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INTEGRITY AND TECHNOLOGY

ENVIRONMENTAL TECTONICS CORPORATION



The Sum of our Parts.

QUARTERLY REPORT
For the thirteen weeks ended November 28, 2014

ETCUSA.com

ENVIRONMENTAL TECTONICS CORPORATION

Quarterly Report
For the thirteen weeks ended November 28, 2014

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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 3. 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 |
| Total shares authorized: | 50,000,000 as of November 28, 2014 | 25,000 as of November 28, 2014 |
| Total shares outstanding: | 9,185,161 as of November 28, 2014 | 12,127 as of November 28, 2014 |

Transfer Agent:

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

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

Describe any trading suspension: N/A

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 November 28, 2014, which totaled \$856 thousand, remained unpaid as of January 30, 2015, the date of issuance of our consolidated financial statements, per the restrictions stipulated in the October 11, 2013 amendment to the September 28, 2012 Loan Agreement.

Item 4. Issuance History

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

| Date | Shareholder | Shares | Transaction | Value |
|------------------|-------------------|--------|-------------------------------------------|-----------|
| March 16, 2012 | ETC Employees | 1,271 | 2011 ESPP match | \$ - |
| May 17, 2012 | Sawyer, George A. | 3,311 | Director remuneration at \$1.51 per share | \$ 4,999 |
| May 17, 2012 | Lenfest, H.F. | 3,311 | Director remuneration at \$1.51 per share | \$ 4,999 |
| August 23, 2012 | Sawyer, George A. | 2,857 | Director remuneration at \$1.75 per share | \$ 4,999 |
| August 23, 2012 | Lenfest, H.F. | 2,857 | Director remuneration at \$1.75 per share | \$ 4,999 |
| October 9, 2012 | Sawyer, George A. | 4,000 | Director remuneration at \$1.50 per share | \$ 6,000 |
| October 9, 2012 | Lenfest, H.F. | 3,333 | Director remuneration at \$1.50 per share | \$ 4,999 |
| December 6, 2012 | Malone, Michael | 2,398 | Director remuneration at \$1.70 per share | \$ 4,076 |
| January 10, 2013 | Malone, Michael | 3,817 | Director remuneration at \$1.31 per share | \$ 5,000 |
| January 10, 2013 | Sawyer, George A. | 3,817 | Director remuneration at \$1.31 per share | \$ 5,000 |
| January 10, 2013 | Lenfest, H.F. | 3,817 | Director remuneration at \$1.31 per share | \$ 5,000 |
| January 11, 2013 | ETC Employees | 10,969 | 2012 ESPP EE share and match | \$ 18,018 |
| July 23, 2013 | Scott, Winston E. | 2,500 | Director remuneration at \$2.00 per share | \$ 5,000 |
| July 23, 2013 | Lenfest, H.F. | 2,500 | Director remuneration at \$2.00 per share | \$ 5,000 |

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

C. The number of shares sold: N/A

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

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

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

Item 5. Financial Statements (unaudited)

