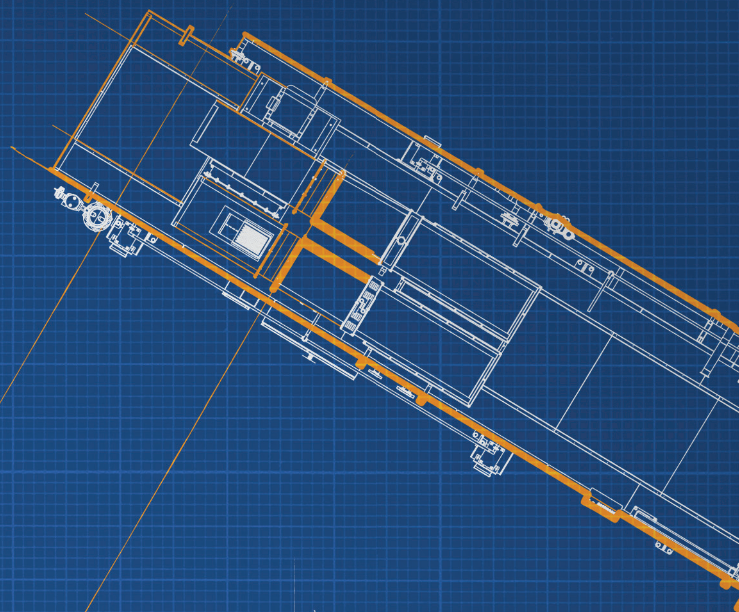
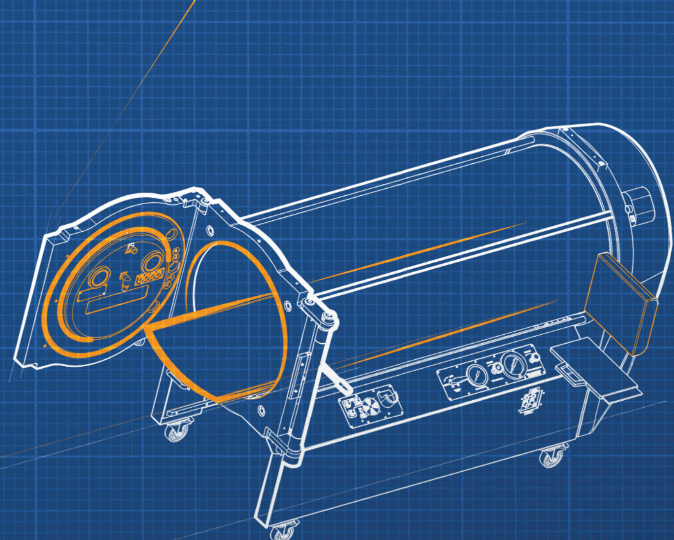
2015 ENVIRONMENTAL TECTONICS CORPORATION

QUARTERLY REPORT

For the thirteen weeks ended August 28, 2015





ENVIRONMENTAL TECTONICS CORPORATION

Quarterly Report
For the thirteen weeks ended August 28, 2015

County Line Industrial Park
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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 August 28, 2015	25,000 as of August 28, 2015
Total shares outstanding:	9,185,161 as of August 28, 2015	12,127 as of August 28, 2015

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 August 28, 2015, which totaled $1.2 million, remained unpaid as of October 12, 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
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)

