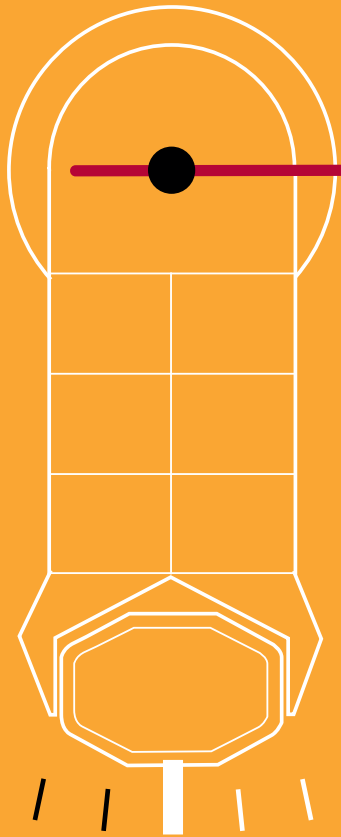




QUALITY THROUGH
INTEGRITY AND TECHNOLOGY

ENVIRONMENTAL TECTONICS CORPORATION



QUARTERLY REPORT
For the quarterly period ended August 30, 2013

ENVIRONMENTAL TECTONICS CORPORATION

Quarterly Report
For the quarterly period ended August 30, 2013

County Line Industrial Park
125 James Way
Southampton, Pennsylvania 18966
(Address of issuer's principal executive office)

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Website: www.etcusa.com

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Item numbers above refer to the OTC Pink Basic Disclosure Guidelines created by the OTC Markets Group. The OTC Pink Basic Disclosure Guidelines are available on the Internet at <http://www.otcmarkets.com/marketplaces/otc-pink>.

When used in this Quarterly Report, except where the context otherwise requires, the terms “we”, “us”, “our”, “ETC”, and the “Company” refer to Environmental Tectonics Corporation and its subsidiaries.

Item 3. Security Information

Trading symbol: ETCC
Title of class of securities outstanding: Common Stock
CUSIP: 294092
Par value: \$0.05
Total shares authorized: 50,000,000 as of August 30, 2013
Total shares outstanding: 9,185,161 as of August 30, 2013

Transfer Agent:

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
Toll Free: (800) 937-5449
Telephone: (718) 921-8124
Website: www.amstock.com

List any restrictions on the transfer of security: N/A
Describe any trading suspension: N/A

Item 4. Issuance History

A. The nature of each offering in last two fiscal years:

Date	Shareholder	Shares	Transaction	Value
May 31, 2011	Scott, Winston E.	2,000	Director remuneration at \$2.50 per share	\$ 5,000
May 31, 2011	Sawyer, George A.	2,600	Director remuneration at \$2.50 per share	\$ 6,500
May 31, 2011	Lenfest, H.F.	2,000	Director remuneration at \$2.50 per share	\$ 5,000
August 1, 2011	Sawyer, George A.	2,765	Director remuneration at \$2.35 per share	\$ 6,497
August 1, 2011	Lenfest, H.F.	2,127	Director remuneration at \$2.35 per share	\$ 4,998
October 25, 2011	Sawyer, George A.	2,381	Director remuneration at \$2.10 per share	\$ 5,000
October 25, 2011	Lenfest, H.F.	2,381	Director remuneration at \$2.10 per share	\$ 5,000
January 12, 2012	ETC Employees	7,932	2011 ESPP EE share	\$ 21,054
January 19, 2012	Sawyer, George A.	2,808	Director remuneration at \$1.78 per share	\$ 4,998
January 19, 2012	Lenfest, H.F.	2,808	Director remuneration at \$1.78 per share	\$ 4,998
March 16, 2012	ETC Employees	1,271	2011 ESPP match	\$ -
May 17, 2012	Sawyer, George A.	3,311	Director remuneration at \$1.51 per share	\$ 4,999
May 17, 2012	Lenfest, H.F.	3,311	Director remuneration at \$1.51 per share	\$ 4,999
August 23, 2012	Sawyer, George A.	2,857	Director remuneration at \$1.75 per share	\$ 4,999
August 23, 2012	Lenfest, H.F.	2,857	Director remuneration at \$1.75 per share	\$ 4,999
October 9, 2012	Sawyer, George A.	4,000	Director remuneration at \$1.50 per share	\$ 6,000
October 9, 2012	Lenfest, H.F.	3,333	Director remuneration at \$1.50 per share	\$ 4,999
December 6, 2012	Malone, Michael	2,398	Director remuneration at \$1.70 per share	\$ 4,076
January 10, 2013	Malone, Michael	3,817	Director remuneration at \$1.31 per share	\$ 5,000
January 10, 2013	Sawyer, George A.	3,817	Director remuneration at \$1.31 per share	\$ 5,000
January 10, 2013	Lenfest, H.F.	3,817	Director remuneration at \$1.31 per share	\$ 5,000
January 11, 2013	ETC Employees	10,969	2012 ESPP EE share and match	\$ 18,018
July 23, 2013	Scott, Winston E.	2,500	Director remuneration at \$2.00 per share	\$ 5,000
July 23, 2013	Lenfest, H.F.	2,500	Director remuneration at \$2.00 per share	\$ 5,000

