



## **11 August 2006**

Turbotec Products Plc ("Turbotec" or the "Company") announces its results for the 3 months to 30 June 2006. The Company is obliged to report concurrently with its parent company Thermodynamics Inc., which being NASD quoted is required to announce trading results on a quarterly basis.

Turbotec is engaged principally in the design and manufacture of energy saving heat transfer and heat reclamation products. Its enhanced surface tubing provides higher energy efficiencies for applications in the biomedical, aerospace, automotive, boiler, marine, ice machine, swimming pool and spa, food and beverage and residential/commercial heating and cooling industries. These tubing products support a wide array of component and heat transfer needs, including surface-enhanced tubing, single and double wall co-axial condenser and evaporator coils and heat recovery systems.

### **Overview**

Following a positive trading period, revenues increased by 25% to \$5.68 million (Q1 2005: \$4.53 million). Likewise, profit before tax displayed a healthy 37% increase to \$459,000 (Q1 2005: \$334,000).

Although there has been some weakening in residential construction during the past few months, the overall demand for Turbotec's products has remained at steadily higher levels than prior first quarter periods.

The increase in sales reflected a number of improved market conditions. These included strengthened conditions in both retail and commercial property markets where demand for heating, ventilation and air conditioning systems resulted in a growth in orders for coaxial coils using the Company's enhanced surface tubing. In addition the Company witnessed an increasing demand for specialty boiler tubing as a result of strong expansion by a key customer.

Furthermore, Turbotec's special purpose enhanced surface titanium tubing is being favourably received by swimming pool and spa heat pump manufacturers which are ordering at an increasing rate. The Company is also beginning to experience interest from other market segments needing extremely durable metal heat exchangers.

During the period, personnel have been added in customer service and product engineering and the Company is confident that future capacity is in place to meet anticipated demand.

Despite the significant increase in metal costs over the prior year period, Turbotec has maintained its overall gross margins by increasing efficiencies on the production floor through the implementation of streamlined manufacturing processes. This has served to offset increasing prices of copper and other metals which are expected to continue to place pressure on gross margins in the near term as the company is able to only pass through a portion of the commodity price increase to customers. In addition tubing mills have begun to accelerate payment terms and assess additional surcharges. Despite these pressures, the Directors remain confident of meeting profit expectations for the year.

**Sunil Raina, Managing Director, Turbotec Products Plc, Commented:**

*"The first quarter has been a solid period for the business with our strengthened product range and enhanced marketing effort paying dividends. Further investments in marketing and engineering are planned later this year as the Company continues to expand its product development in heat reclamation and titanium based heat exchangers."*

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**TURBOTEC PRODUCTS PLC**

**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

**FOR THE THREE MONTHS ENDED 30 JUNE 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
NET SALES	\$ 5,680	\$ 4,533
COST OF SALES	4,419	3,506
Gross profit	<u>1,261</u>	<u>1,027</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	547	458
Income from operations	714	569
OTHER INCOME (EXPENSE)		
Interest expense	(36)	(54)
Other	(46)	-
TOTAL OTHER INCOME (EXPENSE)	<u>(82)</u>	<u>(54)</u>
Income before management fees	632	515
MANAGEMENT FEE EXPENSE	173	181
Income before provision for income taxes	<u>459</u>	<u>334</u>
PROVISION FOR INCOME TAXES	122	113
Net income	<u>337</u>	<u>221</u>
RETAINED EARNINGS, Beginning	2,469	2,391
Adjustment resulting from capitalization of research and development expenses	96	-
LESS: Net distributions to parent	<u>(101)</u>	<u>(159)</u>
RETAINED EARNINGS, Ending	<u>\$ 2,801</u>	<u>\$ 2,453</u>

## CONSOLIDATED BALANCE SHEETS

JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 201	\$ 2
Accounts receivable, net of allowance for doubtful accounts		
of \$118,230 and \$85,052 in 2006 and 2005, respectively	2,125	1,956
Inventories	3,196	2,622
Prepaid expenses and other current assets	<u>92</u>	<u>46</u>
Total current assets	5,614	4,626
PROPERTY, PLANT AND EQUIPMENT, net	3,724	3,577
OTHER ASSETS	<u>278</u>	<u>103</u>
	<u>\$ 9,616</u>	<u>\$ 8,306</u>

