. Such transactions should be accounted for at fair value, the basic principle for nonmonetary transaction, unless the exchange lacks commercial substance. The effective date for SFAS No. 153 is for nonmonetary asset exchanges taking place in fiscal years beginning after December 16, 2004. The Company adopted SFAS No. 153 in fiscal year 2006 and there was no significant impact on the Company's consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, consolidated working capital was a negative \$1,676,000 compared to a positive \$974,000 at March 31, 2005. The negative working capital is attributable to cash advances made to and outside funds raised by the Company for its Vulcan subsidiary during the past year. Aggregate debt attributable to

continuing operations at March 31, 2006 was \$3,278,000 as compared to \$3,614,000 at March 31, 2005. Of these amounts, long-term debt was \$2,830,000 and \$2,776,000, respectively.

As of May 8, 2006, the Company sold approximately 43.68% of its Turbotec Products, Inc. subsidiary in a public offering of securities through the AIM Market of The London Stock Exchange. The gross proceeds from the sale was approximately \$8,800,000, before fees and other costs of approximately \$1.8 million. Approximately \$4,334,000 of the net proceeds was used to satisfy various debt obligations of the Company and its subsidiaries, including certain Vulcan related debt. The balance outstanding on the revolving term loan was repaid and prepayments of principal were made against other term debt, pursuant to an agreement between the Company and its primary lender. The balance of the proceeds were reserved for capital expenditures, research and development and working capital purposes.

An agreement between the Company and its Turbotec subsidiary, executed concurrently with the stock sale, contains provisions regarding an annual administration fee, restrictions on related party transactions, restrictions on appointments to the Board of the subsidiary and mutual confidentiality and reporting undertakings. Further, the Company and Turbotec entered into certain lease agreements for real property owned by the Company and occupied by Turbotec. The Company, certain of its subsidiaries, and their bank, also entered into certain loan modification agreements and assignment agreements to provide for the separation of the credit facilities between the Company and Turbotec and the release of certain cross collateral guarantees.

Capital expenditures aggregated \$352,000 for the year ended March 2006 compared to \$457,000 in the same period of the prior year. The expenditures for the current year were funded from the revolving line of credit thereby further increasing the Company's short-term debt load. These expenditures were included in the line balance that was repaid in conjunction with the stock offering.

After completion of the above actions, the Company's access to credit is expected to be adequate in the coming year as increased revenues from continuing operations coupled with operating efficiencies at its Turbotec subsidiary are projected to create sufficient availability in the revolving line of credit.

Increases in operating costs continue to play a more significant role in the Company's day-to-day operations as competitive pricing pressures have restricted, principally, Turbotec's ability to fully recover all added expenses. However, during the latter stages of the fiscal year and continuing into the early months of fiscal 2007, both raw material adjustments and price increases had been instituted. Improvements in manufacturing processes and procedures have enabled the Company to offset a portion of increasing costs while continuing internal refinements are expected to generate further cost reductions during the 2007 fiscal year. The Company has embarked on a training program to integrate the principles of lean manufacturing and six sigma quality measurements to improve both its efficiencies and product quality over the coming months. The regional labor markets for qualified skilled and semi-skilled employees is weak and a shortage of experienced technical support and engineering staff is expected to continue for the foreseeable future. Employment related costs continue to escalate and the impact on future periods is unknown at this time although the Company is continually exploring opportunities to reduce these expenses.

Corporate Information

CORPORATE HEADQUARTERS

651 Day Hill Road
Windsor, Connecticut 06095
Telephone: (860) 683-2005
Telefax: (860) 285-0139
Web Site: www.thermodynetics.com

SUBSIDIARIES



Turbotec Products Plc
34 Beckenham Road
Beckenham
Kent BR3 4TU
England
Telephone: (860) 683-2005
(800) 394-1633
Telefax: (860) 683-2133
Web Site: www.turbotecproducts.com

TPI Systems, Inc.
National Energy Systems, Inc.
651 Day Hill Road
Windsor, CT 06095
Telephone: (860) 683-2005
Telefax: (860) 285-0139

TRANSFER AGENT

Continental Stock Transfer and Trust
Company
New York, New York

ATTORNEY

Kenneth B. Lerman, P.C.
Windsor, Connecticut and Boca Raton, Florida

INDEPENDENT ACCOUNTANTS

Mahoney Sabol and Company, LLP
Glastonbury, Connecticut

Board of Directors

John F. Ferraro
Chairman of the Board of Directors and
Secretary

John J. Hughes
Director

Robert A. Lerman
President, Chief Executive Officer and Director

Fred H. Samuelson
Director

Considerations Regarding Forward-Looking Disclosures

This report contains certain forward-looking statements regarding the Company, its business prospects and results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause the Company's actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that may effect such forward-looking statements include, without limitation: the Company's ability to successfully and timely develop and finance new projects, the impact of competition on the Company's revenues, and changes in unit prices, supply and demand for the Company's tubing products especially in applications serving the automotive, commercial, industrial and residential construction industries.

When used words such as "believes," "anticipates," "expects," "continue," "may," "plan," "predict," "should," "will," "intends" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by the Company in this report, news releases, and other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect



Thermodynetics, Inc.
651 Day Hill Road
Windsor, Connecticut 06095
Telephone (860) 683-2005
Telefax (860) 285-0139
www.thermodynetics.com