2022
ANNUAL REPORT

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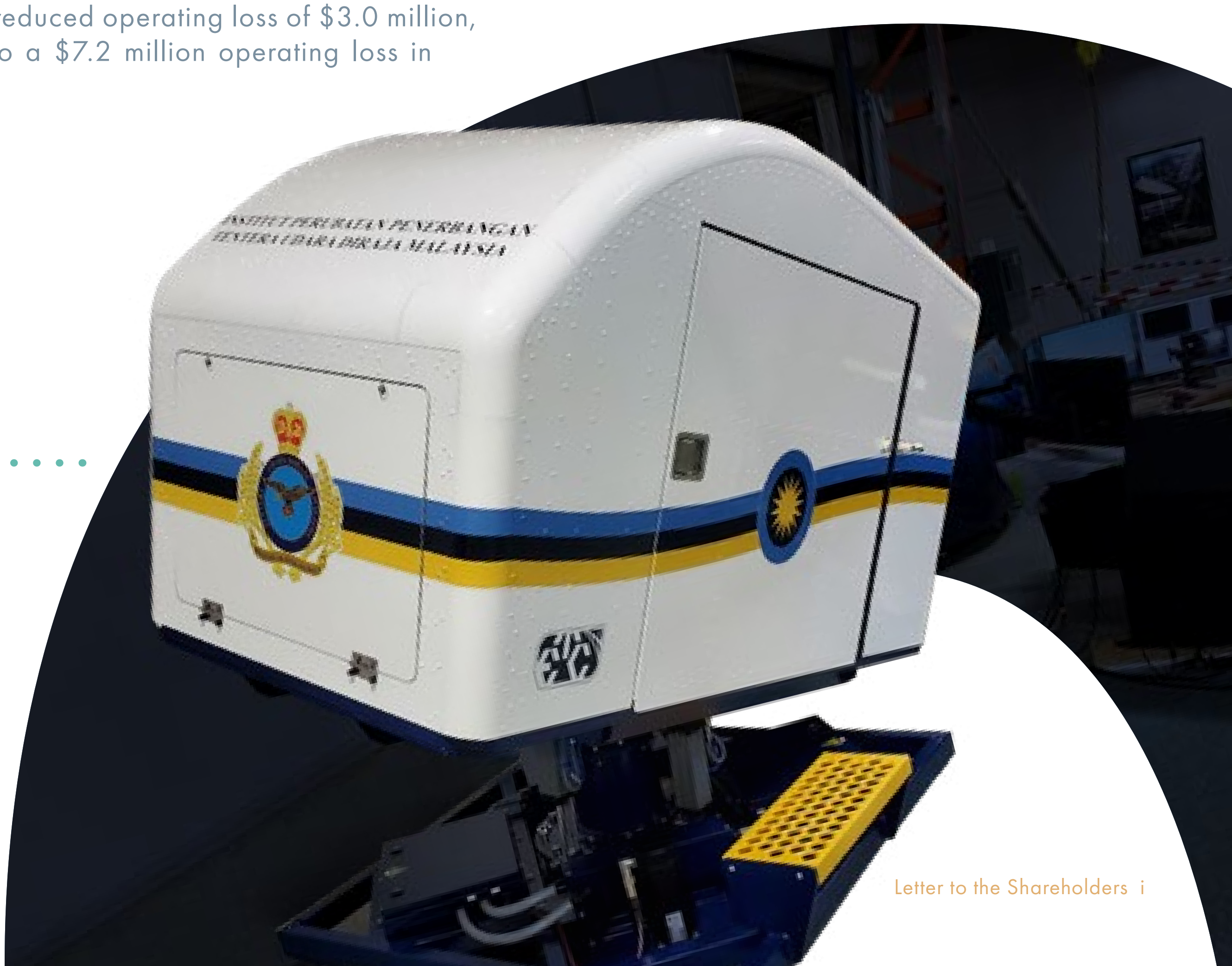
ATFS-400-25 UPDATE

THE NASTAR CENTER'S ATFS-400-25 WAS UPDATED WITH A NEW LOOK

LETTER TO THE SHAREHOLDERS

ETC's fiscal 2022 results did improve over the prior year, but those results were once again affected by worldwide travel restrictions that make sales activities challenging. Now though, we are seeing improvements in market conditions. Fiscal 2022 net sales, though significantly below historical levels, increased 17.7%, to $19.1 million, over fiscal 2021. The increase in fiscal 2022 net sales, combined with improvements in the mix of products sold resulted in an increase in gross profit to $4.3 million, and gross margin of 22.6%, compared to gross profit in fiscal 2021 of $1.3 million, and gross margin of 7.8%. ETC also reduced its operating expenses by $1.2 million, or 14% resulting in a reduced operating loss of $3.0 million, compared to a $7.2 million operating loss in fiscal 2021.

Fiscal 2022 results benefitted from other income related to the forgiveness of its Payroll Protection Program loan and Employee Retention Credits, together totaling $5.2 million, leading to net income in fiscal 2022 of $1.7 million, compared to a net loss in fiscal 2021 of $7.5 million. ETC utilized these pandemic-related economic incentives to invest in our products.



GAT-III
FOR THE ROYAL MALAYSIAN AF

FIRE TRUCK SIMULATOR
FOR THE ROYAL NETHERLANDS AIR FORCE, FIRE AND RESCUE

AEROSPACE SOLUTIONS

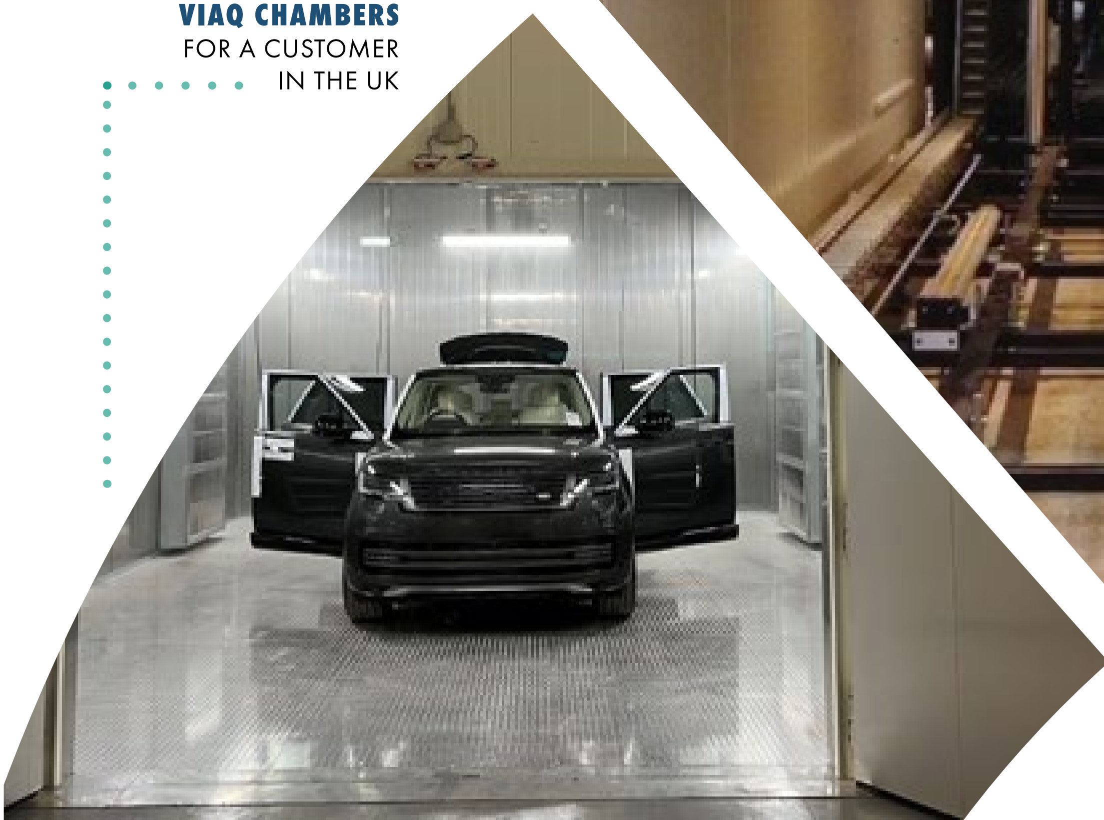
Our ATS Business unit focused on the development of rotary wing light dynamics modeling, Night Vision Goggle use in Spatial Disorientation Training, and a major redesign effort of our ATFS-400 centrifuge arm to further enhance its performance and maintainability. ETC Simulation further advanced its ADMS simulation technology by developing infectious disease and toxic chemical scenarios for delivery of a range of Disaster Management Training Systems. Several large systems have been produced for Airport Fire and Rescue Services, for military customers and civilian airports, including localized airports and aircraft .

COMMERCIAL/INDUSTRIAL SYSTEMS

During fiscal 2022, Commercial/Industrial Systems sales increased by 41.3%, to $7.6 million, over fiscal 2021. The strong year for Sterilizers, with a sales increase of $2.7 million, or 184%, was due to a backlog of contracts for both Ethylene Oxide (EO) and Steam sterilizers. This was offset, in part, by lower sales of Environmental Testing and Simulation Systems. ETC's recent sterilization chamber design improvements provide our customer with an opportunity to better optimize their sterilization process and potentially reduce sterilization processing time.

ETC's Environmental Test and Simulation Systems unit successfully completed multiple projects during the past year including a Noise, Vibration and Harshness chamber for a major automotive company and a combined combustion air supply/road speed simulation system for a US motorcycle manufacturer. In addition, two Vehicle Internal Air Quality Chambers were provided to an international luxury vehicle supplier positioning them for compliance with upcoming international regulations. Currently, the division is completing the engineering phase of a state of the art, large vehicle test lab project for a US truck and bus manufacturer. This lab will provide the customer the ability to perform powertrain research and development for internal combustion, electric and fuel cell powered vehicles.

VIAQ CHAMBERS
FOR A CUSTOMER
IN THE UK



12-PALLET
EO STERILIZER
WITH PNEUMATIC
CONVEYOR SYSTEM

Following two years where incoming orders were significantly hampered by the pandemic, we enter fiscal 2023 with a backlog of $19.3 million, but with a very strong pipeline in each of our business units. ETC continues its technological development of products that broaden its customer base and continue its tradition of "Quality through Integrity and Technology".

I'd like to once again thank our dedicated employees for the loyalty, passion and pursuit of excellence.

Robert L. Laurent, Jr.
Chief Executive Officer and President

FINANCIAL REVIEW

(in thousands, except per share information)

	Fiscal year ended	
	February 25, 2022	**February 26, 2021**
Net sales	$ 19,132	$ 16,250
Gross profit	4,318	1,264
Operating loss	(2,997)	(7,219)
Net loss attributable to ETC	1,807	(7,492)
Per share information:		
Basic earnings (loss) per common and participating share:		
Distributed earnings (loss) per share:		
Common	$ -	$ -
Preferred	$ 0.08	$ 0.08
Undistributed earnings (loss) per share:		
Common	$ 0.08	$ (0.51)
Preferred	$ 0.08	$ (0.51)
Diluted earnings (loss) per share	$ 0.08	$ (0.51)
Working capital	$ 6,589	$ 10,032
Total long-term debt obligations	13,358	19,431
Total assets	34,553	38,108
Total shareholders' equity (deficit)	1,595	(76)
Weighted average common and participating shares:		
Basic	15,569	15,569
Diluted	15,569	15,569

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

We have never paid any cash dividends on our Common Stock and do not anticipate that any cash dividends will be declared or paid on our Common Stock in the foreseeable future.

Dividends on the Company's Preferred Stock, as declared, accrue according to the terms of the Preferred Stock and when paid, are paid in cash. The Preferred Stock is currently entitled to receive cumulative dividends at the rate of four percent (4%) per year in preference to the holders of the Company's Common Stock with respect to dividends. Series E Preferred Stock dividends accrued as of February 26, 2022, which totaled $4,372 thousand, remained unpaid as of June 9, 2022, the date of issuance of our consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Discussions of some of the matters contained in this Annual 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 of Financial Condition and Results of Operations". 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 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, words 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.

The Company's primary Standard Industrial Classification Code is 3569. The Company's fiscal year is the fifty-two week or fifty-three week annual accounting period ending the last Friday in February. References to fiscal 2022 are references to the fifty-two week period ended February 25, 2022. References to fiscal 2021 are references to the fifty-two week period ended February 26, 2021.

Overview

ETC was incorporated in 1969 in Pennsylvania. For over five decades, we have provided our customers with products, services, 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 areas: (i) software driven products and services used to create and monitor the physiological effects of flight, including high performance jet tactical flight simulation, fixed and rotary wing upset prevention and recovery and spatial disorientation, and both suborbital and orbital commercial human spaceflight, collectively, Aircrew Training Systems ("ATS"); (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); (iv) Advanced Disaster Management Simulators ("ADMS"); (v) steam and gas (ethylene oxide) sterilizers; and (vi) environmental testing and simulation systems ("ETSS). We operate in two primary business segments, Aerospace Solutions ("Aerospace") and Commercial/Industrial Systems ("CIS").

Aerospace encompasses the design, manufacture, and sale of: (i) ATS products; (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); and (iv) ADMS, as well as integrated logistics support ("ILS") 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 and to civil aviation organizations.

Specific products within Aerospace include:

- Aeromedical Centers;
- Authentic Tactical Fighting System ("ATFS") Motion Platforms;
  - ATFS-400-31 Human Centrifuge
  - ATFS-400-25 Human Centrifuge
- Interchangeable Cockpit Modules;
- G-LAB Human Centrifuge and G Trainer;
- GYROLAB GL-6000 KRAKEN Advanced Spatial Disorientation Training and Research Device;
- GYROLAB GL-4000;
- GYROLAB GL-1500;
- GYRO IPT-III eFOV;
- GYRO IPT-II Fixed and Rotary Wing Spatial Disorientation Trainer;
- GAT-III Fixed Wing Aviation Trainer;
- GAT-HELO Rotary Wing Aviation Trainer;
- Night Vision Training System ("NVTS");
- Night Vision Goggle Training System ("NVGTS");
- FALCON Altitude (Hypobaric) Chambers;
- Multiplace Hyperbaric Chambers;
- Ejection Seat Simulator ("ESS");
- Pilot Selection System ("PSS");
- Water Survival Training equipment;
- Vestibular Illusion Demonstrator ("VID");
- Interactive motion based simulation and virtual reality equipment designed for the education/entertainment industry; and our
- ADMS line of products (primarily AIRBASE, COMMAND, CONTROL, DRIVE, FIRE, and the Aircraft Rescue and Firefighting ("ARFF") Vehicle Simulator).

Specific services within Aerospace include:

- Tactical flight training;
- High-G training;
- Hypoxia training;
- Situational awareness and spatial disorientation training;
- Aeromedical training;
- Suborbital and orbital commercial human spaceflight training;
- Upset prevention and recovery training ("UPRT");
- Crew resource management ("CRM") training;
- Advanced pilot training;
- Basic pilot training;
- Pilot selection;
- Emergency response training; and
- Integrated logistics support.

CIS encompasses the design, manufacture, and sale of:

- Steam and gas (ethylene oxide) sterilizers;
- Environmental testing and simulation systems ("ETSS");
- Parts and service support.

Net sales, operating loss, identifiable assets, and other financial information regarding our segments can be found in Note 8 – Business Segment Information.

ETC-PZL Aerospace Industries Sp. z o.o. ("ETC-PZL"), our 95%-owned subsidiary in Warsaw, Poland, is currently our only operating subsidiary. ETC-PZL manufactures certain simulators and provides software to support products manufactured domestically within our Aerospace segment.