## LIABILITIES AND STOCKHOLDERS' EQUITY

### CURRENT LIABILITIES

Line of credit	\$	-	\$	2,489
Accounts payable		1,728		1,631
Accrued expenses and taxes		303		75
Current portion of long-term debt		124		328
Current portion of obligation under capital lease		3		30
Total current liabilities		<u>2,158</u>		<u>4,553</u>

### LONG-TERM LIABILITIES

Long-term debt, less current maturities above		198		498
Obligation under capital lease, less current maturities above		-		2
Deferred income taxes		958		790
		<u>1,156</u>		<u>1,290</u>

### COMMITMENTS AND CONTINGENCIES

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### STOCKHOLDERS' EQUITY

Common stock, par value \$100 per share; authorized 100 shares		128		10
Additional paid-in capital		3,373		-
Retained earnings		2,801		2,453
		<u>6,302</u>		<u>2,463</u>
	\$	<u>9,616</u>	\$	<u>8,306</u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 337	\$ 221
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63	48
Deferred taxes	23	40
Changes in operating assets and liabilities:		
Increase in accounts receivable	(75)	(4)
Increase in inventories	(194)	(264)
Decrease in prepaid expenses and other assets	(68)	(18)
Increase in accounts payable	(350)	119
Decrease in accrued expenses and taxes	67	(123)
Net cash provided by operating activities	<u>(197)</u>	<u>19</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	<u>(130)</u>	<u>(88)</u>
Net cash used in investing activities	<u>(130)</u>	<u>(88)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short term borrowings	90	322
Principal payments on long term debt	(45)	(85)
Principal payments on capital lease obligations	(7)	(7)
Proceeds from stock offering used to repay debt	(2,900)	
Proceeds from stock offering	3,642	
Net distributions to parent	<u>(101)</u>	<u>(159)</u>
Net cash used in financing activities	<u>679</u>	<u>71</u>
<b>NET CHANGE IN CASH</b>	352	2
<b>CASH, beginning of year</b>	<u>-</u>	<u>-</u>
<b>CASH, end of year</b>	<u>\$ 201</u>	<u>\$ 2</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NATURE OF OPERATIONS:

Turbotec Products Plc (Company or Plc) was incorporated as a public company in the United Kingdom on April 11, 2006 and is the parent company of a wholly owned subsidiary, Turbotec Products, Inc (Turbotec). Pursuant to a public offering completed in May 2006 in the United Kingdom, Thermodynamics, Inc. (Parent) owns 56.32% of Turbotec Products Plc, with the balance owned by institutional investors. These financial statements reflect the operations of the Company and include all necessary adjustments for a stand alone presentation.

**The 2006 presentation is not in conformity with generally accepted accounting principles. Certain costs incurred in the development of new products have been deferred and will be amortized over the expected useful life of these products. Under generally accepted accounting principles, all research and development expenses are expensed when incurred. Had the Company followed generally accepted accounting principles, other assets, at June 30, 2006, would have been decreased by \$175,000; stockholders equity, at June 30, 2006, would have been decreased by \$125,000; and income before taxes would have decreased by \$29,000 for the six months ended June 30, 2006.**

The 2005 presentation is not in conformity with generally accepted accounting principles. Pursuant to Financial Accounting Standards Board Interpretation No. 46 (R) "Consolidation of Variable Interest Entities", the Parent is a variable interest entity (VIE) and should have been consolidated into the financial statements of the Company ( the primary beneficiary of the VIE). The effects of this departure from generally accepted accounting principles on 2005 financial position, results of operations and cash flows have not been determined.

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

### COMPLETION OF PUBLIC OFFERING:

**On May 8, 2006, the Parent completed the sale of a minority interest of the Company, whereby approximately 43.68% of Turbotec Products Plc was sold to institutional investors**

**pursuant to an offering on the AIM Market of the London Stock Exchange. Pursuant to the offering, the Parent and Plc each sold 2,797,183 shares (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 after fees and expenses. From the net proceeds received, an aggregate of approximately \$2,900,000 was used by the Company 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 Parent has agreed that for the next twenty-four months it will not dispose of any additional ordinary shares of the Plc except through or with the consent of Plc's nominated advisor to the AIM Market. The Parent 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 Plc, 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 Plc's board and mutual confidentiality and reporting undertakings; non-competition undertakings from both the Parent and its Board and provisions restricting the ability of the Parent 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 Parent and senior management and directors of its subsidiaries was effected, whereby the Parent and the Plc established independent officers and directors. Accordingly, certain officers and directors of the Parent 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 Plc and new officers and directors of Turbotec where certain individuals moved from their prior roles.**

