
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

**CURRENT REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934**

Date of Earliest Event Reported
February 20, 2009

Environmental Tectonics Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation of organization)

1-10655

(Commission File Number)

23-1714256

(IRS Employer Identification Number)

County Line Industrial Park
Southampton, Pennsylvania
(Address of principal executive offices)

18966
(Zip Code)

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

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

Item 3.02. Unregistered Sale of Equity Securities.

On February 20, 2009, Environmental Tectonics Corporation (“ETC”) completed a transaction with H.F. Lenfest (“Lenfest”) pursuant to which Lenfest made a loan to ETC in the principal amount of \$2,000,000 (the “Loan”). The Loan is to be used by ETC solely in connection with working capital funding to support ETC’s bid on a contract (the “Government Contract”) with the United States government (the “Government”).

The terms of the Loan are set forth in a Secured Promissory Note, dated February 20, 2009, by ETC in favor of Lenfest (the “Note”). The Note accrues interest at the rate of 15% per annum, compounded annually. This interest rate will be reduced to 10% per annum if ETC receives the Shareholder Approval (as defined below). In the event of a default under the Note, the interest rate will be increased by six percentage points. Interest is payable on the maturity date, at the option of Lenfest, in cash, in shares of a new series of preferred stock that ETC intends to create or in shares of ETC common stock. The Note will mature on the earlier of (i) three (3) days following the date ETC is informed by the Government or otherwise learns that it has been denied or will not be awarded the Government Contract, (ii) six months following the date of the Note if ETC has not obtained the affirmative vote of the shareholders of ETC in connection with a new financing transaction with Lenfest on or before the Shareholder Approval Date (as defined below) (the “Shareholder Approval”) or (iii) three years following the date of the Note. ETC may prepay the Note at any time without premium or penalty. The Note provides for customary events of default with corresponding grace periods, including the failure to pay any principal or interest when due, failure to comply with covenants, material misrepresentations, certain bankruptcy, insolvency or receivership events, imposition of certain judgments and the liquidation of ETC. In connection with the Loan, ETC will pay to Lenfest an origination fee of 20,000 shares of ETC common stock.

The obligations of ETC to Lenfest under the Note are secured by the grant of a first and prior security interest in all of the personal property of ETC pursuant to the terms of a Security Agreement made by ETC in favor of Mr. Lenfest.

In connection with the Loan, ETC issued to Lenfest a warrant (the “Warrant”) to purchase 143,885 shares of ETC common stock, at an exercise price per share equal to \$1.39, which is equal to the average price of ETC common stock for the 120 trading days immediately preceding the date of the Warrant. If the Note is not repaid in full on or before June 24, 2009 or ETC does not obtain the Shareholder Approval by the 60th day following the date on which ETC and Lenfest enter into definitive agreements relating to a new financing transaction with Lenfest (which date may be extended by 30 days if the Securities and Exchange Commission provides comments to the proxy statement filed by ETC in connection with the Shareholder Approval but which date will be no later June 24, 2009) (the “Shareholder Approval Date”), then Lenfest will be entitled to purchase 719,424 shares of ETC common stock under the Warrant. Further, if the Note is not repaid in full on or before June 24, 2009 or ETC does not obtain the Shareholder Approval by the Shareholder Approval Date, the exercise price per share of the Warrant will be decreased to \$0.69. The Warrant may be exercised at any time until the seventh

anniversary of its issuance. The Warrant contains anti-dilution protection for issuances of ETC's common stock or securities convertible into ETC's common stock at prices below the exercise price of the Warrant. Notwithstanding the terms of the Warrant, ETC will not be required to issue shares of Common Stock in excess of the maximum number permissible under Section 713 of the Listing Standards, Policies and Requirements of the NYSE Alternext US Company Guide or any successor rule unless the issuance of the Warrant and the shares of ETC common stock issuable upon exercise of the Warrant have been approved by the Company's shareholders.

As Lenfest is a related party as defined by Regulation S-K, ETC's Audit Committee, comprised of Messrs. Howard Kelley and Alan Mark Gemmill and Dr. George Anderson, each of whom is an independent director as defined by the NYSE Alternext US Company Guide and applicable securities laws, approved the terms and conditions of the Note, the Security Agreement and the Warrant.

ETC is relying on the exemption to the registration requirements of the Securities Act of 1933, as amended (the "Act") set forth in Section 4(2) of the Act and Regulation D promulgated thereunder with respect to the issuance and sale of the Note, the Warrant, and the Origination Fee Shares and other available exemptions with respect to the issuance of ETC common stock upon the exercise of the Warrant.

The foregoing description of the Note, Security Agreement and Warrant is qualified in its entirety by reference to the Note, Security Agreement and Warrant, which are filed as Exhibits 10.1, 10.2 and 10.3 hereto and incorporated herein by reference. ETC's press release dated February 24, 2009 announcing the transaction with Lenfest is attached hereto as Exhibit 99.1 and incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

The following exhibits are filed herewith:

- 10.1 Secured Promissory Note, dated February 20, 2009, by ETC in favor of Lenfest.
 - 10.2 Security Agreement, dated as of February 20, 2009, by ETC in favor of Lenfest.
 - 10.3 Common Stock Warrant, dated February 20, 2009, issued by ETC to Lenfest.
 - 99.1 Press Release dated February 24, 2009.
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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

Date: February 25, 2009

By /s/ Duane D. Deaner
Duane D. Deaner
Chief Financial Officer

EXHIBIT INDEX

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SECURED PROMISSORY NOTE

\$2,000,000

February 20, 2009

FOR VALUE RECEIVED, ENVIRONMENTAL TECTONICS CORPORATION, a Pennsylvania corporation ("**Maker**"), does hereby promise to pay to the order of H.F. LENFEST, an individual residing in the Commonwealth of Pennsylvania ("**Payee**"), at Payee's offices located at 300 Barr Harbor Drive, Suite 450, Conshohocken, Pennsylvania 19428, or at such other place as the holder hereof may from time to time direct Maker in writing, the aggregate principal sum of TWO MILLION DOLLARS (\$2,000,000) in lawful money of the United States of America, together with interest accruing on the unpaid outstanding principal balance under this Secured Promissory Note (this "**Note**") as provided below. This Note is being issued to Payee in connection with Payee's providing working capital funding to support Maker's bid on a contract (the "**Government Contract**") with the United States government or a division thereof (the "**Government**") by providing evidence of Maker's financial abilities to perform the Government Contract.

Interest Rate. Interest shall accrue on the outstanding principal amount hereof at a rate of fifteen percent (15%) per annum, compounded annually (the "**Interest Rate**"), until paid in full; *provided, however*, that the Interest Rate shall be reduced automatically to ten percent (10%) per annum, compounded annually, retroactively from the date hereof in the event the Company receives the Shareholder Approval (as hereinafter defined). Interest may be payable, in the sole discretion of Payee, (a) in cash, (b) in shares of a new series of preferred stock that will be created in the event the Shareholder Approval is obtained or (c) in shares of Common Stock (as hereinafter defined), which number of shares of Common Stock to be determined by dividing the amount of interest due on an interest payment date by the Market Price (as hereinafter defined) of the Common Stock on such date. For purposes of this Note, the "**Market Price**" of a share of Common Stock shall mean, as of any date, (i) the closing sale price for the shares of Common Stock as reported on NYSE Alternext US LLC, the successor to the American Stock Exchange ("**AMEX**") by Bloomberg Financial Markets ("**Bloomberg**") for the trading day immediately preceding such date, or (ii) if AMEX is not the principal trading market for the shares of Common Stock, the average of the reported closing sale prices reported by Bloomberg on the principal trading market for the Common Stock during the one hundred twenty (120) day period immediately preceding such date, or (iii) if market value cannot be calculated as of such date on any of the foregoing bases, the Market Price shall be determined in good faith by the Board of Directors of the Company. Interest shall be payable, at the option of Payee, on each anniversary date of this Note, with any accrued and unpaid interest payable on the Maturity Date. Payee shall deliver Maker at least five (5) days prior written notice if it wishes to elect to be paid interest on an anniversary date.

Origination Fee. The Company shall pay to Payee an origination fee payable in shares of common stock, par value \$0.05 per share, of Maker (the "**Common Stock**"), equal to 20,000 shares (the "**Origination Fee Shares**"). As soon as practicable following the date hereof, the Company shall issue the Origination Fee Shares and deliver to Payee a certificate evidencing such shares. In addition and in further consideration of this Note, Maker is also issuing to Payee a Common Stock Purchase Warrant exercisable for 143,885 shares of Common Stock in

accordance with the terms set forth therein (the "**Warrant**"). By acceptance of this Note, the Origination Fee Shares and the Warrant, Payee hereby waives any anti-dilution rights under (i) that certain Senior Subordinated Convertible Note, dated as of February 20, 2003, (ii) the Series B convertible preferred stock of Maker held by Payee, and (iii) the Series C convertible preferred stock of Maker held by Payee, in connection with Maker's issuance of the Origination Fee Shares, the Warrant and the shares of Common Stock issuable upon exercise of the Warrant.

Maturity; Use of Proceeds.

This Note shall mature and all unpaid principal and interest hereunder, if not sooner paid in accordance with the provisions hereof, shall be due and payable in full on the earlier of (i) three (3) days following the date Maker is informed by the Government or otherwise learns that it has been denied or will not be awarded the Government Contract; (ii) six (6) months following the date hereof if Maker has not obtained the affirmative vote of the shareholders of Maker for a new financing transaction with Payee and the restoration in full of Payee's voting rights on his preferred stock and common stock in Maker on or before the Shareholder Approval Date (as defined in the Warrant) (the "**Shareholder Approval**"); or (iii) three (3) years following the date hereof (the earlier of (i), (ii) or (iii), the "**Maturity Date**").