We utilize both employees and independent representatives to market our products and services. As of February 25, 2022, approximately fourteen (14) employees were committed to sales and marketing functions. In addition to our one operating subsidiary, we have employees stationed in the United Kingdom, the Netherlands, Egypt, Turkey, Qatar, the United Arab Emirates, India, and Malaysia. In certain countries outside the United States, we have relationships with independent sales representatives and distributors.

We sell integrated products and training services. Some of our products are customized using our proprietary software based on specifications provided by our customers. Some of our products take more than one year to manufacture and deliver to the customer.

In the Aerospace segment, we offer integrated ATS products to commercial, governmental, and military defense agencies, and training devices, including altitude (hypobaric) and multiplace chambers ("Chambers"), to governmental and military defense agencies, universities and civil aviation organizations both in the United States and internationally. We sell our ADMS line of products to governmental organizations in both the United States and internationally, original equipment manufacturers in the global special fire truck market (including ARFF vehicles), fire and emergency training schools, universities, and airports. We also provide ILS for customers who purchase these products or similar products manufactured by other parties.

In the CIS segment, we sell our sterilizers to medical device manufacturers, pharmaceutical manufacturers, and universities. We sell ETSS primarily to commercial automotive and heating, ventilation, and air conditioning ("HVAC") manufacturers. We also provide upgrade, maintenance, and repair services for our products and similar products manufactured by other parties.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements requires the use of judgments and estimates. Our critical accounting policies are described below to provide a better understanding of how we develop our assumptions and judgments about future events and related estimates, and how they can impact our consolidated financial statements. A critical accounting estimate is one that requires our most difficult, subjective, or complex estimates and assessments, and is fundamental to our results of operations. We identified our most critical accounting estimates (not in any specific order) to be:

- estimating budget costs for large, multi-year contracts that involve significant engineering and software development;
- inventory valuation and reserves;
- valuations of long-lived assets, including equipment housed within our National Aerospace Training and Research Center (the "NASTAR Center") and intangible assets such as capitalized software;
- legal reserves and contingencies; and
- forecasting our effective income tax rate, including our future ability to value and utilize tax credits and to realize the deferred tax assets, and providing for uncertain tax positions.

We base our estimates on historical experience, and on various other assumptions we believe to be reasonable according to the current facts and circumstances; the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We believe the following are the critical accounting policies used in the preparation of our consolidated financial statements, as well as the significant estimates and judgments affecting the application of these policies. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in this Annual Report to Shareholders.

We have discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the disclosures presented below.

Revenue Recognition

The majority of our net sales are generated from long-term contracts with U.S. and foreign government agencies (including foreign military sales ("FMS") contracted through the U.S. Government) for the research, design, development, manufacture, integration, and sustainment of ATS products, including Chambers and the simulators manufactured and sold through ETC-PZL, collectively, Aeromedical Training Solutions. The Company also enters into long-term contracts with domestic customers for the sale of sterilizers and ETSS. Net sales of ADMS are generally much shorter term in nature and vary between domestic and international customers. We generally provide our products and services under fixed-price contracts.

Under fixed-price contracts, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss. Some fixed-price contracts have a performance-based component under which we may incur financial penalties based on our performance, such as liquidated damages for delayed delivery.

We account for a contract after all parties to the arrangement have approved it, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable.

We assess each contract at its inception to determine whether it should be combined with other contracts. When making this determination, we consider factors such as whether two or more contracts were negotiated and executed at or near the same time or were negotiated with an overall profit objective. If combined, we treat the combined contracts as a single contract for revenue recognition purposes.

We evaluate the products or services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The majority of the Company's contracts with customers are accounted for as one performance obligation, as the majority of products and services is part of a single project or capability. In limited cases, our contracts have more than one distinct performance obligation, which occurs when we perform activities that are not interrelated or involve different product lifecycles. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit recorded in a given period. distinct performance obligation, which occurs when we perform activities that are not interrelated or involve different product lifecycles. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit recorded in a given period.

We determine the transaction price for each contract based on the consideration we expect to receive for the products or services being provided under the contract, net of all sales and similar taxes collected from customers. For contracts where a portion of the price may vary, we estimate variable consideration at the most likely amount, which is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. We analyze the risk of a significant revenue reversal, and if necessary, constrain the amount of variable consideration recognized in order to mitigate this risk.

At the inception of a contract, we estimate the transaction price based on our current rights and do not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Contracts are often subsequently modified to include changes in specifications, requirements, or price, which may create new or change existing enforceable rights and obligations. Depending on the nature of the modification, we consider whether to account for the modification as an adjustment to the existing contract or as a separate contract. Generally, modifications to our contracts are not distinct from the existing contract due to the significant integration and interrelated tasks provided in the context of the contract; therefore, such modifications are accounted for as if they were part of the existing contract and recognized as a cumulative adjustment to revenue. Contract claims and disputes related to customer caused delays, errors in specifications and designs, and other unanticipated causes for amounts in excess of contract value may increase the transaction price if it is probable that the claim will result in an increase in the contract value and if the increase can be reliably estimated; however, the resulting revenue recorded on a contract claim cannot exceed the incurred contract costs related to that claim. Claims are subject to negotiation, dispute resolution, and audit by the customer or governmental agency.

For contracts with multiple performance obligations, we allocate the transaction price to each performance obligation based on the estimated standalone selling price of the product or service underlying each performance obligation. The standalone selling price represents the amount we would sell the product or service to a customer on a standalone basis (i.e., not bundled with any other products or services). Our contracts with the U.S. Government, including FMS contracts, are subject to the Federal Acquisition Regulations ("FAR") and the price is typically based on estimated or actual costs plus a reasonable profit margin. As a result of these regulations, the standalone selling price of products or services in our contracts with the U.S. Government and FMS contracts are typically equal to the selling price stated in the contract; therefore, we typically do not need to allocate (or reallocate) the transaction price to multiple performance obligations.

For non-U.S. Government contracts with multiple performance obligations, we evaluate whether the stated selling prices for the products or services represent their standalone selling prices. We primarily sell customized solutions unique to a customer's specifications. When it is necessary to allocate the transaction price to multiple performance obligations, we typically use the expected cost plus a reasonable profit margin to estimate the standalone selling price of each product or service. We occasionally sell standard products or services with observable standalone sales transactions. In these situations, the observable standalone sales transactions are used to determine the standalone selling price.

We recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. In determining when performance obligations are satisfied, we consider factors such as contract terms, payment terms, and whether there is an alternative future use of the product or service. Substantially all of our revenue is recognized over a period of time as we perform under the contract because control of the work in process transfers continuously to the customer. For contracts with the U.S. Government and FMS contracts, this continuous transfer of control of the work in process to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit, and take control of any work in process. Our non-U.S. Government contracts, primarily domestic and international direct commercial contracts, typically do not include termination for convenience provisions; however, continuous transfer of control to our customer is supported as, if our customer were to terminate the contract for reasons other than our non-performance, we would have the right to recover damages that would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to us.

For performance obligations to deliver products with continuous transfer of control to the customer, revenue is recognized by means of an input measure based on the extent of progress towards completion of the performance obligation, generally using the percentage-of-completion cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer as we incur costs on our contracts. Under the percentage-of-completion cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation(s).

For performance obligations in which control does not continuously transfer to the customer, we recognize revenue at the point in time in which each performance obligation is fully satisfied. This coincides with the point in time the customer obtains control of the product or service, which typically occurs upon customer acceptance or receipt of the product or service, given that we maintain control of the product or service until that point.

The Company also offers one to three year (and in limited cases fifteen year) maintenance and support agreements for many of its products, especially within the Aerospace segment. The specific terms and conditions of these agreements vary depending upon the product sold and country in which the product was sold. Revenue is recognized on such agreements over a period of time on a straight-line basis over the term of the maintenance and support services or the right to invoice method (in situations where the value transferred matches our billing rights) as our customer receives and consumes the benefits. The standalone selling price is determined based on the price charged when sold separately or upon renewal.

Sales backlog (i.e., unfulfilled or remaining performance obligations) represents the sales we expect to recognize for our products and services for which control has not yet transferred to the customer. The estimated consideration is determined at the outset of the contract and considers the risks related to the technical, schedule, and cost impacts to complete the contract and an estimate of any variable consideration. We review these risks on a quarterly basis and may increase or decrease backlog accordingly. As the risks on such contracts are successfully retired, the estimated consideration from customers may be reduced, resulting in a reduction of backlog without a corresponding recognition of sales.

For arrangements with the U.S. Government and FMS contracts, we generally do not begin work on contracts until funding is appropriated by the customer. Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. Typical payment terms under fixed-price contracts with the U.S. Government provide that the customer pays either performance-based payments based on the achievement of contract milestones or progress payments based on a percentage of costs we incur. For the majority of our domestic and international direct commercial contracts, we typically receive advance payments prior to commencement of work, as well as milestone payments that are paid in accordance with the terms of our contract as we perform. We recognize a liability for payments in excess of revenue recognized, which is presented as a contract liability on the balance sheet. The portion of payments that may be retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer from our failure to adequately complete some or all of the obligations under the contract. Payments received from customers in advance of revenue recognition are not considered to be significant financing components because they are used to meet working capital demands that can be higher in the early stages of a contract. We present revenues recognized in excess of billings as contract assets on the balance sheet. Amounts billed and due from our customers are classified as receivables on the balance sheet.

Significant estimates and assumptions are made in estimating contract sales and costs, including the profit booking rate. At the outset of a long-term contract, we identify and monitor risks to the achievement of the technical, schedule, and cost aspects of the contract, as well as variable consideration, and assess the effects of those risks on our estimates of sales and total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events), and costs (e.g., material, labor, subcontractor, overhead, and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule, and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and cost aspects of the contract, which decreases the estimated total costs to complete the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase or our estimates of variable consideration we expect to receive decrease. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. When estimates of total costs to be incurred on a contract exceed total estimates of the transaction price, a provision for the entire loss is determined at the contract level and is recorded in the period in which the loss is determined.

Comparability of our segment sales, operating loss, and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts for which we recognize revenue over a period of time using the percentage-of-completion cost-to-cost method to measure progress towards completion. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs to fulfill the performance obligations that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate, resulting in an increase in the estimated total costs to fulfill the performance obligations and a reduction in the profit booking rate. Increases or decreases in profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes.

The aggregate impact of adjustments in contract estimates to net loss attributable to ETC are presented below (in thousands):

Net income (loss) attributable to adjustments in contract estimates

	Fiscal 2022	Fiscal 2021
Aerospace	$ 220	$ 885
CIS	(18)	(189)
Total	**$ 202**	**$ 696**

Inventory

We periodically evaluate our inventory, which affects gross margin, to ensure that it is carried at the lower of cost or net realizable value. Cost includes appropriate overhead. Overhead allocated to inventory cost includes only costs directly related to our manufacturing activities. These include, but are not limited to, general supervision, utilities, supplies, and depreciation and software amortization expense. Where necessary, provision is made for obsolete, slow-moving, or damaged inventory. This provision represents the difference between the cost of the inventory and its estimated market value based on the future demand of our products. To the extent that future events affect the salability of inventory, these provisions could vary significantly.

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes, as well as the valuation of net operating loss ("NOL") carryforwards and research and development tax credits. Valuation allowances are reviewed each fiscal period to determine whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax asset. Deferred tax assets and liabilities are offset and presented as a single non-current asset.

Results of Operations

Because of 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.

FISCAL 2022 VERSUS FISCAL 2021

(in thousands, except per share information)

	Summary Table of Results			
	Fiscal 2022	**Fiscal 2021**	**Variance ($)**	**Variance (%)**
Net sales:				
Domestic sales	$ 7,595	$ 4,951	$ 2,644	53.4
U.S. Government sales	1,294	3,121	(1,827)	(58.5)
International sales	10,243	8,178	2,065	25.3
Net sales total	19,132	16,250	2,882	17.7
Gross profit	4,318	1,264	3,054	241.6
Gross profit margin %	22.6%	7.8%	-14.8%	-
Operating expenses:				
Selling and marketing	2,033	1,497	(536)	(35.8)
General and administrative	4,125	5,104	979	19.2
Research and development	1,157	1,882	725	38.5
Operating expenses total	7,315	8,483	1,168	13.8
Operating loss	(2,997)	(7,219)	4,222	58.5
Operating margin %	-15.7%	-44.4%	28.7%	562.7%
Interest expense, net	527	650	123	18.9
Other (income) expense, net	(5,196)	19	(5,215)	-
Loss before income taxes	1,672	(7,888)	9,560	-
Pre-tax margin %	8.7%	-48.5%	57.2%	-
Income tax (benefit) provision	(131)	(272)	141	
Net loss	1,803	(7,616)	9,419	-
Loss (income) attributable to non-controlling interest	4	124	120	
Net loss attributable to ETC	**$ 1,807**	**$ (7,492)**	**$ 9,299**	**-**
Per share information:				
Basic earnings (loss) per common and participating share:				
Distributed earnings per share:				
Common	$ -	$ -	$ -	
Preferred	$ 0.08	$ 0.08	$ -	-
Undistributed loss per share:				
Common	$ 0.08	$ (0.51)	$ 0.59	-
Preferred	$ 0.08	$ (0.51)	$ 0.59	-
Diluted loss per share	**$ 0.08**	**$ (0.51)**	**$ 0.59**	**-**

Net Income (loss) attributable to ETC

Net income attributable to ETC was $1.8 million, or $0.08 diluted earnings per share, in fiscal 2022, compared to ($7.5 million) during fiscal 2021, equating to $0.51 diluted loss per share. The $9.3 million favorable variance is due to the combined effect of a $3.1 million increase in gross profit on sales growth, in addition to favorable $1.1 million decrease in operating expenses. The remaining favorability in 2022 was a result of the PPP loan forgiveness of $2.45 million along with the Employee Retention Credit of $2.78 million.

Net sales

The following schedule presents the Company's net sales (in thousands) by segment, business unit, and geographic area:

	Fiscal 2022				Fiscal 2021			
	Domestic	**U.S. Gov't**	**Int'l**	**Total**	**Domestic**	**U.S. Gov't**	**Int'l**	**Total**
Aerospace Solutions								
Aeromedical Training Solutions (ATS)	$ 751	$ 1,106	$ 6,791	$ 8,648	$ 97	$ 3,107	$ 5,244	$ 8,448
Simulation (ADMS)	570	188	2,130	2,888	262	14	2,151	2,427
Subtotal	1,321	1,294	8,921	11,536	359	3,121	7,395	10,875
Commercial/Industrial Systems								
Sterilizers	3,467	-	684	4,151	1,391	-	68	1,459
Environmental (ETSS)	1,127	-	558	1,685	1,481	-	715	2,196
Service and Spares	1,680	-	80	1,760	1,720	-	-	1,720
Subtotal	6,274	-	1,322	7,596	4,592	-	783	5,375
Net sales total	**$ 7,595**	**$ 1,294**	**$ 10,243**	**$ 19,132**	**$ 4,951**	**$ 3,121**	**$ 8,178**	**$16,250**

The Company's percentage of total recognized revenue by type of revenue was as follows:

Type of Revenue	**Fiscal 2022**	**Fiscal 2021**
Products	66.0%	70.2%
Services	10.5%	13.8%
Maintenance and support agreements	20.0%	10.5%
Spare parts	3.5%	5.5%
Total	**100.0%**	**100.0%**

Net sales for fiscal 2022 were $19.1 million, an increase of $2.8 million, or 17.7%, compared to fiscal 2021 net sales of $16.3 million. The increase is a result of higher International sales of $2.1 million, within ATS, which were offset in part by lower U.S. Government sales within ATS. Further, revenues in fiscal 2022 increased within the Sterilizers business unit, accounting for $2.7 million of the overall increase of $2.8 million.

In fiscal 2022, one International customer within the Aerospace segment represented 10.0% or more of total net sales, and sales to this customer totaling $4.2 million represented 21.6% of total net sales. In fiscal 2021, one International customer within the Aerospace segment represented 10.0% or more of total net sales, and sales to this customer totaling $2.4 million represented 14.8% of total net sales.

