FORM 10-QSB
SECURITIES AND EXCHANGE
WASHINGTON, D.C. 50549

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED AUGUST 29, 1997

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 05 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)	(IRS Employer or organization Identification No.)

COUNTY LINE INDUSTRIAL PARK SOUTHHAMPTON, 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 last 90 days.

Yes X No ___________

The registrant had 3,001,716 shares of common stock outstanding as of September 30, 1997.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements:

Environmental Tectonics Corporation Consolidated Income Statements
(unaudited)

	Three months ended: August 29, 1997	Three months ended: August 30, 1996	Six months ended: August 29, 1997	Six months ended: August 30, 1996
	(In thousands, except per share information)			
Net Sales	$7,181	$4,897	$13,825	$9,406
Cost of goods sold	4,823	3,315	9,507	6,429
Gross profit	2,358	1,582	4,318	2,977
Operating expenses:				
Selling and administrative	1,244	979	2,374	1,883
Research and development	19	22	59	74

	1,263	1,001	2,433	1,957
Operating income	1,095	581	1,885	1,020
Other expenses:				
Interest expense	384	289	601	515
Letter of credit fees	8	4	24	11
Other, net	72	33	83	64
	464	326	708	590
Income before income taxes	631	255	1,177	430
Provision for income taxes	225	83	411	138
Net income	$406	$172	$766	$292
Per share information:				
Income per share: primary	$0.11	$0.06	$0.21	$0.10
Income per share: fully diluted	$0.10	$0.06	$0.19	$0.10
Number of shares: primary	3,190,262	2,967,199	3,166,133	2,955,026
Number of shares: fully diluted	3,534,179	2,983,917	3,501,524	2,975,060

<FN>

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

Environmental Tectonics Corporation
Consolidated Balance Sheets
(unaudited)

Assets	August 29, 1997	February 28, 1997
	(In thousands)	
Current assets:		
Cash and cash equivalents	$ 92	$189
Cash equivalents restricted for letters of credit	259	665
Accounts receivable, net	11,410	11,352
Cost and estimated earnings in excess of billings on uncompleted long-term contracts	5,573	3,345
Inventories	2,340	2,719
Prepaid expenses and other current assets	341	92
	20,015	18,362
Property, plant and equipment, at cost, net of accumulated depreciation of $6,474 at August 29 and $6,258 at February 28	2,641	2,480
Software development costs, net of accumulated amortization of $3,607 at August 29 and $3,244 at February 28	1,306	1,430
Other assets	162	37
Total assets	$24,124	$22,309

Environmental Tectonics Corporation
Consolidated Balance Sheets (continued)
(unaudited)

Liabilities	August 29, 1997	February 28, 1997
	(In thousands)	
Current liabilities:		
Current portion of long-term debt	$ 93	$ 119
Convertible notes payable - related		

parties	800	1,300
Accounts payable - trade	1,357	1,799
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	1,986	2,051
Customer deposits	609	1,746
Accrued income taxes	474	271
Accrued liabilities	1,790	1,528
Total current liabilities	7,109	8,814
Long-term debt, less current portion:		
Credit facility payable to banks	3,434	6,714
Subordinated debt	3,227	-
Other	271	283
	6,932	6,997
Deferred income taxes	89	89
Total liabilities	14,130	15,900
Redeemable cumulative preferred stock, $100 par and redemption value: 25,000 shares authorized; 25,000 shares issued and outstanding	2,309	-
Stockholders' Equity		
Common stock; $.10 par value; 10,000,000 shares authorized; 3,001,716 and 2,963,083 issued and outstanding at August 29, 1997 and February 28,1997, respectively	300	296
Capital contributed in excess of par value of common stock	2,624	2,007
Retained earnings	4,761	4,106
Total stockholders' equity	7,685	6,409
Total liabilities and stockholders' equity	$24,124	$22,309

<FN>
The accompanying notes are an integral part of the consolidated financial statements.