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

| <i>(in thousands, except per share information)</i> | Thirteen weeks ended | | Thirty-nine weeks ended | Forty weeks ended |
|------------------------------------------------------------------------------|----------------------|----------------------|----------------------------|----------------------|
| | November 28, 2014 | November 29, 2013 | November 28, 2014 | November 29, 2013 |
| Net sales | \$ 7,845 | \$ 12,346 | \$ 27,986 | \$ 36,632 |
| Cost of goods sold | 6,939 | 8,789 | 22,320 | 25,674 |
| Gross profit | 906 | 3,557 | 5,666 | 10,958 |
| Operating expenses | 3,480 | 2,955 | 9,692 | 9,509 |
| Operating (loss) income | (2,574) | 602 | (4,026) | 1,449 |
| Other expenses: | | | | |
| Interest expense, net | 180 | 224 | 477 | 590 |
| Other expense, net | 112 | 91 | 286 | 273 |
| Other expenses total | 292 | 315 | 763 | 863 |
| (Loss) income before income taxes | (2,866) | 287 | (4,789) | 586 |
| Income tax (benefit) provision | (1,161) | 119 | (1,940) | 242 |
| Net (loss) income | (1,705) | 168 | (2,849) | 344 |
| Income attributable to non-controlling interest | (37) | (32) | (29) | (37) |
| Net (loss) income attributable to Environmental Tectonics Corporation | (1,742) | 136 | (2,878) | 307 |
| Foreign currency translation adjustment | 68 | (91) | 71 | (6) |
| Comprehensive (loss) income | \$ (1,674) | \$ 45 | \$ (2,807) | \$ 301 |
| Preferred Stock dividends | (121) | (121) | (363) | (372) |
| (Loss) income attributable to common and participating shareholders | \$ (1,863) | \$ 15 | \$ (3,241) | \$ (65) |
| Per share information: | | | | |
| Basic earnings (loss) per common and participating share: | | | | |
| Distributed earnings per share: | | | | |
| Common | \$ - | \$ - | \$ - | \$ - |
| Preferred | \$ 0.02 | \$ 0.02 | \$ 0.06 | \$ 0.06 |
| Undistributed (loss) earnings per share: | | | | |
| Common | \$ (0.12) | \$ - | \$ (0.21) | \$ - |
| Preferred | \$ (0.12) | \$ - | \$ (0.21) | \$ - |
| Diluted (loss) earnings per share | \$ (0.12) | \$ - | \$ (0.21) | \$ - |
| Basic weighted average common and participating shares: | | | | |
| Common weighted average number of shares | 9,185 | 9,185 | 9,185 | 9,182 |
| Participating preferred shares | 6,063 | 6,063 | 6,063 | 6,063 |
| Total basic weighted average common and participating shares | 15,248 | 15,248 | 15,248 | 15,245 |
| Diluted weighted average shares: | | | | |
| Basic weighted average common and participating shares | 15,248 | 15,248 | 15,248 | 15,245 |
| Dilutive effect of stock warrants and options | 292 | 217 | 270 | 231 |
| Total diluted weighted average shares | 15,540 | 15,465 | 15,518 | 15,476 |

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

Environmental Tectonics Corporation Consolidated Balance Sheets

| <i>(in thousands, except share information)</i> | November 28, 2014 | February 28, 2014 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,065 | \$ 935 |
| Restricted cash | 2,517 | 4,954 |
| Accounts receivable, net | 3,497 | 5,974 |
| Costs and estimated earnings in excess of billings on uncompleted long-term contracts | 16,882 | 21,637 |
| Inventories, net | 4,181 | 3,645 |
| Deferred tax assets, current | 2,074 | 2,090 |
| Prepaid expenses and other current assets | 648 | 526 |
| Total current assets | 30,864 | 39,761 |
| Property, plant, and equipment, at cost, net | 14,238 | 14,342 |
| Capitalized software development costs, net | 161 | 274 |
| Deferred tax assets, non-current, net | 3,691 | 1,751 |
| Other assets | 37 | 64 |
| Total assets | \$ 48,991 | \$ 56,192 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt obligations | \$ 588 | \$ 3,250 |
| Accounts payable, trade | 2,654 | 2,769 |
| Billings in excess of costs and estimated earnings on uncompleted long-term contracts | 2,448 | 2,922 |
| Customer deposits | 740 | 1,789 |
| Accrued taxes | 180 | 124 |
| Accrued interest and dividends | 919 | 552 |
| Other accrued liabilities, current | 1,930 | 1,819 |
| Total current liabilities | 9,459 | 13,225 |
| Long-term debt obligations, less current portion: | | |
| Credit facility payable to bank | 10,626 | 11,664 |
| Term Loan | 7,319 | 6,569 |
| Total long-term debt obligations, less current portion | 17,945 | 18,233 |
| Other accrued liabilities, non-current | 375 | 408 |
| Total liabilities | 27,779 | 31,866 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Cumulative convertible participating Preferred Stock, Series E, \$0.05 par value, 25,000 shares authorized; 12,127 shares outstanding at November 28, 2014 and February 28, 2014 | 12,127 | 12,127 |
| Common Stock, \$0.05 par value, 50,000,000 shares authorized; 9,185,161 shares issued and outstanding at November 28, 2014 and February 28, 2014 | 459 | 459 |
| Additional paid-in capital | 9,981 | 9,954 |
| (Accumulated deficit) / Retained earnings | (884) | 2,357 |
| Accumulated other comprehensive loss | (558) | (629) |
| Total shareholders' equity before non-controlling interest | 21,125 | 24,268 |
| Non-controlling interest | 87 | 58 |
| Total shareholders' equity | 21,212 | 24,326 |
| Total liabilities and shareholders' equity | \$ 48,991 | \$ 56,192 |