Within the Company's February 25, 2022 sales backlog of $19.3 million, one Domestic contract within the Aerospace segment represented at least 10% of the total sales backlog and constituted $2.3 million, or 12.0%, of the total sales backlog. As of February 25, 2022, four (4) business units, ATS, ADMS, ETSS and Sterilizers, each represented 10% or more of total sales backlog. ATS sales backlog was $8.1 million, or 42.2%, of the total sales backlog, ADMS sales backlog was $2.9 million, or 15.1%, of the total sales backlog, ETSS sales backlog was $2.4 million, or 12.5%, of the total sales backlog, and Sterilizers sales backlog was $4.8 million, or 25.1% of total sales backlog. We expect to recognize approximately 86% of the total sales backlog as of February 25, 2022 over the next twelve (12) months and approximately 94% over the next twenty-four (24) months as revenue, with the remainder to be recognized thereafter. Given the Company's sales backlog as of February 25, 2022, it is anticipated that ETC will generate the majority of its sales from International ATS contracts.

We have historically experienced significant variability in our sales performance. This reflects the existing sales backlog, product mix, nature of contracts (size and performance time), manufacturing cycle, installation time, customer acceptance, and certain factors not in our control such as customer delays and the time required to obtain U.S. Government export approvals. A small number of contracts may account for a substantial percentage of our net sales in any period.

Domestic sales

Domestic sales in fiscal 2022 were $7.6 million, an increase of $2.7 million, or 53.0%, compared to fiscal 2021 and represented 39.7% of total net sales in fiscal 2022 compared to 30.5% in fiscal 2021. The increase in Domestic sales was across all business units with a $1.7 million increase within the CIS segment and a $1.0 million increase within the Aerospace segment. Sterilizers comprised the largest increase in Domestic sales within the CIS segment at $2.1 million, offsetting the reduction of $0.4 million in the other areas.

U.S. Government sales

U.S. Government sales in fiscal 2022 were $1.3 million, a decrease of $1.8 million, or 58.5%, from fiscal 2021 primarily as a result of USAF's RAC Contract closeout in 2021. U.S. Government sales represented 6.8% of total net sales in fiscal 2022 compared to 19.2% in fiscal 2021.

International sales

International sales in fiscal 2022, including those of ETC-PZL, were $10.2 million, an increase of $2.1 million, or 25.3%, compared to fiscal 2021. The increase in International sales is a result of a $1.5 million increase in sales within ATS and a $ 0.6 million increase in sales of Sterilizers. In aggregate, International sales represented 53.5% of the Company's total net sales in fiscal 2022 compared to 50.3% in fiscal 2021. In fiscal 2022, International sales totaling at least $0.5 million were made to customers in six (6) different countries; in fiscal 2021, International sales totaling at least $0.5 million were made to customers in seven (7) different countries.

Segment sales

Aerospace sales were $11.5 million in fiscal 2022, an increase of $ 0.7 million, or 6.1%, from sales of $10.9 million in fiscal 2021. This increase was primarily due to higher International sales within ATS. Sales of Aerospace products accounted for 60.3% of our total net sales in fiscal 2022 versus 66.9% in fiscal 2021. Sales in our CIS segment increased $ 2.2 million, or 41.3%, and constituted 39.7% of our total net sales in fiscal 2022 compared to 33.1% in fiscal 2021. The increase in CIS sales was mainly a result of the increase in the Sterilizers units, especially Domestic.

Gross profit

Gross profit for fiscal 2022 was $4.3 million compared to $1.3 million in fiscal 2021, an increase of $3.0 million, or 241.6% . The increase in gross profit was due to higher net sales along with a more favorable mix and overhead absorption. Gross profit margin as a percentage of net sales increased to 22.6% in fiscal 2022 compared to 7.8% in fiscal 2021.

Selling and marketing expenses

Selling and marketing expenses for fiscal 2022 of $2.0 million increased by $0.5 million, or 35.8%, from $1.5 million in fiscal 2021. The increase in selling and marketing expenses was due primarily to an increase in commission expense based on higher International sales related to ATS products, as well as an increase in trade shows and travel, as we began to emerge from the COVID-19 global pandemic. As a percentage of net sales, selling and marketing expenses increased to 10.63% in fiscal 2022 compared to 9.2% in fiscal 2021.

General and administrative expenses

General and administrative expenses for fiscal 2022 of $4.1 million decreased by $1.0 million, or 19.2%, from $5.1 million in fiscal 2021. The decrease in general and administrative expenses was due primarily to a reduction in headcount and fringe benefits, along with a reduction in legal and accounting fees. As a percentage of net sales, general and administrative expenses decreased to 21.6% in fiscal 2022 compared to 31.4% in fiscal 2021.

Research and development expenses

Research and development expenses include spending for potential new products and technologies, and work performed internationally under government grant programs. This spending, net of reimbursements from the Polish and Turkish governments, decreased to $1.2 million in fiscal 2022 from $1.9 million in fiscal 2021. Most of the Company's research and development efforts, which were and continue to be a significant cost of its business, are included in cost of sales for applied research for specific contracts, as well as research for feasibility and technology updates. As a percentage of net sales, research and development expenses decreased to 6.0% in fiscal 2022 compared to 11.6% in fiscal 2021.

Operating loss

Operating loss in fiscal 2022 was $3.0 million compared to $7.2 million in fiscal 2021. The $4.2 million favorable variance was due to the combination of higher net sales with improved gross profit margins, in addition to decreases in general and administrative, and research and development expenses.

On a segment basis, Aerospace posted an operating loss of $1.2 million for fiscal 2022, a $2.9 million favorable variance compared to $4.1 million in fiscal 2021. CIS posted an operating loss of $1.0 million for fiscal 2022, a $1.2 million favorable variance compared to $2.2 million in fiscal 2021. These segment operating results were offset, in part, by unallocated corporate expenses.

Interest expense, net

Interest expense, net, for fiscal 2022 was $0.5 million compared to $0.7 million in fiscal 2021, a decrease of $0.2 million, or 19.0 %, due primarily to lower interest rates.

Other expense, net

Other income, net, for fiscal 2022 was $5.2 million compared to other expense, net, of $19 thousand in fiscal 2021, an increase of $5.2 million. This was a result of income related to forgiveness of the Paycheck Protection Program (PPP) loan of $2.4 million as well as income from the US Government's Employee Retention Credit (ERC) of $2.8 million.

Income taxes

As of February 25, 2022, the Company reviewed the components of its deferred tax assets and determined, based upon all available information, that it is more likely than not that deferred tax assets relating to its federal and state NOL carryforwards and research and development tax credits will not be realized primarily due to uncertainties related to our ability to utilize them before they expire. Accordingly, we have established a $7.9 million valuation allowance for such deferred tax assets that we do not expect to realize. If there is a change in our ability to realize our deferred tax assets for which a valuation allowance has been established, then our tax valuation allowance may decrease in the period in which we determine that realization is more likely than not.

An income tax benefit of $0.1 million was recorded in fiscal 2022 compared to income tax benefit of $0.3 million recorded in fiscal 2021. Effective tax rates were -7.9% and 3.5% for fiscal 2022 and fiscal 2021, respectively. The decrease in the effective tax rate for fiscal 2022 as compared to fiscal 2021 was driven primarily by the operating loss incurred in fiscal 2022 and the offsetting valuation allowance that was recorded against the increase in deferred tax assets relating primarily to federal NOL carryforwards.

Liquidity and Capital Resources

On June 10, 2016, the Company received a waiver as of the fiscal quarter ended February 26, 2016 for failing to exceed the permitted minimum Consolidated Tangible Net Worth. The waiver also provided that ETC was to maintain at all times a minimum Consolidated Tangible Net Worth of $7.5 million; further, commencing with the fiscal quarter ended May 26, 2017, ETC was to have maintained as of the end of each fiscal quarter a Fixed Charge Coverage Ratio of at least 1.00 to 1. This ratio was to increase to 1.10 to 1 on August 25, 2017, and was to remain at that level at all times thereafter. The waiver extended the maturity date of the PNC Line of Credit to August 10, 2016, during which time the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank, National Association ("PNC Bank") that provided for, among other things, the following:

(i) The PNC Line of Credit and the Term Loan were consolidated into a $21.0 million Revolving Line of Credit (the "Revolving Line of Credit"), under which amounts may be borrowed, repaid, and re-borrowed until the maturity date.

(ii) The existing Committed Line of Credit (the "Committed Line of Credit") was capped at $8.6 million, an amount equivalent to the total outstanding standby letters of credit under which the Committed Line of Credit covered as of May 27, 2016. All outstanding standby letters of credit covered by the Committed Line of Credit were either returned or expired as of June 30, 2020.

(iii) A new $1.0 million FX Equivalent Line of Credit (the "FX Equivalent Line of Credit") for potential future foreign exchange obligations.

(iv) The Revolving Line of Credit, the Committed Line of Credit, and the FX Equivalent Line of Credit (collectively, the "2016 PNC Credit Facilities") had an original maturity date of December 31, 2017, which on May 26, 2017 was extended to June 30, 2018.

(v) The interest rate on the 2016 PNC Credit Facilities will be based on the PNC Daily LIBOR Rate (0.50% as of August 2, 2021, the date of our most current Revolving Line of Credit statement) plus a margin of 3.00%.

(vi) The 2016 PNC Credit Facilities were collateralized by a combination of the Company's pledged restricted cash held by PNC ($5.8 million as of February 26, 2021), substantially all of the Company's additional assets, and the pledged cash collateral of the estate of H.F. Lenfest ("Mr. Lenfest"), a major shareholder and director of ETC since 2003, who passed away on August 5, 2018.

On April 9, 2018, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The Revolving Line of Credit was increased from $21.0 million to $25.0 million.

(ii) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2018 to June 30, 2019.

(iii) The interest rate margin on the 2016 PNC Credit Facilities was lowered from 3.00% to 2.75%.

On May 23, 2022, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that extended the maturity date of the 2016 PNC Credit Facilities from June 30, 2019 to June 30, 2020, and effective as of July 1, 2019, the Company is no longer obligated to pay a fee of 0.25% for unused but available funds under the Revolving Line of Credit.

On January 22, 2020, the Company received a waiver for failing to maintain the minimum Fixed Charge Coverage Ratio as of the fiscal quarter ended November 29, 2019; going forward, the waiver also eliminates the Fixed Charge Coverage Ratio covenant.

On June 26, 2020, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The elimination of the Committed Line of Credit component of the 2016 PNC Credit Facilities.

(ii) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2020 to June 30, 2021.

(iii) The elimination of the Consolidated Tangible Net Worth, which was the last remaining financial covenant; going forward, there are no financial covenants contained within the amended loan agreement.

(iv) The release of the mortgage on the property located at 125 James Way, Southampton, Pennsylvania.

On May 3, 2021, subsequent to the end of fiscal 2021, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The Revolving Line of Credit was decreased from $25.0 million to $22.0 million, with further reduction to $20.0 million on September 30, 2021.

(ii) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2021 to June 30, 2022.

On May 23, 2022, subsequent to the end of fiscal 2022, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2022 to June 30, 2023.

(ii) Loans under the Line of Credit shall bear interest at a variable rate per annum equal to the sum of (A) Daily Simple SOFR (Secured Overnight Financing Rate) plus (B) an unadjusted spread of two hundred seventy five basis points (2.75%) plus (C) a SOFR adjustment of ten basis points (0.10%).

As of February 25, 2022, the Company's availability under the Revolving Line of Credit was $3.7 million. This reflected cash borrowings of $13.4 million and net outstanding standby letters of credit of approximately $3.0 million. As of June 9, 2022, the date of our most current Revolving Line of Credit statement, the Company's availability under the Revolving Line of Credit was approximately $2.8 million. The Company had working capital of $6.6 million as of February 25, 2022 compared to working capital of $10.0 million as of February 26, 2021. The decrease in working capital was primarily the result of a decrease in contract assets. With unused availability under the Company's various current lines of credit, the further conversion of contract assets into cash, the collection of milestone payments associated with several International contracts, and expected deposits on fiscal 2022 bookings, the Company anticipates its sources of liquidity will be sufficient to fund its operating activities, anticipated capital expenditures, and debt repayment obligations throughout fiscal 2023.

Cash flows from operating activities

Cash flows from operations are driven by income from the sale of our products and services and changes in operating assets and liabilities, which primarily depend on the timing of receipts, offset by payments, in the ordinary course of business.

During fiscal 2022, cash flows provided by operating activities were $2.3 million, an increase over fiscal 2021, when the Company broke even with respect to cash flows from operating activities. Cash flows in fiscal 2022 increased as a result of increase in net income along with contract assets converting into cash.

Cash flows from investing activities

Cash used for investing activities primarily relates to funds used for capital expenditures in property, plant, and equipment and software development. The Company's fiscal 2022 and fiscal 2021 investing activities used $0.2 million and $0.1 million, respectively, which consisted primarily of equipment and software enhancements for our ATFS and ADMS technologies, along with the upgrade of existing information technology systems and enhancing our manufacturing and ETSS testing capabilities.

Cash flows from financing activities

During fiscal 2022, the Company's financing activities used $3.6 million for repayments under the Company's credit facility.

Outlook

We expect to use our cash, cash equivalents, and credit facilities for working capital and general corporate purposes, products, technologies, leases, property, plant, and equipment, the payment of contractual and other legal obligations, including scheduled interest payments on credit facilities and dividends on Preferred Stock and/or the purchase, redemption, or retirement of our credit facilities and Preferred Stock. We expect that net sales of our currently marketed products and services, combined with the current and anticipated future availability under our various lines of credit, the conversion of contract assets into cash, the collection of milestone payments associated with several International contracts, and expected deposits on fiscal 2023 bookings, should continue to provide us sufficient funds for fiscal 2023. At this time, however, we cannot accurately predict the effect of certain developments on our anticipated results in fiscal 2024 and beyond because of factors such as the degree of market acceptance, the impact of competition, the effectiveness of our sales and marketing efforts, the outcome of our efforts to develop new products, and the continuing changing trends and overall global economic disruption caused by COVID-19. To navigate this uncertain period, we intend to enter into a sale-leaseback transaction of the Company's Southampton, Pennsylvania owned property, disclosed in Note 12 – Subsequent Events.

Off-Balance Sheet Arrangements

There were no unconsolidated legal entities, "special purpose" entities, or other off-balance sheet arrangements during either fiscal 2022 or fiscal 2021 other than disclosed in Note 10 – Commitments and Contingencies that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to our shareholders.

MANAGEMENT'S REPORT

Management is responsible for the preparation as well as the integrity and objectivity of the accompanying consolidated financial statements of Environmental Tectonics Corporation. These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and necessarily include amounts that represent the best estimates and judgments of management.

Environmental Tectonics Corporation maintains an accounting system of internal controls to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for preparing financial statements and maintaining accountability for assets. Reasonable assurance recognizes that the cost of a system of internal controls should not exceed its benefits and that the evaluation of these factors requires estimates and judgments by management. The internal control system includes the selection and training of management and supervisory personnel; an organizational structure providing for delegation of authority and establishment of responsibilities; communication of requirements for compliance with approved accounting control and business practices throughout the organization; and business planning and review.

RSM US LLP, our independent auditor, is engaged to audit and report on these consolidated financial statements. Their audit is conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

The Audit Committee of the Board of Directors meets regularly with management and the independent auditors to review matters relating to financial reporting, internal controls, and auditing. Management and the independent auditors each have direct and confidential access to this committee.