Environmental Tectonics Corporation
Consolidated Statements of Cash Flows
(unaudited)

	Six months ended August 29, 1997	August 30, 1996
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 766	$ 292
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation and amortization	635	571
Provision for losses on accounts receivable and inventories	193	-
Changes in operating assets and liabilities:		
Accounts receivable	(108)	(32)
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	(2,228)	59
Inventories	77	(471)
Prepaid expenses and other current assets	(78)	81
Accounts payable	(442)	555
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(702)	(775)
Customer deposits	(500)	21
Accrued income taxes	203	74
Other accrued liabilities	262	236
Payments under settlement agreements	(60)	(350)
Net cash (used) provided by operating activities	(1,982)	261
Cash flows from investing activities:		
Acquisition of equipment	(218)	(115)
Capitalized software development costs	(240)	(309)

Net cash used in investing activities	(458)	(424)
Cash flows from financing activities:		
Borrowings under credit facility	3,434	-
Payments under credit facility	(6,714)	(325)
Proceeds from subordinated debt, net	3,227	-
Proceeds from preferred stock, net	2,293	-
Payment of dividends on preferred stock	(95)	-
Decrease in cash equivalents restricted for letters of credit	406	465
Decrease in notes payable - related party	(500)	-
Deferred financing costs	(335)	-
Net increase of other long-term debt	6	(8)
Proceeds from issuance of common stock	621	-
Net cash provided by financing activities	2,343	132
Net increase (decrease) in cash and cash equivalents	(97)	(31)
Cash and cash equivalents at beginning of period	189	31
Cash and cash equivalents at end of period	$92	$0
Supplemental schedule of cash flow information:		
Interest paid	517	515
Income taxes paid	230	60

<FN>

The accompanying notes are an integral part of the consolidated financial statements.
/TABLE

Supplemental information on noncash operating and investing activities:

The Company transferred $158,000 of inventory to property, plant and equipment and $637,000 of customer deposits to billings in excess of costs and estimated earnings on uncompleted long-term contracts during the six month period ended August 29, 1997.

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

Environmental Tectonics Corporation

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared by Environmental Tectonics Corporation, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

Certain information in footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form

10-KSB for the year ended February 28, 1997.

2. Earnings per Share

Net income per share of common stock is computed by dividing earnings applicable to common stock by the weighted average number of shares of common stock and common stock equivalents, if dilutive, outstanding during the three and six month periods ended August 29,1997 and August 30, 1996. Common stock equivalents include shares issuable under the exercise of dilutive common stock options and stock warrants. Fully diluted earnings per share additionally assumes the conversion of preferred stock and related parties notes payable. Net earnings used in the computation of primary earnings per share are reduced by preferred stock requirements.

<TABLE>

	Three months ended: August 29, 1997	August 30, 1996	Six months ended: August 29, 1997	August 30, 1996
	(In thousands, except per share information)			
Primary earnings per share:				
Net income for primary earnings per share	$406	$172	$766	$292
Preferred stock dividends	(69)	-	(95)	-
Earnings applicable to common stock	$337	$172	$671	$292
	2,981,939	2,928,944	2,974,740	2,928,944
Weighted average shares outstanding				
Common stock equivalents based on average market price	208,323	38,255	191,393	26,082
Total equivalent shares for primary computation	3,190,262	2,967,199	3,166,133	2,955,026
Per share amounts:				
Earnings per common share	$0.11	$0.06	$0.21	$0.10
Fully-diluted earnings per share:				
Net income for fully-diluted earnings per share	$406	$172	$766	$292
Preferred stock dividends	(69)	-	(95)	-
Earnings applicable to common stock	$337	$172	$671	$292
Weighted average shares outstanding	2,981,939	2,928,944	2,974,740	2,928,944
Common stock equivalents based on average market price	552,240	54,973	526,784	46,116
Total equivalent shares for fully-diluted computation	3,534,179	2,983,917	3,501,524	2,975,060
Per share amounts:				
Earnings per common share	$0.10	$0.06	$0.19	$0.10

3. Accounts Receivable

The components of accounts receivable are as follows:

	August 29, 1997	February 28, 1997
	(In thousands)	

U.S. Government receivables billed and unbilled contract costs subject to negotiation	$5,000	$5,284
U.S. commercial receivables billed	915	2,477
International receivables billed	5,583	3,828
	11,498	11,589
Less allowance for doubtful account	(89)	(237)
	$11,409	$11,352

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 under a contract for a centrifuge. These costs were recorded during fiscal years 1994 and 1995. The Company has recorded claims, amounting to $2.8 million, including $150,000 recorded in the first quarter of fiscal 1998, 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 1998. 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 currently has approximately $8.6 million in claims filed with the U.S. Government. The U.S. Government has responded to the claims with either denials or deemed denials that the Company has appealed. During the first quarter of fiscal 1998, the Company recorded an additional $150,000 in claims revenue, reflecting additional expenditures on the centrifuge contract that will be incorporated into additional claims to be filed with the U.S. Government. Additional amounts are under review for the period November 1995 through October 1996 to determine what, if any, additional amounts above the $150,000 recorded in fiscal 1998 can be filed as supplemental claims. Such claims are subject to negotiation and audit by the U.S. Government.

