FORM 10-QSB
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended May 31, 1996

OR

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

For the transition period from to

Commission File No. 1-10655

ENVIRONMENTAL TECTONICS CORPORATION
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	23-1714256
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

COUNTY LINE INDUSTRIAL PARK
SOUTHAMPTON, PENNSYLVANIA 18966
(Address of principal executive offices)
(Zip Code)

(215) 355-9100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes x No

The number of shares outstanding of the registrant's common stock as of July 15, 1996 is: 2,928,944

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

3 Months Ended
($000's, except per share data, Unaudited)

	May 31, 1996	May 26, 1995
Net Sales	$ 4,509	$ 3,712
Cost of goods sold	3,114	2,286
Gross profit	1,395	1,426

Operating expenses:		
Selling and administrative	904	1,056
Research and development	52	40
	956	1,096
Operating income	439	330
Other expenses:		
Interest expense	226	213
Letter of credit fees	7	8
Other, net	31	-
	264	221
Income before income taxes	175	109
Provision (benefit) for income taxes	55	39
Net income	$ 120	$ 70
Earnings per common share (primary and fully diluted)	$ .04	$ .02

See notes to consolidated financial statements.

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
($000's, Unaudited)

ASSETS	May 31, 1996	February 23, 1996
Current assets:		
Cash and cash equivalents	$ 4	$ 31
Cash equivalents restricted for letters of credit	644	859
Accounts receivable, net	6,534	7,710
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	4,454	4,024
Inventories	4,009	3,611
Prepaid expenses and other current assets	652	574
Total current assets	16,297	16,809
Property, plant, and equipment, at cost, net	2,453	2,498
Software development costs, net of accumulated amortization of $2,119 at May 26 and		

$1,991 at February 24	1,604	1,617
Other assets	2	2
Total assets	$ 20,356	$ 20,926

See notes to consolidated financial statements.

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
($000's, Unaudited)

LIABILITIES	May 31, 1996	February 23, 1996
Current liabilities:		
Current portion of long-term debt	$ 7,380	$ 2,441
Accounts payable - trade	2,118	1,586
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	2,577	3,355
Customer deposits	9	104
Accrued income taxes	209	188
Net arbitration award	295	445
Accrued liabilities	847	812
Total current liabilities	13,435	8,931
Long-term debt, less current portion credit facility payable to banks due March 31, 1997	-	5,214
Other	295	300
	295	5,514
Deferred income taxes	370	370
Total liabilities	14,100	14,815
Commitments and Contingencies (Note 6)	-	-
STOCKHOLDERS' EQUITY		
Common stock - authorized 10,000,000 shares $.10 par value; 2,928,944 shares issued and outstanding	293	293
Capital contributed in excess of par value of common stock	1,717	1,692
Retained earnings	4,246	4,126
Total stockholders' equity	6,256	6,111
Total liabilities and stockholders' equity	$ 20,356	$ 20,926

See notes to consolidated financial statements.

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

3 Months Ended
($000's, Unaudited)

	May 31, 1996	May 26, 1995
Increase (decrease) in cash:		
Reconciliation of net income to net cash provided by (used in) operating activities:		
Net income	$ 120	$ 70
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	290	226
(Increase) decrease in assets:		
Accounts receivable	1,176	1,784
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	(430)	(85)
Inventories	(398)	(369)
Prepaid expenses and other current assets	(78)	(306)
(Decrease) increase in liabilities:		
Accounts payable	532	(422)
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(778)	(131)
Customer deposits	(95)	(104)
Payments Under Settlement Agreements	(250)	-
Accrued liabilities and income taxes	56	(88)
Net cash provided by (used in) operating activities	145	575
Cash flows from investing activities:		
Acquisition of equipment	(58)	(41)
Increase in software development costs	(149)	(103)
Decrease in other assets	-	42
Net cash used in investing activities	(207)	(169)
Cash flows from financing activities:		
Borrowings under credit facility	-	192
Increase (Decrease) in cash equivalents restricted for letters of credit	215	(67)
Payments under credit facility	(175)	(500)
Principal payments of capital leases and other long-term debt	(5)	(5)
Proceeds from issuance of common stock	-	68
Net cash provided by (used in) financing activities	35	(245)
Net increase (decrease) in cash and cash equivalents	(27)	161
Cash and cash equivalents at beginning of period	31	66
Cash and cash equivalents at end of period	$ 4	$ 227
Supplemental schedule of cash flow information:		
Interest paid	$ 128	$ 203
Income taxes paid, net	34	-