	Thirteen weeks ended		Twenty-six weeks ended	
(in thousands, except per share information)	**August 28, 2015**	**August 29, 2014**	**August 28, 2015**	**August 29, 2014**
Net sales	$ 9,966	$ 9,456	$ 19,505	$ 20,141
Cost of goods sold	7,423	7,518	13,912	15,381
Gross profit	2,543	1,938	5,593	4,760
Operating expenses	2,898	3,280	6,096	6,212
Operating loss	(355)	(1,342)	(503)	(1,452)
Other expenses:				
Interest expense, net	237	148	457	297
Other expense, net	253	107	284	174
Other expenses total	490	255	741	471
Loss before income taxes	(845)	(1,597)	(1,244)	(1,923)
Income tax benefit	(338)	(647)	(498)	(779)
Net loss	(507)	(950)	(746)	(1,144)
Loss attributable to non-controlling interest	1	11	-	8
Net loss attributable to Environmental Tectonics Corporation	**(506)**	**(939)**	**(746)**	**(1,136)**
Foreign currency translation adjustment and unrealized gain (loss) on cash flow hedge	101	6	69	3
Comprehensive loss	$ (405)	$ (933)	$ (677)	$ (1,133)
Preferred Stock dividends	(121)	(121)	(242)	(242)
Loss attributable to common and participating shareholders	$ (627)	$ (1,060)	$ (988)	$ (1,378)
Per share information:				
Basic earnings (loss) per common and participating share:				
Distributed earnings per share:				
Common	$ -	$ -	$ -	$ -
Preferred	$ 0.02	$ 0.02	$ 0.04	$ 0.04
Undistributed loss per share:				
Common	$ (0.04)	$ (0.07)	$ (0.06)	$ (0.09)
Preferred	$ (0.04)	$ (0.07)	$ (0.06)	$ (0.09)
Diluted loss per share	**$ (0.04)**	**$ (0.07)**	**$ (0.06)**	**$ (0.09)**
Basic weighted average common and participating shares:				
Common weighted average number of shares	9,185	9,185	9,185	9,185
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	15,248
Diluted weighted average shares:				
Basic weighted average common and participating shares	15,248	15,248	15,248	15,248
Dilutive effect of stock warrants and options	43	257	50	260
Total diluted weighted average shares	15,291	15,505	15,298	15,508

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

Environmental Tectonics Corporation
Consolidated Balance Sheets

(in thousands, except share information)	August 28, 2015 (unaudited)	February 27, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 621	$ 611
Restricted cash	6,216	2,516
Accounts receivable, net	5,064	5,812
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	16,181	17,698
Inventories, net	3,888	3,610
Deferred tax assets, current	1,531	1,298
Prepaid expenses and other current assets	1,097	809
Total current assets	34,598	32,354
Property, plant, and equipment, at cost, net	14,088	14,174
Capitalized software development costs, net	145	125
Deferred tax assets, non-current, net	5,203	4,953
Other assets	31	44
Total assets	**$ 54,065**	**$ 51,650**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt obligations	$ 11,348	$ 14,052
Accounts payable, trade	4,572	2,605
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	5,142	3,014
Customer deposits	2,202	1,073
Accrued taxes	45	175
Accrued interest and dividends	1,259	1,044
Other accrued liabilities, current	1,756	2,362
Total current liabilities	26,324	24,325
Long-term debt obligations, less current portion:		
Credit facility payable to bank	-	-
Term loan	7,819	6,569
Total long-term debt obligations, less current portion	7,819	6,569
Other accrued liabilities, non-current	503	503
Total liabilities	34,646	31,397
Commitments and contingencies (Note 5)		
Shareholders' equity:		
Cumulative convertible participating Preferred Stock, Series E, $0.05 par value, 25,000 shares authorized; 12,127 shares outstanding as of August 28, 2015 and February 27, 2015	12,127	12,127
Common Stock, $0.05 par value, 50,000,000 shares authorized; 9,185,161 shares issued and outstanding as of August 28, 2015 and February 27, 2015	459	459
Additional paid-in capital	9,349	9,506
Accumulated deficit	(2,104)	(1,358)
Accumulated other comprehensive loss	(457)	(526)
Total shareholders' equity before non-controlling interest	19,374	20,208
Non-controlling interest	45	45
Total shareholders' equity	19,419	20,253
Total liabilities and shareholders' equity	**$ 54,065**	**$ 51,650**

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

Environmental Tectonics Corporation
Consolidated Statements of Cash Flows
(unaudited)