In November 1996, the Company invoiced the balance due under the centrifuge contract; at August 29, 1997, approximately $1.7 million was in U.S. Government receivables. Given the U.S. Government's lack of response, on June 27, 1997, a claim was submitted to the Contracting Officer in an attempt to expedite payment of most of the outstanding amount still open under the centrifuge contract. Collectibility of these amounts may be dependent upon the resolution of the above claims.

International receivables billed:

International receivables billed includes $1.3 million related to a certain contract with the Royal Thai Air Force (see Note 7).

4. Inventories

Inventories are valued at the lower of cost or market using the first-in, first out (FIFO) method and consist of the following:

	August 29, 1997	February 28, 1997
	(In thousands)	
Raw materials	$417	$417
Work in Process	1,923	2,302

Finished Goods	-	-
	$2,340	$2,719

5. Recapitalization

On March 27, 1997, the Company entered into a revolving credit agreement (the "Credit Agreement") with a new bank, establishing a credit facility of $10 million through May 31, 1998, at which time the facility is reduced to $9 million. This facility bears interest at the bank's prime lending rate and expires on May 31, 1999. Substantially all of the Company's short-term financing is provided by this bank. The Company incurred $330,000 of financing fees related to origination of the Credit Agreement. This amount is included in prepaid expenses and other assets and will be charged to interest expense over the term of the agreement, which is two years. Additionally, the Company issued $4 million of subordinated debentures, bearing interest at 12% per annum, due March 27, 2004 to a financial investment company, a director of which has been subsequently appointed and elected to the Company's Board of Directors. In connection with the subordinated debentures, warrants were issued to acquire 166,410 shares of the Company's common stock at an exercise price of $1.00 per share. $499,000 of the proceeds from the sale of the debentures was allocated to the warrants and credited to capital contributed in excess of par value of common stock. This amount along with financing fees of $311,000, which were netted against the proceeds, will be amortized to interest expense over the term of the debentures, which is seven years. The Company also issued 25,000 shares of 11%, redeemable, convertible preferred stock for $2.5 million. Each share of convertible stock is convertible, at the option of the shareholder, into 13.33 shares of the Company's common stock at a price of $7.50 per share. Financing fees for the preferred stock were approximately $208,000, which were netted against the proceeds and will be accreted to retained earnings over five years. Total financing fees associated with the recapitalization were approximately $849,000. The proceeds from these transactions were used to repay, in full, amounts outstanding with a prior lender.

The components of the subordinated debt and preferred stock at August 29, 1997 were as follows:

	Subordinated Debt	Preferred Stock
	(In thousands)	
Face value	$4,000	$2,500
Value of warrants issued	(499)	-
Amortization of warrants	18	-
Deferred financing costs	(311)	(208)
Amortization of financing costs	19	-
Accretion of preferred stock	-	17
Balance at August 29, 1997	$3,227	$2,309

6. Stockholders' Equity

The components of stockholders' equity at February 28, 1997 and August 29, 1997 were as follows:

Common stock Shares	Common stock Par Amount	Additional Capital	Retained Earnings	Total

(In thousands, except share information)

Balance, February 28, 1997	2,963,083	$296	$2,007	$4,106	$6,409
Net income for six month period ended August 29, 1997				766	766
Value of warrants issued in connection with issuance of subordinated debt			499		499
Dividend on Preferred stock				(95)	(95)
Accretion of preferred stock				(16)	(16)
Shares issued in connection with employee stock purchase and stock option plans	38,633	4	118		122
Balance, August 29, 1997	3,001,716	$300	$2,624	$4,761	$7,685

7. Contingencies:

Claims and Litigation:

