QUARTERLY REPORT 1

For the thirteen weeks ended May 27, 2022

ENVIRONMENTAL TECTONICS CORPORATION

Quarterly Report
For the thirteen weeks ended May 27, 2022

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Southampton, Pennsylvania 18966
(Address of Issuer's Principal Executive Office)

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

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

Item 2. Security Information

Trading symbol:	ETCC	
CUSIP:	294092	
Title of class of securities outstanding:	Common Stock	Preferred Stock, Series E
Par value:	$0.05	$0.05 (Stated value of $1,000)
Total shares authorized:	50,000,000 as of May 27, 2022	25,000 as of May 27, 2022
Total shares outstanding:	9,443,785 as of May 27, 2022	12,127 as of May 27, 2022

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

* registered under the Exchange Act

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

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past twelve months:

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, are accrued 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 May 27, 2022, which totaled $4,493 thousand, remained unpaid as of July 8, 2022, the date of issuance of the accompanying interim consolidated financial statements.

Item 3. Issuance History

A. The nature of each offering of Common Stock in the last two fiscal years: N/A

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

C. The number of shares offered: N/A

D. The number of shares sold: N/A

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

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

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

ITEM 4. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands, except per share information)	Thirteen weeks ended May 27, 2022	Thirteen weeks ended May 28, 2021
Net sales	$ 5,874	$ 6,080
Cost of goods sold	4,246	4,406
Gross profit	1,628	1,674
Operating expenses:	2,031	1,722
Operating loss	(403)	(48)
Other (income) expenses:		
Interest expense, net	124	151
Other income, net	63	(2,409)
Other (income) expenses, net total	187	(2,258)
Income (loss) before income taxes	(590)	2,210
Income tax (benefit) provision	20	20
Net income (loss)	(610)	2,190
Income attributable to non-controlling interest	11	3
Net income (loss) attributable to ETC	**(599)**	**2,193**
Foreign currency translation adjustment	97	47
Comprehensive income (loss)	$ (502)	$ 2,240
Preferred Stock dividends	(121)	(121)
Income (loss) attributable to common and participating shareholders	$ (720)	$ 2,072
Per share information:		
Basic earnings (loss) per common and participating share:		
Distributed earnings per share:		
Common	$ -	$ -
Preferred	$ 0.02	$ 0.02
Undistributed earnings (loss) per share:		
Common	$ (0.05)	$ 0.13
Preferred	$ (0.05)	$ 0.13
Diluted earnings (loss) per share	**$ (0.05)**	**$ 0.13**
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 BALANCE SHEETS

(in thousands, except share information)

	May 27, 2022	February 25, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 393	$ 427
Restricted cash	6,203	6,628
Accounts receivable, net	5,467	6,573
Contract assets	2,579	1,789
Inventories, net	2,838	2,709
Prepaid expenses and other current assets	7,051	6,920
Total current assets	24,531	25,046
Property, plant, and equipment, at cost, net	8,268	8,485
Right-of-use asset	580	708
Capitalized software development costs, net	60	47
Deferred tax assets, non-current, net	267	267
Total assets	**$ 33,706**	**$ 34,553**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt obligation	$ 374	$ -
Accounts payable, trade	2,857	2,291
Contract liabilities	4,262	5,390
Accrued taxes	129	108
Accrued interest and dividends	4,493	4,407
Current portion of lease obligations	442	490
Other accrued liabilities, current	5,060	5,771
Total current liabilities	17,617	18,457
Long-term debt obligations, net of debt issuance costs, less current portion:		
Credit facility payable to bank, net of debt issuance costs	14,056	13,358
Total long-term debt obligations, net of debt issuance costs, less current portion	14,056	13,358
Lease obligations, non-current	137	218
Other accrued liabilities, non-current	924	924
Total liabilities	32,734	32,958
Commitments and contingencies (Note 10)		
Shareholders' equity (deficit):		
Cumulative convertible participating Preferred Stock, Series E, $0.05 par 25,000 authorized; 12,127 shares outstanding as of May 27, 2022 and Feb. 25, 2022	12,127	12,127
Common Stock, $0.05 par value, 50,000,000 shares authorized; 9,443,785 shares issued and outstanding as of May 27, 2022 and February 25, 2022	472	472
Additional paid-in capital	6,740	6,861
Accumulated deficit	(17,842)	(17,243)
Accumulated other comprehensive loss	(618)	(704)
Total shareholders' equity before non-controlling interest	879	1,513
Non-controlling interest	93	82
Total shareholders' equity	972	1,595
Total liabilities and shareholders' equity	**$ 33,706**	**$ 34,553**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Thirteen weeks ended May 27, 2022	Thirteen weeks ended May 28, 2021
Cash flows from operating activities:		
Net loss	$ (599)	$ 2,190
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	289	297
Increase in allowance for doubtful accounts and inventory obsolescence	36	50
Forgiveness of Paycheck Protection Program loan	-	(2,447)
Stock Compensation Expense	-	21
Changes in operating assets and liabilities:		
Accounts receivable	1,106	(2,026)
Contract assets	(790)	3,981
Inventories	(165)	376
Prepaid expenses and other assets	(131)	(1,003)
Accounts payable, trade	566	241
Contract liabilities	(1,128)	(390)
Accrued taxes	21	(140)
Accrued interest and dividends	(35)	-
Other accrued liabilities	(713)	(1,228)
Net cash used in operating activities	**(1,543)**	**(78)**
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(65)	(28)
Capitalized software development costs	(20)	(13)
Net cash used in investing activities	**(85)**	**(41)**
Cash flows from financing activities:		
(Repayments) borrowings under lines of credit	1,072	(1,039)
Net cash (used in) provided by financing activities	**1,072**	**(1,039)**
Effect of exchange rate changes on cash	97	47
Net (decrease) in cash, cash equivalents, and restricted cash	(459)	(1,111)
Cash, cash equivalents, and restricted cash at beginning of period	7,055	8,262
Cash, cash equivalents, and restricted cash at end of period	**$ 6,596**	**$ 7,151**
Less: Restricted cash	(6,203)	(6,382)
Cash and cash equivalents at end of period	**$ 393**	**$ 769**
Supplemental schedule of cash flow information:		
Interest paid	$ 114	$ 144
Income taxes paid	$ -	$ -
Supplemental information on non-cash operating and investing activities:		
Preferred Stock dividends accrued during each respective fiscal year	$ 121	$ 121