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

Environmental Tectonics Corporation
Consolidated Statements of Cash Flows
(unaudited)

| <i>(in thousands)</i> | Thirty-nine weeks ended November 28, 2014 | Forty weeks ended November 29, 2013 |
|---------------------------------------------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------|
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (2,849) | \$ 344 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,342 | 1,327 |
| Deferred tax assets | (1,924) | 163 |
| Increase (decrease) in allowances for doubtful accounts and inventory obsolescence | 22 | (896) |
| Accretion of loan origination deferred charge and deferred financing costs | 27 | 26 |
| Stock compensation expense | 27 | 12 |
| Issuance of Common Stock | - | 10 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 2,482 | 224 |
| Costs and estimated earnings in excess of billings on uncompleted long-term contracts | 4,755 | (3,488) |
| Inventories | (563) | 473 |
| Prepaid expenses and other assets | (122) | 547 |
| Accounts payable, trade | (115) | (836) |
| Billings in excess of costs and estimated earnings on uncompleted long-term contracts | (474) | (136) |
| Customer deposits | (1,049) | (611) |
| Accrued taxes | 56 | (100) |
| Accrued interest and dividends | 4 | (422) |
| Other accrued liabilities | 78 | (580) |
| Net cash provided by (used in) operating activities | 1,697 | (3,943) |
| Cash flows from investing activities: | | |
| Acquisition of property, plant, and equipment | (1,119) | (994) |
| Capitalized software development costs | (6) | (98) |
| Net cash used in investing activities | (1,125) | (1,092) |
| Cash flows from financing activities: | | |
| (Repayments) borrowings under lines of credit | (1,200) | 5,857 |
| Decrease in restricted cash | 2,437 | 1,207 |
| Payments on the Term Loan and of other debt obligations | (1,750) | (3,681) |
| Net cash (used in) provided by financing activities | (513) | 3,383 |
| Effect of exchange rate changes on cash | 71 | (6) |
| Net increase (decrease) in cash and cash equivalents | 130 | (1,658) |
| Cash and cash equivalents at beginning of period | 935 | 2,877 |
| Cash and cash equivalents at end of period | \$ 1,065 | \$ 1,219 |
| Supplemental schedule of cash flow information: | | |
| Interest paid | \$ 500 | \$ 577 |
| Income taxes paid | \$ 10 | \$ 180 |
| Supplemental information on non-cash operating and investing activities: | | |
| Accrued Preferred Stock dividends | \$ 856 | \$ 372 |
| Unrealized (gain) loss on cash flow hedge | \$ - | \$ - |

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

Environmental Tectonics Corporation

Notes to the Consolidated Financial Statements

(unaudited)

(Dollars in thousands, except per share information)

Item 6. Description of Business Operations

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

We operate in two primary business segments, Aerospace Solutions (“Aerospace”) and Commercial/ Industrial Systems (“CIS”). Aerospace encompasses the design, manufacture, and sale of: (i) Aircrew Training Systems; (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); and (iv) ADMS, as well as Integrated Logistics Support (“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. CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizers; (ii) environmental testing and simulation devices; and (iii) hyperbaric (100% oxygen) chambers for one person (monoplace chambers), as well as parts and service support for customers who purchase these products or similar products manufactured by other parties. Sales of our CIS products are made principally to the healthcare, pharmaceutical, and automotive industries.

The Company’s fiscal year is the fifty-two week or fifty-three week annual accounting period ending the last Friday in February. References to the 2015 third quarter are references to the thirteen week period ended November 28, 2014. References to the 2014 third quarter are references to the thirteen week period ended November 29, 2013. References to the 2015 first three quarters are references to the thirty-nine week period ended November 28, 2014. References to the 2014 first three quarters are references to the forty week period ended November 29, 2013. References to fiscal 2015 are references to the fifty-two week period ending February 27, 2015. References to fiscal 2014 are references to the fifty-three week period ended February 28, 2014. Certain amounts from prior consolidated financial statements have been reclassified to conform to the presentation in fiscal 2015.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

Certain information in footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America has been condensed or omitted and the financial results for the periods presented may not be indicative of the full year’s results; however, the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company’s Annual Report for fiscal 2014.