Robert L. Laurent, Jr.
Chief Executive Officer and President

Joseph F. Verbitski, Jr.
Chief Financial Officer

Independent Auditor's Report

Board of Directors
Environmental Tectonics Corporation

Opinion
We have audited the consolidated financial statements of Environmental Tectonics Corporation and Subsidiaries (the Company), which comprise the consolidated balance sheets as of February 25, 2022 and February 26, 2021, the related consolidated statements of operations and comprehensive loss changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of February 25, 2022 and February 26, 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

RSM US LLP

Blue Bell, Pennsylvania
June 9, 2022

CONSOLIDATED BALANCE SHEETS

(in thousands, except share information)

	February 25, 2022	February 26, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 427	$ 961
Restricted cash	6,628	7,301
Accounts receivable, net	6,573	6,002
Contract assets	1,789	10,909
Inventories, net	2,709	1,705
Prepaid expenses and other current assets	6,920	783
Total current assets	25,046	27,661
Property, plant, and equipment, at cost, net	8,485	9,485
Right-of-use asset	708	780
Capitalized software development costs, net	47	46
Deferred tax assets, non-current, net	267	136
Total assets	**$ 34,553**	**$ 38,108**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable, trade	$ 2,291	$ 2,230
Contract liabilities	5,390	3,908
Accrued taxes	108	272
Accrued interest and dividends	4,407	3,936
Current portion of lease obligations	490	516
Other accrued liabilities, current	5,771	6,767
Total current liabilities	18,457	17,629
Long-term debt obligations, net of debt issuance costs, less current portion:		
Credit facility payable to bank, net of debt issuance costs	13,358	16,984
Paycheck Protection Program loan	-	2,447
Total long-term debt obligations, net of debt issuance costs, less current portion	13,358	19,431
Lease obligations, non-current	218	280
Other accrued liabilities, non-current	924	844
Total liabilities	32,958	38,184
Commitments and contingencies (Note 10)		
Shareholders' equity (deficit):		
Cumulative convertible participating Preferred Stock, Series E, $0.05 par value, 25,000 authorized; 12,127 shares outstanding as of Feb. 26, 2021 and Feb. 28, 2020	12,127	12,127
Common Stock, $0.05 par value, 50,000,000 shares authorized; 9,443,785 shares issued and outstanding as of February 26, 2021 and February 28, 2020	472	472
Additional paid-in capital	6,861	7,262
Accumulated deficit	(17,243)	(19,050)
Accumulated other comprehensive loss	(704)	(973)
Total shareholders' equity (deficit) before non-controlling interest	1,513	(162)
Non-controlling interest	82	86
Total shareholders' equity (deficit)	1,595	(76)
Total liabilities and shareholders' equity (deficit)	**$ 34,553**	**$ 38,108**

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share information)

	Fiscal Year Ended	
	Feb. 25, 2022	**Feb. 26, 2021**
Net sales	$ 19,132	$ 16,250
Cost of goods sold	14,814	14,986
Gross profit	4,318	1,264
Operating expenses:		
Selling and marketing	2,033	1,497
General and administrative	4,125	5,104
Research and development	1,157	1,882
Operating expenses total	7,315	8,483
Operating loss	(2,997)	(7,219)
Other expenses:		
Interest expense, net	527	650
Other (income) expense, net	(5,196)	19
Other (income) expenses total	(4,669)	669
Income (loss) before income taxes	1,672	(7,888)
Income tax (benefit) provision	(131)	(272)
Net income (loss)	1,803	(7,616)
Income attributable to non-controlling interest	4	124
Net income (loss) attributable to ETC	**1,807**	**(7,492)**
Foreign currency translation adjustment	269	(83)
Comprehensive income (loss)	$ 2,076	$ (7,575)
Preferred Stock dividends	(484)	(484)
Income (loss) attributable to common and participating shareholders	$ 1,323	$ (7,976)
Per share information:		
Basic earnings (loss) per common and participating share:		
Distributed earnings per share:		
Common	$ -	$ -
Preferred	$ 0.08	$ 0.08
Undistributed earnings (loss) per share:		
Common	$ 0.08	$ (0.51)
Preferred	$ 0.08	$ (0.51)
Diluted earnings (loss) per share	**$ 0.08**	**$ (0.51)**
Basic weighted average common and participating shares:		
Common weighted average number of shares	9,444	9,444
Participating preferred shares	6,125	6,125
Total basic weighted average common and participating shares	15,569	15,569
Diluted weighted average shares:		
Basic weighted average common and participating shares	15,569	15,569
Dilutive effect of stock options	-	-
Total diluted weighted average shares	15,569	15,569

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

(in thousands, except share information)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity (Deficit)
Balance, February 28, 2020	$ 12,127	9,443,785	$ 472	$ 7,662	$ (11,558)	$ (890)	$ 8,023
Less: Prior year non-controlling interest	-	-	-	-	-	-	(210)
Net loss attributable to ETC	-	-	-	-	(7,492)	-	(7,492)
Foreign currency translation adjustment	-	-	-	-	-	(62)	(83)
Preferred Stock dividends	-	-	-	(484)	-	-	(484)
Stock compensation expense	-	-	-	84	-	-	84
Balance before non-controlling interest, February 26 2021	12,127	9,443,785	472	7,262	(19,050)	(973)	(162)
Non-controlling interest	-	-	-	-	-	-	86
Balance, February 26, 2021	**$ 12,127**	**9,443,785**	**$ 472**	**$ 7,262**	**$ (19,050)**	**$ (973)**	**$ (76)**
Less: Prior year non-controlling interest	-	-	-	-	-	-	(86)
Net income attributable to ETC	-	-	-	-	1,807		1,807
Foreign currency translation adjustment	-	-	-	-	-	269	269
Preferred Stock dividends	-			(484)			(484)
Stock compensation expense	-	-	-	83	-	-	83
Balance before non-controlling interest, February 25, 2022	12,127	9,443,785	472	6,861	(17,243)	(704)	1,513
Non-controlling interest	-	-	-	-	-	-	82
Balance, February 25, 2022	**$ 12,127**	**9,443,785**	**$ 472**	**$ 6,861**	**$ (17,243)**	**$ (704)**	**$ 1,595**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Fiscal year ended	
	Feb. 25, 2022	**Feb. 26, 2021**
Cash flows from operating activities:		
Net loss	$ 1,803	$ (7,616)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,191	1,229
Deferred income taxes	(241)	(969)
Increase in valuation allowance for deferred tax assets	110	992
Gain on forgiveness of Paycheck Protection Program loan	(2,447)	-
Increase (decrease) in allowance for doubtful accounts and inventory obsolescence	(2)	281
Stock compensation expense	83	84
Changes in operating assets and liabilities:		
Accounts receivable	(586)	2,343
Contract assets	9,120	6,132
Inventories	(987)	(87)
Prepaid expenses and other assets	(6,137)	446
Accounts payable, trade	61	(3,115)
Contract liabilities	1,482	346
Accrued taxes	(164)	(243)
Accrued interest and dividends	(14)	(23)
Other accrued liabilities	(926)	196
Net cash provided by (used in) operating activities	**2,346**	**(4)**
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(151)	(94)
Capitalized software development costs	(45)	-
Net cash used in investing activities	**(196)**	**(94)**
Cash flows from financing activities:		
(Repayments) borrowings under lines of credit	(3,626)	(3,094)
Proceeds from Paycheck Protection Program loan	-	2,447
Net cash (used in) provided by financing activities	**(3,626)**	**(647)**
Effect of exchange rate changes on cash	269	(83)
Net decrease in cash, cash equivalents, and restricted cash	(1,207)	(828)
Cash, cash equivalents, and restricted cash at beginning of period	8,262	9,090
Cash, cash equivalents, and restricted cash at end of period	**$ 7,055**	**$ 8,262**
Less: Restricted cash	(6,628)	(7,301)
Cash and cash equivalents at end of period	**$ 427**	**$ 961**
Supplemental schedule of cash flow information:		
Interest paid	$ 530	$ 714
Income taxes paid	$ 5	$ 44
Supplemental information on non-cash operating and investing activities:		
Preferred Stock dividends accrued during each respective fiscal year	$ 484	$ 484

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share information)

Description of Business

ETC was incorporated in 1969 in Pennsylvania. For over five decades, we have provided our customers with products, services, 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 areas: (i) software driven products and services used to create and monitor the physiological effects of flight, including high performance jet tactical flight simulation, fixed and rotary wing upset prevention and recovery and spatial disorientation, and both suborbital and orbital commercial human spaceflight, collectively, Aircrew Training Systems ("ATS"); (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); (iv) Advanced Disaster Management Simulators ("ADMS"); (v) steam and gas (ethylene oxide) sterilizers; and (vi) environmental testing and simulation systems ("ETSS"). We operate in two primary business segments, Aerospace Solutions ("Aerospace") and Commercial/ Industrial Systems ("CIS"). Net sales, operating loss, identifiable assets, and other financial information regarding our segments may be found in Note 8 – Business Segment Information

Aerospace encompasses the design, manufacture, and sale of: (i) ATS products; (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); and (iv) ADMS, as well as integrated logistics support ("ILS") 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 and to civil aviation organizations. We offer integrated ATS products to commercial, governmental, and military defense agencies, and training devices, including altitude (hypobaric) and multiplace chambers ("Chambers"), to governmental and military defense agencies and civil aviation organizations both in the United States and internationally. We sell our ADMS line of products to governmental organizations both in the United States and internationally, original equipment manufacturers in the global special fire truck market (including Aircraft Rescue and Firefighting vehicles), fire and emergency training schools, universities, and airports. We also provide ILS for customers who purchase these products or similar products manufactured by other parties.

CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizers; and (ii) ETSS; 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. We sell our sterilizers to medical device manufacturers, pharmaceutical manufacturers, and universities. We sell ETSS primarily to commercial automotive and heating, ventilation, and air conditioning ("HVAC") manufacturers. We also provide upgrade, maintenance, and repair services for our products and similar products manufactured by other parties.

The Company's primary Standard Industrial Classification Code is 3569. The Company's fiscal year is the fifty-two week or fifty-three week annual accounting period ending the last Friday in February. References to fiscal 2022 are references to the fifty-two week period ended February 25, 2022. References to fiscal 2021 are references to the fifty-two week period ended February 26, 2021.

Sales Backlog

Below is a breakdown of the Company's February 25, 2022 sales backlog (amounts in thousands, except percentages):

	Business segment			
Geographic Area	**Aerospace**	**CIS**	**Total**	**%**
Domestic	$ 838	$ 6,865	$ 7,703	39.9
U.S. Government	1,538	-	1,538	8.0
International	8,682	1,361	10,043	52.1
Total	**$ 11,058**	**$ 8,226**	**$ 19,284**	**100.0**
% of Total	57.3%	42.7%	100.0%	

Within the Company's February 25, 2022 sales backlog of $19.2 million, one Domestic contract within the Aerospace segment represented at least 10% of the total sales backlog and constituted $2.3 million, or 12.0%, of the total sales backlog. As of February 25, 2022, four (4) business units, ATS, ADMS, ETSS and Sterilizers, each represented 10% or more of total sales backlog. ATS sales backlog was $8.1 million, or 42.2%, of the total sales backlog, ADMS sales backlog was $2.9 million, or 15.1%, of the total sales backlog, ETSS sales backlog was $2.4 million, or 12.5%, of the total sales backlog, and Sterilizers sales backlog was $4.8 million, or 25.1% of total sales backlog. We expect to recognize approximately 86% of the total sales backlog as of February 25, 2022 over the next twelve (12) months and approximately 94% over the next twenty-four (24) months as revenue, with the remainder recognized thereafter. Given the Company's sales backlog as of February 25, 2022, it is anticipated that ETC will generate the majority of its sales from International ATS contracts.

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of ETC and ETC-PZL Aerospace Industries Sp. z o.o. ("ETC-PZL"), our 95%-owned subsidiary in Warsaw, Poland. ETC-PZL manufactures certain simulators and provides software to support products manufactured domestically within our Aerospace segment. "ETC-SH" refers to the Company's corporate headquarters and main production plant located in Southampton, Pennsylvania. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made when estimating budget costs for large, multi-year contracts that involve significant engineering and software development and for valuations of long-lived assets, inventory and legal reserves, and income taxes.

Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable, and bank debt approximate fair value because of the short maturity associated with each of these instruments.

Revenue Recognition

The majority of our net sales are generated from long-term contracts with U.S. and foreign government agencies (including foreign military sales ("FMS") contracted through the U.S. Government) for the research, design, development, manufacture, integration, and sustainment of ATS products, including Chambers and the simulators manufactured and sold through ETC-PZL, collectively, Aeromedical Training Solutions. The Company also enters into long-term contracts with domestic customers for the sale of sterilizers and ETSS. Net sales of ADMS are generally much shorter term in nature and vary between domestic and international customers. We generally provide our products and services under fixed-price contracts.

Under fixed-price contracts, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss. Some fixed-price contracts have a performance-based component under which we may incur financial penalties based on our performance, such as liquidated damages for delayed delivery.

We account for a contract after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable.

We assess each contract at its inception to determine whether it should be combined with other contracts. When making this determination, we consider factors such as whether two or more contracts were negotiated and executed at or near the same time or were negotiated with an overall profit objective. If combined, we treat the combined contracts as a single contract for revenue recognition purposes.

We evaluate the products or services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The majority of the Company's contracts with customers are accounted for as one performance obligation, as the majority of products and services is part of a single project or capability. In limited cases, our contracts have more than one distinct performance obligation, which occurs when we perform activities that are not interrelated or involve different product lifecycles. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit recorded in a given period.

We determine the transaction price for each contract based on the consideration we expect to receive for the products or services being provided under the contract, net of all sales and similar taxes collected from customers. For contracts where a portion of the price may vary, we estimate variable consideration at the most likely amount, which is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. We analyze the risk of a significant revenue reversal, and if necessary, constrain the amount of variable consideration recognized in order to mitigate this risk.

At the inception of a contract, we estimate the transaction price based on our current rights and do not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Contracts are often subsequently modified to include changes in specifications, requirements, or price, which may create new or change existing enforceable rights and obligations. Depending on the nature of the modification, we consider whether to account for the modification as an adjustment to the existing contract or as a separate contract. Generally, modifications to our contracts are not distinct from the existing contract due to the significant integration and interrelated tasks provided in the context of the contract; therefore, such modifications are accounted for as if they were part of the existing contract and recognized as a cumulative adjustment to revenue. Contract claims and disputes related to customer caused delays, errors in specifications and designs, and other unanticipated causes for amounts in excess of contract value may increase the transaction price if it is probable that the claim will result in an increase in the contract value and if the increase can be reliably estimated; however, the resulting revenue recorded on a contract claim cannot exceed the incurred contract costs related to that claim. Claims are subject to negotiation, dispute resolution, and audit by the customer or governmental agency.

For contracts with multiple performance obligations, we allocate the transaction price to each performance obligation based on the estimated standalone selling price of the product or service underlying each performance obligation. The standalone selling price represents the amount we would sell the product or service to a customer on a standalone basis (i.e., not bundled with any other products or services). Our contracts with the U.S. Government, including FMS contracts, are subject to the Federal Acquisition Regulations ("FAR") and the price is typically based on estimated or actual costs plus a reasonable profit margin. As a result of these regulations, the standalone selling price of products or services in our contracts with the U.S. Government and FMS contracts are typically equal to the selling price stated in the contract; therefore, we typically do not need to allocate (or reallocate) the transaction price to multiple performance obligations.

For non-U.S. Government contracts with multiple performance obligations, we evaluate whether the stated selling prices for the products or services represent their standalone selling prices. We primarily sell customized solutions unique to a customer's specifications. When it is necessary to allocate the transaction price to multiple performance obligations, we typically use the expected cost plus a reasonable profit margin to estimate the standalone selling price of each product or service. We occasionally sell standard products or services with observable standalone sales transactions. In these situations, the observable standalone sales transactions are used to determine the standalone selling price.

We recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. In determining when performance obligations are satisfied, we consider factors such as contract terms, payment terms, and whether there is an alternative future use of the product or service. Substantially all of our revenue is recognized over a period of time as we perform under the contract because control of the work in process transfers continuously to the customer. For contracts with the U.S. Government and FMS contracts, this continuous transfer of control of the work in process to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit, and take control of any work in process. Our non-U.S. Government contracts, primarily domestic and international direct commercial contracts, typically do not include termination for convenience provisions; however, continuous transfer of control to our customer is supported as, if our customer were to terminate the contract for reasons other than our non-performance, we would have the right to recover damages that would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to us.

For performance obligations to deliver products with continuous transfer of control to the customer, revenue is recognized by means of an input measure based on the extent of progress towards completion of the performance obligation, generally using the percentage-of-completion cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer as we incur costs on our contracts. Under the percentage-of-completion cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation(s).

For performance obligations in which control does not continuously transfer to the customer, we recognize revenue at the point in time in which each performance obligation is fully satisfied. This coincides with the point in time the customer obtains control of the product or service, which typically occurs upon customer acceptance or receipt of the product or service, given that we maintain control of the product or service until that point.

The Company also offers one to three year (and in limited cases fifteen year) maintenance and support agreements for many of its products, especially within the Aerospace segment. The specific terms and conditions of these agreements vary depending upon the product sold and country in which the product was sold. Revenue is recognized on such agreements over a period of time on a straight-line basis over the term of the maintenance and support services or the right to invoice method (in situations where the value transferred matches our billing rights) as our customer receives and consumes the benefits. The standalone selling price is determined based on the price charged when sold separately or upon renewal.

Sales backlog (i.e., unfulfilled or remaining performance obligations) represents the sales we expect to recognize for our products and services for which control has not yet transferred to the customer. The estimated consideration is determined at the outset of the contract and considers the risks related to the technical, schedule, and cost impacts to complete the contract and an estimate of any variable consideration. We review these risks on a quarterly basis and may increase or decrease backlog accordingly. As the risks on such contracts are successfully retired, the estimated consideration from customers may be reduced, resulting in a reduction of backlog without a corresponding recognition of sales.

For arrangements with the U.S. Government and FMS contracts, we generally do not begin work on contracts until the customer appropriates funding. Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. Typical payment terms under fixed-price contracts with the U.S. Government provide that the customer pays either performance-based payments based on the achievement of contract milestones or progress payments based on a percentage of costs we incur. For the majority of our domestic and international direct commercial contracts, we typically receive advance payments prior to commencement of work, as well as milestone payments that are paid in accordance with the terms of our contract as we perform. We recognize a liability for payments in excess of revenue recognized, which is presented as a contract liability on the balance sheet. The portion of payments that may be retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer from our failure to adequately complete some or all of the obligations under the contract. Payments received from customers in advance of revenue recognition are not considered to be significant financing components because they are used to meet working capital demands that can be higher in the early stages of a contract. We present revenues recognized in excess of billings as contract assets on the balance sheet. Amounts billed and due from our customers are classified as receivables on the balance sheet.

Significant estimates and assumptions are made in estimating contract sales and costs, including the profit booking rate. At the outset of a long-term contract, we identify and monitor risks to the achievement of the technical, schedule, and cost aspects of the contract, as well as variable consideration, and assess the effects of those risks on our estimates of sales and total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events), and costs (e.g., material, labor, subcontractor, overhead, and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule, and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and cost aspects of the contract, which decreases the estimated total costs to complete the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase or our estimates of variable consideration we expect to receive decrease. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. When estimates of total costs to be incurred on a contract exceed total estimates of the transaction price, a provision for the entire loss is determined at the contract level and is recorded in the period in which the loss is determined.

Comparability of our segment sales, operating loss, and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts for which we recognize revenue over a period of time using the percentage-of-completion cost-to-cost method to measure progress towards completion. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs to fulfill the performance obligations that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate, resulting in an increase in the estimated total costs to fulfill the performance obligations and a reduction in the profit booking rate. Increases or decreases in profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes.

The aggregate impact of adjustments in contract estimates to net income attributable to ETC are presented below:

Net income (loss) attributable to adjustments in contract estimates

	Fiscal 2022	Fiscal 2021
Aerospace	$ 220	$ 885
CIS	(18)	(189)
Total	**$ 202**	**$ 696**

Cash and Cash Equivalents

Cash includes short-term deposits at market interest rates with original maturities of three (3) months or less. The Company maintains cash balances at several financial institutions located in the Northeast United States and at several locations internationally. Accounts in each domestic institution are insured by the Federal Deposit Insurance Corporation up to $250. During each fiscal year, the Company may periodically have cash and cash equivalents in excess of insured amounts.

Restricted Cash

Restricted cash was $6,628 as of February 25, 2022 compared to $7,301 as of February 26, 2021. Restricted cash is comprised primarily of collateral for any obligations under our loan agreements with PNC Bank, National Association ("PNC Bank") as defined in Note 6 – Long-Term Obligations and Related Equity Arrangements. The decrease in restricted cash was due primarily to the use of prepaid research and development funding under international government grant programs.

Accounts Receivable and Concentration of Credit Risk

Accounts receivable represents our unconditional right to consideration under the contract and include amounts billed and currently due from customers. The amounts are stated at their net estimated realizable value.

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current creditworthiness. Terms are cash upon delivery, except where satisfactory open account credit is established, in which case terms are generally payment net thirty (30) days from the date of the invoice. Accounts receivable are deemed past due if payment is not received by the payment due date. Overdue payments are subject to interest penalty of the delinquent amount at the rate of one and one-half percent (1.5%) per month. The Company continuously monitors collections and payments from its customers, and maintains a provision for estimated credit losses based on historical experience and any specific customer collection issues that are identified. While credit losses have historically been within the Company's expectations and the provisions established, we cannot guarantee that the Company will continue to experience the same credit loss rates.

Additionally, as a result of the concentration of international receivables, the Company cannot predict the effect, if any, that geopolitical disputes and financial constraints will have on the ultimate collection of its international receivables. Amounts due under contracts related to agencies of a foreign government totaled $4,804, or 73.1%, of total net accounts receivable as of February 25, 2022 as compared to $3,130, or 52.2%, of total net accounts receivable as of February 26, 2021. As of June 9, 2022, the date of issuance of our consolidated financial statements, 47.1% of these receivables outstanding as of February 25, 2022 and 100.0% of these receivables outstanding as of February 26, 2021 have been collected. See Note 2 – Accounts Receivable for additional disclosures related to our accounts receivable.

Contract Assets

Contract assets include unbilled amounts typically resulting from sales under contracts when the percentage-of-completion cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. The amounts may not exceed their estimated net realizable value. In accordance with industry practices, contract assets are classified as current even though a portion of these amounts may not be realized within one year.

Contract Liabilities

Contract liabilities include billings in excess of revenue recognized (formerly referred to as billings in excess of costs and estimated earnings on uncompleted long-term contracts) and advance payments (formerly referred to as customer deposits). In accordance with industry practices, contract liabilities are classified as current.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined principally by the first-in, first-out method ("FIFO method"). The costs of finished goods and work-in-process inventories include material, direct engineering, manufacturing labor, and overhead components. Overhead costs allocated to inventory are only those directly related to our manufacturing activities. Where necessary, provision is made for obsolete, slow-moving, or damaged inventory. This provision represents the difference between the cost of the inventory and its estimated market value. In addition, we capitalize costs to fulfill incurred in advance of contract award in inventories as work-in-process if we determine that contract award is probable.

In accordance with U.S. GAAP, the Company may capitalize certain costs of simulation equipment into property, plant, and equipment. This equipment may be used to provide training or as a demonstration device to market the technology, and may be sold as a product if appropriate.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, and are depreciated over their estimated useful lives using the straight-line method for financial reporting purposes. Buildings and building additions are depreciated over 40 years; machinery and equipment, 3 to 20 years; office furniture and equipment, 10 years; and building improvements, 5 to 10 years. The Company manufactures certain equipment that it uses primarily for both research and demonstration purposes to support its sales effort and is not listed for sale, although sales of such demonstration equipment are not precluded. The gross value of demonstration equipment was $17,100 and $17,042 as of February 25, 2022 and February 26, 2021, respectively. The net book value of demonstration equipment was $5,556 and $6,299 as of February 25, 2022 and February 26, 2021, respectively. Upon sale of such demonstration devices, their costs, net of accumulated depreciation, are transferred to cost of sales. Upon sale or retirement of property, plant, and equipment, the costs and related accumulated depreciation are eliminated from the accounts with any resulting gains or losses. In fiscal 2022, $77 of machinery and equipment, all of which was fully depreciated, was retired. There was $81 of retirements of assets in fiscal 2021.

Capitalized Software Development Costs

The Company capitalizes the qualifying costs of developing software contained in certain products. Capitalization of such costs commences when technological feasibility has been established in accordance with the Financial Accounting Standards Board's ("FASB") guidance on accounting for the costs of computer software to be sold, leased, or otherwise marketed. Technological feasibility is defined as the point in time when the Company has completed all planning, designing, coding, and testing activities that are necessary to establish that a software product can be produced to meet its design specifications, including functions, features, and technical performance requirements. When the software is ready for commercial release, capitalization of development costs cease and amortization commences on a straight-line basis over a period ranging from three (3) to five (5) years, depending upon the life of the product. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors including, but not limited to, anticipated future gross product revenue, estimated economic product lives, and changes in software and hardware technology. Software amortization totaled $47 and $54 in fiscal 2022 and fiscal 2021, respectively. Estimated software amortization, which is based on existing capitalized software, for each of the next five (5) fiscal years is as follows: $21 in fiscal 2023, $14 in fiscal 2024, and $14 thereafter.

Research and Development Costs

Research and development costs, which relate primarily to the development, design, and testing of products, are expensed as incurred. The Company enters into research grants with various government entities, both in the United States and internationally. During both fiscal 2022 and fiscal 2021, the Company was involved with three (3) such grants. Reimbursement payments received under these grants for qualified expenses are recorded as a reduction of research and development costs. Such reimbursements totaled $2,311 in fiscal 2022 and $551 in fiscal 2021. Research and development expenses, which totaled $3,467 in fiscal 2022 and $2,433 in fiscal 2021, include spending for potential new products and technologies and work performed under government grant programs, both in the United States and internationally. This spending, net of reimbursements from the United States, and the governments of Poland and Turkey, as detailed above, was $1,157 for fiscal 2022 compared to $1,882 for fiscal 2021.

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes, as well as the valuation of net operating loss ("NOL") carryforwards and research and development tax credits. Valuation allowances are reviewed each fiscal period to determine whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax asset. Deferred tax assets and liabilities are offset and presented as a single non-current asset.

Significant judgments and estimates are required in determining the provision for taxes, including judgments and estimates regarding the realization of deferred tax assets and the ultimate outcomes of tax-related contingencies. During the normal course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. A liability is recognized, including interest, or a tax asset is reduced, for the anticipated outcome of tax audits. These amounts are adjusted in light of changing facts and circumstances.

Long-Lived Assets

The Company reviews its property, plant, and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the net undiscounted cash flows expected to be generated by the asset. An impairment loss would be recorded for the excess of net book value over the fair value of the asset impaired. The fair value is estimated based on expected undiscounted future cash flows. The results of impairment tests are subject to management's estimates and assumptions of projected cash flows and operating results; actual results may differ. There were no impairment losses recorded in either fiscal 2022 or fiscal 2021.

Share-Based Compensation

Share-based compensation expense is measured at the stock option grant date, based on the fair value of the award, and is recorded primarily to general and administrative expense. The Company uses the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair value of share-based awards in accordance with Accounting Standards Codification ("ASC") 718, Compensation. This option-pricing model requires the input of highly subjective assumptions, including the option's expected term, the price volatility of the underlying stock, risk-free rates of return, dividend yield, and expected forfeitures. The expected term of an award is no less than the award vesting period and is based on the Company's historical experience. The expected stock price volatility is based on the Company's historical stock prices. The risk-free interest rate is approximated using rates available on U.S. Treasury securities in effect at the time of grant with a remaining term similar to the award's expected life. The Company uses a dividend yield of zero in the Black-Scholes option-pricing model as it does not anticipate paying cash dividends in the near future. The Company uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expense for only those awards that are expected to vest as the requisite service is rendered. The guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from these estimates. The Company typically issues new shares of Common Stock upon the exercise of stock options, as opposed to using treasury shares. There were no stock options granted in fiscal 2022 and fiscal 2021. There were 585,450 stock options granted in fiscal 2020.

Advertising Costs

The Company expenses advertising costs, which include trade shows, as incurred. Advertising costs were $81 and $31 in fiscal 2022 and fiscal 2021, respectively.

Warranty Costs

The Company provides warranties against defects in materials and workmanship in our products. Warranty periods for our products generally range from ninety (90) days to two (2) years. The Company maintains a general provision for estimated expenses of providing service under these warranties. Non-warranty service is billed to the customer as performed. The assumptions we use to estimate warranty accruals are evaluated periodically in light of actual experience and management's estimates of future claims, and, when appropriate, the accruals are adjusted. Our determination of the appropriate level of warranty accrual is subjective and based on estimates, and actual experience may be different than our accruals.

Earnings per Share

The Company utilizes the two-class method for computing and presenting earnings per share. The Company currently has one class of Common Stock (the "Common Stock") and one class of cumulative convertible participating Preferred Stock currently outstanding, 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.

As of both February 25, 2022 and February 26, 2021, there was $12,127 of cumulative convertible participating Series E Preferred Stock convertible at an exercise price of $1.98 per share, equating to 6,124,567 shares of Common Stock, originally issued in July 2009.

As of February 25, 2022 and February 26, 2021, there were outstanding options to purchase the Company's Common Stock at an average price of $0.95 totaling 1,001,450 and 1,021,450 shares, respectively. Due to the conversion price of the Common Stock options, all 1,001,450 and 1,021,450 shares were excluded from the calculation of diluted earnings per share as of February 25, 2022 and February 26, 2021, respectively, because the effect of their conversion would be anti-dilutive

Standards Issued and Implemented

Leases

We have applied the transition provisions of FASB issued ASU 2016-02, Leases (Topic 842) on February 23, 2019.

The Company determines if an arrangement is a lease at the inception date. On the Consolidated Balance Sheets, operating leases are included in Right-of-use asset, with the related liabilities included in either Current portion of lease obligations or Lease obligations, non-current. Also on the Consolidated Balance Sheets, finance leases are included in Property, plant, and equipment, at cost, net, with the related liabilities included in either Other accrued liabilities, current, or Other accrued liabilities, non-current.

Right-of-use assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. If a lease does not implicitly state a rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Variable components of the lease payments such as fair market value adjustments, utilities, and maintenance costs are expensed as incurred and not included in determining the present value. Lease expense for minimum lease payments are recognized on a straight-line basis over the lease term.

The Company leases certain premises and office equipment under operating leases. As of February 25, 2022, these leases have remaining lease terms of two (2) months to sixteen (16) months, with a weighted average remaining lease term of approximately sixteen (16) months. Maturities of operating lease liabilities are as follows:

Fiscal Year		**Amount**
Fiscal 2023	$	509
Fiscal 2024		229
Total lease payments		738
Less: imputed interest		(30)
Total future long-term debt obligations		708
Less: current portion		(490)
Total future long-term debt obligations, less current portion	**$**	**218**

Total operating lease expense in fiscal 2022 was $604 of which $64 was attributable to variable lease expenses. Cash payments against operating lease liabilities in fiscal 2022 totaled $546 and reclassifications of liabilities to comply with the presentation requirements of ASU 2016-02 as of February 26, 2021 was $3.