(in thousands)	Twenty-six weeks ended August 28, 2015	Twenty-six weeks ended August 29, 2014
Cash flows from operating activities:		
Net loss	$ (746)	$ (1,144)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	805	897
Deferred tax assets	(483)	(777)
(Decrease) increase in allowance for doubtful accounts and inventory obsolescence	(8)	37
Accretion of loan origination deferred charge and deferred financing costs	25	18
Stock compensation expense	85	18
Changes in operating assets and liabilities:		
Accounts receivable	777	556
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	1,517	3,434
Inventories	(299)	(213)
Prepaid expenses and other assets	(286)	(148)
Accounts payable, trade	1,967	(323)
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	2,128	420
Customer deposits	1,129	(1,050)
Accrued taxes	(130)	12
Accrued interest and dividends	(27)	(2)
Other accrued liabilities	(607)	(232)
Net cash provided by operating activities	**5,847**	**1,503**
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(670)	(725)
Capitalized software development costs	(69)	(6)
Net cash used in investing activities	**(739)**	**(731)**
Cash flows from financing activities:		
(Increase) decrease in restricted cash	(3,700)	305
Repayments under lines of credit	(1,454)	(75)
Payments on the Term Loan and of other debt obligations	-	(1,500)
Payments of deferred financing costs	(14)	-
Net cash used in financing activities	**(5,168)**	**(1,270)**
Effect of exchange rate changes on cash	70	3
Net increase (decrease) in cash and cash equivalents	10	(495)
Cash and cash equivalents at beginning of period	611	935
Cash and cash equivalents at end of period	**$ 621**	**$ 440**
Supplemental schedule of cash flow information:		
Interest paid	$ 443	$ 331
Income taxes paid	$ -	$ 3
Supplemental information on non-cash operating and investing activities:		
Preferred Stock dividends accrued during each respective fiscal period	$ 242	$ 242
Unrealized gain (loss) on cash flow hedge	$ (1)	$ -

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 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) hyperbaric chambers for multiple persons (multiplace chambers); (iv) Advanced Disaster Management Simulators ("ADMS"); (v) steam and gas (ethylene oxide) sterilizers; (vi) environmental testing and simulation devices; and (vii) 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 and to civil aviation organizations. We offer integrated Aircrew Training Systems 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 state and local governments, fire and emergency training schools, universities, and airports. We also provide integrated logistics support 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; (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. We sell our sterilizers to pharmaceutical and medical device manufacturers. We sell our environmental testing and simulation devices primarily to commercial automobile and heating, ventilation, and air conditioning ("HVAC") manufacturers. We sell our hyperbaric products (primarily "monoplace" chambers) to hospitals and wound care clinics. We also provide upgrade, maintenance, and repair services for our products and similar products manufactured by other parties.

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 2016 first quarter are references to the thirteen week period ended May 29, 2015. References to the 2016 second quarter are references to the thirteen week period ended August 28, 2015. References to the 2016 first half are references to the twenty-six week period ended August 28, 2015. References to the 2015 second quarter are references to the thirteen week period ended August 29, 2014. References to the 2015 first half are references to the twenty-six week period ended August 29, 2014. References to fiscal 2016 are references to the fifty-two week period ending February 26, 2016. References to fiscal 2015 are references to the fifty-two week period ended February 27, 2015. Certain amounts from prior consolidated financial statements have been reclassified to conform to the presentation in fiscal 2016.

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 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.

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 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 for fiscal 2015.

Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies during fiscal 2016 as compared to what was previously disclosed in the Company's Annual Report for fiscal 2015.

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, 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 August 28, 2015 and August 29, 2014, 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.

As of August 28, 2015 and August 29, 2014, there were outstanding options to purchase the Company's Common Stock totaling 642,813 and 357,406 shares at an average price of $1.25 and $3.31 per share, respectively. Due to the conversion price of the Common Stock options, 642,813 and 182,906 shares were excluded from the calculation of diluted earnings per share as of August 28, 2015 and August 29, 2014, respectively, because the effect of their conversion would be antidulutive; further, all 143,885 shares of the Company's Common Stock pertaining to the 200,000 warrants issued on February 20, 2009 were excluded from the calculation of diluted earnings per share as of August 28, 2015 because the effect of their conversion would also be antidulutive.