Environmental Tectonics Corporation
Notes to the Consolidated Financial Statements, continued

(Dollars in thousands, except per share information)

Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies during fiscal 2015 as compared to what was previously disclosed in the Company's Annual Report for fiscal 2014.

Note 2. Earnings per Share

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

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

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

At both November 28, 2014 and November 29, 2013, there was \$12,127 of cumulative convertible participating Series E Preferred Stock convertible at an exercise price of \$2.00 per share, equating to 6,063,321 shares of Common Stock, issued in July 2009.

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

At November 28, 2014 and November 29, 2013, there were outstanding options to purchase the Company's Common Stock totaling 347,406 and 354,643 shares at an average price of \$3.33 and \$3.34 per share, respectively. Due to the conversion price of the Common Stock options, 172,906 and 354,643 shares were excluded from the calculation of diluted earnings per share as of November 28, 2014 and November 29, 2013, respectively, because the effect of their conversion would be antidilutive.

Note 3. Long-Term Obligations and Related Equity Arrangements

On November 5, 2014, the Company entered into an amendment to the September 28, 2012 Loan Agreement that provided for, among other things, the following:

- (i) A new \$11,700 Committed Line of Credit (the "Committed Line of Credit") under which the Company covers the majority of its existing \$6,080 in standby letters of credit and will cover any future standby letters of credit.
- (ii) The Committed Line of Credit is and will continue to be collateralized by H.F. Lenfest ("Mr. Lenfest"), a major shareholder and Chairman of the Company's Board of Directors (the "Board of Directors"), until such time the Company is in position to pledge its own cash collateral.
- (iii) The Company's existing Line of Credit with PNC Bank was decreased from \$15,500 to \$13,500; however, \$2,110 of funds deemed to have been restricted as of August 29, 2014 is now considered unrestricted and is being used as working capital.
- (iv) No monthly principal payments shall be due and payable on the existing Term Loan from September 29, 2014 through October 27, 2015. Monthly principal payments will commence on October 28, 2015, and continue for each succeeding month thereafter. Interest shall still be payable on a monthly basis, regardless of whether or not any principal payment is due. Any outstanding principal and accrued interest shall be due and payable in full on September 28, 2017, which is the current maturity date.

Environmental Tectonics Corporation
Notes to the Consolidated Financial Statements, continued

(Dollars in thousands, except per share information)

- (v) The Company received a waiver as of the fiscal quarter ended August 29, 2014 for exceeding the permitted maximum Operating Leverage Ratio and for failing to exceed the permitted minimum Fixed Charge Coverage Ratio. Going forward, ETC must maintain at all times a minimum Consolidated Tangible Net Worth of \$20,000; further, commencing with the fiscal quarter ending August 28, 2015, ETC must maintain as of the end of each fiscal quarter, an Operating Leverage Ratio not greater than 3.00 to 1 and a Fixed Charge Coverage Ratio of at least 1.00 to 1. This ratio will increase to 1.10 to 1 on November 27, 2015, and will remain at that level at all times thereafter.
- (vi) Effective as of the date of this amendment, the interest rate on all PNC Lines of Credit, as well as the Term Loan Note, will be based on the PNC Daily Libor Rate plus a margin of 4.00%.

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

| | November 28, 2014 | February 28, 2014 |
|---------------------------------------------------------------|----------------------|----------------------|
| | (unaudited) | |
| Credit facility payable to bank | \$ 10,626 | \$ 11,664 |
| Term Loan | 7,819 | 9,569 |
| Borrowed under ETC-PZL Line of Credit | 88 | - |
| Borrowed under Ex-Im Line of Credit | - | 250 |
| Total long-term debt obligations | 18,533 | 21,483 |
| Less: current portion of long-term debt obligations | (588) | (3,250) |
| Total long-term debt obligations, less current portion | \$ 17,945 | \$ 18,233 |

Note 4. Income Taxes

Effective tax rates were 40.5% and 41.5% for the 2015 third quarter and the 2014 third quarter, respectively. An income tax benefit of \$1,161 was recorded in the 2015 second quarter; whereas, an income tax provision of \$119 was recorded in the 2014 third quarter. Effective tax rates were 40.5% and 41.3% for the 2015 first three quarters and the 2014 first three quarters, respectively. An income tax benefit of \$1,940 was recorded in the 2015 first three quarters; whereas, an income tax provision of \$242 was recorded in the 2014 first three quarters.