Recent Accounting Pronouncements

Financial Instruments—Credit Losses

In June 2016, the FASB issued ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires companies to record an allowance for expected credit losses over the contractual term of financial assets, including short-term trade receivables and contract assets, and expands disclosure requirements for credit quality of financial assets. The new standard, as amended by ASU 2019-10, is effective for annual periods beginning after December 15, 2022, including interim periods within those annual periods. The new standard will be effective for our fiscal year beginning February 25, 2023. We do not anticipate that the adoption of the new standard will have a significant impact on our financial position, results of operations, or cash flows.

Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR") and other interbank offered rates, which have been widely used as reference rates for various securities and financial contracts, including loans, debt and derivatives. This announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. Regulators in the United States of America and other jurisdictions have been working to replace these rates with alternative reference interest rates that are supported by transactions in liquid and observable markets, such as the Secured Overnight Financing Rate ("SOFR"). Currently, our credit facility references SOFR -based rates.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which temporarily simplifies the accounting for contract modifications, including hedging relationships, due to the transition from LIBOR and other interbank offered rates to alternative reference interest rates. For example, entities can elect not to remeasure the contracts at the modification date or reassess a previous accounting determination if certain conditions are met. Additionally, entities can elect to continue applying hedge accounting for hedging relationships affected by reference rate reform if certain conditions are met. The new standard was effective upon issuance and generally can be applied to applicable contract modifications through December 31, 2022. We are currently evaluating the impact of the transition from LIBOR to alternative reference interest rates, but do not expect a significant impact to our operating results, financial position, or cash flows.

2. Accounts Receivable

The components of accounts receivable are as follows:

	Feb. 25, 2022	Feb. 26, 2021
U.S. Commercial ("Domestic")	$ 1,152	$ 919
U.S. Government	71	124
International	5,034	5,034
	6,663	6,077
Less: allowance for doubtful accounts	(90)	(75)
Accounts receivable, net	**$ 6,573**	**$ 6,002**

3. Contract Assets and Contract Liabilities

The following is a summary of long-term contracts in progress:

	Feb. 25, 2022	Feb. 26, 2021
Cost incurred on uncompleted long-term contracts	$ 61,263	$ 106,694
Estimated earnings	27,342	46,485
	88,605	153,179
Less: billings to date	(92,206)	(146,178)
	$ (3,601)	**$ 7,001**

Included in accompanying balance sheets under the following captions:

	Feb. 25, 2022	Feb. 26, 2021
Contract assets	$ 1,789	$ 10,909
Contract liabilities	(5,390)	(3,908)
	$ (3,601)	**$ 7,001**

Included in contract liabilities is a provision for unexpected losses on contracts of $200 in both fiscal 2022 and fiscal 2021.

4. Inventories

Inventories are valued at the lower of cost or market using the FIFO method and consist of the following:

	Feb. 25, 2022	Feb. 26, 2021
Raw materials	$ 15	$ 42
Work in process	2,676	1,652
Finished goods	18	11
Inventories, net	**$ 2,709**	**$ 1,705**

Inventory is presented net of an allowance for obsolescence of $570 (raw material $61, work in process $491, and finished goods $18) and $587 (raw material $61, work in process $515 and finished goods $11) as of February 25, 2022 and February 26, 2021, respectively.

In accordance with U.S. GAAP, the Company may capitalize certain costs of simulation equipment into property, plant, and equipment. This equipment may be used to provide training or as a demonstration device to market the technology, and may be sold as a product if appropriate.

5. Property, Plant, and Equipment

The following is a summary of property, plant and equipment, at cost:

	Feb. 25, 2022	Feb. 26, 2021
Land	$ 100	$ 100
Buildings and building additions	3,851	3,851
Machinery and equipment	11,188	11,220
Demonstration equipment	17,100	17,042
Office furniture and equipment	1,324	1,324
Building improvements	3,201	3,201
Construction in process	632	582
	37,396	37,320
Less: accumulated depreciation	(28,911)	(27,835)
Property, plant, and equipment, at cost, net	**$ 8,485**	**$ 9,485**

Depreciation expense for fiscal 2022 and fiscal 2021 was $1,191 and $1,174, respectively.

As of both February 25, 2022 and February 26, 2021, substantially all of the Company's long-lived assets were located in the United States of America.

6. Long-Term Obligations and Related Equity Arrangements

September 28, 2012 Loan Agreement with PNC Bank

Effective September 28, 2012, ETC and PNC Bank entered into a loan agreement (the "September 28, 2012 Loan Agreement"), which included ETC executing a Line of Credit Note and a Term Loan Note (as defined below). As set forth in the September 28, 2012 Loan Agreement, borrowings under the PNC Line of Credit were available for working capital and other general business purposes, and for issuances of letters of credit. Amounts were borrowed, repaid, and re-borrowed under the PNC Line of Credit from time to time until August 5, 2016, the date on which the Company entered into an amendment to the September 28, 2012 Loan Agreement that provided for, among other things, the consolidation of the PNC Line of Credit and the Term Loan into a $21,000 Revolving Line of Credit (the "Revolving Line of Credit"), which on April 9, 2018 was subsequently increased to $25,000; see "Recent Amendments to the September 28, 2012 Loan Agreement" below for details.

The Company's obligation to repay the advances under the Revolving Line of Credit is set forth in the Amended and Restated Committed Line of Credit Note (the "Line of Credit Note"). As of February 25, 2022, the Company's availability under the Revolving Line of Credit was $3,662. This reflected cash borrowings of $13,379 and net outstanding standby letters of credit of $2,959. As of June 9, 2022, the date of our most current Revolving Line of Credit statement, the Company's availability under the Revolving Line of Credit was approximately $3,662.

As security for repayment of the Line of Credit Note, as noted above, and the Term Loan Note, which set forth the Company's obligation to repay the principal on the Term Loan, including interest, on a monthly basis, the Company also concurrently entered into the Third Amended and Restated Reimbursement Agreement for Letters of Credit between ETC and PNC Bank dated September 28, 2012, a Security Agreement between ETC and PNC Bank dated September 28, 2012, a Pledge Agreement executed by ETC on September 28, 2012 in favor of PNC Bank ("Pledge Agreement"), an Amended and Restated Guaranty and Suretyship Agreement executed on September 28, 2012 in favor of PNC Bank by H.F. Lenfest ("Mr. Lenfest"), a major shareholder and director of ETC since 2003, who passed away on August 5, 2018, and an Open-End Mortgage and Security Agreement between ETC and PNC Bank dated September 28, 2012. Pursuant to the Pledge Agreement, which was subsequently amended and restated in conjunction with the Fiscal 2017 Amendment to the September 28, 2012 Loan Agreement (as defined below), the Company pledged to PNC Bank as collateral the Company's ownership interest in certain subsidiaries of the Company.

The September 28, 2012 Loan Agreement contains both affirmative and negative covenants that are customary for transactions of this type, including such financial covenants as a minimum net worth, a maximum operating leverage ratio, and a minimum fixed charge coverage ratio, as well as limitations with respect to indebtedness, liens, investments, distributions, dispositions of assets, change of business, and transactions with affiliates. The September 28, 2012 Loan Agreement also provides for customary events of default, 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. Upon an event of default under the September 28, 2012 Loan Agreement, including the non-payment of principal or interest, the obligations of the Company under the September 28, 2012 Loan Agreement may be accelerated and the assets securing the obligations secured. See "Fiscal 2021 Amendment to the September 28, 2012 Loan Agreement" below for current financial covenant requirements.

Recent Amendments to the Sept. 28, 2012 Loan Agreement

Fiscal 2017 Amendment to the Sept. 28, 2012 Loan Agreement

On June 10, 2016, the Company received a waiver as of the fiscal quarter ended February 26, 2016 for failing to exceed the permitted minimum Consolidated Tangible Net Worth. The waiver also provided that ETC was to maintain at all times a minimum Consolidated Tangible Net Worth of $7,500; further, commencing with the fiscal quarter ending May 26, 2017, ETC was to have maintained as of the end of each fiscal quarter a Fixed Charge Coverage Ratio of at least 1.00 to 1. This ratio was to increase to 1.10 to 1 on August 25, 2017, and was to remain at that level at all times thereafter. The waiver extended the maturity date of the PNC Line of Credit to August 10, 2016, during which time the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The PNC Line of Credit and the Term Loan were consolidated into a $21,000 Revolving Line of Credit, under which amounts may be borrowed, repaid, and re-borrowed until the maturity date.

(ii) The existing Committed Line of Credit (the "Committed Line of Credit") was capped at $8,600, an amount equivalent to the total outstanding standby letters of credit under which the Committed Line of Credit covered as of May 27, 2016. All outstanding standby letters of credit covered by the Committed Line of Credit were either returned or expired as of June 30, 2020.

(iii) A new $1,000 FX Equivalent Line of Credit (the "FX Equivalent Line of Credit") for potential future foreign exchange obligations.

(iv) The Revolving Line of Credit, the Committed Line of Credit, and the FX Equivalent Line of Credit (collectively, the "2016 PNC Credit Facilities") had an original maturity date of December 31, 2017, which on May 26, 2017 was subsequently extended to June 30, 2018.

(v) The interest rate on the 2016 PNC Credit Facilities will be based on the PNC Daily LIBOR Rate (0.50% as of August 2, 2021, the date of our most current Revolving Line of Credit statement) plus a margin of 3.00%.

(vi) The 2016 PNC Credit Facilities were collateralized by a combination of the Company's pledged restricted cash ($5,833 as of February 26, 2021), substantially all of the Company's additional assets, and the pledged cash collateral of the estate of Mr. Lenfest.

Fiscal 2019 Amendment to the Sept. 28, 2012 Loan Agreement

On April 9, 2018, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The Revolving Line of Credit was increased from $21,000 to $25,000.

(ii) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2018 to June 30, 2019.

(iii) The interest rate margin on the 2016 PNC Credit Facilities was lowered from 3.00% to 2.75%.

Fiscal 2020 Amendments to the Sept. 28, 2012 Loan Agreement

On June 28, 2019, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that extended the maturity date of the 2016 PNC Credit Facilities from June 30, 2019 to June 30, 2020, and effective as of July 1, 2019, the Company is no longer obligated to pay a fee of 0.25% for unused but available funds under the Revolving Line of Credit.

On January 22, 2020, the Company received a waiver for failing to maintain the minimum Fixed Charge Coverage Ratio as of the fiscal quarter ended November 29, 2019; going forward, the waiver also eliminates the Fixed Charge Coverage Ratio covenant.

Fiscal 2021 Amendment to the Sept. 28, 2012 Loan Agreement

On June 26, 2020, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The elimination of the Committed Line of Credit component of the 2016 PNC Credit Facilities.

(ii) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2020 to June 30, 2021.

(iii) The elimination of the Consolidated Tangible Net Worth, which was the last remaining financial covenant; going forward, there are no financial covenants contained within the amended loan agreement.

(iv) The release of the mortgage on the property located at 125 James Way, Southampton.

Fiscal 2022 Amendment to the September 28, 2012 Loan Agreement

On May 3, 2021, subsequent to the end of fiscal 2021, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The Revolving Line of Credit was decreased from $25,000 to $22,000, and will further reduce to $20,000 on September 30, 2021.

(ii) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2021 to June 30, 2022.

Fiscal 2023 Amendment to the September 28, 2012 Loan Agreement

On May 23, 2022, subsequent to the end of fiscal 2022, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2022 to June 30, 2023.

(ii) Loans under the Line of Credit shall bear interest at a variable rate per annum equal to the sum of (A) Daily Simple SOFR plus (B) an unadjusted spread of two hundred seventy five basis points (2.75%) plus (C) a SOFR adjustment of ten basis points (0.10%).

Preferred Stock

Presently, the Company has one class of cumulative convertible participating Preferred Stock currently outstanding, Series E (25,000 shares authorized) (the "Preferred Stock"). The Preferred Stock was authorized by the Board of Directors in April 2009 as part of the 2009 Lenfest Financing Transaction. The Preferred Stock has a par value of $0.05 per share and a stated value of $1,000 per share. The Preferred Stock is currently entitled to receive cumulative dividends at the rate of four percent (4%) per year in preference to the holders of the Company's Common Stock with respect to dividends. These dividends are payable only upon a liquidation event or when otherwise declared by the Board of Directors. The Company cannot declare or pay any dividends on its Common Stock until the dividends on the Preferred Stock have been paid. The Preferred Stock holders are entitled to receive any dividends paid with respect to the Common Stock on an "as-converted" basis. The Preferred Stock may be converted by the holder at any time and from time to time into the Company's Common Stock by dividing the stated value of the Preferred Stock by the conversion price established at the time of issuance (see "Series E Preferred Stock" below). Upon a liquidation event, the holders of the Preferred Stock would be entitled to participate in any proceeds in preference to any Common Stock holders. The Preferred Stock would also participate in any liquidation event with the Common Stock holders on an "as-converted" basis. The Preferred Stock conversion price is subject to adjustment for certain transactions including stock splits and issuance of equity securities below the conversion prices.

The Company has reviewed U.S. GAAP applicable to the Preferred Stock; specifically, the Company has reviewed both ASC 480 – Distinguishing Liabilities from Equity and ASC 815 – Derivatives and Hedging. Upon its review, the Company determined that the Preferred Stock is within the control of the Company and that the attributes of the Preferred Stock are more akin to equity than debt. The specific attributes considered by the Company include the designation of the instruments, the conversion of the instruments to the Company's Common Stock, the participation feature, the non-mandatory conversion, the voting rights, and the ability to appoint directors. Secondly, the Company determined that the Preferred Stock qualifies as permanent equity because the Preferred Stock is not mandatorily redeemable, and there is no obligation to either repurchase the instruments or issue a variable amount of common shares. Lastly, the Company determined that the conversion feature qualifies for the scope exception of ASC 815 – Derivatives and Hedging as it is clearly and closely related to the Preferred Stock instrument. Due to the Company's accumulated deficit as of February 24, 2012, all Preferred Stock dividends accruing through this date were recorded in the accompanying consolidated financial statements as a reduction of additional paid-in capital. During fiscal 2013, the Company entered into a position of retained earnings; thus, all $1,511 and $493 of dividends recorded during fiscal 2013 and fiscal 2014, respectively, were recorded as a reduction to retained earnings. Due to the accumulated deficit position entered into beginning in fiscal 2015, all $484 of dividends recorded during each of the fiscal years since ($493 in fiscal 2020 since it was a fifty-three week annual accounting period) were recorded as a reduction of additional paid-in capital.

Series E Preferred Stock

On July 2, 2009, the Company issued 23,741 shares of Series E Preferred Stock to Mr. Lenfest in connection with the 2009 Lenfest Financing Transaction. The shares of Series E Preferred Stock were convertible to Common Stock at a conversion price per share equal to $2.00 and would have converted into 11,870,391 shares of the Company's Common Stock.

On March 10, 2010, August 12, 2010, and February 9, 2011, ETC entered into three separate agreements with Mr. Lenfest to repurchase and retire a total of 2,000 shares of Series E Preferred Stock owned by Mr. Lenfest. In the three agreements, the repurchases were made at the stated price of $1,000 per share for a total of $2,000.

On September 28, 2012, as part of the 2012 Financial Restructuring and immediately following the closing of the Loan Agreement, the Company purchased from Mr. Lenfest, at the stated price of $1,000 per share, 9,614 shares of Series E Preferred Stock, representing a significant portion of the Company's issued and outstanding Series E Preferred Stock. The estate of Mr. Lenfest is the only holder of the outstanding Series E Preferred Stock, and 12,127 shares of Series E Preferred Stock remain outstanding as of both February 25 , 2022 and February 26 , 2021.

As of both February 26, 2021 and February 28, 2020, Series E Preferred Stock was convertible at an exercise price of $1.98 per share, equating to 6,124,567 shares of Common Stock. All Series E Preferred Stock dividends accrued through February 22, 2013 have been paid in cash. Series E Preferred Stock dividends accrued during the period February 23, 2013 through February 26, 2021, which totaled $4,372 thousand, remained unpaid as of June 9, 2022, the date of issuance of our consolidated financial statements.