B. Any jurisdictions where the offering was registered or qualified: N/A

C. The number of shares sold: N/A

D. The price at which the shares were offered, and the amount actually paid to the issuer: N/A

E. The trading status of the shares: N/A

F. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act: N/A

Item 5. Financial Statements (unaudited)

Environmental Tectonics Corporation
Consolidated Statements of Income and Comprehensive Income
(unaudited)

<i>(in thousands, except per share information)</i>	Thirteen weeks ended		Twenty-seven weeks ended	Twenty-six weeks ended
	August 30, 2013	August 24, 2012	August 30, 2013	August 24, 2012
Net sales	\$ 11,700	\$ 16,502	\$ 24,286	\$ 32,572
Cost of goods sold	8,008	10,405	16,885	20,027
Gross profit	3,692	6,097	7,401	12,545
Operating expenses	3,146	3,636	6,554	7,169
Operating income	546	2,461	847	5,376
Other expenses:				
Interest expense, net	194	231	366	445
Other expense (income), net	121	(61)	182	(64)
Other expenses total	315	170	548	381
Income before income taxes	231	2,291	299	4,995
Provision for income taxes	95	994	123	2,008
Net income	136	1,297	176	2,987
Loss (income) attributable to non-controlling interest	4	1	(5)	6
Net income attributable to Environmental Tectonics Corporation	140	1,298	171	2,993
Foreign currency translation adjustment and unrealized loss on cash flow hedge	2	(101)	85	55
Comprehensive income	\$ 142	\$ 1,197	\$ 256	\$ 3,048
Preferred Stock dividends	(121)	(552)	(251)	(1,104)
Income (loss) attributable to common and participating shareholders	\$ 19	\$ 746	\$ (80)	\$ 1,889
Per share information:				
Basic earnings (loss) per common and participating share:				
Distributed earnings per share:				
Common	\$ -	\$ -	\$ -	\$ -
Preferred	\$ 0.02	\$ 0.05	\$ 0.04	\$ 0.10
Undistributed earnings (loss) per share:				
Common	\$ -	\$ 0.04	\$ (0.01)	\$ 0.09
Preferred	\$ -	\$ 0.04	\$ (0.01)	\$ 0.09
Diluted (loss) earnings per share	\$ -	\$ 0.04	\$ (0.01)	\$ 0.09
Basic weighted average common and participating shares:				
Common weighted average number of shares	9,182	9,142	9,181	9,139
Participating preferred shares	6,063	11,095	6,063	11,095
Total basic weighted average common and participating shares	15,245	20,237	15,244	20,234
Diluted weighted average shares:				
Basic weighted average common and participating shares	15,245	20,237	15,244	20,234
Dilutive effect of stock warrants and options	240	154	237	152
Total diluted weighted average shares	15,485	20,391	15,481	20,386

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

Environmental Tectonics Corporation Consolidated Balance Sheets

<i>(in thousands, except share information)</i>	August 30, 2013	February 22, 2013
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,704	\$ 2,877
Restricted cash	5,017	6,162
Accounts receivable, net	4,382	6,666
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	22,561	19,949
Inventories, net	3,769	3,727
Deferred tax assets, current	2,173	2,193
Prepaid expenses and other current assets	1,882	1,297
Total current assets	41,488	42,871
Property, plant, and equipment, at cost, net	14,375	14,609
Capitalized software development costs, net	290	378
Deferred tax assets, non-current, net	2,496	2,619
Other assets	74	91
Total assets	\$ 58,723	\$ 60,568
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt obligations	\$ 4,264	\$ 3,600
Accounts payable, trade	3,175	4,431
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	1,949	2,662
Customer deposits	2,358	2,818
Accrued taxes	30	280
Accrued interest and dividends	309	483
Other accrued liabilities, current	2,803	3,462
Total current liabilities	14,888	17,736
Long-term debt obligations, less current portion:		
Credit facility payable to bank	11,495	7,585
Term loan	8,069	11,000
Total long-term debt obligations, less current portion	19,564	18,585
Other accrued liabilities, non-current	28	28
Total liabilities	34,480	36,349
Commitments and contingencies		
Shareholders' equity:		
Cumulative convertible participating Preferred Stock, Series E, \$0.05 par value, 25,000 shares authorized; 12,127 shares outstanding at August 30, 2013 and February 22, 2013	12,127	12,127
Common Stock, \$0.05 par value, 50,000,000 shares authorized; 9,185,161 and 9,180,161 shares issued and outstanding at August 30, 2013 and February 22, 2013, respectively	459	459
Additional paid-in capital	9,938	9,924
Retained earnings	2,171	2,251
Accumulated other comprehensive loss	(512)	(597)
Total shareholders' equity before non-controlling interest	24,183	24,164
Non-controlling interest	60	55
Total shareholders' equity	24,243	24,219
Total liabilities and shareholders' equity	\$ 58,723	\$ 60,568