Note 3. Long-Term Obligations and Related Equity Arrangements

On July 9, 2015, the Company entered into an amendment to the September 28, 2012 Loan Agreement that provided for, among other things, the following:

(i) The Company's existing Line of Credit with PNC Bank was extended from October 31, 2015 to June 10, 2016.

(Dollars in thousands, except per share information)

(ii) The Company must have maintained a minimum Consolidated Tangible Net Worth of $19,000 for the 2016 first quarter. Going forward, ETC must maintain at all times a minimum Consolidated Tangible Net Worth of $18,500; further, commencing with the fiscal quarter ending May 27, 2016, 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 August 26, 2016, and will remain at that level at all times thereafter.

(iii) No monthly principal payments shall be due and payable on the existing Term Loan from September 29, 2014 through May 27, 2016. Monthly principal payments will commence on May 28, 2016, 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.

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

	August 28, 2015	February 27, 2015
	(unaudited)	
Credit facility payable to bank	$ 10,488	$ 12,602
Term Loan	7,819	7,819
Borrowed under ETC-PZL Line of Credit	670	-
Borrowed under Ex-Im Line of Credit	190	200
Total long-term debt obligations	19,167	20,621
Less: current portion of long-term debt obligations	(11,348)	(14,052)
Total long-term debt obligations, less current portion	**$ 7,819**	**$ 6,569**

Note 4. Income Taxes

Effective tax rates were 40.0% and 40.5% for the 2016 second quarter and the 2015 second quarter, respectively. An income tax benefit of $338 and $647 was recorded in the 2016 second quarter and the 2015 second quarter, respectively. Effective tax rates were 40.0% and 40.5% for the 2016 first half and the 2015 first half, respectively. An income tax benefit of $498 and $779 was recorded in the 2016 first half and the 2015 first half, respectively.

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

As of August 28, 2015, the Company had approximately $18,141 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. Subsequent Events

The Company has evaluated subsequent events through October 12, 2015, the date of issuance of its consolidated financial statements, and determined that there were no material subsequent events requiring adjustment to, or disclosure in, the accompanying interim consolidated financial statements.

Management's Discussion and Analysis

Forward-looking Statements

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

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

Results of Operations

Thirteen weeks ended August 28, 2015 compared to thirteen weeks ended August 29, 2014

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)

	Thirteen weeks ended			
(in thousands, except per share information)	**August 28, 2015**	**August 29, 2014**	**Variance ($)**	**Variance (%)**
Net sales	$ 9,966	$ 9,456	$ 510	5.4
Cost of goods sold	7,423	7,518	(95)	(1.3)
Gross profit	2,543	1,938	605	31.2
Gross profit margin %	*25.5%*	*20.5%*	*5.0%*	*24.4%*
Operating expenses	2,898	3,280	(382)	(11.6)
Operating loss	(355)	(1,342)	987	(73.5)
Operating margin %	*(3.6%)*	*(14.2%)*	*10.6%*	*(74.6%)*
Interest expense, net	237	148	89	60.1
Other expense, net	253	107	146	136.4
Loss before income taxes	(845)	(1,597)	752	(47.1)
Pre-tax margin %	*(8.5%)*	*(16.9%)*	*8.4%*	*(49.7%)*
Income tax benefit	(338)	(647)	309	(47.8)
Loss attributable to non-controlling interest	1	11	(10)	(90.9)
Net loss attributable to ETC	**$ (506)**	**$ (939)**	**$ 433**	**(46.1)**
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 per share:				
Common	$ (0.04)	$ (0.07)	$ 0.03	(42.9)
Preferred	$ (0.04)	$ (0.07)	$ 0.03	(42.9)
Diluted loss per share	**$ (0.04)**	**$ (0.07)**	**$ 0.03**	**(42.9)**

Sales Backlog

Our sales backlog as of August 28, 2015, for work to be performed and revenue to be recognized under written agreements after such date, was $59.1 million compared to $32.5 million as of February 28, 2015. The $26.6 million increase in sales backlog is due primarily to the 2016 first quarter award of multiple International contracts totaling $45.4 million.