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

As of November 28, 2014, the Company had approximately \$17,533 of federal net loss carryforwards available to offset future income tax liabilities, which begin to expire in 2025. In addition, the Company has the ability to offset deferred tax assets against deferred tax liabilities created for such items as depreciation and amortization.

Note 5. Commitments and Contingencies

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

Note 6. Board of Directors Actions

On September 18, 2014, the Company announced that it made a management transition. Mr. Lenfest was named Chairman of the Board of Directors, and Robert L. Laurent, Jr. was named Chief Executive Officer, while continuing as President. The Chairman and Chief Executive Officer positions were formerly held by William F. Mitchell, Sr., who retired and resigned from the Board of Directors effective September 19, 2014. Also as part of the management transition, Mr. Laurent was appointed to the Board of Directors and George K. Anderson, M.D., a member of the Board of Directors since 2003, was appointed as Vice Chairman of the Board of Directors.

Environmental Tectonics Corporation
Notes to the Consolidated Financial Statements, continued

(Dollars in thousands, except per share information)

Note 7. Subsequent Events

The Company has evaluated subsequent events through January 30, 2015, the date of issuance of its consolidated financial statements, and determined that the following items were the only material subsequent events requiring adjustment to, or disclosure in, the accompanying interim consolidated financial statements.

On January 9, 2015, the Company announced James R. Wells, Vice President, General Counsel, Chief Compliance Officer, and Corporate Secretary, resigned in order to pursue a General Counsel position with a new company.

Management's Discussion and Analysis

Forward-looking Statements

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

These forward-looking statements include statements with respect to the Company's vision, mission, strategies, goals, beliefs, plans, objectives, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance, and business of the Company, including, but not limited to, (i) projections of revenues, costs of materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, capital structure, other financial items, and the effects of foreign currency fluctuations, (ii) statements of our plans and objectives of the Company or its management or the Board of Directors, including the introduction of new products, or estimates or predictions of actions of customers, suppliers, competitors, or regulatory authorities, (iii) statements of future economic performance, (iv) statements of assumptions and other statements about the Company or its business, (v) statements made about the possible outcomes of litigation involving the Company, (vi) statements regarding the Company's ability to obtain financing to support its operations and other expenses, and (vii) statements preceded by, followed by, or, that include, terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "future", "predict", "potential", "intend", or "continue", and similar expressions. These forward-looking statements involve risks and uncertainties that are subject to change based on various important factors. Some of these risks and uncertainties, in whole or in part, are beyond the Company's control.

Results of Operations

Thirteen weeks ended November 28, 2014 compared to thirteen weeks ended November 29, 2013

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)

| <i>(in thousands, except per share information)</i> | Thirteen weeks ended November 28, 2014 | Thirteen weeks ended November 29, 2013 | Variance (\$) | Variance (%) |
|-----------------------------------------------------|----------------------------------------------|----------------------------------------------|-------------------|------------------|
| Net sales | \$ 7,845 | \$ 12,346 | \$ (4,501) | (36.5) |
| Cost of goods sold | 6,939 | 8,789 | (1,850) | (21.0) |
| Gross profit | 906 | 3,557 | (2,651) | (74.5) |
| <i>Gross profit margin %</i> | <i>11.5%</i> | <i>28.8%</i> | <i>(17.3%)</i> | <i>(60.1%)</i> |
| Operating expenses | 3,480 | 2,955 | 525 | 17.8 |
| Operating (loss) income | (2,574) | 602 | (3,176) | (527.6) |
| <i>Operating margin %</i> | <i>(32.8%)</i> | <i>4.9%</i> | <i>(37.7%)</i> | <i>(769.4%)</i> |
| Interest expense, net | 180 | 224 | (44) | (19.6) |
| Other expense, net | 112 | 91 | 21 | 23.1 |
| (Loss) income before income taxes | (2,866) | 287 | (3,153) | (1098.6) |
| <i>Pre-tax income margin %</i> | <i>(36.5%)</i> | <i>2.3%</i> | <i>(38.8%)</i> | <i>(1687.0%)</i> |
| Income tax (benefit) provision | (1,161) | 119 | (1,280) | (1075.6) |
| Income attributable to non-controlling interest | (37) | (32) | (5) | 15.6 |
| Net (loss) income attributable to ETC | \$ (1,742) | \$ 136 | \$ (1,878) | (1380.9) |