The proceeds of this Note shall be deposited into a newly created restricted account and shall be used solely for working capital necessary for the performance of the Government Contract. None of such proceeds shall be used for any other purpose.

Prepayment. The principal amount of this Note may be prepaid, either in whole or in part, at any time following the date hereof without premium or penalty. Any such prepayment shall be accompanied by all accrued and unpaid interest on the principal amount being prepaid.

Security. Maker has delivered as security for the performance of its obligations under this instrument (i) a Security Agreement of even date herewith (the "**Security Agreement**") covering all of Maker's property as described in the Security Agreement; and (ii) a UCC-1 Financing Statement granting Payee a first lien position on such property which shall be filed with the Department of State of the Commonwealth of Pennsylvania. By acceptance of this Note, Payee covenants and agrees that it will work in good faith with Maker and PNC Bank, NA to obtain a waiver from PNC Bank, NA to allow the security interest granted pursuant to the Security Agreement.

Default Interest. The entire outstanding principal balance hereunder, irrespective of any declaration of maturity, as well as any other amounts owing pursuant to this Note, shall bear interest at a default rate equal to the Interest Rate plus six percent (6%) per annum (the "**Default Rate**") until such sum is paid in full from and after:

the Maturity Date;

earlier maturity of this Note either according to its terms or as the result of a declaration of maturity made by the Payee, whether by acceleration or otherwise; or

from and after an Event of Default (as defined below).

Events of Default. Each of the following shall constitute an event of default hereunder (an “*Event of Default*”):

the failure of Maker to make any payment to Payee within five (5) days of the date when due hereunder;

the default by Maker in punctual performance of any of the non-monetary obligations, covenants, terms or provisions contained or referred to in this Note or the Security Agreement, each as amended, replaced or modified, if such default shall continue unremedied for a period of ten (10) days following written notice of default by Payee to Maker;

any warranty, representation or statement contained in this Note or the Security Agreement proves to have been false;

any use of the proceeds of this Note for any purpose other than working capital necessary for the performance of the Government Contract as provided in Section 3(b);

a default by Maker in the performance of any covenant, condition or provision of any loan documents between Maker and Payee, or any document related thereto, that are currently in effect or will be entered into, and such default shall not be remedied for a period of thirty (30) days after the earlier of (i) written notice from Payee of such default or (ii) actual knowledge by Maker of such default;

a default by Maker under any agreement with PNC Bank or any successor commercial lender;

the filing by or against Maker of any proceeding in bankruptcy, insolvency, receivership, reorganization, liquidation, conservatorship or similar proceeding and, if filed against Maker, such proceeding is not dismissed within sixty (60) days following the commencement thereof; and

any assignment by Maker for the benefit of any of its creditors, or any levy, garnishment, attachment or similar proceeding is instituted against any property of Maker and such proceeding shall remain undismissed or unstayed for a period of sixty (60) days.

Remedies; Acceleration. Upon the occurrence of an Event of Default and at any time thereafter during the continuance of such Event of Default hereunder, Payee shall have the following rights or remedies:

to declare the entire unpaid amount of this Note immediately due and payable in full; and/or

to exercise from time to time any and all rights and remedies available to it under any then applicable law.

Rights Cumulative. The rights and remedies of Payee as provided herein shall be cumulative and concurrent, and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release of the same. Payee shall not by any act or omission or commission be deemed to waive any of his rights or remedies under this Note unless such waiver be in writing and signed by Payee, and then only to the extent specifically set forth therein; and a

waiver of one event shall not be construed as continuing or as a bar to or waiver of such right or remedy on a subsequent event.

Payment of Costs. Maker shall pay to Payee upon demand all of his costs and expenses in enforcing or collecting the amounts due under this Note, including reasonable attorneys' fees.

Representations and Warranties of Maker.

Maker is a corporation duly formed and validly subsisting under the laws of the Commonwealth of Pennsylvania and has the requisite corporate power and authority to conduct its business as it is now being conducted.

Maker has all requisite legal and corporate power and authority to execute and deliver this Note and the Security Agreement, to issue this Note and to carry out and perform its other obligations under the terms of this Note and the Security Agreement. The execution, delivery and performance by Maker of this Note and the Security Agreement and the issuance of this Note have been duly authorized by all necessary corporate action on the part of Maker.

This Note constitutes a valid and legally binding obligation of Maker, enforceable against Maker in accordance with its terms, subject to (i) laws of general application relating to bankruptcy, insolvency, reorganization, moratorium, and other such laws affecting enforcement of creditors' rights and the relief of debtors generally, and (ii) rules of law governing specific performance, injunctive relief or other equitable remedies.

As soon as practicable following the date hereof, Maker shall issue the Origination Fee Shares and deliver to Payee a certificate representing such shares.

The Origination Fee Shares are duly authorized and, upon issuance in accordance with the terms of this Note, will be validly issued, fully paid and non-assessable.

Waivers.

Maker expressly waives presentment for payment, notice of dishonor, protest, notice of protest, diligence of collection, and any other notice of any kind, and hereby consents to any number of renewals or extensions of time for payment hereof, which renewals and extensions shall not affect the liability of any party to this Note; and further agrees that Payee may accept, by way of compromise or settlement, from any party, a sum or sums less than the amount due Payee under this Note, and may give releases to such parties without affecting the liability of any other party for the unpaid balance. Any such renewals or extensions may be made and any such partial payments accepted or releases given without notice to any such party.

Maker hereby waives and releases all procedural errors, defects and imperfections in any proceeding instituted by Payee under the terms of this Note as well as all benefits that might accrue to Maker by virtue of any present or future laws (i) exempting any property, real, personal or mixed, or any part of the proceeds arising from any sale of such property, from attachment, levy or sale under execution; or (ii) providing for any stay of execution, exemption from civil process, or extension of time for payment. Maker agrees that any real estate that may be levied upon pursuant to a judgment obtained by virtue hereof, on any writ of execution issued thereon, may be sold upon any such writ in whole or in part or in any other manner desired by Payee.

Notices. All notices required to be given to any of the parties hereunder shall be in writing and shall be deemed to have been sufficiently given for all purposes when sent by hand delivery or by commercial overnight delivery service that requires signatures upon receipt (such as Federal Express), or mailed by certified or registered mail, return receipt requested, postage prepaid, addressed to such party at its address as set forth below or such other address that such party hereafter designates by written notice to the other parties below:

If to Payee:

c/o The Lenfest Group
300 Barr Harbor Drive, Suite 460
West Conshohocken, PA 19428
Attn: H.F. Lenfest
Telecopier: (610) 940-0602

with a copy to:

Royer & Associates LLC
681 Moore Road, Suite 321
King of Prussia, PA 19406
Attn: John E. Royer, Jr., Esquire
Telecopier: (610) 354-8896

If to Maker:

Environmental Tectonics Corporation
County Line Industrial Park
125 James Way
Southampton, PA 18966-3877
Attn: Chief Financial Officer
Telecopier: (215) 357-4000

with a copy to:

Klehr, Harrison, Harvey, Branzburg & Ellers LLP
260 S. Broad Street
Philadelphia, PA 19102
Attn: William W. Matthews, Esquire
Telecopier: (215) 568-6603

All such notices shall be deemed to have been given (a) when delivered, if hand delivered or sent by overnight delivery service; or (b) three (3) business days after deposit in the United States mail, if sent by certified or registered mail.

Construction of Terms. The word "Maker" as used throughout this Note is intended to and shall be construed to mean, individually and collectively, each and every entity and/or person that has executed this Note and its successors and assigns. All covenants, promises, agreements, authorizations, waivers, releases, options, undertakings, rights and benefits made or given herein

by Maker shall bind and affect all persons who are hereinabove defined as "Maker" with the same effect as though all such persons were specifically named herein whenever the word "Maker" is used.

Modifications. This Note may not be changed orally, but only by an agreement in writing signed by Maker and Payee.

Governing Law. The provisions hereof shall be governed by and construed according to the laws of the Commonwealth of Pennsylvania.

Consent to Jurisdiction. This Note shall be governed by the laws of the Commonwealth of Pennsylvania without regard to the conflict of law provisions thereof. Maker irrevocably and unconditionally agrees that any suit, action or other legal proceeding arising out of this Note may be brought in the courts of record in Montgomery County, Commonwealth of Pennsylvania, or the United States District Court for the Eastern District of Pennsylvania; consents to personal jurisdiction in each such court in any such suit, action or proceeding; and waives any objection concerning venue with respect to any suit, action or proceeding in any of such courts.