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 25, 2022	$ 12,127	9,443,785	$ 472	$ 6,861	$ (17,243)	$ (704)	$ 1,595
Less: Prior year non-controlling interest	-	-	-	-	-	-	-
Net loss attributable to ETC	-	-	-	-	(599)	(11)	(610)
Foreign currency translation adjustment	-	-	-	-	-	97	97
Preferred Stock dividends	-	-	-	(121)	-	-	(121)
Stock compensation expense	-	-	-	-	-	-	
Balance before non-controlling interest, May 27, 2022	12,127	9,443,785	472	6,740	(17,842)	(618)	961
Non-controlling interest	-	-	-	-	-	-	11
Balance, May 27, 2022	**$ 12,127**	**9,443,785**	**$ 472**	**$ 6,740**	**$ (17,842)**	**$ (618)**	**$ 972**

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

Item 5. Description of Business Operations

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. 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 ("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.

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 ("SIC 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 the 2023 first quarter are references to the thirteen week period ended May 27, 2022. References to the 2022 first quarter are references to the thirteen week period ended May 28, 2021. References to fiscal 2023 are references to the fifty-two week period ending February 24, 2023. References to fiscal 2022 are references to the fifty-two week period ended February 25, 2022.

Note 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.

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

Certain information in footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America has been condensed or omitted and the financial results for the periods presented may not be indicative of the full year's results; however, the Company believes that the disclosures are adequate to make the information presented not misleading. These interim consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report to Shareholders for fiscal 2022 (the "2022 Annual Report").

Significant Accounting Policies Update

There have been no material changes in the Company's significant accounting policies during fiscal 2023 as compared to what was previously disclosed in the 2022 Annual Report.

Note 2. 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 May 27, 2022 and May 28, 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 May 27, 2022 and May 28, 2021, there were outstanding options to purchase the Company's Common Stock at an average price of $0.95 totaling 959,950 and 1,019,450 shares, respectively. Due to the conversion price of Common Stock options, all 959,950 and 1,019,450 shares were excluded from the calculation of diluted earnings per share as of May 27, 2022 and May 28, 2021, respectively, because the effect of their conversion would be anti-dilutive.

Note 3. Revenue

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.

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. As of May 27, 2022, our ending sales backlog was $16,197. We expect to recognize approximately 75% over the next twelve (12) months and approximately 80% over the next twenty-four (24) months as revenue, with the remainder recognized thereafter.