**Loan Modifications:**

**The Parent, certain of its subsidiaries, and their bank, entered into certain loan modification agreements to provide for the separation of the credit facilities between the Parent and Turbotec Products, Inc., and the release of cross collateral guarantees (see Notes below).**

**Commercial Leases:**

**The Parent 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 and approximately 17,000 square feet at 50 Baker Hollow Road, both in Windsor, CT (see Note below).**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Estimates:**

**The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.**

**Cash Equivalents:**

Cash and cash equivalents include cash on hand, cash on deposit, money market funds, temporary investment accounts used as cash checking sweep accounts, and any highly liquid debt instruments purchased with a maturity of three months or less. At various times during the year, cash balances exceeded federally insured limits. The Company's uninsured cash balance was \$101,000 and \$0 at June 30, 2006 and 2005, respectively.

**Accounts Receivable:**

**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/or 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:

Office equipment, furniture and fixtures, 7 years

Machinery and equipment, 5 - 20 years

**Intangible Assets:**

**Goodwill and intangible assets deemed to have indefinite lives are no longer subject to amortization. All other intangible assets, classified as definite-lived assets, are amortized over their estimated future lives.**

**Revenue Recognition:**

Revenues are recognized when title of products and risk of loss are transferred to the customer. Customer returns are limited to warranty related issues and are not material to operating results 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 related to specific new products are deferred and amortized over the useful lives of the products. General research 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:**

**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 which 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.**

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 receivable and other assets:

Cash - The Company does not maintain cash balances as part of their line of credit utilization.

Trade accounts receivable - The Company's customers, who are primarily original equipment manufacturers, serve a wide variety of markets worldwide.

Fair Value of Financial Instruments:

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.

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.

#### INVENTORIES:

The major classes of inventories consist of the following as of June 30:

\$	2006	2005
Raw materials	1,824	879
Work-in-process	150	199
Finished goods	1,258	1,598
	3,232	2,676
Less reserves	35	55
	3,197	2,621

#### NET PROPERTY AND EQUIPMENT:

Property and equipment, (summarized by major classification) at June 30 are:

\$	2006	2005
Machinery and equipment	7,008	6,675
Furniture and equipment	1,104	1,068
Vehicles	81	71
Leasehold improvements	66	62
	8,259	7,876
Less accumulated depreciation and amortization	4,536	4,299
	<u>3,723</u>	<u>3,577</u>

#### OTHER ASSETS:

Other assets consist of the following at June 30:

\$	2006	2005
Intangible assets, (net of prior amortization of \$411)	94	94
Deferred product development costs	175	0
Other	9	9
	<u>278</u>	<u>103</u>

#### LINE OF CREDIT:

The Company has a revolving line of credit (LOC) that 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 (8.25%, and 6.25% at June 30, 2006, and 2005, respectively).

The LOC contains various financial and non-financial covenants. At June 30, 2006, the Company had additional borrowing availability of approximately \$2,907,000 under this facility.

NOTES PAYABLE AND LONG-TERM DEBT:

At June 30, 2006, the Company had two equipment loans with sixty month terms maturing in 2009 and 2010. Interest is charged at the bank's prime rate (8.25%, and 7.25% at June 30, 2006, and 2005 respectively). Monthly principal installments for each loan are \$5,000 plus interest on the outstanding balance of the loan. The equipment loans are secured by substantially all of the assets of the Company.

In addition, the Company must comply with certain financial and non-financial covenants, noncompliance with which would be considered an event of default and provide the bank with the right to demand repayment prior to the loan's maturity date.

Debt is summarized as follows at June 30:

\$	2006	2005
Equipment loans and line of credit	322	826
Less: current maturities	124	328
	198	498

Maturities of notes payable and long-term debt for each of the years succeeding June 30, 2006 are as follows:

Year ending June 30	\$
2007	124
2008	93
2009	60
2010	45
	322

**CAPITAL 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 a capital lease included in net property, plant and equipment at June 30 is:

\$	2006	2005
Computer equipment	128	128
Less accumulated amortization	128	100
	0	28

Future minimum rental payments required under the above lease as of June 30, 2006 are \$2,689.