Net Loss Attributable to ETC

Net loss attributable to ETC was $0.5 million, or $0.04 diluted loss per share, in the 2016 second quarter compared to $0.9 million during the 2015 second quarter, equating to $0.07 diluted loss per share. The $0.4 million variance reflects a decrease in loss before income taxes of $0.8 million due to the combined effect of a $0.6 million increase in gross profit and $0.4 million decrease in operating expenses, offset in part, by a $0.1 million increase in interest expense and a $0.1 million increase in other expense. The $0.8 million decrease in loss before income taxes was offset, in part, by a $0.3 million decrease in the income tax benefit recorded in the 2016 second quarter compared to the 2015 second quarter.

Net Sales

Net sales in the 2016 second quarter were approximately $10.0 million, an increase of $0.5 million, or 5.4%, compared to 2015 second quarter net sales of $9.5 million. The increase reflects increased ATS sales to International customers, offset in part, by decreased Sterilizers and Environmental sales to Domestic customers. Given the current progress made on U.S. Government contracts in the Company's sales backlog, coupled with significant fiscal 2015 International bookings and the 2016 first quarter award of multiple International contracts totaling $45.4 million, the Company anticipates that although sales to the U.S. Government will remain steady, the concentration of sales to the U.S. Government will continue to lessen in fiscal 2016.

Gross Profit

Gross profit for the 2016 second quarter was $2.5 million compared to $1.9 million in the 2015 second quarter, an increase of $0.6 million, or 31.2%. The increase in gross profit was achieved despite only a 5.4% increase in net sales due primarily to the combination of a reduction in the amount of additional work required on several contracts and a higher concentration of net sales from more off-the-shelf type products requiring less initial design and engineering work. Gross profit margin as a percentage of net sales increased to 25.5% for the 2016 second quarter compared to 20.5% for the 2015 second quarter.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2016 second quarter were $2.9 million, a decrease of $0.4 million, or 11.6%, compared to $3.3 million for the 2015 second quarter. The decrease is due primarily to a reduction in general and administrative and research and development expenses at our operating subsidiaries.

Interest Expense, Net

Interest expense, net, for the 2016 second quarter was $237 thousand compared to $148 thousand in the 2015 second quarter, an increase of $89 thousand, or 60.1%, due to the combination of a higher level of bank borrowing and an increased interest rate.

Other Expense, Net

Other expense, net, for the 2016 second quarter was $253 thousand compared to $107 thousand in the 2015 second quarter, an increase of $146 thousand, or 136.4%, due to an increase in letter of credit fees associated with the 2016 first quarter award of multiple International contracts and an increase in realized foreign currency exchange net losses.

Twenty-six weeks ended August 28, 2015 compared to twenty-six weeks ended August 29, 2014

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)	Twenty-six weeks ended August 28, 2015	Twenty-six weeks ended August 29, 2014	Variance ($)	Variance (%)
Net sales	$ 19,505	$ 20,141	$ (636)	(3.2)
Cost of goods sold	13,912	15,381	(1,469)	(9.6)
Gross profit	5,593	4,760	833	17.5
Gross profit margin %	*28.7%*	*23.6%*	*5.1%*	*21.6%*
Operating expenses	6,096	6,212	(116)	(1.9)
Operating loss	(503)	(1,452)	949	(65.4)
Operating margin %	*(2.6%)*	*(7.2%)*	*4.6%*	*(63.9%)*
Interest expense, net	457	297	160	53.9
Other expense, net	284	174	110	63.2
Loss before income taxes	(1,244)	(1,923)	679	(35.3)
Pre-tax margin %	*(6.4%)*	*(9.5%)*	*3.1%*	*(32.6%)*
Income tax benefit	(498)	(779)	281	(36.1)
Loss attributable to non-controlling interest	-	8	(8)	(100.0)
Net loss attributable to ETC	**$ (746)**	**$ (1,136)**	**$ 390**	**(34.3)**
Per share information:				
Basic earnings (loss) per common and participating share:				
Distributed earnings per share:				
Common	$ -	$ -	$ -	
Preferred	$ 0.04	$ 0.04	$ -	0.0
Undistributed loss per share:				
Common	$ (0.06)	$ (0.09)	$ 0.03	(33.3)
Preferred	$ (0.06)	$ (0.09)	$ 0.03	(33.3)
Diluted loss per share	**$ (0.06)**	**$ (0.09)**	**$ 0.03**	**(33.3)**