WAIVER OF JURY TRIAL. MAKER IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS NOTE, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS NOTE OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. MAKER ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

CONFESSION OF JUDGMENT. MAKER HEREBY IRREVOCABLY AUTHORIZES AND EMPOWERS ANY ATTORNEY OF RECORD, OR THE PROTHONOTARY OR CLERK OF ANY COURT IN THE COMMONWEALTH OF PENNSYLVANIA OR ELSEWHERE, TO APPEAR FOR MAKER AT ANY TIME OR TIMES, AFTER THE OCCURRENCE OF AN EVENT OF DEFAULT UNDER THIS NOTE, OR THE SECURITY AGREEMENT, IN ANY SUCH COURT IN ANY ACTION BROUGHT AGAINST MAKER BY PAYEE WITH RESPECT TO THE AGGREGATE AMOUNTS PAYABLE HEREUNDER, WITH OR WITHOUT DECLARATION FILED, AS OF ANY TERM, AND THEREIN TO CONFESS OR ENTER JUDGMENT AGAINST MAKER FOR ALL SUMS PAYABLE BY MAKER TO PAYEE HEREUNDER, AS EVIDENCED BY AN AFFIDAVIT SIGNED BY A DULY AUTHORIZED DESIGNEE OF PAYEE SETTING FORTH SUCH AMOUNT THEN DUE FROM MAKER TO PAYEE, PLUS AN ATTORNEY'S COMMISSION EQUAL TO TEN PERCENT (10%) OF THE SUMS THEN OUTSTANDING UNDER THIS NOTE, BUT IN NO EVENT LESS THAN \$10,000, WITH COSTS OF SUIT, RELEASE OF PROCEDURAL ERRORS, OTHER THAN NOTICES THAT MAY BE REQUIRED HEREUNDER, AND WITHOUT RIGHT OF APPEAL. IF A COPY OF THIS NOTE, VERIFIED BY AN AFFIDAVIT, SHALL HAVE BEEN FILED IN SUCH ACTION, IT SHALL NOT BE NECESSARY TO FILE THE ORIGINAL AS A WARRANT OF ATTORNEY. MAKER WAIVES THE RIGHT TO ANY STAY OF EXECUTION, THE BENEFIT OF ALL EXEMPTION LAWS NOW OR HEREAFTER IN EFFECT AND ANY AND ALL RIGHTS TO PRIOR NOTICE AND HEARING WITH RESPECT TO THE GARNISHMENT OR ATTACHMENT OF ANY PROPERTY PURSUANT TO A JUDGMENT ENTERED HEREUNDER. NO SINGLE EXERCISE OF THE FOREGOING WARRANT AND POWER

TO BRING ANY ACTION OR CONFESS JUDGMENT THEREIN SHALL BE DEEMED TO EXHAUST THE POWER, BUT THE POWER SHALL CONTINUE UNDIMINISHED AND MAY BE EXERCISED FROM TIME TO TIME AS OFTEN AS PAYEE SHALL ELECT UNTIL ALL AMOUNTS PAYABLE TO PAYEE HEREUNDER, SHALL HAVE BEEN PAID IN FULL. THE EXERCISE BY PAYEE OF HIS RIGHTS AND REMEDIES AND THE ENTRY OF ANY JUDGMENT BY PAYEE UNDER THIS SECTION SHALL NOT AFFECT IN ANY WAY THE INTEREST RATE PAYABLE HEREUNDER OR ANY OTHER AMOUNTS DUE TO PAYEE, BUT INTEREST SHALL CONTINUE TO ACCRUE ON SUCH AMOUNTS AT THE DEFAULT RATE.

Headings. The headings preceding the text of the Sections hereof are inserted solely for convenience of reference and shall not constitute a part of this Note, nor shall they affect its meaning, construction or effect.

Severability. If any provision of this Note or the application thereof is held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall not be affected thereby, and each provision of this Note shall be valid and enforceable to the fullest extent permitted by law.

Assignment; Successors and Assigns. This Note may not be assigned at any time by Maker without the prior written consent of Payee, which consent may be withheld for any reason. All of the terms and conditions herein shall be binding upon any successors and assigns of Maker and inure to the benefit of Payee, his successors and assigns.

Application of Payments. Payments received hereunder by Payee shall be applied first to those payments described in Section 10 of this Note; second, to any accrued and unpaid interest due hereunder; and third, to principal.

[Signature Page Follows]

IN WITNESS WHEREOF, Maker has caused this Note to be executed effective as of the day and year first above written.

ENVIRONMENTAL TECTONICS CORPORATION

By: _____
Name:
Title:

ENVIRONMENTAL TECTONICS CORPORATION

SECURITY AGREEMENT

This SECURITY AGREEMENT (this "*Agreement*") is made and entered into as of February 18, 2009, by ENVIRONMENTAL TECTONICS CORPORATION ("*Debtor*"), in favor of H.F. LENFEST ("*Secured Party*").

RECITALS

WHEREAS, Debtor has executed a Secured Promissory Note, dated the date hereof, pursuant to which Debtor has borrowed \$2,000,000 from Secured Party (the "*Note*"). The parties intend that Debtor's obligation to repay the Note be secured by all of the assets of Debtor. Any capitalized terms not otherwise defined herein shall have the meanings set forth in the Note.

AGREEMENT

In consideration of the purchase of the Note by Secured Party and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, Debtor hereby agrees with Secured Party as follows:

1. Grant of Security Interest. To secure Debtor's full and timely performance of all of Debtor's obligations and liabilities to Secured Party pursuant to the Note (including, without limitation, Debtor's obligation to timely pay the principal amount of, and accrued interest on, the Note), and any amendments, modifications or reissuance of the Note and all other debt owed by Debtor to Secured Party, and all other amounts payable hereunder, including all costs and expenses incurred by Secured Party to enforce Secured Party's rights hereunder (the "*Obligations*"), Debtor hereby grants to Secured Party a continuing security interest (the "*Security Interest*") in and to all of the property described on Exhibit A to this Agreement (the "*Collateral*") and all proceeds and products thereof. Debtor will not grant any other security interests in the Collateral without the written consent of Secured Party.

2. Events of Default. For purposes of this Agreement, "*Event of Default*" means any of the following:

- (a) Debtor's failure to pay or discharge the Obligations in full in accordance with the terms of the Note;
 - (b) default by Debtor in punctual performance of any of the non-monetary obligations, covenants, terms or provisions contained or referred to in this Agreement, or the Note secured hereby, each as amended, replaced or modified, if such default shall continue unremedied for a period of ten (10) days following written notice of default by Secured Party to Debtor;
 - (c) any use of the proceeds of the Note for any purpose other than working capital necessary for the performance of the Government Contract;
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(d) any warranty, representation or statement contained in this Agreement or the Note proves to have been false;

(e) loss, theft, substantial damage, destruction, sale (except as authorized in this Agreement) or encumbrance to or of any portion of the Collateral (except such encumbrances and liens which arise in the ordinary course of business and both (A) do not materially impair Debtor's ownership or use of the Collateral and (B) are junior to and do not adversely affect the security interest granted hereunder to Secured Party), or the making of any levy, seizure or attachment thereof or thereon;

(f) a default by Debtor in the performance of any covenant, condition or provision of any loan documents between Debtor and Secured Party, or any document related thereto, that are currently in effect or will be entered into, and such default shall not be remedied for a period of thirty (30) days after the earlier of (i) written notice from Secured Party of such default or (ii) actual knowledge by Debtor of such default;

(g) a default by Debtor under any agreement with PNC Bank or any successor commercial lender;

(h) (i) Debtor's dissolution or termination or (ii) the commencement of any proceeding under any bankruptcy or insolvency laws by Debtor or (iii) the commencement of any proceeding under any bankruptcy or insolvency laws against Debtor or by or against any guarantor, surety or endorser for Debtor that results in the entry of an order for relief or which remains undismissed, undischarged or unbonded for a period of sixty (60) days or more or (iv) Debtor shall make a general assignment for the benefit of its creditors; or (v) Debtor shall fail generally to pay its debts as they become due, or shall take any action in furtherance of any of the foregoing;

(i) any statement of the financial condition of Debtor or of any guarantor, surety or endorser of any liability of Debtor to Secured Party submitted to Secured Party by Debtor or any such guarantor, surety or endorser proves to be false in any material respect.

Debtor shall provide Secured Party with immediate written notice upon the occurrence of any Event of Default and of the circumstances relating to such Event of Default.

3. Payment Obligations of Debtor.

(a) Debtor shall pay to Secured Party any sum or sums due or which may become due pursuant to the Note in accordance with the terms of the Note and the terms of this Agreement and any and all renewals, rearrangements or extensions of the Note.

(b) Debtor shall account fully and faithfully to Secured Party for proceeds from disposition of the Collateral in any manner and, following an Event of Default, shall pay or turn over promptly in cash, negotiable instruments, drafts, assigned accounts or chattel paper all the proceeds from each sale to be applied to Debtor's Obligations to Secured Party, subject, if other than cash, to final payment or collection.

(c) Following an Event of Default hereunder or under the Note, Debtor shall pay to Secured Party on demand all reasonable expenses and expenditures (including, but not limited to, reasonable fees and expenses of legal counsel) incurred or paid by Secured Party in exercising or protecting its interests, rights and remedies under this Agreement, plus interest thereon at the Default Rate.

(d) Debtor shall pay immediately, in accordance with the terms of the Note, the entire unpaid balance of the Obligations of Debtor to Secured Party whether created or incurred pursuant to this Agreement or otherwise, upon an Event of Default.

4. Representations, Warranties and Covenants of Debtor.

(a) Other Liens. Except for the Security Interest, Debtor is the owner of the Collateral and its proceeds and will be the owner of the Collateral and its proceeds hereafter acquired free from unpaid charges, including taxes and free from any adverse lien, security interest or encumbrance (other than purchase money security interests that will be discharged upon Debtor's payment of the purchase price for the applicable property), and Debtor will defend the Collateral against the claims and demands of all persons at any time claiming the same or any interest therein. No financing statements covering any Collateral or any proceeds thereof are on file in any public office and no third party is holding any Collateral to perfect its interest therein.