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

Environmental Tectonics Corporation
Consolidated Statements of Cash Flows
(unaudited)

<i>(in thousands)</i>	Twenty-seven weeks ended August 33, 2013	Twenty-six weeks ended August 24, 2012
Cash flows from operating activities:		
Net income	\$ 176	\$ 2,987
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	882	914
Deferred tax assets	143	1,839
(Decrease) increase in allowances for accounts receivable and inventories, net	(925)	2
Accretion of loan origination deferred charge and deferred financing costs	17	50
Stock compensation expense	4	51
Changes in operating assets and liabilities:		
Accounts receivable	2,284	4,268
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	(2,612)	(2,867)
Inventories	883	(84)
Prepaid expenses and other assets	(585)	(264)
Accounts payable, trade	(1,256)	(983)
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(713)	(1,704)
Customer deposits	(460)	185
Accrued taxes	(250)	191
Accrued interest and dividends	(174)	75
Other accrued liabilities	(659)	(330)
Net cash (used in) provided by operating activities	(3,245)	4,330
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(545)	(766)
Capitalized software development costs	(15)	(25)
Net cash used in investing activities	(560)	(791)
Cash flows from financing activities:		
Borrowings (repayments) under line of credit	4,574	(2,673)
Payment of Preferred Stock dividends	(251)	(1,104)
Decrease (increase) in restricted cash	1,145	(159)
Payments on the Term Loan and/or of other debt obligations	(2,931)	(8)
Issuance of Common Stock	10	21
Net cash provided by (used in) financing activities	2,547	(3,923)
Effect of exchange rate changes on cash	85	55
Net decrease in cash and cash equivalents	(1,173)	(329)
Cash and cash equivalents at beginning of period	2,877	3,425
Cash and cash equivalents at end of period	\$ 1,704	\$ 3,096
Supplemental schedule of cash flow information:		
Interest paid	\$ 389	\$ 310
Income taxes paid	\$ 95	\$ 69
Supplemental information on non-cash operating and investing activities:		
Accrued Preferred Stock dividends	\$ 251	\$ 552
Unrealized loss on cash flow hedge	\$ -	\$ -

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

Environmental Tectonics Corporation

Notes to the Consolidated Financial Statements

(unaudited)

(Dollars in thousands, except per share information)

Item 6. Description of Business Operations

ETC was incorporated in 1969 in Pennsylvania. For over four decades, we have provided our customers with products, service, and support. Innovation, continuous technological improvement and enhancement, and product quality are core values that are critical to our success. We are a significant supplier and innovator in the following product areas: (i) software driven products and services used to create and monitor the physiological effects of flight, including high performance jet tactical flight simulation, upset recovery and spatial disorientation, and both suborbital and orbital commercial human spaceflight; collectively, Aircrew Training Systems (“ATS”); (ii) altitude (hypobaric) chambers; (iii) the Advanced Disaster Management Simulator (“ADMS”); (iv) steam and gas (ethylene oxide) sterilizers; (v) environmental testing and simulation devices; and (vi) hyperbaric (100% oxygen) chambers for one person (monoplace chambers).

We operate in two primary business segments, Aerospace Solutions (“Aerospace”) and Commercial/ Industrial Systems (“CIS”). Aerospace encompasses the design, manufacture, and sale of: (i) Aircrew Training Systems; (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); and (iv) ADMS, as well as integrated logistics support for customers who purchase these products or similar products manufactured by other parties. These products and services provide customers with an offering of comprehensive solutions for improved readiness and reduced operational costs. Sales of our Aerospace products are made principally to U.S. and foreign government agencies. CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizers; (ii) environmental testing and simulation devices; and (iii) hyperbaric (100% oxygen) chambers for one person (monoplace chambers), as well as parts and service support for customers who purchase these products or similar products manufactured by other parties. Sales of our CIS products are made principally to the healthcare, pharmaceutical, and automotive industries.

The Company’s fiscal year is the fifty-two week or fifty-three week annual accounting period ending the last Friday in February. Fiscal 2014 will be a fifty-three week period; whereas, fiscal 2013 was a fifty-two week period. Certain amounts from prior consolidated financial statements have been reclassified to conform to the presentation in fiscal 2014.