Per share information:

Basic earnings (loss) per common and participating share:

Distributed earnings per share:

| | | | | |
|------------------------------------------|------------------|-------------|------------------|-----|
| Common | \$ - | \$ - | \$ - | |
| Preferred | \$ 0.02 | \$ 0.02 | \$ - | 0.0 |
| Undistributed (loss) earnings per share: | | | | |
| Common | \$ (0.12) | \$ - | \$ (0.12) | |
| Preferred | \$ (0.12) | \$ - | \$ (0.12) | |
| Diluted (loss) earnings per share | \$ (0.12) | \$ - | \$ (0.12) | |

Environmental Tectonics Corporation
Management's Discussion and Analysis, continued

Net (Loss) Income Attributable to ETC

Net loss attributable to ETC was \$1.7 million, or \$0.12 diluted loss per share, in the 2015 third quarter, compared to \$136 thousand of net income attributable to ETC during the 2014 third quarter, equating to \$0.00 diluted earnings per share. The \$1.9 million variance reflects a decrease in income before income taxes of \$3.2 million due to a \$2.7 million decrease in gross profit, resulting from a combination of both lower net sales and lower gross profit margin percentage, as well as a \$0.5 million increase in operating expenses. The \$3.2 million decrease in income before income taxes was offset, in part, by a \$1.3 million variance between the income tax benefit recorded in the 2015 third quarter and the income tax expense recorded in the 2014 third quarter.

Net Sales

Net sales in the 2015 third quarter were \$7.8 million, a decrease of \$4.5 million, or 36.5%, compared to 2014 third quarter net sales of \$12.3 million. The reduction reflects decreased ATS and Environmental sales to the U.S. Government and decreased International sales in general, offset in part, by increased Domestic sales, especially within the Simulation business unit. Given the current progress made on U.S. Government contracts in the Company's sales backlog, and increased International sales activity, the Company anticipates the concentration of sales to the U.S. Government will continue to lessen in fiscal 2015.

Gross Profit

Gross profit for the 2015 third quarter was \$0.9 million compared to \$3.6 million in the 2014 third quarter, a decrease of \$2.7 million, or 74.5%. The significant decrease in gross profit was a combination of both lower net sales and lower gross profit margin percentage due to inefficiencies as a result of additional work required on several contracts, for which we are currently pursuing recovery. On April 24, 2014, we reached a favorable settlement agreement on the first of these recoveries that partially offset the effects of the additional work. Further, the Company is now in the testing phase with one of these contracts, and will shortly be in testing phase on another. Gross profit margin as a percentage of net sales decreased to 11.5% for the 2015 third quarter compared to 28.8% for the 2014 third quarter.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2015 third quarter were \$3.5 million, an increase of \$0.5 million, or 17.8%, compared to \$3.0 million for the 2014 third quarter. The increase is the combined result of a one-time commission paid on a large International ILS contract, expenses related to actions discussed in Note 6 – Board of Directors Actions, and a non-cash expense related to a change in the Company's vacation policy.

Interest Expense, Net

Interest expense, net, for the 2015 third quarter was \$180 thousand compared to \$224 thousand in the 2014 third quarter, a decrease of \$44 thousand, or 19.6%, due primarily to a lower level of bank borrowing.