(b) Further Documentation. At any time and from time to time, upon the written request of Secured Party, and at the sole expense of Debtor, Debtor will promptly and duly execute and deliver such further instruments and documents and take such further action as Secured Party may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights, remedies and powers herein granted, including, without limitation, filing any financing or continuation statements under the Uniform Commercial Code (the "UCC") in effect in any jurisdiction with respect to the liens created hereby or taking any other action necessary to perfect the Security Interest. Debtor also hereby authorizes Secured Party to file any such financing or continuation statement without the signature of Debtor to the extent permitted by applicable law. A reproduction of this Agreement shall be sufficient as a financing statement (or as an exhibit to a financing statement on form UCC-1) for filing in any jurisdiction.

(c) Indemnification. Debtor agrees to defend, indemnify and hold harmless Secured Party against any and all liabilities, costs and expenses (including, without limitation, legal fees and expenses): (i) with respect to, or resulting from, any delay in paying, any and all excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral, (ii) with respect to, or resulting from, any delay in complying with any law, rule, regulation or order of any governmental authority applicable to any of the Collateral, or (iii) in connection with any of the transactions contemplated by this Agreement.

(d) Maintenance of Records. Debtor will keep and maintain at its own cost and expense accurate and complete records of the Collateral and its proceeds.

(e) Inspection Rights. Secured Party may enter Debtor's premises at any reasonable time without interruption of Debtor's business and without any breach of the peace to inspect the Collateral and all the books, correspondence and other records of Debtor relating to the Collateral, and Secured Party or its representatives may examine such records and make photocopies or otherwise take extracts from such records. Debtor agrees to render to Secured Party, at Debtor's expense, such clerical and other assistance as may be reasonably requested with regard to the exercise of its rights pursuant to this paragraph.

(f) Compliance with Laws, etc. Debtor will comply in all material respects with all laws, rules, regulations and orders of any governmental authority applicable to any part of the Collateral or to the operation of Debtor's business; *provided, however*, that Debtor may in good faith contest any non-compliance with such law, rule, regulation or order in any reasonable manner which does not and could not be reasonably deemed to, adversely affect Secured Party's rights or the priority of its liens on the Collateral.

(g) Payment of Obligations. Debtor will pay promptly when due all taxes, assessments, charges, liens or levies imposed upon the Collateral or with respect to any of its income or profits derived from the Collateral, as well as all claims of any kind (including, without limitation, claims for labor, materials and supplies) against or with respect to the Collateral, except that no such charge need be paid if (i) the validity of such charge is being contested in good faith by appropriate proceedings, (ii) such proceedings do not involve any material danger of the sale, forfeiture or loss of any of the Collateral or any interest in the Collateral and (iii) such charge is adequately reserved against on Debtor's books in accordance with generally accepted accounting principles.

(h) Limitation on Liens on Collateral. Debtor will not create, incur or permit to exist, will defend the Collateral against, and will take such other action as is necessary to remove, any lien or claim on or to the Collateral, other than the Security Interest, and will defend the right, title and interest of Secured Party in and to any of the Collateral against the claims and demands of all other persons.

(i) Limitations on Dispositions of Collateral. Debtor will not sell, transfer, lend, license, lease or otherwise dispose of any of the Collateral or any interest therein, or attempt, offer or contract to do so; *provided, however*, that Debtor will be allowed to grant licenses to its products and related documentation in the ordinary course of business and to establish or provide for escrows of related intellectual property in connection therewith. The Collateral shall remain in Debtor's possession or control at all times at Debtor's risk of loss until (i) sold, licensed or otherwise disposed of in the ordinary course of business, provided that Secured Party shall be granted a security interest in the proceeds and other consideration received for such Collateral, or (ii) as authorized in writing by Secured Party.

(j) Further Identification of Collateral. Debtor will furnish to Secured Party from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Secured Party may reasonably request, all in reasonable detail.

(k) Chief Executive Office. The location where Debtor maintains its chief executive office is County Line Industrial Park, 125 James Way, Southampton, PA 18966-3877. Debtor will promptly notify Secured Party in writing of any change in the location of its chief executive office. Substantially all of the tangible assets of Debtor will be held at its chief executive office.

(l) Insurance. Debtor will have and maintain adequate insurance at all times with respect to all Collateral against risks of fire, theft and such other risks as Secured Party may reasonably request. Within ten (10) days after the date hereof, Debtor shall amend such insurance policies, if necessary, to contain a standard mortgagee's endorsement providing for payment of any loss to Secured Party and to provide for ten (10) days' written minimum cancellation notice to Secured Party. Debtor shall furnish Secured Party evidence of compliance with the foregoing insurance provisions before February 28, 2009.

(m) Information. All information in any financial, credit or accounting statement (and any statement by Debtor related thereto) provided to Secured Party prior to, contemporaneously with or subsequent to the execution of this Agreement is and shall be true, correct, complete, valid and genuine in all material respects.

(n) Accounts. As to that portion of the Collateral which is accounts, Debtor represents, warrants and agrees with respect to each such account that:

(i) The account arose from the performance of services (including without limitation the granting of any licenses or sales of databases and/or information derived therefrom) which have been fully and satisfactorily performed or from the lease or the absolute sale of goods, if any, by Debtor in which Debtor had the sole and complete ownership, and the goods have been shipped or delivered to the account debtor.

(ii) The account is not subject to any prior or subsequent assignment, claim, lien or security interest other than that of Secured Party.

(iii) The account is not subject to set-off, counterclaim, defense, allowance or adjustment other than discounts for prompt payment shown on the invoice, or to dispute, objection or complaint by the account debtor concerning his liability on the account, and the goods, the sale or lease of which gave rise to the account, have not been returned, rejected, lost or damaged.

(iv) The account arose in the ordinary course of Debtor's business, and no notice of bankruptcy, insolvency or financial embarrassment of the account debtor has been received by Debtor.

5. Secured Party's Appointment as Attorney-in-Fact.

(a) Powers. Debtor hereby appoints Secured Party, and any officer or agent of Secured Party, with full power of substitution, as its attorney-in-fact with full irrevocable power and authority in the place of Debtor and in the name of Debtor or in its own name, from time to time in Secured Party's discretion so long as an Event of Default has occurred and is continuing, for the purpose of carrying out the terms of this Agreement, to take any and all

appropriate action and to execute any instrument which may be necessary or desirable to accomplish the purposes of this Agreement. Without limiting the foregoing, so long as an Event of Default has occurred and is continuing, Secured Party shall have the right, without notice to, or the consent of, Debtor, to do any of the following on Debtor's behalf:

- (i) to pay or discharge any taxes, assessments, charges, liens or levies levied or placed on or threatened against the Collateral;
- (ii) to direct any party liable for any payment under any of the Collateral to make payment of any and all amounts due or to become due thereunder directly to Secured Party or as Secured Party directs;
- (iii) to ask for or demand, collect, and receive payment of and receipt for, any payments due or to become due at any time in respect of or arising out of any Collateral;
- (iv) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to enforce any right in respect of any Collateral;
- (v) to defend any suit, action or proceeding brought against Debtor with respect to any Collateral;
- (vi) to settle, compromise or adjust any suit, action or proceeding described in subsection (v) above and, to give such discharges or releases in connection therewith as Secured Party may deem appropriate;
- (vii) to assign any patent, trademark or copyright included in the Collateral of Debtor (along with the goodwill of the business to which any such patent, trademark or copyright pertains), throughout the world for such term or terms, on such conditions, and in such manner, as Secured Party shall in his sole discretion determine;
- (viii) generally, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral, and to take, at Secured Party's option and Debtor's expense, any actions which Secured Party shall deem necessary to protect, preserve or realize upon the Collateral and Secured Party's lien on the Collateral and to carry out the intent of this Agreement, in each case to the same extent as if Secured Party were the absolute owner of the Collateral for all purposes; and
- (ix) to obtain, adjust, settle and cancel such insurance and endorsing any drafts drawn by insurers of the Collateral. Secured Party may apply any proceeds of such insurance which may be received by them in payment on account of the obligations secured hereby, whether due or not.

Debtor hereby ratifies whatever actions Secured Party shall lawfully do or cause to be done in accordance with this Section 5. This power of attorney shall be a power coupled with an interest and shall be irrevocable.

(b) No Duty on Secured Party's Part. The powers conferred on Secured Party by this Section 5 are solely to protect Secured Party's interests in the Collateral and shall

not impose any duty upon it to exercise any such powers. Secured Party shall be accountable only for amounts that he actually receives as a result of the exercise of such powers, and neither Secured Party nor any of his employees or agents shall, in the absence of willful misconduct or gross negligence, be responsible to Debtor for any act or failure to act pursuant to this Section 5.

6. Performance by Secured Party of Debtor's Obligations. If Debtor fails to perform or comply with any of its agreements or covenants contained in this Agreement and Secured Party performs or complies, or otherwise causes performance or compliance, with such agreement or covenant in accordance with the terms of this Agreement, then the reasonable expenses of Secured Party incurred in connection with such performance or compliance shall be payable by Debtor to Secured Party on demand with interest thereon at the rate specified in Section 3(c) and shall constitute Obligations secured by this Agreement.