References to 2014 second quarter are references to the thirteen week period ended August 30, 2013. References to 2013 second quarter are references to the thirteen week period ended August 24, 2012. References to 2014 first half are references to the twenty-seven week period ended August 30, 2013. References to 2013 first half are references to the twenty-six week period ended August 24, 2012. References to fiscal 2014 or the 2014 fiscal year are references to the fifty-three week period ending February 28, 2014. References to fiscal 2013 or the 2013 fiscal year are references to the fifty-two week period ended February 22, 2013.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim consolidated financial statements include the accounts of ETC, our 95%-owned subsidiary, ETC-PZL Aerospace Industries Sp. z o.o. (“ETC-PZL”), and our 99%-owned subsidiary, Environmental Tectonics Corporation (Europe) Limited (“ETC-Europe”). The Company’s corporate headquarters and main production plant (“ETC-SH”) are located in Southampton, Pennsylvania, USA. ETC-PZL manufactures certain simulators for our Aerospace segment and provides software to support our domestic products. ETC-Europe functions as a sales office in the United Kingdom. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared by ETC, without audit, in conformity with accounting principles generally accepted in the United States of America, consistently applied, and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

In accordance with industry practices, costs and estimated earnings in excess of billings on uncompleted long-term contracts are classified as current even though a portion of these amounts may not be realized within one year.

Certain information in footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America has been condensed or omitted and the financial results for the periods presented may not be indicative of the full year’s results; however, the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company’s Annual Report for the 2013 fiscal year.

Environmental Tectonics Corporation
Notes to the Consolidated Financial Statements, continued

(Dollars in thousands, except per share information)

Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies during fiscal 2014 as compared to what was previously disclosed in the Company's Annual Report for the 2013 fiscal year.

Note 2. Earnings per Share

The Company utilizes the two-class method for computing and presenting earnings per share. The Company currently has authorized one class of common stock (the "Common Stock") and two classes of cumulative participating preferred stock, Series D and Series E (the "Preferred Stock"). Under its terms, the Preferred Stock is entitled to participate in any cash dividends on a one-for-one basis for the equivalent converted common shares if the Preferred Stock were to be converted by the holder by the dividend record date. Therefore, the Preferred Stock is considered a participating security requiring the two-class method for the computation and presentation of net income per share – basic.

The two-class computation method for each period segregates basic earnings per common and participating share into two categories: distributed earnings per share (i.e., the Preferred Stock stated dividend) and undistributed earnings per share, which allocates earnings after subtracting the Preferred Stock dividend to the total of weighted average common shares outstanding plus equivalent converted common shares related to the Preferred Stock. Basic earnings per common and participating share excludes the effect of Common Stock equivalents, and is computed using the two-class computation method.

Diluted earnings per share reflects the potential dilution that could result if securities or other contracts to issue Common Stock were exercised or converted into Common Stock. Diluted earnings per share continues to be computed using the if-converted method. Diluted earnings per share assumes the exercise of stock options and warrants using the treasury stock method. If the effect of the conversion of any financial instruments would be anti-dilutive, it is excluded from the diluted earnings per share calculation.

At both August 30, 2013 and February 22, 2013, there was \$12,127 of cumulative convertible participating Series E Preferred Stock convertible at an exercise price of \$2.00 per share, equating to 6,063,321 shares of Common Stock, issued in July 2009.

On February 20, 2009, in connection with the issuance of a \$2,000 promissory note, the Company issued 200,000 warrants to purchase 143,885 shares of the Company's Common Stock at \$1.39 per share. Additionally, on July 2, 2009, in consideration of an increase of the guarantee on the line of credit with PNC Bank, National Association ("PNC Bank"), the Company issued 500,000 warrants to purchase 450,450 shares of the Company's Common Stock at \$1.11 per share. On January 4, 2011, the Company entered into amendments to these warrants to remove a provision in each of the warrants that provided anti-dilution protection in the event the Company issued securities at a price below the exercise price set forth in the warrants.

At August 30, 2013 and August 24, 2012, there were outstanding options to purchase the Company's Common Stock totaling 355,322 and 240,921 shares at an average price of \$3.35 and \$4.26 per share, respectively. Due to the conversion price of the Common Stock options, all 355,322 shares were excluded from the calculation of diluted earnings per share as of August 30, 2013 because the effect of their conversion would be antidilutive; likewise, all 240,921 shares were also excluded from the calculation of diluted earnings per share as of August 24, 2012.

Note 3. Long-Term Obligations and Related Equity Arrangements

On October 11, 2013, the Company entered into an amendment to the September 28, 2012 Loan Agreement that provided for, among other things, the following:

- (i) The Company's Line of Credit with PNC Bank was increased from \$15,000 to \$15,500.
- (ii) Availability under the Line of Credit was increased by approximately \$1,200 as a currently outstanding letter of credit supporting a bid bond shall no longer reduce availability under the Line of Credit so long as it remains outstanding.
- (iii) The Term Loan, which is currently guaranteed by H.F. Lenfest ("Mr. Lenfest"), a major shareholder and member of the Board of Directors, through March 31, 2015, will be collateralized by Mr. Lenfest through that period, or until the Company's Operating Leverage Ratio using all Senior Funded Debt in place of Adjusted Senior Funded Debt is less than 3.00 to 1, whichever occurs first. Adjusted Senior Funded Debt is defined as the sum of Senior Funded Debt minus the then outstanding principal amount of the Term Loan, and will be used for calculating Operating Leverage Ratio while the collateral is in place.
- (iv) Until such time the Company's Fixed Charge Coverage Ratio is at least 1.10 to 1, the Company cannot declare or pay any dividends on or make any distribution with respect to any class of its Preferred Stock, or purchase, redeem, retire, or otherwise acquire any such Preferred Stock.