**RESEARCH AND DEVELOPMENT COSTS:**

General research and development costs charged to selling, general and administrative expenses amounted to \$82,004 and \$55,502 for the three months ended June 30, 2006 and 2005 respectively.

**ADVERTISING:**

The Company expenses the production costs of advertising as the costs are incurred. Advertising expense charged to selling, general and administrative expenses totaled \$22,365 and \$11,610 for the three months ended June 30, 2006 and 2005 respectively.

**INCOME TAXES:**

The provision for income taxes at June 30 consists of:

	Three Months Ended	
\$	2006	2005
Current:		
State	5	5
Federal	94	68
	99	73
Deferred	23	40
	122	113

The components of the net deferred tax accounts at June 30 are:

\$	2006	2005
<b>Deferred tax assets:</b>		
Investment tax credits	0	144
Uniform capitalization	4	75
Research and development credit	110	12
Other	58	35
Total deferred assets	171	266
<b>Deferred tax liabilities:</b>		
Property and equipment, net	(1,078)	(1,056)
Deferred research and development costs	(50)	0
Total deferred liabilities	(1,128)	(1,056)

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, and differences between depreciation for financial reporting and tax reporting purposes.

#### 401(k) PLAN:

The Company (through its Parent) has a defined contribution 401(k) plan, which covers all participating employees who are over the age of 21 years and have at least one year of service. The Parent may elect to make a matching contribution equal to a percentage of employee contributions, subject to IRS regulations. In past years, matching contributions have been made in the form of common stock of the Parent, subsequent to the close of the Company's fiscal year.

#### EMPLOYMENT CONTRACTS:

The Company has employment agreements with two of its employees which currently renew on a year to year basis. These agreements provide for combined annual base salaries of \$360,000 and \$295,000 for the fiscal years ended March 31, 2007 and 2006 respectively. The employees may also earn a discretionary bonus based on criteria established by the Board of Directors.

In the event of termination, the two 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.

**RELATED PARTY TRANSACTIONS:**

The Company and its Parent conduct transactions between themselves throughout the year. Those transactions are as follows:

Management Fee:

Effective with the completion of the offering, the Company was obligated to pay the Parent an annual administrative fee of \$38,000, payable monthly in arrears. This fee may be increased each fiscal year to reflect inflationary cost increases as documented in published US government tables. Prior to the offering, the Company paid its parent a management fee of 4% of net sales. Fees paid to the Parent approximated \$173,000 and \$181,000 for the three months ended June 30, 2006 and 2005 respectively.

Office and Manufacturing Facility Rental:

The Company pays rent to its Parent under lease agreements for use of a 55,000 square foot office/manufacturing plant located in Windsor, Connecticut and a portion of a 28,700 square foot multi-purpose building adjacent to the plant (see Note 2). 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. Rental charges for the three months ended June 30, 2006 and 2005 were \$98,000 and \$72,000 respectively.

Future annual minimum payments under the non-cancelable portion of these operating leases are as follows:

\$	
Year ending June 30	
2007	476
2008	487
2009	515
2010	533
2011 and thereafter	409
	2,742

#### CASH FLOW INFORMATION:

Cash paid for interest was \$36,000 and \$49,000 for the three months ended June 30, 2006 and 2005, respectively.

#### MAJOR CUSTOMERS:

The Company had three major customers during the three months ended June 30, 2006 that accounted for 22%, 15% and 10% of revenues. The Company had three major customers during the three months ended June 30, 2005 that accounted for 21%, 13% and 11% of revenues.

The Company had two customers that represented 24% and 19% of accounts receivable at June 30, 2006 and two customers that represented 15% and 12% at June 30, 2005.

#### **ABOUT TURBOTEC**

Turbotec is the holding company for Turbotec Products Inc, ("TPI") an established, profitable, specialist engineering business, based in Windsor, Connecticut, USA.

TPI's business is the design, manufacture and marketing of technologically advanced heat exchangers and value added metal tubing, components and systems for a range of industries including the heating, air conditioning and refrigeration industries.

Through its proprietary manufacturing processes TPI is able to convert mill purchased metal tubing into special purpose spirally fluted (twisted), grooved and coiled tubes and components that are sold to its customers for use in their end products.