See notes to consolidated financial statements.

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)
($000's)

1. The information in this report reflects all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented.

   There has been no significant change in the Company's effective tax rate since February 23, 1996.

2. Under the Company's 1988 Incentive Stock Option Plan, 500,000 shares of the Company's common stock are currently reserved for issuance in connection with the exercise of options, and options to acquire 79,550 shares are currently outstanding.

3. Earnings per common share are based on net income divided by the number of common and common stock equivalent shares (shares issuable upon the exercise of stock options and warrants) outstanding. Weighted average number of common shares and equivalents outstanding were approximately 2,922,000 (primary and fully diluted) in 1996 and 2,874,000 (primary) in 1995.

4. Inventories consist of the following:

	May 31, 1996	February 23, 1996
Raw materials	$ 708	$ 696
Work in process	3,301	2,915
Finished goods	-	-
	$ 4,009	$ 3,611

5. The components of accounts receivable are as follows:

	May 31, 1996	February 23, 1996
U. S. Government receivables billed and unbilled contract costs subject to negotiation	$ 3,767	$ 3,848
U.S. receivables billed	522	746
International:		
Receivables billed	995	1,866
Unbilled contract costs subject to negotiation	1,374	1,374
	6,658	7,834
Less allowance for doubtful accounts	(124)	(124)
	$ 6,534	$ 7,710

U.S. Government receivables billed and unbilled contract costs subject to negotiation:

Unbilled contract costs subject to negotiation represent claims made or to be made against the U.S. Government. In fiscal 1995, the Company recorded approximately $1.4 million of claims revenue related to two certain aircrew training systems contracts. No claims revenue was recorded in fiscal 1996. The Company has recorded claims to the extent of contract costs incurred. These costs have been incurred in connection with U.S. Government-caused delays, errors in specifications and designs, and other unanticipated causes and may not be received in full during fiscal 1997. In accordance with generally accepted accounting principles, revenue recorded by the Company from a claim does not exceed the incurred contract costs related to the claim. The Company estimates that the total net claims filed and to be filed approximate $7.3 million, a portion of which has been included in U.S. Government receivables billed and unbilled contract costs subject to negotiation. Such claims are subject to negotiation and audit by the U.S. Government.

International unbilled contract costs subject to negotiation:

Unbilled contract costs subject to negotiation represent claims made or to be made against the Royal Thai Air Force ("RTAF"). In the first quarter of fiscal 1995, the Company recorded approximately $1.1 million of claims receivable (but no claims revenue) for letters of credit drawn related to the same contract. The Company has recorded claims to the extent of the drawn letters of credit and called performance bond, which may not be recovered in full in fiscal 1997. The total net claim filed includes these amounts and are subject to arbitration and negotiation with the foreign government.