(Dollars in thousands, except per share information)

Comparability of our segment sales, operating income, 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 (loss) attributable to ETC are presented below:

	Thirteen weeks ended May 27, 2022			Thirteen weeks ended May 28, 2021		
	Aerospace	CIS	Total	Aerospace	CIS	Total
Net income attributable to adjustments in contract estimates	$ 22	$ (5)	$ 17	$ 92	$ -	$ 92

The following schedule presents the Company's net sales by segment, business unit, and geographic area flux report:

	Thirteen weeks ended May 27, 2022				Thirteen weeks ended May 28, 2021			
	Domestic	U.S. Gov't	Inter-national	Total	Domestic	U.S. Gov't	Inter-national	Total
Aerospace Solutions								
Aeromedical Training Solutions (ATS)	$ 441	$ 217	$ 760	$ 1,418	$ 142	$ 530	$ 2,138	$ 2,810
Simulation (ADMS)	98	366	445	909	271	5	309	585
Subtotal	539	583	1,205	2,327	413	535	2,447	3,395
Commercial/Industrial Systems								
Sterilizers	1,119	-	492	1,611	1,197	-	197	1,394
Environmental (ETSS)	1,341	-	28	1,369	446	-	202	648
Service and Spares	567	-	-	567	643	-	-	643
Subtotal	3,027	-	520	3,547	2,286	-	399	2,685
Net sales total	$ 3,566	$ 583	$ 1,725	$ 5,874	$ 2,699	$ 535	$ 2,846	$ 6,080

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

Type of Revenue	Thirteen weeks ended May 27, 2022	Thirteen weeks ended May 28, 2021
Products	72.7%	57.4%
Maintenance and support agreements	11.5%	28.3%
Services	13.7%	10.6%
Spare parts	2.1%	3.7%
Total	100.0%	100.0%

(Dollars in thousands, except per share information)

Note 4. Leases

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 May 27, 2022, these leases have remaining lease terms of four (4) months to twenty-five (25) months, with a weighted average remaining lease term of approximately fifteen (15) months. Maturities of operating lease liabilities are as follows:

Fiscal Year		Amount
Fiscal 2023	$	373
Fiscal 2024		229
Total lease payments		602
Less: imputed interest		(24)
Total future long-term debt obligations		578
Less: current portion		(137)
Total future long-term debt obligations, less current portion	$	441

Total operating lease expense was $492 for the 2022 first quarter, of which $359 was attributable to variable lease expenses. For the 2022 first quarter, cash payments against operating lease liabilities totaled $136.

Note 5. Long-Term Obligations

On May 23, 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%).

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

	May 27, 2022 (unaudited)		February 25, 2022	
Credit facility payable to PNC bank	$	14,056	$	13,358
Total long-term debt obligations		14,056		13,358
Less: debt issuance costs		-		-
Total long-term debt obligations, net of debt issuance costs	$	14,056	$	13,358

Note 6. 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 realisability of the related deferred tax asset. Deferred tax assets and liabilities are offset and presented as a single non-current asset.

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

An income tax provision of $20, primarily related to an increase in unrecognized tax benefits, was recorded in both the 2023 first quarter and the 2022 first quarter. Effective tax rates were -3.3% and 0.9% for the 2023 first quarter and the 2022 first quarter, respectively. As of May 27, 2022, the Company had approximately $26,008 of federal NOL carryforwards available to offset future income tax liabilities, $19,958 of which begin to expire in 2025. The Company continues to record 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. The unrecognized tax benefits, 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.

Note 7. Commitments and Contingencies

Legal Proceedings

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.

Note 8. Subsequent Events

The Company has evaluated subsequent events through July 8, 2022, the date of issuance of the accompanying interim consolidated financial statements, and determined that there were no material subsequent events other than disclosed below requiring adjustment to, or disclosure in, the accompanying interim consolidated financial statements for the thirteen weeks ended May 28, 2021.

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- On June 15, 2022, the Company closed a transaction to sell and lease back our property located in Southampton, Pennsylvania. This property sold consists of our corporate headquarters, main production plant, and the NASTAR Center. Under the terms of the sale agreement, the land, buildings, and improvements, with a net book value of $2,250 were sold for pre-tax net proceeds of $4,700, resulting in a net gain on the sale of approximately $2,400. Existing training equipment in the NASTAR Center affixed to the building was not included in the sale. In connection with the sale, the Company entered into an Agreement of Lease ("Lease") with VV100 LLC as to an undivided 82.53% interest and The Irrevocable Agreement of Trust of Jerry D. Kratz for the Benefit of Descendants dated December 19, 2011, as to an undivided 17.47% interest, as tenants in common (collectively, "Lessor") for Lessor to lease back to the Company all the property sold. The property has been leased back for an initial term of seven (7) years ("Initial Term"), and the Lease includes specified renewal options for up to seven (7) additional years ("Renewal Term"). Net rent expense for the first year of the Lease is $420 annually, and increases 2.5% for each additional year of the Initial Term. At the outset of the Renewal Term, rent will reset to fair market value and will increase 3.0% for each additional year of the Renewal Term. The property sold had depreciation expense of approximately $165 annually. Net proceeds from the sale are being used to reduce outstanding borrowings under our credit facility with PNC Bank.