7. Remedies. If an Event of Default has occurred and is continuing, Secured Party may exercise, in addition to all other rights and remedies granted to him in this Agreement and in any other instrument or agreement relating to the Obligations, all rights and remedies of a secured party under the UCC in effect in the local jurisdiction where the Collateral is located. Without limiting the foregoing, Secured Party, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice which may not be waived by law) to or upon Debtor or any other person (all of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances collect, receive, appropriate and realize upon any or all of the Collateral, and/or may sell, lease, assign, give an option or options to purchase, or otherwise dispose of and deliver any or all of the Collateral (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of Secured Party or elsewhere upon such terms and conditions as Secured Party may deem advisable, for cash or on credit or for future delivery without assumption of any credit risk. Secured Party shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase all or any part of the Collateral so sold, free of any right or equity of redemption in Debtor, which right or equity is hereby waived or released. Secured Party shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable expenses incurred therein or in connection with the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of Secured Party under this Agreement (including, without limitation, reasonable attorneys' fees and expenses), to the payment in whole or in part of the Obligations, in such order as Secured Party may elect, and only after such application and after the payment by Secured Party of any other amount required by any provision of law, if any surplus remains, to Debtor or whoever may be lawfully entitled thereto. To the extent permitted by applicable law, Debtor waives all claims, damages and demands it may acquire against Secured Party arising out of the exercise by Secured Party of any of its rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least five (5) days before such sale or other disposition, unless the Collateral is perishable or threatens to decline quickly in value or is of a type customarily sold on a recognized market, in which case notice need not be given. Debtor shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Obligations, including without limitation the fees and disbursements of any attorneys employed by Secured Party to collect such deficiency.

8. Limitation on Duties Regarding Preservation of Collateral. The sole duty of Secured Party with respect to the custody, safekeeping and preservation of the Collateral, under the Pennsylvania Uniform Commercial Code or otherwise, shall be to deal with it in good faith. Neither Secured Party nor any of his employees or agents shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of Debtor or otherwise.

9. Powers Coupled with an Interest. All authorizations and agencies contained in this Agreement with respect to the Collateral are irrevocable and powers coupled with an interest.

10. No Waiver; Cumulative Remedies. Secured Party shall not by any act (except by a written instrument pursuant to Section 11(a) hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any default under the Note or in any breach of any of the terms and conditions of this Agreement. No failure to exercise, nor any delay in exercising, on the part of Secured Party, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by Secured Party of any right or remedy under this Agreement on any one occasion shall not be construed as a bar to any right or remedy which Secured Party would otherwise have on any subsequent occasion. The rights and remedies provided in this Agreement are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

11. Miscellaneous.

(a) Amendments and Waivers. Any term of this Agreement may be amended or waived only with the written consent of Debtor and Secured Party. Any amendment or waiver effected in accordance with this Section 11(a) shall be binding upon the parties hereto and their respective successors and assigns.

(b) Transfer; Successors and Assigns. The rights and obligations of Secured Party and Debtor hereunder may not be transferred or assigned by any party without the prior written consent of the other parties hereto, except Secured Party may transfer or assign his rights and obligations under this Agreement to any corporation, partnership, limited liability company or limited liability partnership owned or controlled by Secured Party, or any shareholders, directors, executive officers, affiliates, partners or limited partners thereof or of Secured Party or a registered investment company with a common advisor and in such case the assignee shall be entitled to all of the rights, privileges and remedies granted in this Agreement to Secured Party provided that the transfer does not violate applicable securities laws; and is in connection with a concurrent assignment or transfer of the Note held by Secured Party to such assignee or transferee; and in such event Debtor will assert no claims or defenses, other than a defense that it has performed its obligations under the Note and this Agreement, it may have against Secured Party against the assignee, except those granted in this Agreement. Any permitted assignee of Debtor or Secured Party shall agree in writing prior to the effectiveness of such assignment to be bound by the provisions hereof. All of the stipulations, promises and

agreements in this Agreement made by or on behalf of Debtor shall bind the successors and permitted assigns of Debtor, whether so expressed or not, and inure to the benefit of the successors and permitted assigns of Debtor and Secured Party.

(c) Governing Law; Consent to Jurisdiction. This Agreement shall be governed by the laws of the Commonwealth of Pennsylvania without regard to the conflict of law provisions thereof. Debtor irrevocably and unconditionally agrees that any suit, action or other legal proceeding arising out of this Agreement may be brought in the courts of record in Montgomery County, Commonwealth of Pennsylvania, or the United States District Court for the Eastern District of Pennsylvania; consents to personal jurisdiction in each such court in any such suit, action or proceeding; and waives any objection concerning venue with respect to any suit, action or proceeding in any of such courts.

(d) WAIVER OF JURY TRIAL. DEBTOR IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. DEBTOR ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

(e) CONFESSION OF JUDGMENT. DEBTOR HEREBY IRREVOCABLY AUTHORIZES AND EMPOWERS ANY ATTORNEY OF RECORD, OR THE PROTHONOTARY OR CLERK OF ANY COURT IN THE COMMONWEALTH OF PENNSYLVANIA OR ELSEWHERE, TO APPEAR FOR DEBTOR AT ANY TIME OR TIMES, AFTER THE OCCURRENCE OF AN EVENT OF DEFAULT UNDER THIS AGREEMENT, OR THE NOTE, IN ANY SUCH COURT IN ANY ACTION BROUGHT AGAINST DEBTOR BY SECURED PARTY WITH RESPECT TO THE AGGREGATE AMOUNTS PAYABLE HEREUNDER, WITH OR WITHOUT DECLARATION FILED, AS OF ANY TERM, AND THEREIN TO CONFESS OR ENTER JUDGMENT AGAINST DEBTOR FOR ALL SUMS PAYABLE BY DEBTOR TO SECURED PARTY HEREUNDER, AS EVIDENCED BY AN AFFIDAVIT SIGNED BY A DULY AUTHORIZED DESIGNEE OF SECURED PARTY SETTING FORTH SUCH AMOUNT THEN DUE FROM DEBTOR TO SECURED PARTY, PLUS AN ATTORNEY'S COMMISSION EQUAL TO TEN PERCENT (10%) OF THE SUMS THEN OUTSTANDING UNDER THIS NOTE, BUT IN NO EVENT LESS THAN \$10,000, WITH COSTS OF SUIT, RELEASE OF PROCEDURAL ERRORS, OTHER THAN NOTICES THAT MAY BE REQUIRED HEREUNDER, AND WITHOUT RIGHT OF APPEAL. IF A COPY OF THIS NOTE, VERIFIED BY AN AFFIDAVIT, SHALL HAVE BEEN FILED IN SUCH ACTION, IT SHALL NOT BE NECESSARY TO FILE THE ORIGINAL AS A WARRANT OF ATTORNEY. DEBTOR WAIVES THE RIGHT TO ANY STAY OF EXECUTION, THE BENEFIT OF ALL EXEMPTION LAWS NOW OR HEREAFTER IN EFFECT AND ANY AND ALL RIGHTS TO PRIOR NOTICE AND HEARING WITH RESPECT TO THE GARNISHMENT OR ATTACHMENT OF ANY PROPERTY PURSUANT TO A JUDGMENT ENTERED HEREUNDER. NO SINGLE EXERCISE OF THE FOREGOING WARRANT AND POWER TO BRING ANY ACTION OR CONFESS JUDGMENT THEREIN SHALL BE DEEMED TO EXHAUST THE POWER, BUT THE POWER SHALL CONTINUE UNDIMINISHED AND

MAY BE EXERCISED FROM TIME TO TIME AS OFTEN AS SECURED PARTY SHALL ELECT UNTIL ALL AMOUNTS PAYABLE TO SECURED PARTY HEREUNDER, SHALL HAVE BEEN PAID IN FULL. THE EXERCISE BY SECURED PARTY OF HIS RIGHTS AND REMEDIES AND THE ENTRY OF ANY JUDGMENT BY SECURED PARTY UNDER THIS SECTION SHALL NOT AFFECT IN ANY WAY THE INTEREST RATE PAYABLE HEREUNDER OR ANY OTHER AMOUNTS DUE TO SECURED PARTY, BUT INTEREST SHALL CONTINUE TO ACCRUE ON SUCH AMOUNTS AT THE DEFAULT RATE.

(f) Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

(g) Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

(h) Notices. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon receipt if received on a business day before 4:00 p.m. local time of recipient (if not, then on the next business day), when delivered personally or by courier, overnight delivery service or confirmed facsimile, or four (4) business days after being deposited in the U.S. mail as certified or registered mail with postage prepaid, if such notice is addressed to the party to be notified at such party's address or facsimile number as set forth on the signature page hereto, or as subsequently modified by written notice.

(i) Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties hereto agree to renegotiate such provision in good faith in order to maintain the economic position enjoyed by each party as close as possible to that under the provision rendered unenforceable. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of the Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of the Agreement shall be enforceable in accordance with its terms.

(j) Entire Agreement. This Agreement, and the documents referred to herein constitute the entire agreement between the parties hereto pertaining to the subject matter hereof, and any and all other written or oral agreements existing between the parties hereto concerning such subject matter are expressly canceled.

(k) Construction. "Secured Party" and "Debtor," as used in this instrument, include the administrators, successors, representatives, receivers, trustees and assigns of such party.

[Signature Page Follows]

Debtor and Secured Party have caused this Security Agreement to be duly executed and delivered as of the date first above written.

DEBTOR:

ENVIRONMENTAL TECTONICS CORPORATION

By: _____
Name:
Title:

Address: County Line Industrial Park
125 James Way
Southampton, PA 18966-3877

Facsimile Number: () _____

SECURED PARTY:

H.F. Lenfest

Address: 300 Barr Harbor Drive, Suite 460
West Conshohocken, PA 19428

Facsimile Number: (610) 940-0602

EXHIBIT A

The Collateral shall consist of all assets of Debtor.

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. EXCEPT AS OTHERWISE SET FORTH HEREIN, NEITHER THIS WARRANT NOR ANY OF SUCH SHARES MAY BE SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH SECURITIES UNDER SAID ACT OR PURSUANT TO AN EXEMPTION THEREFROM.