In October 1993, the Company was notified by the Royal Thai Air Force ("RTAF") that the RTAF was terminating a certain $4.6 million simulator contract with the Company. Although the Company had performed in excess of 90% of the contract, the RTAF alleged a failure to completely perform. In connection with termination, the RTAF made a call on a $229,000 performance bond, as well as a draw on an approximately $1.1 million advance payment letter of credit. Work under this contract had stopped while under arbitration, but on October 1, 1996, the Thai Trade Arbitration Counsel rendered its decision under which the contract was reinstated in full and the Company was given a period of nine months to complete the remainder of the work. Upon completion of the contract, the RTAF will pay the Company the open receivable balance ($1.3 million), consisting of the performance bond and the advance payment, plus 10% due on the balance of the contract. Except as noted in the award, the rights and obligations of the parties remain as per the original contract. Should the Company fail to perform under the contract in the time allotted, the RTAF could invoke penalties against the Company, including termination of the contract and delay penalties. Based on progress to date and recent discussions with the RTAF, the Company has received from the RTAF an extension to the nine month period to complete the installation and training.

A lawsuit was commenced against the Company in April 1997 in the United States District Court for the District of Puerto Rico by an employee of a customer who claims to have been injured as a result of an alleged malfunction of a sterilizer manufactured by the Company. The plaintiff is seeking $3 million in damages. The Company has up to $10 million of product liability coverage, subject to a $100,000 deductible. The outcome of this litigation is not currently predictable.

Certain 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.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations
Three months ended August 29, 1997 compared to August 30, 1996

The Company had net income of $406,000 or $.10 per share, an increase of $234,000 or 136% over the second quarter of fiscal 1997. Operating income increased $514,000 or 89%.

Sales were $7,181,000, an increase of $2,284,000 or 47%. This increase primarily reflected higher sales in the

Aeromedical Training Systems ("ATS") and Hyperbaric product lines (ATS more than doubled compared to the second quarter of fiscal 1997), partially offset by decreases in the Company's Process Simulation Group.

Gross profit increased $776,000 or 49%, due principally to the higher sales volume. As a percentage of sales, gross profit was 33% compared to 32% for the same period a year ago. This increase was the result of production efficiencies related to improved factory utilization as well as a product mix shift to higher margin ATS products.

Selling and administrative expenses increased $265,000 or 27% due principally to variable costs related to the higher sales volume, principally commissions. As a percentage of sales, these expenses were 17%, compared to 20% for the same period a year ago. This improvement was due, in part, to the fixed administrative costs being spread over the higher sales volume.

Interest expense increased $95,000 or 33%, reflecting both higher borrowings at a lower rate and increased amortization of various deferred financing fees associated with the new credit facility of March 1997. The Company's tax rate approximates the statutory rate.

Six months ended August 29, 1997 compared to August 30, 1996

The Company had net income of $766,000 or $.19 per share, an increase of $474,000 or 162% over the first six months of fiscal 1997. Operating income increased $865,000 or 85%.

Sales were $13,825,000, an increase of $4,419,000 or 47%. This increase reflected a ramp up of ATS and simulation products, partially offset by reduced sales primarily in the Process Simulation Group. As a percentage of the total, ATS activity for the six month period constituted 55% of total sales compared to 34% in the prior year corresponding period. Revenue recognized under contracts with the United Kingdom Royal Air Force accounted for $3.3 million or 25% of total sales. Sales to international customers, principally government agencies, accounted for $9 million or 65% of total sales compared to $7 million or 74% for the same period a year ago. Gross profit increased $1,341,000 or 45%, due principally to the higher sales volume. As a percentage of sales, gross profit was 31% , down slightly from the same period a year ago.

Selling and administrative expenses increased $491,000 or 26% due principally to variable costs related to the higher sales volume, primarily commissions expense which increased $301,000. Adjusted for the commission increase, selling and administrative expenses increased $190,000 or 10% on a sales increase of 47%. As a percentage of sales, these expenses were 17%, compared to 20% for the same period a year ago. This improvement was due, in part, to the fixed administrative costs being spread over the higher sales volume.

Interest expense increased $86,000 or 33%, reflecting both higher borrowings at a lower rate and increased amortization of various deferred financing fees associated with the new credit facility of March 1997. The Company's tax rate approximates the statutory rate.