Environmental Tectonics Corporation
Management's Discussion and Analysis, continued

Results of Operations

Thirty-nine weeks ended November 28, 2014 compared to forty weeks ended November 29, 2013

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)

| <i>(in thousands, except per share information)</i> | Thirty-nine weeks ended November 28, 2014 | Forty weeks ended November 29, 2013 | Variance (\$) | Variance (%) |
|-----------------------------------------------------|----------------------------------------------------------|----------------------------------------------------|----------------------|---------------------|
| Net sales | \$ 27,986 | \$ 36,632 | \$ (8,646) | (23.6) |
| Cost of goods sold | 22,320 | 25,674 | (3,354) | (13.1) |
| Gross profit | 5,666 | 10,958 | (5,292) | (48.3) |
| <i>Gross profit margin %</i> | 20.2% | 29.9% | (9.7%) | (32.4%) |
| Operating expenses | 9,692 | 9,509 | 183 | (1.9) |
| Operating (loss) income | (4,026) | 1,449 | (5,475) | (377.8) |
| <i>Operating margin %</i> | (14.4%) | 4.0% | (18.4%) | (460.0%) |
| Interest expense, net | 477 | 590 | (113) | (19.2) |
| Other expense, net | 286 | 273 | 13 | 4.8 |
| (Loss) income before income taxes | (4,789) | 586 | (5,375) | (917.2) |
| <i>Pre-tax income margin %</i> | (17.1%) | 1.6% | (18.7%) | (1168.8%) |
| Income tax (benefit) provision | (1,940) | 242 | (2,182) | (901.7) |
| Income attributable to non-controlling interest | (29) | (37) | 8 | (21.6) |
| Net (loss) income attributable to ETC | \$ (2,878) | \$ 307 | \$ (3,185) | (1037.5) |

Per share information:

Basic earnings (loss) per common and participating share:

Distributed earnings per share:

| | | | | |
|------------------------------------------|------------------|-------------|------------------|----------|
| Common | \$ - | \$ - | \$ - | - |
| Preferred | \$ 0.06 | \$ 0.06 | \$ - | 0.0 |
| Undistributed (loss) earnings per share: | | | | |
| Common | \$ (0.21) | \$ - | \$ (0.21) | - |
| Preferred | \$ (0.21) | \$ - | \$ (0.21) | - |
| Diluted (loss) earnings per share | \$ (0.21) | \$ - | \$ (0.21) | - |

Net (Loss) Income Attributable to ETC

Net loss attributable to ETC was \$2.9 million, or \$0.21 diluted loss per share, in the 2015 first three quarters, compared to \$0.3 million of net income attributable to ETC during the 2014 first three quarters, equating to \$0.00 diluted earnings per share. The \$3.2 million variance reflects a decrease in income before income taxes of \$5.4 million due primarily to a \$5.3 million decrease in gross profit, resulting from a combination of both lower net sales and lower gross profit margin percentage, as well as a \$0.2 million increase in operating expenses. The \$5.4 million decrease in income before income taxes was offset, in part, by a \$2.2 million variance between the income tax benefit recorded in the 2015 first three quarters and the income tax expense recorded in the 2014 first three quarters.

Net Sales

Net sales in the 2015 first three quarters were \$28.0 million, a decrease of \$8.6 million, or 23.6%, compared to 2014 first three quarters net sales of \$36.6 million. The reduction reflects decreased ATS sales to the U.S. Government and International customers, decreased sales of monoplace chambers to both Domestic and International customers, and decreased sales of Sterilization Systems to International customers, offset in part, by increased sales of Sterilization Systems and Environmental Testing and Simulation Systems to Domestic customers. Given the current progress made on U.S. Government contracts in the Company's sales backlog, and increased International sales activity, the Company anticipates the concentration of sales to the U.S. Government will continue to lessen in fiscal 2015.

Environmental Tectonics Corporation
Management's Discussion and Analysis, continued

Gross Profit

Gross profit for the 2015 first three quarters was \$5.7 million compared to \$11.0 million in the 2014 first three quarters, a decrease of \$5.3 million, or 48.3%. The significant decrease in gross profit was a combination of both lower net sales and lower gross profit margin percentage due to inefficiencies as a result of additional work required on several contracts, for which we are currently pursuing recovery. On April 24, 2014, we reached a favorable settlement agreement on the first of these recoveries that partially offset the effects of the additional work. Further, the Company is now in the testing phase with one of these contracts, and will shortly be in testing phase on another. Gross profit margin as a percentage of net sales decreased to 20.2% for the 2015 first three quarters compared to 29.9% for the 2014 first three quarters.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2015 first three quarters were \$9.7 million, an increase of \$0.2 million, or 1.9%, compared to \$9.5 million for the 2014 first three quarters. The increase is the combined result of an increase in commissions expense as the concentration of net sales shifts from Government to International and an increase in legal fees associated primarily with the aforementioned recovery effort, offset in part, by an on-going effort to reduce non-revenue generating expenses.