Paycheck Protection Program Loan

On April 16, 2020, the Company was granted a loan from PNC Bank in the aggregate amount of $2,447 pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020. On June 10, 2021, subsequent to the end of fiscal 2021, the Company received notice of PPP forgiveness payment for the full amount of $2,447 in principal and $29 in interest.

ETC-PZL Line of Credit Agreement

On December 11, 2020, ETC-PZL entered into a new loan agreement with a bank in Warsaw, Poland, whereby ETC-PZL received two lines of credit (collectively, the "ETC-PZL Lines of Credit") in the amounts of $750 thousand and $500 thousand to fund current activity. Amounts may be borrowed, repaid, and re-borrowed up until December 30, 2022 and December 30, 2023, respectively. The interest rate on the ETC-PZL Lines of Credit will be based on the Warsaw Interbank Offered Rate ("WIBOR") one month base rate (3.5 % as of June 9, 2022, the date of issuance of our consolidated financial statements) plus a margin of 3.3 %. The ETC-PZL Lines of Credit are collateralized by a combination of promissory notes and substantially all of ETC-PZL's unrestricted current assets. As of February 25, 2022, there were outstanding borrowings of $433 under one of the ETC-PZL Lines of Credit.

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

	Feb. 25, 2022	Feb. 26, 2021
Credit facility payable to bank	$ 13,358	$ 16,984
Payroll Protection Program Loan		2,447
Total long-term debt obligations	13,358	19,431
Less: debt issuance costs	-	-
Total long-term debt obligations, net of debt issuance costs	**$ 13,358**	**$ 19,431**

The amounts of future long-term debt obligations maturing in each of the next five (5) fiscal years are as follows:

Fiscal Year	Amount
Fiscal 2023	-
Fiscal 2024	$13,358
Fiscal 2025	-
Fiscal 2026	-
Fiscal 2027	-
Total future long-term debt obligations	**$ 13,358**

7. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes, as well as the valuation of NOL carryforwards and research and development tax credits. Valuation allowances are reviewed each fiscal period to determine whether there is sufficient positive or negative evidence to support a change in judgment about the potential realization of the related deferred tax asset. Deferred tax assets and liabilities are offset and presented as a single non-current asset.

As of February 25, 2022, the Company reviewed the components of its deferred tax assets and determined, based upon all available information, that it is more likely than not that deferred tax assets relating to its federal and state NOL carryforwards and research and development tax credits will not be realized primarily due to uncertainties related to our ability to utilize them before they expire. Accordingly, we have established a $7,899 valuation allowance for such deferred tax assets that we do not expect to realize. If there is a change in our ability to realize our deferred tax assets for which a valuation allowance has been established, then our tax valuation allowance may decrease in the period in which we determine that realization is more likely than not.

An income tax benefit of $131 was recorded in fiscal 2022 compared to an income tax benefit of $272 in fiscal 2021. Our income tax (benefit) provision consists of the following:

	Fiscal year ended	
	Feb. 25, 2022	**Feb. 26, 2021**
Current tax (benefit) expense:		
U.S. Federal	$ -	$ (295)
U.S. State	-	10
Foreign	-	(10)
Total current tax benefit, net	**-**	**(295)**
Deferred tax (benefit) expense:		
U.S. Federal	$ (108)	$ (49)
U.S. State	(23)	(10)
Foreign	-	82
Total deferred tax expense, net	**(131)**	**23**
Income tax (benefit) provision	**$ (131)**	**$ (272)**

Effective tax rates were -7.9% and 3.5% for fiscal 2022 and fiscal 2021, respectively. The decrease in the effective tax rate for fiscal 2022 as compared to fiscal 2021 was driven primarily by the operating loss incurred in fiscal 2022 and the offsetting valuation allowance that was recorded against the increase in deferred tax assets relating primarily to federal NOL carryforwards along with U.S. R&D tax credits.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. ETC is no longer subject to U.S. federal tax examinations by tax authorities for the fiscal years before and including 2018. ETC-PZL is no longer subject to tax examinations in Poland for tax periods prior to December 31, 2015. We are, however, subject to examination in various other foreign and state jurisdictions for fiscal years 2011-2021. We believe appropriate provisions for all outstanding tax issues have been made for all jurisdictions and all open years.

As of February 25, 2022, the Company had approximately $26,008 of federal NOL carryforwards available to offset future income tax liabilities, $19,958 of which will begin to expire in 2025. Under Section 382 of the Internal Revenue Code of 1986, as amended ("IRC Section 382"), a corporation that undergoes an "ownership change", as defined therein, is subject to limitations on its use of pre-change NOL carryforwards to offset future taxable income. The Company at this time has not performed a full Section 382 analysis. If we were to undergo one or more "ownership changes" within the meaning of IRC Section 382, our NOL carryforwards existing as of the date of each ownership change may be unavailable, in whole or in part, to offset U.S. federal income tax resulting from our operations, which could result in increased U.S. federal income tax liability. The Company has recorded a valuation allowance on the entire NOL carryforward as it believes that it is more likely than not that the deferred tax asset associated with the NOL carryforwards will not be realized regardless of whether an "ownership change" has occurred.

As of February 25, 2022, the Company has a net deferred tax asset of $267 compared to $136 as of February 26, 2021. Significant components of our net deferred tax asset are as follows:

	Feb. 25, 2022	Feb. 26, 2021
Deferred tax assets:		
NOL carryforwards	$ 6,267	$ 6,232
U.S. R&D tax credits	1,961	1,854
U.S. AMT credits	-	-
Foreign	-	19
Vacation accrual	155	141
Inventory reserve	126	128
Receivable reserve	20	16
Other, net	865	936
	9,393	9,326
Valuation allowance	(7,899)	(7,789)
Total deferred tax assets	**1,494**	**1,537**
Deferred tax liabilities:		
Depreciation	(1,135)	(1,322)
Amortization of capitalized software	(11)	(10)
Foreign	-	(19)
Right-of-use Asset	(37)	-
APB 23 liability	(44)	(50)
Total deferred tax liabilities	**(1,227)**	**(1,401)**
Total net deferred tax asset	**$ 267**	**$ 136**

As of February 25, 2022, the amounts accrued for the payment of income tax-related interest and penalties included in the consolidated financial statements were as follows: interest of $66 and penalties of $97. As of February 26, 2021, the amounts accrued for the payment of income tax-related interest and penalties included in the consolidated financial statements were as follows: interest of $65 and penalties of $97. The interest and penalties recorded during both fiscal 2022 and fiscal 2021 primarily related to domestic state tax and foreign tax issues.

As of February 25, 2022 and February 26, 2021, the total amount of unrecognized tax benefits was $865 and $844, respectively, of which $310 would affect the effective tax rate, if recognized. These amounts, which are recorded on the Company's balance sheet within other accrued liabilities, are primarily associated with U.S. federal tax issues such as the amount of research and development tax credits claimed and taxation of foreign earnings. Also included in these amounts are accruals for domestic state tax issues such as the allocation of income among various state tax jurisdictions.

8. Business Segment Information

We operate in two primary business segments, Aerospace and CIS. Aerospace encompasses the design, manufacture, and sale of: (i) ATS products; (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); and (iv) ADMS, as well as ILS 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 and to civil aviation organizations. CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizers and (ii) ETSS; 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.

Segment operating loss consists of net sales less applicable costs and expenses relating to these sales. Unallocated expenses including general corporate expenses, letter of credit fees, and income taxes have been excluded from the determination of the total profit for segments. For presentation purposes, income, expenses, and assets not specifically identifiable to an individual business group or applicable to all groups and general corporate expenses, primarily central administrative office expenses, are reflected in the Corporate category. Property, plant, and equipment associated with our National Aerospace Training and Research Center (the "NASTAR Center") are included in the Aerospace segment; the remaining property, plant, and equipment are not identified with specific business segments because most of these assets are used in each of the segments.

In fiscal 2022, one International customer within the Aerospace segment represented 10.0% or more of total net sales, and sales to this customer totaling $4,137 represented 21.6% of total net sales. In fiscal 2021, one International customer within the Aerospace segment represented 10.0% or more of total net sales, and sales to this customer totaling $2,397 represented 14.8% of total net sales.

Included in the segment information for fiscal 2022 and fiscal 2021 are export sales of $10,243 and $8,178, respectively. In fiscal 2022, International sales totaling at least $500 were made to customers in six (6) different countries; in fiscal 2021, International sales totaling at least $500 were made to customers in seven (7) different countries. Sales to the U.S. Government and its agencies aggregated to $1,294 and $3,121 for fiscal 2022 and fiscal 2021, respectively. The decrease in U.S. Government sales was due primarily to the overall pandemic and the USAF's final acceptance of the RAC Contract in 2021.

The following segment information reflects the accrual basis of accounting:

	Aerospace	CIS	Corporate	Company Total
Fiscal 2022:				
Net sales	$ 11,535	$ 7,597	$ -	$ 19,132
Interest expense, net	317	210	-	527
Depreciation and amortization	1,136	3	56	1,195
Operating loss	(1,177)	(988)	(832)	(2,997)
Income tax benefit	-	-	(131)	(131)
Identifiable assets	16,274	2,427	15,852	34,553
Expenditures for segment assets	108	42	46	196
Fiscal 2021:				
Net sales	$ 10,875	$ 5,375	$ -	$ 16,250
Interest expense, net	435	215	-	650
Depreciation and amortization	1,162	11	56	1,229
Operating loss	(4,168)	(2,168)	(883)	(7,219)
Income tax provision	-	-	(272)	(272)
Identifiable assets	24,334	2,961	10,813	38,108
Expenditures for segment assets	13	42	39	94

Reconciliation to consolidated net loss attributable to ETC	Fiscal 2022	Fiscal 2021
Operating loss	$ (2,997)	$ (7,219)
Interest expense, net	(527)	(650)
Other expense, net	(5,196)	(19)
Income tax benefit (provision)	131	272
Income (loss) attributable to non-controlling interest	4	124
Net income (loss) attributable to ETC	**$ 1,807**	**$ (7,492)**

9. Stock Option Plans

The following is a summary of the status of the Company's stock option plans:

	Fiscal year ended			
	February 25, 2022		February 26, 2021	
	Shares	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**
Outstanding at beginning of year	1,021,450	$ 0.95	1,036,450	$ 0.95
Granted	-	$ -	-	$ -
Exercised	-	$ -	-	$ -
Forfeited	(20,000)	$ 0.86	(15,000)	$ 0.86
Outstanding at end of year	**1,001,450**	**$ 0.95**	**1,021,450**	**$ 0.95**
Options exercisable at fiscal year end	788,450		800,450	
Weighted average fair value of options granted during the fiscal year		$ -		$ -

The following information applies to options outstanding as of February 25, 2022:

	Options outstanding			Options exercisable	
Exercise price	**Number outstanding as of Feb. 25, 2022**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number exercisable at Feb. 26, 2021**	**Weighted average exercise price**
$ 0.71-$ 0.72	559,450	7.50	$ 0.71	567,450	$ 8.49
$ 1.25	442,000	2.77	$ 1.25	454,000	$ 3.70
Total	**1,001,450**			**1,021,450**	

The Company uses the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair value of share-based awards in accordance with ASC 718, Compensation. This option-pricing model requires the input of highly subjective assumptions, including the option's expected term, the price volatility of the underlying stock, risk-free rates of return, dividend yield, and expected forfeitures. The expected term of an award (10 years) is no less than the award vesting period and is based on the Company's historical experience. In fiscal 2021 and fiscal 2022, no options were granted. The Company uses a dividend yield of zero in the Black-Scholes option-pricing model as it does not anticipate paying cash dividends in the near future. The Company is required to estimate forfeitures at the time of grant, and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expense for only those awards that are expected to vest as the requisite service is rendered. The guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from these estimates. The Company typically issues new shares of Common Stock upon the exercise of stock options, as opposed to using treasury shares. Stock option compensation expense was $83 and $54 in fiscal 2022 and fiscal 2021, respectively.

Entering fiscal 2020, the Company had two stock-based compensation plans:

Employee, Director and Consultant Stock Plan

In July 2009, the Company adopted the 2009 Employee, Director and Consultant Stock Plan. This Plan authorizes the Board of Directors (or a committee appointed under the Board of Directors) to grant option awards for the purchase of Common Stock or Common Stock awards of up to 1,000,000 shares of Common Stock to employees, officers, directors, consultants, and advisors of the Company. The Plan allows for the establishment of an exercise price at the time each option is granted. The exercise price shall not be less than the fair market value, or in the case of a ten percent (10%) owner, one-hundred and ten percent (110%), of a share of the Company's Common Stock on the date of grant of such option. The plan also allows the Board of Directors or its appointed committee to establish the exercise period(s) of any option awards. Granted options have a maximum term of ten (10) years. This Plan was approved by the shareholders on July 2, 2009. No awards are to be granted under this Plan after July 2, 2019.

Non-employee Director Stock Plan

In September 2005, the Company adopted a stock option plan that allows for the granting to non-employee members of the Board of Directors of options to purchase up to 600,000 shares of Common Stock. The Plan provides that the exercise price shall not be less than one-hundred percent (100%) of the current market price of the stock on the date of the grant. The amount of each individual award and the vesting period are determined by the Board of Directors or its appointed committee. Granted options have a maximum term of ten (10) years. The Plan shall remain in effect until terminated by the Board of Directors. As of February 25, 2022, there were 34,048 shares available to be granted under this Plan.

10. Commitments and Contingencies

Legal Proceedings

U.S. Air Force Research Altitude Chamber Contract

The Company was a party to a contract with the United States Air Force ("USAF"), namely a firm fixed-price contract dated June 14, 2010, to build a suite of research altitude chambers at the Wright-Patterson Air Force Base (the "RAC Contract"). Under the RAC Contract, the Company believed that the USAF had made changes to the scope and terms of said Contract that increased cost and resulted in delay to the program schedule. The Company made objection and claims with respect to these changes. Subsequent to the end of fiscal 2020, the parties executed a modification to the RAC Contract which, among other things, provided for the USAF's final acceptance, resulted in an addition to the RAC Contract base price of approximately two percent (2%), and resolved all potential claims regarding RAC Contract changes and program delay. All amounts owed pertaining to the RAC Contract have been collected.

International Aeromedical Center Contract

The Company is party to a contract with an international military customer to supply aeromedical training equipment and to provide certain equipment upgrades. The original value of the contract is $14,700. Due to delay in delivering the equipment required by the contract, the Company was notified that it was subject to liquidated damages of ten percent (10%) of the contract value. In August 2021, the parties agreed to an additional $201 reduction in the contract value ($431 in total). On April 20, 2022, the contract was amended to provide for payment of 84% of the total contract value, with the remaining performance schedule extended until June 2023.

Environmental Testing and Simulation Contract

The Company is a party to a contract to provide environmental testing and simulation equipment for use by a domestic original equipment manufacturer of transmissions and hybrid propulsion systems. Under the contract, there are unresolved discussions as to the scope of the contract's specification in addition to the Company believing that changes to the scope and terms of said contract has resulted in increased cost. Following the end of fiscal 2021, the Company filed an action in the United States District Court for the Eastern District of Pennsylvania, alleging breach of contract. Discovery is ongoing, as are discussions at an amicable resolution, and we do not at this time believe that this matter will have a material effect on the Company's financial position or results of operations.

Other Matters

Certain other 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.

11. Employee Benefit Plans

The Company maintains a 401(k) retirement savings plan for eligible employees. The Company contributes one-hundred percent (100%) to the plan based on the first four percent (4%) of the employees' qualifying contributions plus an additional fifty percent (50%) of the next two percent (2%) of the employees' qualifying contributions. The Company's contributions totaled $337 and $228 in fiscal 2022 and fiscal 2021, respectively. The decrease in contributions in fiscal 2021 was due to the combined effect of a reduction in both headcount and the temporary implementation of a four-day work week for most employees as a result of a lack of work stemming from lock downs in reaction to the COVID-19 global pandemic, as well as a temporary suspension in Company contributions.