Management's Discussion and Analysis

Forward-looking Statements

Discussions of some of the matters contained in this Quarterly Report include forward-looking statements that may involve risks and uncertainties. Some of these discussions are contained under the caption "Management's Discussion and Analysis". We have based these forward-looking statements on our current expectations and projections about future events or future financial performance, which include implementing our business strategy, developing and introducing new technologies, obtaining, maintaining and expanding market acceptance of the technologies we offer, and competition in our markets. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about ETC and its subsidiaries that may cause actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements.

These forward-looking statements include statements with respect to the Company's vision, mission, strategies, goals, beliefs, plans, objectives, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance, and business of the Company, including, but not limited to, (i) projections of revenues, costs of materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, capital structure, other financial items, and the effects of foreign currency fluctuations, (ii) statements of our plans and objectives of the Company or its management or the Company's Board of Directors (the "Board of Directors"), including the introduction of new products, or estimates or predictions of actions of customers, suppliers, competitors, or regulatory authorities, (iii) statements of future economic performance, (iv) statements of assumptions and other statements about the Company or its business, (v) statements made about the possible outcomes of litigation involving the Company, (vi) statements regarding the Company's ability to obtain financing to support its operations and other expenses, and (vii) statements preceded by, followed by, or, that include, 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.

Results of Operations

Thirteen weeks ended May 27, 2022 compared to thirteen weeks ended May 28, 2021

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

Summary Table of Results
(unaudited)

(in thousands, except per share information)	Thirteen weeks ended May 27, 2022	Thirteen weeks ended May 28, 2021	Variance ($)	Variance (%)
Net sales	$ 5,874	$ 6,080	$ (206)	(3.5)
Cost of goods sold	4,246	4,406	160	3.8
Gross profit	1,628	1,674	(46)	-2.9
Gross profit margin %	*27.7%*	*27.5%*		*0.2%*
Operating expenses	2,031	1,722	(309)	(15.2)
Operating loss	(403)	(48)	(355)	(88.1)
Operating margin %	*-6.9%*	*-0.8%*		*-6.1%*
Interest expense, net	124	151	27	21.8
Other (income) expense, net	63	(2,409)	(2,472)	
Income (loss) before income taxes	(590)	2,210	(2,800)	
Pre-tax margin %	*-10.1%*	*36.3%*		
Income tax provision	20	20	-	
Loss attributable to non-controlling interest	11	3	8	
Net income (loss) attributable to ETC	$ (599)	$ 2,193	$ (2,792)	
Per share information:				
Basic earnings (loss) per common and participating share:				
Distributed earnings per share:				
Common	$ -	$ -	$ -	
Preferred	$ 0.02	$ 0.02	$ -	0.0
Undistributed earnings (loss) per share:				
Common	$ (0.05)	$ 0.13	$ (0.18)	
Preferred	$ (0.05)	$ 0.13	$ (0.18)	
Diluted earnings (loss) per share	$ **(0.05)**	$ 0.13	$ **(0.18)**	

Net Income (Loss) Attributable to ETC

Net loss attributable to ETC was $0.6 million, or ($0.05) diluted loss per share, in the 2023 first fiscal quarter, compared to net income attributable to ETC of $2.2 million during the 2022 first quarter, equating to $0.13 diluted loss per share. The $2.8 million variance is due primarily to the combined effect of a $2.4 million increase in other income in 2022 related to the PPP loan forgiveness, along with increases in operating expenses of $0.3 million and slight reduction in overall revenue.

Net Sales

Net sales in the 2023 first fiscal quarter were $5.87 million, a decrease of only $0.2 million, or (3.5%), compared to 2022 first quarter net sales of $6.1 million. The decrease in net sales was mainly a result of the low backlog entering fiscal year 2023. The backlog, combined with the continued delays we are experiencing with the overall supply chain, resulted in a small reduction in first quarter revenues. Aerospace sales in 2023 first fiscal quarter accounted for 40% of overall sales, compared to 56% in first fiscal quarter 2022. Further, domestic sales of 60% in 2023 first fiscal quarter were increased from 44% in first fiscal quarter of 2022. Bookings in the 2023 first fiscal quarter were $2.2 million, which were driven by $1.2 of Environmental orders.