February 20, 2009

Warrant to Purchase
Shares of Common Stock

ENVIRONMENTAL TECTONICS CORPORATION
COMMON STOCK WARRANT

THIS CERTIFIES THAT, for value received, H.F. Lenfest, or his registered assigns (each, a “**Holder**”), is entitled to purchase from Environmental Tectonics Corporation, a Pennsylvania corporation (the “**Company**”), at any time or from time to time during the Exercise Period (as hereinafter defined), the number of fully paid and nonassessable shares of the Company’s common stock, par value \$0.05 per share (the “**Common Stock**”), set forth in Section 1 hereof, at the exercise price set forth in Section 2 hereof, subject to adjustment as provided herein. The term “**Warrant Shares**”, as used herein, refers to the shares of Common Stock purchasable hereunder. This Warrant has been issued pursuant to, and subject to the terms of, that certain Secured Promissory Note, dated as of February 20, 2009, issued by the Company to the Holder (the “**Note**”). The term “**Warrants**” means this Warrant and any warrants issued as a result of the transfer, exchange or replacement of such warrants. Capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Note.

This Warrant is subject to the following terms, provisions and conditions:

1. Number of Shares. During the Exercise Period, the Holder shall be entitled to purchase 143,885 shares of Common Stock; *provided, however*, that if (i) all principal, accrued interest and all other amounts payable under the Note are not repaid in full on or before June 24, 2009, or (ii) the Shareholder Approval (as hereinafter defined) is not obtained by the Shareholder Approval Date (as hereinafter defined), the Holder shall be entitled to purchase 719,424 shares of Common Stock.

2. Exercise Price. The exercise price (the “**Exercise Price**”) shall be a price per share equal to \$1.39; *provided, however*, that if (i) all principal, accrued interest and all other amounts payable under the Note are not repaid in full on or before June 24, 2009, or (ii) the Shareholder Approval is not obtained by the Shareholder Approval Date, the Exercise Price shall be \$0.69.

3. Period of Exercise. This Warrant is exercisable at any time or from time to time beginning on the date of issuance (the “*Issue Date*”) and ending at 5:00 p.m., Philadelphia, Pennsylvania time on the seventh (7th) anniversary of the Issue Date (the “*Exercise Period*”).

4. Manner of Exercise; Issuance of Certificates; Payment for Shares. Subject to the provisions hereof, this Warrant may be exercised by the Holder hereof, in whole or in part, by the surrender of this Warrant, together with a completed exercise agreement in the form attached hereto (the “*Exercise Agreement*”), to the Company during normal business hours on any business day at the Company’s principal executive offices (or such other office or agency of the Company as it may designate by notice to the Holder hereof), and upon payment to the Company in cash, by certified or official bank check or by wire transfer for the account of the Company of the Exercise Price for the Warrant Shares specified in the Exercise Agreement. The Warrant Shares so purchased shall be deemed to be issued to the Holder hereof or such Holder’s designee, as the record owner of such shares, as of the close of business on the date on which this Warrant shall have been surrendered, the completed Exercise Agreement shall have been delivered and payment shall have been made for such shares as set forth above. Certificates for the Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the Holder hereof within fifteen (15) business days after this Warrant shall have been so exercised. The certificates so delivered shall be in such denominations as may be requested by the Holder hereof and shall be registered in the name of such Holder or such other name as shall be designated by such Holder. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, as soon as practicable after the date of exercise, deliver to the Holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

5. Certain Agreements of the Company. The Company hereby covenants and agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be validly issued, fully paid, and nonassessable and free from all taxes, liens, and charges with respect to the issue thereof.

(b) Reservation of Shares. During the Exercise Period, the Company shall at all times have authorized, and reserved for the purpose of issuance upon exercise of this Warrant, a sufficient number of shares of Common Stock to provide for the exercise in full of this Warrant.

(c) Listing. The Company shall use its reasonable best efforts to secure the listing of the Warrant Shares upon each securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance upon exercise of this Warrant) and shall use its reasonable best efforts to maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Warrant Shares.

(d) Certain Actions Prohibited. The Company will not, by amendment of its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution,

issue or sale of securities, or any other voluntary action, directly or indirectly, by operation of law or otherwise, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the Holder of this Warrant in order to protect the exercise privilege of the Holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant.

(e) **Successors and Assigns.** This Warrant will be binding upon any entity succeeding to the Company or its assets.

6. Antidilution Provisions. During the Exercise Period, the Exercise Price and the number of Warrant Shares shall be subject to adjustment from time to time as provided in this Section 6. In the event that any adjustment of the Exercise Price as required herein results in a fraction of a cent, such Exercise Price shall be rounded off to the nearest cent.

(a) **Sale of Securities Below Current Exercise Price.** Except as otherwise provided in Sections 6(b) and 6(d), if at any time the Company shall issue or, pursuant to the provisions hereof, be deemed to have issued (other than as set forth in Section 6(a)(vi) hereof) any shares of Common Stock, Convertible Securities (as hereinafter defined), Rights (as hereinafter defined) or Related Rights (as hereinafter defined) (collectively, “**Securities**”) without consideration or for a consideration per share less than the Exercise Price in effect immediately prior to the issuance of such Securities, then the Exercise Price in effect immediately prior to each such issuance shall forthwith be reduced to a price determined in accordance with the following formula:

$$EP2 = EP1 * (A + B) \div (A + C).$$

For purposes of the foregoing formula, the following definitions shall apply:

(a) “EP2” shall mean the Exercise Price for the Common Stock in effect immediately after such issuance of Securities;

(b) “EP1” shall mean the Exercise Price of the Common Stock in effect immediately prior to such issuance of Securities;

(c) “A” shall mean the number of shares of Common Stock actually outstanding immediately prior to such issuance of Securities (excluding shares of Common Stock issuable on conversion or exercise of preferred stock, convertible promissory notes, options, warrants and other options to purchase or rights to subscribe for such convertible or exchangeable securities);

(d) “B” shall mean the number of additional shares of Common Stock that would have been issued if such Securities had been issued at a price per share equal to EP¹ (determined by dividing the aggregate consideration received by the Company in respect of such issue by EP¹); and

(e) “C” shall mean the number of such Securities issued in such transaction.

For the purpose of this Section 6(a), the following definitions, procedures and exceptions shall be applicable:

(i) Rights. In the case of the issuance of options, warrants or other rights to purchase or otherwise acquire shares of Common Stock, whether or not at the time exercisable (collectively, “**Rights**”), the total number of shares of Common Stock issuable upon exercise of such Rights shall be deemed to have been issued at the time such Rights are issued, for a consideration equal to the sum of the consideration, if any, received by the Company upon the issuance of such Rights and the minimum purchase or exercise price payable upon the exercise of such Rights for the Common Stock to be issued upon the exercise thereof; and the consideration per share shall be determined by dividing (i) the aggregate consideration so received by and payable to the Company, by (ii) the number of shares of Common Stock issuable upon exercise of such Rights.

(ii) Convertible Securities and Related Rights. In the case of the issuance of any class or series of stock or any bonds, debentures, notes or other securities or obligations convertible into or exchangeable for Common Stock, whether or not then convertible or exchangeable (collectively, “**Convertible Securities**”), or options, warrants or other rights to purchase or otherwise acquire Convertible Securities (collectively, “**Related Rights**”), the total number of shares of Common Stock issuable upon the conversion or exchange of such Convertible Securities or exercise of such Related Rights shall be deemed to have been issued at the time such Convertible Securities or Related Rights are issued, for a consideration equal to the sum of (A) the consideration, if any, received by the Company upon issuance of such Convertible Securities or Related Rights (excluding any cash received on account of accrued interest or dividends) and (B)(1) in the case of Convertible Securities, the minimum additional consideration, if any, to be received by the Company upon the conversion or exchange of such Convertible Securities or (2) in the case of Related Rights, the sum of (x) the minimum purchase or exercise price payable upon the exercise of such Related Rights for Convertible Securities and (y) the minimum additional consideration, if any, to be received by the Company upon the conversion or exchange of the Convertible Securities issued upon the exercise of such Related Rights; and the consideration per share shall be determined by dividing (i) the aggregate consideration so received by and payable to the Company, by (ii) the number of shares of Common Stock issuable upon conversion or exchange of such Convertible Securities or exercise of such Related Rights.

(iii) Changes. On any change in the number of shares of Common Stock issuable upon the exercise of Rights or Related Rights or upon the conversion or exchange of Convertible Securities or on any change in the minimum purchase or exercise price of Rights, Related Rights or Convertible Securities, including, but not limited to, a change resulting from the anti-dilution provisions of such Rights, Related Rights or Convertible Securities, the Exercise Price to the extent in any way affected by such Rights, Related Rights or Convertible Securities shall forthwith be readjusted to be

thereafter the Exercise Price that would have been obtained had the adjustment which was made upon the issuance of such Rights, Related Rights or Convertible Securities been made after giving effect to such change. No further adjustment shall be made in respect of such change upon the actual issuance of Common Stock or any payment of consideration upon the exercise of such Rights or Related Rights or the conversion or exchange of such Convertible Securities.

(iv) Expiration or Cancellation. On the expiration or cancellation of any such Rights, Related Rights or Convertible Securities, if the Exercise Price shall have been adjusted upon the issuance thereof, the Exercise Price shall forthwith be readjusted to such Exercise Price as would have been obtained had the adjustment made upon the issuance of such Rights, Related Rights or Convertible Securities been made upon the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such Rights or Related Rights or the conversion or exchange of such Convertible Securities.