Environmental Tectonics Corporation
Notes to the Consolidated Financial Statements, continued

(Dollars in thousands, except per share information)

- (v) The Company received a waiver as of the quarter ending August 30, 2013 for exceeding the permitted maximum Operating Leverage Ratio of 3.00 to 1 under the September 28, 2012 Loan Agreement and December 19, 2012 Export Import Loan Agreement. Going forward, ETC must maintain an Operating Leverage Ratio (i.e., ratio of Adjusted Senior Funded Debt to EBITDA, which is defined as earnings before interest, taxes, depreciation, and amortization) of less than 3.50 to 1 from November 29, 2013 through February 28, 2014. This ratio will reduce to 3.25 to 1 from March 1, 2014 through May 30, 2014, will further reduce to 3.00 to 1 on May 31, 2014, and will remain at that level at all times thereafter.
- (vi) ETC must maintain as of the end of each fiscal quarter, on a rolling four quarters basis, a Fixed Charge Coverage Ratio (i.e. ratio of EBITDA, increased by an amount equal to the EBITDA Addback specified for such quarter end date, divided by the sum of the defined fixed charges) of at least 1.00 to 1 from November 29, 2013 through August 29, 2014. This ratio will increase to 1.10 to 1 on August 30, 2014, and will remain at that level at all times thereafter.
- (vii) Effective as of the date of this amendment, the interest rate on both the Line of Credit Note and the Term Loan Note will be based on the PNC Daily Libor Rate plus a margin of 3.00%.

This amendment was identified as a subsequent event in Note 6 – Subsequent Events.

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

	August 30, 2013	February 22, 2013
	(unaudited)	
Credit facility payable to bank	\$ 11,495	\$ 7,585
Term loan	11,069	14,000
Borrowed under Ex-Im Line of Credit	680	600
Borrowed under ETC-PZL Line of Credit	584	-
Total long-term debt obligations	23,828	22,185
Less: current portion of long-term debt obligations	(4,264)	(3,600)
Total long-term debt obligations, less current portion	\$ 19,564	\$ 18,585

Note 4. Income Taxes

Effective tax rates were 41.1% and 43.4% for the 2014 second quarter and the 2013 second quarter, respectively. Income tax provisions of \$95 and \$994 were recorded in the 2014 second quarter and the 2013 second quarter, respectively. Effective tax rates were 41.1% and 40.2% for the 2014 first half and the 2013 first half, respectively. Income tax provisions of \$123 and \$2,008 were recorded in the 2014 first half and the 2013 first half, respectively. At the end of each interim period, we make our best estimate of the effective tax rate expected to be applicable for the full fiscal year and the impact of discrete items, if any, and adjust the quarterly rate as necessary.

Generally, accounting standards require companies to provide for income taxes each quarter based on their estimate of the effective tax rate for the full year. The authoritative guidance for accounting for income taxes allows use of the discrete method when, in certain situations, the actual interim period effective tax rate may be used if it provides a better estimate of income tax expense.

As of August 30, 2013, the Company had approximately \$13,181 of federal net loss carryforwards available to offset future income tax liabilities, which begin to expire in 2025. In addition, the Company has the ability to offset deferred tax assets against deferred tax liabilities created for such items as depreciation and amortization.

Note 5. Commitments and Contingencies

Certain claims, suits, and complaints arising in the ordinary course of business have been filed or are pending against us. We believe, after consultation with legal counsel handling these specific matters, all such matters are reserved for or adequately covered by insurance or, if not so covered, are without merit or are of such kind, or involve such amounts, as would not be expected to have a significant effect on our financial position or results of operations if determined adversely against us.

Environmental Tectonics Corporation
Notes to the Consolidated Financial Statements, continued

(Dollars in thousands, except per share information)

Note 6. Subsequent Events

The Company has evaluated subsequent events through October 14, 2013, the date of issuance of its consolidated financial statements and determined that the following item was the only material subsequent event requiring adjustment to, or disclosure in, the consolidated financial statements for the twenty-seven week period ended August 30, 2013.

On October 11, 2013, the Company entered into an amendment to the September 28, 2012 Loan Agreement that provided for, among other things, (i) an increase in availability under the Company's Line of Credit with PNC Bank, (ii) the collateralization of the Term Loan by Mr. Lenfest, (iii) a temporary cessation on Preferred Stock related transactions, (iv) short-term relief on certain financial covenants, and (v) an increase in the interest rate on both the Line of Credit Note and the Term Loan Note. See Note 3 – Long-Term Obligations and Related Equity Arrangements for additional details.