Liquidity and Capital Resources

On March 27, 1997, the Company entered into a revolving credit agreement (the "Credit Agreement") with a new bank, establishing a credit facility of $10 million through May 31, 1998, at which time the facility is reduced to $9 million. This facility bears interest at the bank's prime lending rate and expires on May 31, 1999. Substantially all of the Company's short-term financing is provided by this bank. The Company incurred $330,000 of financing fees related to origination of the Credit Agreement. This amount is included in prepaid expenses and other assets and will be charged to interest expense over the term of the agreement, which is two years. Additionally, the Company issued $4 million of subordinated debentures, bearing interest at 12% per annum, due March 27, 2004 to a financial investment company, a director of which has been subsequently appointed and elected to the Company's Board of Directors. In connection with the subordinated debentures, warrants were issued to acquire 166,410 shares of the Company's common stock at an exercise price of $1.00 per share. $499,000 of the proceeds from the sale of the debentures was allocated to the warrants and credited to capital contributed in excess of par value of common stock. This amount along with financing fees of $311,000, which were netted against the proceeds, will be amortized to interest expense over the term of the debentures, which is seven years. The Company also issued 25,000 shares of 11%, redeemable, convertible preferred stock for $2.5 million. Each share of convertible stock is convertible, at the option of the shareholder, into 13.33 shares of the Company's common stock at a price of $7.50 per share. Financing fees for the preferred stock were approximately $208,000, which were netted against the proceeds and will be accreted to retained earnings over five years. Total financing fees associated with the recapitalization were approximately $849,000. The proceeds from these transactions were used to repay, in full, amounts outstanding with a prior lender. At August 29, 1997, the Company had $5.7 million available borrowings under its Credit Agreement.

In connection with the 1996 extension of the old credit facility with another bank, the Company had issued to the former bank warrants to purchase 100,000 shares of the Company's common stock at $5.18 per share. Pursuant to the antidilution provisions of the warrants, the number of shares covered by the warrants has been increased to 106,433 shares and the exercise price has been reduced to $4.87. In June 1997, the Company filed a registration statement with the Securities and Exchange Commission (Form S-3) to register the common stock issuable upon the exercise of the warrants. As a result of this filing, the bank returned to the Company an escrow deposit of $375,000.

During the six month period ended August 29, 1997, the Company used $1,982,000 for operating activities. This was primarily the result of an increase in costs and estimated earnings in excess of billings and a reduction in customer deposits. The Company expects to increase its billings for these long-term contracts during the third and fourth quarters of fiscal 1998. These cash uses were offset, in part, by net income and non-cash charges of depreciation, amortization and increases in reserve balances. The Company used $458,000 for investing activities of capital expenditures and software development costs. Funds were provided for operating and investing activities from the Company's Credit Agreement. The Company believes that cash generated from operating activities as well as available borrowings under its Credit Agreement will be sufficient to meet its obligations.

The Company's sales backlog at August 29, 1997 and August 30, 1996 for work to be performed and revenue to be recognized under written agreements after such dates was approximately $40 million and $31.5 million, respectively.

This report contains certain "forward-looking statements" including, without limitation, statements containing the words "believes," "anticipates," "intends," "expects" and words of similar import relating to the Company's operations. There are important factors that could cause actual results to differ materially from those indicated by such forward-looking statements including contract cancellations, political unrest in customer countries, general economic conditions and the risk factors detailed from time to time in Environmental Tectonics Corporation's periodic reports and registration statements filed with the Securities and Exchange Commission, including, without limitation, Environmental Tectonics Corporations Annual Report on Form 10-KSB for the fiscal year ended February 28, 1997.

Part II

Item 1. Legal Proceedings

There were no material developments in the litigation previously described in the Company's Annual Report on Form 10-KSB for the fiscal year ended February 27, 1997.

Item 2. Changes in Securities

The constituent instruments defining the rights of the holders of any class of securities were not modified nor were the rights evidenced by any class of registered securities materially limited or qualified during the period covered by this report

Item 3. Defaults Upon Senior Securities

No defaults occurred during the period covered in this report.

Item 4. Submission of Matters to Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 3.1 Articles of Incorporation
- 3.2 Bylaws
- 27 Financial Data Schedule

(b) Reports on Form 8-K

None

Signatures

Pursuant to the requirements of the Securities 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)

EXHIBIT INDEX

3.1 Articles of Incorporation (Incorporated herein by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended February 28, 1997).

3.2 Bylaws (Incorporated herein by reference to Exhibit 3(ii) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 25, 1994).

27 Financial Data Schedule.

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