(v) Cash. In the case of the issuance of such Securities for cash, the amount of consideration received by the Company shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses paid or incurred by the Company for any underwriting or otherwise in connection with the issuance and sale thereof. In the case of the issuance of such Securities for consideration other than cash, the amount of consideration received by the Company shall be determined in good faith by the Company's Board of Directors.

(vi) Exceptions to Adjustment of Exercise Price. No adjustment to the Exercise Price will be made (i) upon the exercise of any warrants, options or convertible securities issued and outstanding on the Issue Date in accordance with the terms of such securities as of such date; (ii) upon exercise of any stock or options which may hereafter be exercised under any employee benefit plan of the Company now existing or to be implemented in the future, so long as the issuance of such stock or options is approved by a majority of the non-employee members of the Board of Directors of the Company or a majority of the members of a committee of non-employee directors established for such purpose; (iii) upon exercise of the Warrant; (iv) upon the issuance of securities in connection with any strategic transaction that is approved by the Board of Directors of the Company, including the Holder if then a director; or (v) upon the issuance of securities in connection with any financing transaction with the Holder or any of his affiliates.

(vii) Limitation on Additional Shares. Notwithstanding anything to the contrary contained herein, so long as the Common Stock remains listed on AMEX, in no event will the Company be obligated to issue a number of shares of Common Stock upon exercise of this Warrant in excess of the maximum number of shares of Common Stock permissible under Section 713 of the Listing Standards, Policies and Requirements of the NYSE Alternext US Company Guide in the event that the approval of the shareholders of the Company to the transaction to which the issuance of this Warrant relates is then required under such Section 713 (or any successor rule) unless such

approval has been obtained; provided, however, that the foregoing limitation shall not apply to any transaction referenced in Section 6(d) hereof, and in the event of any such transaction the Company, its successor and any other applicable party, as the case may be, shall be obligated to deliver, and the Holder shall be entitled to receive, the appropriate consideration for this Warrant as described in Section 6(d).

(b) Subdivision or Combination of Common Stock. If the Company at any time subdivides (by any stock split, stock dividend, recapitalization, reorganization, reclassification or otherwise) the shares of Common Stock acquirable hereunder into a greater number of shares, then, after the date of record for effecting such subdivision, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company at any time combines (by reverse stock split, recapitalization, reorganization, reclassification or otherwise) the shares of Common Stock acquirable hereunder into a smaller number of shares, then, after the date of record for effecting such combination, the Exercise Price in effect immediately prior to such combination will be proportionately increased.

(c) Adjustment in Number of Shares. Upon each adjustment of the Exercise Price pursuant to the provisions of this Section 6, the number of shares of Common Stock issuable upon exercise of this Warrant shall be adjusted by multiplying a number equal to the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock issuable upon exercise of this Warrant immediately prior to such adjustment and dividing the product so obtained by the adjusted Exercise Price.

(d) Consolidation, Merger or Sale. In case of any consolidation of the Company with, or merger of the Company into any other company, or in case of any sale or conveyance of all or substantially all of the assets of the Company other than in connection with a plan of complete liquidation of the Company, then as a condition of such consolidation, merger or sale or conveyance, adequate provision will be made whereby the Holder of this Warrant will have the right to acquire and receive upon exercise of this Warrant in lieu of the shares of Common Stock immediately theretofore acquirable upon the exercise of this Warrant, such shares of stock, securities or assets as the Holder of the Warrant would have received had the Warrant been exercised immediately prior to such consolidation, merger or sale or conveyance. In any such case, the Company will make appropriate provision to insure that the provisions of this Section 6 hereof will thereafter be applicable as nearly as may be in relation to any shares of stock or securities thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger or sale or conveyance unless prior to the consummation thereof, the successor or acquiring entity (if other than the Company) and, if an entity different from the successor or acquiring entity, the entity whose capital stock or assets the holders of the Common Stock of the Company are entitled to receive as a result of such consolidation, merger or sale or conveyance assumes by written instrument the obligations of the Company under this Warrant (including under this Section 6) and the obligations to deliver to the Holder of this Warrant such shares of stock, securities or assets as, in accordance with the foregoing provisions, the Holder may be entitled to acquire. This Section 6(d) shall apply to any successive consolidations, mergers, sales or conveyances.

(e) Distribution of Assets. In case the Company shall declare or make any distribution of its assets (including cash) to holders of Common Stock as a partial liquidating dividend, by way of return of capital or otherwise, then, after the date of record for determining stockholders entitled to such distribution, but prior to the date of distribution, the Holder of this Warrant shall be entitled upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, to receive the amount of such assets which would have been payable to the Holder had such Holder been the holder of such shares of Common Stock on the record date for the determination of stockholders entitled to such distribution.

(f) Notice of Adjustment. Upon the occurrence of any event which requires any adjustment of the Exercise Price, then, and in each such case, the Company shall give notice thereof to the Holder of this Warrant, which notice shall state the Exercise Price resulting from such adjustment and the increase or decrease in the number of Warrant Shares purchasable at such price upon exercise, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such calculation shall be certified by the chief financial officer of the Company.

(g) Minimum Adjustment of Exercise Price. No adjustment of the Exercise Price shall be made in an amount of less than 1% of the Exercise Price in effect at the time such adjustment is otherwise required to be made, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to not less than 1% of such Exercise Price.

(h) No Fractional Shares. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but the Company shall pay a cash adjustment in respect of any fractional share which would otherwise be issuable in an amount equal to the same fraction of the Market Price of a share of Common Stock on the date of such exercise.

(i) Other Notices. In case at any time:

(i) the Company shall declare any dividend upon the Common Stock payable in shares of stock of any class or make any other distribution (including dividends or distributions payable in cash out of retained earnings) to the holders of the Common Stock;

(ii) there shall be any capital reorganization of the Company, or reclassification of the Common Stock, or consolidation or merger of the Company with or into, or sale of all, substantially all or a material portion of its assets to, another Company or entity; or

(iii) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in each such case, the Company shall give to the Holder of this Warrant (a) notice of the date on which the books of the Company shall close or a record shall be taken for determining the holders of Common Stock entitled to receive any such dividend or distribution or for

determining the holders of Common Stock entitled to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, notice of the date (or, if not then known, a reasonable approximation thereof by the Company) when the same shall take place. Such notice shall also specify the date on which the holders of Common Stock shall be entitled to receive such dividend, distribution, or subscription rights or to exchange their Common Stock for stock or other securities or property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such notice shall be given at least ten (10) business days prior to the record date or the date on which the Company's books are closed in respect thereto. Failure to give any such notice or any defect therein shall not affect the validity of the proceedings referred to in clauses (i), (ii) and (iii) above; provided that if notice is not given in accordance with this Section 6(i), the Company will use its best efforts to insure that the Holder of this Warrant shall nevertheless receive the same rights and benefits received by other holders of securities of the Company from the proceedings referred to in clauses (i), (ii) and (iii) above, unless the Holder of this Warrant chooses not to receive such rights and benefits.

(j) Certain Events. If any event occurs of the type contemplated by the adjustment provisions of this Section 6 but not expressly provided for by such provisions, the Company will give notice of such event as provided in Section 6(i) hereof, and the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of shares of Common Stock acquirable upon exercise of this Warrant so that the rights of the Holder shall be neither enhanced nor diminished by such event.

(k) Certain Definitions.

(i) "Shareholder Approval" means such time as the Company obtains the affirmative vote of the shareholders of the Company for a new financing transaction with the Holder and the restoration in full of the Holder's voting rights on his preferred stock and common stock in the Company.

(ii) "Shareholder Approval Date" means 60 days following the date the Company and the Holder enter into definitive agreements relating to a new financing transaction with the Holder, which will include as a condition thereto, among other things, the restoration in full of the Holder's voting rights on his preferred stock and common stock in the Company; *provided, however*, that such date shall be extended by 30 days if the SEC provides any comments to the proxy statement that the Company is filing in connection with the Shareholder Approval; *provided, further*, that in no event shall such date be later than June 24, 2009.

7. Issue Tax. The issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the Holder of this Warrant or such shares for any issuance tax or other costs in respect thereof.

8. No Rights or Liabilities as a Shareholder. This Warrant shall not entitle the Holder hereof to any voting rights, rights to dividends, or other rights as a shareholder of the

Company. No provision of this Warrant, in the absence of affirmative action by the Holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the Holder hereof, shall give rise to any liability of such Holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

9. Transfer, Exchange and Replacement of Warrant.

(a) Restriction on Transfer. This Warrant and the rights granted to the Holder hereof are transferable, in whole or in part, upon surrender of this Warrant, together with a properly executed assignment in the form attached hereto, at the office or agency of the Company referred to in Section 9(e) below; *provided, however*, that any transfer or assignment shall be subject to the conditions set forth in Section 9(f). Notwithstanding the foregoing, this Warrant, the shares of Common Stock issuable upon exercise hereof, and the rights granted hereunder may not be transferred to a competitor of the Company or any Subsidiary or affiliate of the Company.

(b) Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the Holder hereof at the office or agency of the Company referred to in Section 9(e) below, for new Warrants of like tenor representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by the Holder hereof at the time of such surrender.

(c) Replacement of Warrant. Upon receipt of evidence of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this Warrant in connection with any transfer, exchange or replacement as provided in this Section 9, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses (other than legal expenses, if any, incurred by the Holder or transferees) and charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Section 9.