Management's Discussion and Analysis

Forward-looking Statements

Discussions of some of the matters contained in this Quarterly Report to Shareholders include forward-looking statements that may involve risks and uncertainties. Some of these discussions are contained under the caption "Management's Discussion and Analysis". We have based these forward-looking statements on our current expectations and projections about future events or future financial performance, which include implementing our business strategy, developing and introducing new technologies, obtaining, maintaining and expanding market acceptance of the technologies we offer, and competition in our markets. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about ETC 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) 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 foreign currency fluctuations, (ii) statements of our plans and objectives of the Company or its management or the Company's Board of Directors (the "Board of Directors"), including the introduction of new products, or estimates or predictions of actions of customers, suppliers, competitors, or regulatory authorities, (iii) statements of future economic performance, (iv) statements of assumptions and other statements about the Company or its business, (v) statements made about the possible outcomes of litigation involving the Company, (vi) statements regarding the Company's ability to obtain financing to support its operations and other expenses, and (vii) statements preceded by, followed by, or, that include, terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "future", "predict", "potential", "intend", or "continue", and similar expressions. These forward-looking statements involve risks and uncertainties that 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.

Results of Operations

Thirteen weeks ended August 30, 2013 compared to thirteen weeks ended August 24, 2012

Due to the nature of our business, we have historically experienced significant variability in our quarterly revenue, earnings, and other operating results, and our performance may fluctuate significantly in the future.

Summary Table of Results

(unaudited)

<i>(in thousands, except per share information)</i>	Thirteen weeks ended August 30, 2013	Thirteen weeks ended August 24, 2012	Variance (\$)	Variance (%)
Net sales	\$ 11,700	\$ 16,502	\$ (4,802)	(29.1)
Cost of goods sold	8,008	10,405	(2,397)	(23.0)
Gross profit	3,692	6,097	(2,405)	(39.4)
<i>Gross profit margin %</i>	<i>31.6%</i>	<i>36.9%</i>	<i>(5.3%)</i>	<i>(14.4%)</i>
Operating expenses	3,146	3,636	(490)	(13.5)
Operating income	546	2,461	(1,915)	(77.8)
<i>Operating margin %</i>	<i>4.7%</i>	<i>14.9%</i>	<i>(10.2%)</i>	<i>(68.5%)</i>
Interest expense, net	194	231	(37)	(16.0)
Other expense (income), net	121	(61)	182	298.4
Income before income taxes	231	2,291	(2,060)	(89.9)
<i>Pre-tax income margin %</i>	<i>2.0%</i>	<i>13.9%</i>	<i>(11.9%)</i>	<i>(85.6%)</i>
Provision for income taxes	95	994	(899)	(90.4)
Loss attributable to non-controlling interest	4	1	3	300.0
Net income attributable to ETC	\$ 140	\$ 1,298	\$ (1,158)	(89.2)

Per share information:

Basic earnings per common and participating share:

Distributed earnings per share:

Common	\$ -	\$ -	\$ -	
Preferred	\$ 0.02	\$ 0.05	\$ (0.03)	(60.0)
Undistributed earnings per share:				
Common	\$ -	\$ 0.04	\$ (0.04)	(100.0)
Preferred	\$ -	\$ 0.04	\$ (0.04)	(100.0)
Diluted earnings per share	\$ -	\$ 0.04	\$ (0.04)	(100.0)

Environmental Tectonics Corporation
Management's Discussion and Analysis, continued

Net Income Attributable to ETC

Net income attributable to ETC was \$140 thousand, or \$0.00 diluted earnings per share, in the 2014 second quarter, compared to \$1.3 million or \$0.04 diluted earnings per share, during the 2013 second quarter, representing a decrease of \$1.2 million, or 89.2%. The decrease in net income attributable to ETC reflects a decrease in income before income taxes of \$2.1 million due primarily to a \$2.4 million decrease in gross profit, resulting from a combination of both lower net sales and lower gross profit margin percentage, offset in part, by a \$0.5 million decrease in operating expenses, resulting from an on-going effort to reduce non-revenue generating expenses.

Net Sales

Net sales in the 2014 second quarter were \$11.7 million, a decrease of \$4.8 million, or 29.1%, compared to 2013 second quarter net sales of \$16.5 million. The decrease reflects decreased ATS sales to the U.S. Government and decreased sales of sterilizers and environmental testing and simulation devices to Domestic customers. Given the current progress made on U.S. Government contracts in the Company's sales backlog, the Company anticipates the concentration of sales to the U.S. Government will continue to lessen in fiscal 2014.

Gross Profit

Gross profit for the 2014 second quarter was \$3.7 million compared to \$6.1 million in the 2013 second quarter, a decrease of \$2.4 million, or 39.4%. The significant decrease in gross profit was a combination of both lower net sales and lower gross profit margin percentage due to inefficiencies as a result of additional work required on several contracts.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2014 second quarter were \$3.1 million, a decrease of \$0.5 million, or 13.5%, compared to \$3.6 million for the 2013 second quarter. The decrease is primarily the result of an on-going effort to reduce non-revenue generating expenses, offset in part, by an increase in research and development expenses.