12. Subsequent Events

The Company has evaluated subsequent events through June 9, 2022 the date of issuance of its consolidated financial statements, and determined that there were no material subsequent events other than disclosed below requiring adjustment to, or disclosure in, the consolidated financial statements for the fiscal year ended February 25, 2022.

On May 23, 2022 , the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that, extended the maturity date from June 30, 2022 to June 30, 2023 . See Note 6 – Long-Term Obligations and Related Equity Arrangements for further details regarding the Company's loan agreements with PNC Bank.

On March 9, 2022, the Company submitted to the Internal Revenue Service the Employee Retention Credit (ERC) refund request. The total of this submission is $2,761 and the ERC is a refundable credit that businesses can claim on qualified wages paid to employees. The Company expects to receive this cash reimbursement within 10 – 12 months.

In the second quarter of fiscal year 2023 we expect to complete a sale-leaseback transaction of our property located in Southampton, Pennsylvania. This property we expect to sell and lease back includes our corporate headquarters, main production plant, and the NASTAR Center, and will include all land, buildings, and improvements except for the existing training equipment in the NASTAR Center affixed to the building. The NASTAR Center training equipment will not be sold. If we complete the expected sale we will lease back the property at or about market rate rent for a period of several years with options to extend the lease for several more years. We plan to use net proceeds from the sale to reduce outstanding borrowings under our credit facility with PNC Bank.

In the second quarter of fiscal 2023 we expect to complete the purchase of the 5% interest of our subsidiary in Poland. Upon completion the subsidiary will be 100% owned by the Company. The amount of the transaction is expected to be $80.

FIVE YEAR SUMMARY

(in thousands, except per share information)

	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022
Net sales	$ 48,086	$ 48,424	$ 40,580	$ 16,250	$ 19,132
Gross profit	16,127	17,397	8,957	1,264	4,318
Gross profit margin %	33.5%	35.9%	22.1%	7.8%	22.6%
Operating income (loss)	3,087	5,333	(2,721)	(7,219)	(2,997)
Operating margin %	6.4%	11.0%	-6.7%	-44.4%	-15.7%
Income (loss) before income taxes	1,766	3,896	(3,997)	(7,888)	1,672
Pre-tax margin %	8.0%	-9.8%	-48.5%	-48.5%	8.7%
Income tax provision (benefit)	(662)	698	12	(272)	(131)
Net income (loss)	2,428	3,198	(4,009)	(7,616)	1,803
(Income) loss attributable to non-controlling interest	(51)	(51)	(9)	124	4
Net income (loss) attributable to ETC	$ 2,377	$ 3,147	$ (4,018)	$ (7,492)	$ 1,807
Preferred Stock dividends	(484)	(484)	(493)	(484)	(484)
Income (loss) attributable to common and participating shareholders	$ 1,893	$ 2,663	$ (4,511)	$ (7,976)	$ 1,323
Diluted earnings (loss) per share	$ 0.12	$ 0.17	$ (0.29)	$ (0.51)	$ 0.08
Working capital	$ 18,306	$ 13,673	$ 17,979	$ 10,032	$ 6,587
Total long-term debt obligations	20,893	12,359	20,078	19,431	13,358
Total assets	46,423	45,412	48,817	38,108	34,553
Total shareholders' equity (deficit)	9,629	12,537	8,023	(76)	1,595
Capital expenditures	465	276	243	94	196
Depreciation and amortization	1,265	1,136	1,157	1,229	1,191
Interest expense, net	857	1,003	779	650	527
EBITDA *	**$ 4,149**	**$ 6,062**	**$ (2,011)**	**$ (5,925)**	**$ 3,474**

* In addition to disclosing financial results that are determined in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), we also disclose Earnings Before Income Taxes, Depreciation, and Amortization ("EBITDA"). The presentation of a non-U.S. GAAP financial measure such as EBITDA is intended to enhance the usefulness of financial information by providing a measure that management uses internally to evaluate our expenses and operating performance and factors into several of our financial covenant calculations.

A reader may find this item important in evaluating our performance. Management compensates for the limitations of using non-U.S. GAAP financial measures by using them only to supplement our U.S. GAAP results to provide a more complete understanding of the factors and trends affecting our business.

SUPPLEMENTAL INFORMATION

Company Affiliates and Locations

The consolidated financial statements include the accounts of ETC and our 95%-owned subsidiary ETC-PZL. ETC does not have any unconsolidated legal entities, "special purpose" entities, or other off-balance sheet arrangements other than disclosed in Note 10 – Commitments and Contingencies that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to our shareholders. As of February 25, 2022, we had 203 full-time employees, compared to 207 full-time employees as of February 26, 2021, of which 5 were employed in executive positions, 94 were engineers, engineering designers, or draftspersons, 38 were administrative (sales, sales support, accounting, or general administrative) or clerical personnel, and 66 were engaged principally in production, operations, or field support. A total of 81 employees were stationed at ETC-SH in Southampton, Pennsylvania, a northern suburb of Philadelphia, Pennsylvania.

We are an ISO 9001 certified manufacturer. We operate in four major locations consisting of manufacturing facilities, product development, and administration. A summary of square footage and current use as of February 25, 2022 is presented below:

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 High Performance Human Centrifuge;
- GYROLAB GL-2000 Advanced Spatial Disorientation Trainer;
- Altitude (Hypobaric) Chamber;
- Ejection Seat Simulator; and
- Night Vision Training System and Night Vision Goggle Training System.

Location	**Approximate Square Footage**	**Function**	**Owned/ Leased**	**Segment**
ETC Global Headquarters 125 James Way Southampton, PA 18966 USA +1.215.355.9100	83,800	Manufacturing (36,000 sq. ft), NASTAR Center (22,100 sq. ft.), and Corporate Headquarters (25,700 sq. ft.)	Owned	Aerospace CIS
ETC Simulation Training Systems 2100 N. Alafaya Trail, Suite 900 Orlando, FL 32826 USA +1.407.282.3378	8,700	Product development and administration	Leased	Aerospace
ETC-PZL Aerospace Industries Sp. z o.o. Al. Krakowska 110/114, P.O. Box 22 02-256 Warszawa, Poland (+48.22) 846.54.17	28,000	Manufacturing, product development, and administration	Leased	Aerospace
ETC-Turkey ODTU Teknokent, Gumus Bloklar A Blok Zemin Kay Bati Cephe Suite 1 06531 ODTU Ankara, Turkey (+90) 312.210.17.80	3,800	Software development	Leased	Aerospace CIS
Total	**124,300**			

Corporate Governance

The Board of Directors is currently comprised of five (5) members, four (4) of whom who are considered "independent" directors (not an employee, not affiliated with the Company's auditors, and not part of an interlocking directorate). Directors are nominated based on their individual qualifications and experience, the overall balance of the Board of Directors' background and experience, and each individual's willingness to fulfill their obligations and to contribute appropriately.

The Board of Directors meets four times per year in addition to various Board committee meetings held throughout the year. Standing committees consist of the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee. These committees each have defined charters that address the committees' purpose, goals, and responsibilities. All committees meet on a scheduled basis. Please refer to the Investors section of our website (www.etcusa.com) for more information on corporate governance.

Reporting Requirements

The Company is not currently required to register with the U.S. Securities and Exchange Commission ("SEC") and therefore is not subject to the reporting requirements of a public company; however, the Company issues periodic press releases, quarterly unaudited interim consolidated financial statements, and an annual report with audited consolidated financial statements.

Interim Consolidated Financial Statements

Interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for fiscal 2022. The results for any interim period are not necessarily indicative of results for the full fiscal year. Certain information and footnote disclosures normally included in audited financial statements have been omitted from the interim consolidated financial statements. As mentioned previously, the Company is not subject to SEC reporting requirements and therefore its quarterly interim consolidated financial statements are not subject to an interim review by Independent Auditors as prescribed by the SEC.

Investor and Shareholder Information

Shareholder Inquiries

Questions concerning your account, address changes, consolidation of duplicate accounts, lost certificates, and other related matters should be addressed to ETC's 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.astfinancial.com

Stock Exchange Listing

The Common Stock of ETC is traded under the symbol "ETCC" on the electronic Pink Sheets and is listed by the OTC Markets Group, Inc., reporting service for over-the-counter stocks. Stock quotation information is available through stock reporting services on the Internet at www.otcmarkets.com.

Annual Meeting

The Company's Annual Meeting of Shareholders will be held live via the Internet at 10:00 a.m. on Thursday, August 4, 2022. The link to access the meeting will be contained within the Notice of Annual Meeting of Shareholders that will be included with the mailing of this Annual Report to Shareholders.

Corporate Data

You can access Company information including press releases, earnings announcements, history, and other information through the Internet by visiting the ETC website at **www.etcusa.com.**

For further information, contact Robert Laurent, Chief Executive Officer and President. Telephone: (215) 355-9100 x1200.

Board of Directors

George K. Anderson, M.D., Chairman (2003)
Linda J. Brent, Ed.D. (2010)
Roger Colley (2011)
Robert L. Laurent, Jr. (2014)
Winston E. Scott (2010)

Corporate Officers

Robert L. Laurent, Jr., *Chief Executive Officer, President, Corporate Secretary and Director*
Joseph F. Verbitski, Jr., *Chief Financial Officer and Treasurer*
Thomas G. Loughlin, *Chief Operating Officer*
Alper Kus, *Senior Vice President, Aircrew Training Systems*

COMMITTEE COMPOSITION

	Audit Committee	Compensation Committee	Nominating and Governance Committee
George K. Anderson, M.D.	-	-	-
Linda J. Brent Ed.D	Member	Member	Chairperson
Roger Colley	Chairperson	Member	Member
Winston E. Scott	Member	Chairperson	Member

OWNERSHIP TABLE

	Name/Address **	Title	Ownership Percentage
Directors and Executive Officers:	George K. Anderson, M.D.	Chairman of the Board of Directors	1.4%
	Linda J. Brent, Ed.D.	Director	1.1%
	Roger Colley	Director	1.1%
	Winston E. Scott	Director	1.2%
	Robert L. Laurent, Jr.	Chief Executive Officer, President, and Director	2.0%
	Thomas G. Loughlin	Chief Operating Officer	1.3%
	Alper Kus	Senior Vice President, Aircrew Training Systems	*
	Joseph F. Verbitski, Jr.	Chief Financial Officer and Treasurer	*
Control Persons:	Estate of H.F. Lenfest *c/o The Lenfest Foundation* *Two Logan Square* *100 N. 18th Street, Suite 800* *Philadelphia, PA 19103*		*** 54.1%
	Peter H. Kamin and related family entities *2720 Donald Ross Road, 311* *Palm Beach Gardens, FL 33410*		11.7%
	T. Todd Martin, III *50 Midtown Park East* *Mobile, AL 36606*		11.0%
	Estate of Pete L. Stephens		6.3%

* *less than 1%*

** *address listed for all persons beneficially owning more than ten percent (10%)*

*** *the denominator for this ownership percentage calculation includes all participating preferred shares*

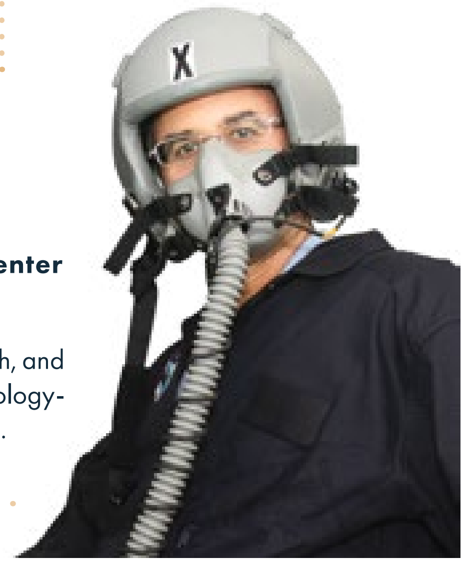
Information is accurate as of June 9, 2022, the date of issuance of our consolidated financial statements, based on information available to the Company. None of the foregoing Directors and Executive Officers in the last ten (10) years has had a legal/disciplinary issue.

PICTURED: THE CREW OF INSPIRATION4 WHILE TRAINING AT THE NASTAR CENTER.

AEROSPACE
SOLUTIONS

ETC Aircrew Training Systems
etcAircrewTraining.com

For nearly five decades, ATS has provided clients around the world with simulation systems designed for training and research applications in: high-G, spatial disorientation, situational awareness, aircraft egress, night vision, hypoxic environments, tactical aviation, avionics maintenance, helicopter flight, and water survival.



The National AeroSpace Training And Research (NASTAR) Center
NASTARcenter.com

The NASTAR Center is the premier commercial air and space training, research, and development facility. It combines state-of-the-art flight simulators with physiology-based coursework to optimize human performance in extreme environments.

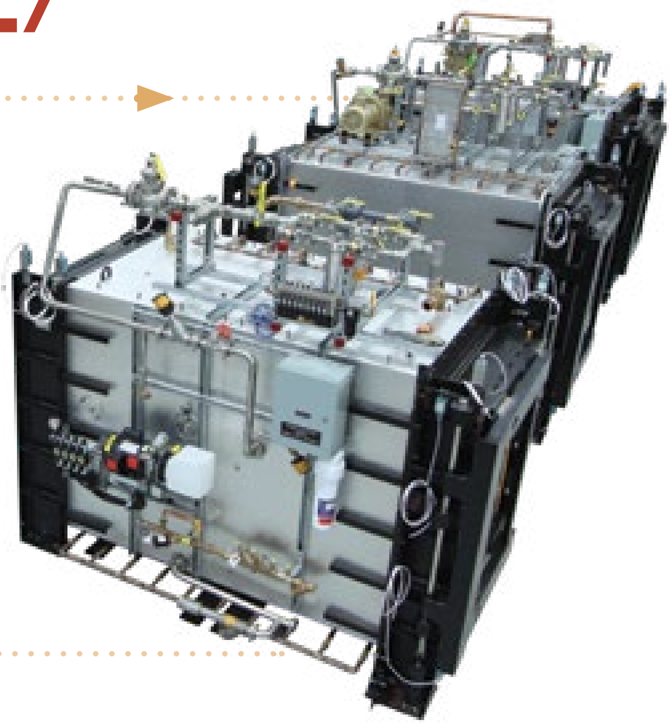
ETC Simulation
etcSimulation.com

ETC Simulation's flagship product is the Advanced Disaster Management Simulator (ADMS), a realistic, virtual emergency management simulation training system. Based in Orlando, Florida, ETC Simulation offers the most thorough training for incident command and disaster management teams.

ETC Integrated Logistics Support
SimulatorSupport.com

Equipment maintenance, training, and upgrades for domestic and foreign commercial accounts, civilian agencies, and militaries.

COMMERCIAL/ INDUSTRIAL SYSTEMS



ETC Sterilization Systems

etcSterilization.com

Specializing in medium to large (30 to 6000 cubic feet) EO and steam sterilizers. ETC Sterilization Systems serves the pharmaceutical, biotech, medical device, and life sciences markets with unique design solutions for any challenge.

ETC Environmental Testing & Simulation Systems

TestingandSimulation.com

ETSS has designed, manufactured, and installed state-of-the-art environmental simulation systems for the automotive-testing and HVAC industries since 1969. Offering a complete line of industry-leading test equipment developed for clients' needs, ETSS offers the most customized equipment available for optimizing R&D, testing, and validation programs.

ETC Service and Support

SterilizerSupport.com

ETC's Service and Support unit operates out of offices worldwide and provides service and support for all sterilizers, environmental systems, and chambers.

Corporate Headquarters

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INVESTOR CONTACT

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C.E.O. and President

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rlaurent@etcusa.com