(e) Register. The Company shall maintain, at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the Holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

(f) Exercise or Transfer Without Registration. If, at the time of the surrender of this Warrant in connection with any exercise, transfer, or exchange of this Warrant,

this Warrant (or, in the case of any exercise, the Warrant Shares issuable hereunder), shall not be registered under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such exercise, transfer, or exchange, that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel to the effect that such exercise, transfer, or exchange may be made without registration under the Securities Act and under applicable state securities or blue sky laws; provided however, that no legal opinion shall be required in connection with a transfer pursuant to Rule 144 under the Securities Act unless in the opinion of counsel to the Company, such transfer does not comply with the provisions of Rule 144. Notwithstanding the foregoing, the initial Holder of this Warrant, by taking and holding the same, represents to the Company that such Holder is acquiring this Warrant for investment and not with a present view to the distribution thereof.

10. Notices. Any notice which is required or provided to be given under this Warrant shall be deemed to have been sufficiently given and received for all purposes when delivered by hand, teletype (if a copy of such confirmed teletype transmission shall be contemporaneously sent by first class mail), or nationally recognized overnight courier, or five days after being sent by certified or registered mail, postage and charges prepaid, return receipt requested, to the following addresses:

If to the Company:

Environmental Tectonics Corporation
125 James Way
Southampton, PA 18966
Attention: Chief Financial Officer
Facsimile: (215) 357-4000

With a copy to:

Klehr, Harrison, Harvey, Branzburg & Ellers LLP
260 S. Broad Street
Philadelphia, PA 19102
Attention: William Matthews, Esquire
Facsimile: (215) 568-6603

If to a Holder hereof, at the address shown for such Holder on the books of the Company; or, with respect to any party hereto, at any other address designated in writing by such party in accordance with the provisions of this Section 10.

11. Governing Law; Jurisdiction. This Warrant shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to agreements made and to be performed in the Commonwealth of Pennsylvania (without regard to principles of conflict of laws). The Company and the Holder hereof consent to the jurisdiction of the United States federal courts and the state courts located in the Commonwealth of Pennsylvania with respect to any suit or proceeding based on or arising under this Warrant or the transactions contemplated hereby and agree that all claims in respect of such suit or proceeding may be determined in such courts. The Company and the Holder hereof waive the defense of an inconvenient forum to the maintenance of such suit or proceeding and agree that service of process upon a party mailed by first class mail shall be deemed in every respect effective service of process upon the party in any such suit or proceeding. Nothing herein shall affect either party's right to serve process in any other manner permitted by law.

12. Miscellaneous.

(a) Amendments. This Warrant and any provision hereof may only be amended by an instrument in writing signed by the Company and the Holder.

(b) Descriptive Headings. The descriptive headings of the several paragraphs of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

ENVIRONMENTAL TECTONICS CORPORATION

By: _____

Name:

Title:

Dated as of February 20, 2009

FORM OF EXERCISE AGREEMENT

Dated: _____, 20__

To: [Company]
[Address]

The undersigned, pursuant to the provisions set forth in the Warrant attached hereto, hereby agrees to purchase _____ shares of Common Stock covered by such Warrant, and makes payment herewith in full therefor at the price per share provided by such Warrant in cash, by wire transfer or by certified or official bank check in the amount of \$ _____. Please issue a certificate or certificates for such shares of Common Stock in the name of and pay any cash for any fractional share to:

Name: _____

Signature: _____

Address: _____

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

and, if said number of shares of Common Stock shall not be all the shares purchasable under the within Warrant, a new Warrant is to be issued in the name of said undersigned covering the balance of the shares purchasable thereunder less any fraction of a share paid in cash.

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers all the rights of the undersigned under the within Warrant, with respect to the number of shares of Common Stock covered thereby set forth hereinbelow, to:

_____ Name of Assignee _____ Address _____ No. of Shares _____

, and hereby irrevocably constitutes and appoints _____ as agent and attorney-in-fact to transfer said Warrant on the books of the within-named Company, with full power of substitution in the premises.

Dated: _____, 20__

In the presence of:

Name: _____

Signature: _____

Title of Signing Officer or Agent (if any): _____

Address: _____

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

Environmental Tectonics Corporation Announces Project Financing Arrangement with H.F. Lenfest,
Director and Significant Shareholder

Southampton, PA, February 24, 2009. Environmental Tectonics Corporation (ETC:AMEX) (“ETC” or the “Company”) today announced that on February 20, 2009, the Company completed a transaction with H.F. Lenfest pursuant to which Mr. Lenfest made a loan to ETC in the principal amount of \$2,000,000 (the “Loan”). The Loan is to be used by ETC solely in connection with working capital funding to support ETC’s bid on a contract (the “Government Contract”) with the United States government (the “Government”).

The terms of the Loan are set forth in a Secured Promissory Note, dated February 20, 2009, by ETC in favor of Lenfest (the “Note”). The Note accrues interest at the rate of 15% per annum, compounded annually. This interest rate will be reduced to 10% per annum if ETC receives the Shareholder Approval (as defined below). In the event of a default under the Note, the interest rate will be increased by six percentage points. Interest is payable on the maturity date, at the option of Lenfest, in cash, in shares of a new series of preferred stock that ETC intends to create or in shares of ETC common stock. The Note will mature on the earlier of (i) three (3) days following the date ETC is informed by the Government or otherwise learns that it has been denied or will not be awarded the Government Contract, (ii) six months following the date of the Note if ETC has not obtained the affirmative vote of the shareholders of ETC in connection with a new financing transaction with Lenfest on or before the Shareholder Approval Date (as defined below) (the “Shareholder Approval”) or (iii) three years following the date of the Note. ETC may prepay the Note at any time without premium or penalty. The Note provides for customary events of default with corresponding grace periods, including the failure to pay any principal or interest when due, failure to comply with covenants, material misrepresentations, certain bankruptcy, insolvency or receivership events, imposition of certain judgments and the liquidation of ETC. In connection with the Loan, ETC will pay to Lenfest an origination fee of 20,000 shares of ETC common stock.

The obligations of ETC to Lenfest under the Note are secured by the grant of a first and prior security interest in all of the personal property of ETC pursuant to the terms of a Security Agreement made by ETC in favor of Mr. Lenfest.

In connection with the Loan, ETC issued to Lenfest a warrant (the “Warrant”) to purchase 143,885 shares of ETC common stock, at an exercise price per share equal to \$1.39, which is equal to the average price of ETC common stock for the 120 trading days immediately preceding the date of the Warrant. If the Note is not repaid in full on or before June 24, 2009 or ETC does not obtain the affirmative vote of the shareholders of ETC to the transactions contemplated by the Warrants (the “Warrant Approval”) by the 60th day following the date on which ETC and Lenfest enter into definitive agreements relating to a new financing transaction with Lenfest (which date may be extended by 30 days if the Securities and Exchange Commission provides comments to the proxy statement filed by ETC in connection with the Shareholder Approval but which date will be no later June 24, 2009) (the “Shareholder Approval

Date”), then Lenfest will be entitled to purchase 719,424 shares of ETC common stock under the Warrant. Further, if the Note is not repaid in full on or before June 24, 2009 or ETC does not obtain Warrant Approval by the Shareholder Approval Date, the exercise price per share of the Warrant will be decreased to \$0.69. The Warrant may be exercised at any time until the seventh anniversary of its issuance. The Warrant contains anti-dilution protection for issuances of ETC’s common stock or securities convertible into ETC’s common stock at prices below the exercise price of the Warrant. Notwithstanding the terms of the Warrant, ETC will not be required to issue shares of Common Stock in excess of the maximum number permissible under Section 713 of the Listing Standards, Policies and Requirements of the NYSE Alternext US Company Guide or any successor rule unless the issuance of the Warrant and the shares of ETC common stock issuable upon exercise of the Warrant have been approved by the Company’s shareholders.

ETC designs, develops, installs and maintains aircrew training systems (aeromedical, tactical combat and general), disaster management training systems and services, entertainment products, sterilizers (steam and gas), environmental testing products, hyperbaric chambers and related products for domestic and international customers.

This press release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on ETC’s current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about ETC’s and its subsidiaries that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

These forward-looking statements include statements with respect to the Company’s vision, mission, strategies, goals, beliefs, plans, objectives, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business of the company, including but not limited to, (i) the potential delisting of the Company’s common stock from the American Stock Exchange as a result of the Company’s failure to comply with the AMEX listing standards, (ii) the completion of additional financing transactions to support the Company’s operation, (iii) projections of revenues, costs of materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, capital structure, other financial items and the effects of currency fluctuations, (iv) statements of our plans and objectives of the Company or its management or Board of Directors, including the introduction of new products, or estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities, (v) statements of future economic performance, (vi) statements of assumptions and other statements about the Company or its business, (vii) statements made about the possible outcomes of litigation involving the Company, and (viii) statements preceded by, followed by or that include the words, “may,” “could,” “should,” “looking forward,” “would,” “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” or the negative of such terms or similar expressions. These forward-looking statements involve risks and uncertainties which are subject to change based on various important factors. Some of these risks and uncertainties, in whole or in part, are beyond the Company’s control. Factors that might cause or contribute to such a material difference include, but are not limited to, those discussed in the Company’s Annual Report on Form 10-K for the fiscal year ended February 29, 2008, in the section entitled “Risks Particular to Our Business.” Shareholders are urged to review these risks carefully prior to making an investment in the Company’s common stock.

The Company cautions that the foregoing list of important factors is not exclusive. Except as required by federal securities law, the Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Contact: Duane D. Deaner, CFO Tel: 215-355-9100 (ext. 1203) Fax: 215-357-4000
ETC — Internet Home Page: <http://www.etcusa.com>