Interest Expense, Net

Interest expense, net, for the 2014 second quarter was \$194 thousand compared to \$231 thousand in the 2013 second quarter, a decrease of \$37 thousand despite a higher level of bank borrowing due primarily to the results of the 2012 Financial Restructuring.

Environmental Tectonics Corporation
Management's Discussion and Analysis, continued

Twenty-seven weeks ended August 30, 2013 compared to twenty-six weeks ended August 24, 2012

Due to the nature of our business, we have historically experienced significant variability in our quarterly revenue, earnings, and other operating results, and our performance may fluctuate significantly in the future.

Summary Table of Results
(unaudited)

<i>(in thousands, except per share information)</i>	Twenty-seven weeks ended August 30, 2013	Twenty-six weeks ended August 24, 2012	Variance (\$)	Variance (%)
Net sales	\$ 24,286	\$ 32,572	\$ (8,286)	(25.4)
Cost of goods sold	16,885	20,027	(3,142)	(15.7)
Gross profit	7,401	12,545	(5,144)	(41.0)
<i>Gross profit margin %</i>	30.5%	38.5%	(8.0%)	(20.8%)
Operating expenses	6,554	7,169	(615)	(8.6)
Operating income	847	5,376	(4,529)	(84.2)
<i>Operating margin %</i>	3.5%	16.5%	(13.0%)	(78.8%)
Interest expense, net	366	445	(79)	(17.8)
Other expense (income), net	182	(64)	246	384.4
Income before income taxes	299	4,995	(4,696)	(94.0)
<i>Pre-tax income margin %</i>	1.2%	15.3%	(14.1%)	(92.2%)
Provision for income taxes	123	2,008	(1,885)	(93.9)
(Income) loss attributable to non-controlling interest	(5)	6	(11)	(183.3)
Net income attributable to ETC	\$ 171	\$ 2,993	\$ (2,822)	(94.3)

Per share information:

Basic (loss) earnings per common and participating share:

Distributed earnings per share:

Common	\$ -	\$ -	\$ -	-
Preferred	\$ 0.04	\$ 0.10	\$ (0.06)	(60.0)

Undistributed (loss) earnings per share:

Common	\$ (0.01)	\$ 0.09	\$ (0.10)	(111.1)
Preferred	\$ (0.01)	\$ 0.09	\$ (0.10)	(111.1)

Diluted (loss) earnings per share	\$ (0.01)	\$ 0.09	\$ (0.10)	(111.1)
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Net Income Attributable to ETC

Net income attributable to ETC was \$171 thousand, or (\$0.01) diluted loss per share, in the 2014 first half, compared to \$3.0 million or \$0.09 diluted earnings per share, during the 2013 first half, representing a decrease of \$2.8 million, or 94.3%. The decrease in net income attributable to ETC reflects a decrease in income before income taxes of \$4.7 million due primarily to a \$5.1 million decrease in gross profit, resulting from a combination of both lower net sales and lower gross profit margin percentage, offset in part, by a \$0.6 million decrease in operating expenses, resulting from an on-going effort to reduce non-revenue generating expenses.

Net Sales

Net sales in the 2014 first half were \$24.3 million, a decrease of \$8.3 million, or 25.4%, compared to 2013 first half net sales of \$32.6 million. The decrease reflects decreased ATS sales to the U.S. Government and decreased sales of sterilizers and environmental testing and simulation devices to Domestic customers, offset in part, by increased sales within nearly all business units to International customers. Given the current progress made on U.S. Government contracts in the Company's sales backlog, the Company anticipates the concentration of sales to the U.S. Government will continue to lessen in fiscal 2014.

Gross Profit

Gross profit for the 2014 first half was \$7.4 million compared to \$12.5 million in the 2013 first half, a decrease of \$5.1 million, or 41.0%. The significant decrease in gross profit was a combination of both lower net sales and lower gross profit margin percentage due to increased costs as a result of damage to one of our devices associated with a U.S. Government contract during the testing phase and inefficiencies as a result of additional work required on several other contracts.

Environmental Tectonics Corporation
Management's Discussion and Analysis, continued

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2014 first half were \$6.6 million, a decrease of \$0.6 million, or 8.6%, compared to \$7.2 million for the 2013 first half. The decrease is primarily the result of an on-going effort to reduce non-revenue generating expenses, offset in part, by an increase in research and development expenses.

Interest Expense, Net

Interest expense, net, for the 2014 first half was \$366 thousand compared to \$445 thousand in the 2013 first half, a decrease of \$79 thousand despite a higher level of bank borrowing due primarily to the results of the 2012 Financial Restructuring.