6. Contingencies:

Claims and Litigation:

In October 1993, the Company was notified by the RTAF that the RTAF was terminating a certain $4.6 million simulator contract with the Company. Although the Company has performed in excess of 90% of the contract, the RTAF alleged a failure to completely perform. In connection with this termination, the RTAF made a call on a $229 performance bond, as well as a draw on approximately $1.1 million of advance payment letters of credit. The RTAF has also asserted liquidated damages against the Company. In October 1993, the surety made payment on the $229 performance bond, and in the first quarter of fiscal 1995, it made payment on the approximately $1.1 million advance payment letters of credit. The Company has commenced arbitration with the RTAF. In the arbitration, the Company is asserting claims against the RTAF for reimbursement of the costs incurred on the bond and letters of credit called, as well as claims for costs incurred in connection with RTAF-directed changes in the work and RTAF-caused delays and damages to the Company's work. The Company is also claiming that the termination was wrongful and that the Company is entitled to complete the work and to be paid the balance of the contract price. The case is pending before the Thailand Arbitration Board. Management believes the Company has meritorious claims in excess of claims made by the RTAF, as well as meritorious grounds to support nonpayment of the performance bond and letters of credit. The Company has also denied the RTAF claims and believes they are without merit. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements. Management and legal counsel believe that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position or results of operations.

Certain other claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Company. In the opinion of management, after consultation with legal counsel, all such matters are reserved for or adequately covered by insurance or, if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Company if disposed of unfavorably.

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION
May 31, 1996

(Unaudited)

Material Changes in Financial Condition

Cash provided from operations decreased from $575,000 in the prior year period to $145,000 in the current three months ended May 31, 1996. The decrease primarily resulted from an increase in costs and estimated earnings in excess of billings on uncompleted long-term contracts coupled with a decrease in billings in excess of costs and estimated earnings on uncompleted long-term contracts, both of which resulted in uses of cash from operations. The change in both of these accounts reflected the stage of billing/production for many of the long-term contract jobs in the current period. Many of the existing contracts have passed the initial start-up period (where billing normally exceeds cost expenditures) and are into the middle/pre-shipment phase where production costs normally exceed billing balances. Because of the anticipated receipt of revenues in the next quarter, the Company will have sufficient liquidity to fund continuing operations and to meet all obligations as they become due.

The Company has a revolving credit agreement with two banks, which provides financing of up to $9.0 million. The facility expires by its terms on March 31, 1997. The credit facility permits both direct borrowing for working capital and other corporate purposes and the issuance of letters of credit for the Company. At May 31, 1996, there were outstanding letters of credit of approximately $644,000 and the Company had borrowings of approximately $7.3 million under the credit facility.

The Company's sales backlog at May 31, 1996 and February 23, 1996 for work to be performed, training and maintenance contracts, and prospective revenue to be recognized after that date under written agreements was approximately $26,000,000 and $23,000,000, respectively.

Material Changes in Results of Operations

Net sales of approximately $4.5 million for the three months ended May 31, 1996 increased in comparison to the equivalent prior year's quarter. Increases were evidenced across all product lines except environmental which had a temporary slow-down reflecting reduced bookings at the end of last year. The most significant increase was evidenced in sterilizers with an 83% increase.

Although sales increased, gross profit decreased in the current quarter to $1,395,000, 30.9% of net sales, from $1,426,000, 33.8% of net sales, in the prior year's period. This decrease was primarily attributable to the aforementioned sales mix shift to sterilizers (from a higher mix of aircrew training sales in the prior period) as sterilizers generally produce lower margins than the aircrew training systems line.

Operating expenses decreased $140,000, 12.8%, reflecting continuing stringent cost controls.

Interest expense increased from the prior year as a reduced balance was offset by a higher interest rate.

Other expenses in the current period reflected amortization expense of $25,000 of a deferred finance charge associated with warrants issued in conjunction with the Company's credit facility which expires in March, 1997.

Part II - Other Information

Item 1. Legal proceedings:

See Note 6 in Part I.

Item 6. Exhibits and Reports on Form 8-K:

a. Exhibits

Exhibit 27 - Financial Data Schedule.

b. Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended May 31, 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENVIRONMENTAL TECTONICS CORPORATION
(Registrant)

By:/s/ Duane Deaner
Duane Deaner,
Chief Financial Officer (authorized officer and principal financial officer)

Date: July 15, 1996

EXHIBIT INDEX

Exhibit No.	Description

27 Financial Data Schedule.

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