Interest Expense, Net

Interest expense, net, for the 2015 first three quarters was \$477 thousand compared to \$590 thousand in the 2014 first three quarters, a decrease of \$113 thousand, or 19.2%, due primarily to a lower level of bank borrowing.

Cash Flows from Operating, Investing, and Financing Activities

During the 2015 first three quarters, as a result of a decrease in accounts receivable and costs and estimated earnings in excess of billings on uncompleted long-term percentage of completion ("POC") contracts, the Company generated \$1.7 million of cash from operating activities compared to \$3.9 million of cash used in operating activities during the 2014 first three quarters. Under POC revenue recognition, these accounts represent the timing differences of spending on production activities versus the 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 \$1.1 million in both the 2015 first three quarters and the 2014 first three quarters.

The Company's financing activities used \$0.5 million of cash in the 2015 first three quarters, which primarily reflected payments on the Term Loan and repayments under the Company's various lines of credit, and was offset, in part, by a decrease in restricted cash. In the 2014 first three quarters, net cash provided by financing activities totaled \$3.4 million, primarily from borrowings under the Company's various lines of credit and a decrease in restricted cash, offset in part, by payments on the Term Loan.

Item 7. Description of Facilities

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

| Location | Approximate Square Footage | Function | Owned/ Leased | Segment |
|---------------------------|---------------------------------------|-----------------------------------------------------------------------------------------------------------|--------------------------|------------------|
| Southampton, Pennsylvania | 92,000 | Manufacturing (64,000 sq. ft), NASTAR Center (22,000 sq. ft.), and Corporate Headquarters (6,000 sq. ft.) | Owned | Aerospace CIS |
| Southampton, Pennsylvania | 2,300 | Service and spare parts warehouse | Leased | CIS |
| Orlando, Florida | 8,700 | Product development and administration | Leased | Aerospace |
| Warsaw, Poland | 28,000 | Manufacturing, product development, and administration | Leased | Aerospace |
| Ankara, Turkey | 5,700 | Software development | Leased | Aerospace CIS |
| Total | 136,800 | | | |

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

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

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

Item 8. Officers, Directors, and Control Persons

| | Name / Address ** | Title | Ownership Percentage |
|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|-----------------------------|
| Directors and Executive Officers: | H.F. Lenfest c/o The Lenfest Group Five Tower Bridge-Suite 460 300 Barr Harbor Drive West Conshohocken, PA 19428 | Chairman of the Board of Directors | 56.1% |
| | George K. Anderson, M.D. | Vice Chairman of the Board of Directors | * |
| | Linda J. Brent, Ed.D. | Director | * |
| | Roger Colley | Director | * |
| | Michael D. Malone | Director | * |
| | Winston E. Scott | Director | * |
| | Robert L. Laurent, Jr. | Chief Executive Officer, President, and Director | * |
| | Thomas G. Loughlin | Chief Operating Officer | * |
| | William F. Mitchell, Jr. | Vice President, Contracts/Purchasing | * |
| | Mark Prudenti | Chief Financial Officer | * |
| Control Persons: | William F. Mitchell, Sr. 2355 Fairway Road Huntingdon Valley, PA 19006 | | 15.2% |
| | T. Todd Martin, III 50 Midtown Park East Mobile, AL 36606 | | 11.3% |
| | Pete L. Stephens | | 6.8% |

* less than 1%

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

Information is accurate as of January 30, 2015. None of the foregoing persons in the last five years has had a legal/disciplinary issue. Mr. James R. Wells, Vice President, General Counsel, Chief Compliance Officer, and Corporate Secretary, resigned effective January 9, 2015 to pursue a General Counsel position with a new company.

Item 9. Third Party Providers

Legal Counsel:

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

Independent Auditor:

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

Item 10. Management's Certification

I, Mark Prudenti 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.



Mark Prudenti
Chief Financial Officer
Date: January 30, 2015

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: January 30, 2015



ETC GLOBAL HEADQUARTERS
125 James Way, Southampton, Pa. 18966 USA

INVESTOR CONTACT
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