Cash Flows from Operating, Investing, and Financing Activities

During the 2014 first half, as a result of an increase in costs and estimated earnings in excess of billings on uncompleted long-term percentage of completion ("POC") contracts and a decrease in accounts payable, the Company used \$3.2 million of cash in operating activities compared to \$4.3 million of cash provided by operating activities in the 2013 first half. Under POC revenue recognition, these accounts represent the timing differences of spending on production activities versus collecting on long-term contracts.

Cash used for investing activities primarily relates to funds used for capital expenditures in equipment and software development. The Company's investing activities used \$0.6 million in the 2014 first half compared to \$0.8 million in the 2013 first half.

The Company's financing activities provided \$2.5 million of cash in the 2014 first half, which primarily reflected borrowings under the Company's various lines of credit, and was offset, in part, by payments on the Term Loan. In the 2013 first half, net cash used in financing activities totaled \$3.9 million, primarily for repayments under the line of credit and dividends paid on Preferred Stock.

Item 7. Description of Facilities

We are an ISO 9001 certified manufacturer. We are also ISO 13485 certified for our medical devices. We operate in five major locations consisting of manufacturing facilities, product development, and administration. A summary of square footage and use is presented below:

Location	Approximate Square Footage	Function	Owned/Leased	Segment
Southampton, Pennsylvania	92,000	Manufacturing (64,000 sq. ft.), NASTAR Center (22,000 sq. ft.), and Corporate Headquarters (6,000 sq. ft.)	Owned	Aerospace CIS
Southampton, Pennsylvania	15,000	Service and spare parts warehouse	Leased	CIS
Orlando, Florida	8,700	Product development and administration	Leased	Aerospace
Warsaw, Poland	28,000	Manufacturing, product development, and administration	Leased	Aerospace
Ankara, Turkey	5,700	Software development	Leased	Aerospace CIS
Total	149,400			

The Southampton owned property is encumbered by an Open-End Mortgage and Security Agreement with PNC Bank, which secures the Term Loan. We consider our machinery and plant to be in satisfactory operating condition, and adequate given our expected operations. Significant increases in the level of operations beyond what we expect in the current fiscal year might require us to obtain additional facilities and equipment.

The NASTAR Center, which is included in the Company's Southampton, Pennsylvania owned property, includes the following aerospace training and research equipment:

- ATFS-400-25 PHOENIX High Performance Human Centrifuge;
- GYROLAB GL-1500 Advanced Spatial Disorientation Trainer;
- Altitude (Hypobaric) Chamber;
- Ejection Seat Simulator; and
- Night Vision Training System and Night Vision Goggle Training System.

Item 8. Officers, Directors, and Control Persons

	Name	Title	Ownership Percentage
Directors and Executive Officers:	William F. Mitchell	Chairman of the Board of Directors, President, Chief Executive Officer, and Director	15.1%
	George K. Anderson, M.D.	Director	*
	Linda J. Brent, Ed.D.	Director	*
	Roger Colley	Director	*
	H.F. Lenfest	Director	56.1%
	Michael D. Malone	Director	*
	George A. Sawyer	Director	*
	Winston E. Scott	Director	*
	Thomas G. Loughlin	Chief Operating Officer	*
	Robert L. Laurent, Jr.	Chief Financial Officer and Corporate Secretary	*
	William F. Mitchell, Jr.	Vice President, Contracts / Purchasing	*
	James R. Wells, Esq.	Vice President and General Counsel	*
Control Persons:	T. Todd Martin, III		11.3%
	Pete L. Stephens		6.8%

* less than 1%

Information is accurate as of October 14, 2013. None of the foregoing persons in the last five years has had a legal/disciplinary issue. Mr. James D. Cashel, General Counsel and Corporate Secretary, resigned effective June 14, 2013 to pursue another career opportunity. Mr. Robert L. Laurent, Jr., the Company's Chief Financial Officer, has since been appointed Corporate Secretary and Mr. James R. Wells, Esq. was hired effective August 19, 2013 as Vice President and General Counsel.

Item 9. Third Party Providers

Legal Counsel:

Stradley Ronon Stevens & Young, LLP
2005 Market Street
Philadelphia, PA 19103
(215) 564-8120

Independent Auditor:

McGladrey LLP
751 Arbor Way
Blue Bell, PA 19422
(215) 641-8600

Item 10. Management's Certification

I, Robert L. Laurent, Jr. certify that:

- 1 I have reviewed this Quarterly Report of Environmental Tectonics Corporation;
- 2 Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
- 3 Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.



Robert L. Laurent, Jr.
Chief Financial Officer
Date: October 14, 2013

I, William F. Mitchell certify that:

- 1 I have reviewed this Quarterly Report of Environmental Tectonics Corporation;
- 2 Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
- 3 Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.



William F. Mitchell
President and Chief Executive Officer
Date: October 14, 2013

ETC GLOBAL HEADQUARTERS

125 James Way, Southampton, Pa. 18966 USA

INVESTOR CONTACT

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