Gross Profit

Gross profit for the 2023 first fiscal quarter of $1.6 million decreased slightly compared to $1.7 million in the 2022 first fiscal quarter, while gross profit margin increased by 0.2%. The change in gross profit was a result of the slight revenue change. There were no specific business unit drivers in the first quarter that affected the gross profit in a significant manner.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2023 first quarter were $2.0 million, an increase of $0.3 million, or 15.2%, compared to $1.7 million for the 2022 first quarter. The increase in operating expenses was due primarily to higher general and administrative expenses, primarily a result of increased expenses related to ETC-PZL and overall employee related costs.

Other Expenses (Income), Net

Other expenses, net for the 2023 first fiscal quarter was $0.1 million compared to other income of $2.4 million for the 2022 first fiscal quarter, an unfavorable variance of $2.5 million due to the prior accounting for the forgiveness of the PPP loan in 2022.

Cash Flows from Operating, Investing, and Financing Activities

During the 2023 first quarter, due primarily from the decrease in contract liabilities and the net loss for the period, the Company used $1.5 million of cash for operating activities compared to only $0.1 million during the 2022 first quarter. Under Accounting Standards Codification ("ASC") 606, accounts such as contract assets and accounts receivable represent the timing differences of spending on production activities versus the billing and collecting of customer payments.

Cash used for investing activities primarily relates to funds used for capital expenditures of equipment and software development. The Company's investing activities used $85 thousand during the 2023 first quarter compared to $41 thousand during the 2022 first quarter.

The Company's financing activities provided $1.1 million of cash during the 2023 first quarter from borrowings under the Company's credit facility compared to using $1.0 million of cash during the 2022 first quarter under the Company's credit facility.

Item 6. Description of Facilities

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 use is presented below:

Location	Approximate Square Footage	Function	Owned/ Leased	Segment
Southampton, Pennsylvania *	83,800	Manufacturing (36,000 sq. ft.), NASTAR Center (22,100 sq. ft.), and Corporate Headquarters (25,700 sq. ft.)	Owned	Aerospace CIS
Orlando, Florida	8,700	Product development and administration	Leased	Aerospace
Warsaw, Poland	28,000	Manufacturing, product development, and administration	Leased	Aerospace
Ankara, Turkey	3,800	Software	Leased	Aerospace CIS
Total	124,300			

* see Note 8 – Subsequent Events for additional disclosure relating to the Southampton, Pennsylvania location

We consider our machinery and plant to be in satisfactory operating condition, and adequate given our expected operations. Significant increases in the level of operations beyond what we expect in the current fiscal year might require us to obtain additional facilities and equipment.

Our National Aerospace Training and Research Center (the "NASTAR Center"), which is included in the Company's Southampton, Pennsylvania owned property, includes the following aerospace training and research equipment:

- ATFS-400-25 PHOENIX High Performance Human Centrifuge;
- GYROLAB GL-2000 Advanced Spatial Disorientation Trainer;
- Altitude (Hypobaric) Chamber;
- Ejection Seat Simulator; and
- Night Vision Training System and Night Vision Goggle Training System.

Item 7. Officers, Directors, and Control Persons

	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, Corporate Secretary and Director	2.0%
	Joseph F. Verbitski, Jr.	Chief Financial Officer and Treasurer	*
	Thomas G. Loughlin	Chief Operating Officer	1.3%
	Alper Kus	Senior Vice President, Aircrew Training Systems	*
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

Item 8. Legal/Disciplinary History

Information presented in the table above is accurate as of July 8, 2022, the date of issuance of the accompanying interim consolidated financial statements, based on information available to the Company. None of the foregoing Directors, Executive Officers, and Officers in the last ten (10) years has had a legal/disciplinary issue.

Item 9. Third Party Providers

Legal Counsel:

Lauletta Birnbaum
591 Mantua Blvd., Suite 200
Sewell, NJ 08080
(856) 232-1600

Independent Auditor:

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

Item 10. Management's Certification

I, Joseph F. Verbitski, Jr. certify that:

1 I have reviewed this Quarterly Report of Environmental Tectonics Corporation;

2 Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3 Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Joseph F. Verbitski, Jr.
Chief Financial Officer and Treasurer
Date: July 8, 2022

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

1 I have reviewed this Quarterly Report of Environmental Tectonics Corporation;

2 Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3 Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Robert L. Laurent, Jr.
Chief Executive Officer and President
Date: July 8, 2022