Net Loss Attributable to ETC

Net loss attributable to ETC was $0.7 million, or $0.06 diluted loss per share, in the 2016 first half compared to $1.1 million during the 2015 first half, equating to $0.09 diluted loss per share. The $0.4 million variance reflects a decrease in loss before income taxes of $0.7 million due to the combined effect of a $0.8 million increase in gross profit and $0.1 million decrease in operating expenses, offset in part, by a $0.1 million increase in interest expense and a $0.1 million increase in other expense. The $0.7 million decrease in loss before income taxes was offset, in part, by a $0.3 million decrease in the income tax benefit recorded in the 2016 first half compared to the 2015 first half.

Net Sales

Net sales in the 2016 first half were $19.5 million, a decrease of $0.6 million, or 3.2%, compared to 2015 first half net sales of $20.1 million. The decrease reflects decreased Sterilizers and Environmental sales to Domestic customers, offset in part, by increased ATS sales to International customers. Given the current progress made on U.S. Government contracts in the Company's sales backlog, coupled with significant fiscal 2015 International bookings and the 2016 first quarter award of multiple International contracts totaling $45.4 million, the Company anticipates that although sales to the U.S. Government will remain steady, the concentration of sales to the U.S. Government will continue to lessen in fiscal 2016.

Gross Profit

Gross profit for the 2016 first half was $5.6 million compared to $4.8 million in the 2015 first half, an increase of $0.8 million, or 17.5%. The increase in gross profit was achieved despite a 3.2% decrease in net sales due primarily to the combination of a reduction in the amount of additional work required on several contracts and a higher concentration of net sales from more off-the-shelf type products requiring less initial design and engineering work. Gross profit margin as a percentage of net sales increased to 28.7% for the 2016 first half compared to 23.6% for the 2015 first half.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2016 first half were $6.1 million, a decrease of $0.1 million, or 1.9%, compared to $6.2 million for the 2015 first half. The decrease is due primarily to a reduction in general and administrative and research and development expenses at our operating subsidiaries.

Interest Expense, Net

Interest expense, net, for the 2016 first half was $457 thousand compared to $297 thousand in the 2015 first half, an increase of $160 thousand, or 53.9%, due to the combination of a higher level of bank borrowing and an increased interest rate.

Other Expense, Net

Other expense, net, for the 2016 first half was $284 thousand compared to $174 thousand in the 2015 first half, an increase of $110 thousand, or 63.2%, due to an increase in letter of credit fees associated with the 2016 first quarter award of multiple International contracts and an increase in realized foreign currency exchange net losses.

Cash Flows from Operating, Investing, and Financing Activities

During the 2016 first half, as a result of an increase in billings in excess of costs and estimated earnings on uncompleted long-term percentage of completion ("POC") contracts, accounts payable, trade, and customer deposits, as well as a decrease in accounts receivable and costs and estimated earnings in excess of billings on uncompleted long-term POC contracts, the Company generated $5.8 million of cash from operating activities compared to $1.5 million during the 2015 first half. Under POC revenue recognition, these accounts, other than customer deposits, 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 $0.7 million in both the 2016 first half and the 2015 first half.

In the 2016 first half, the Company's financing activities used $5.2 million of cash, which primarily reflected an increase in restricted cash and repayments under the Company's various lines of credit. The Company's financing activities used $1.3 million of cash in the 2015 first half on Term Loan payments, offset in part, by a decrease in restricted cash.

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	83,800	Manufacturing (36,000 sq. ft), NASTAR Center (22,100 sq. ft.), and Corporate Headquarters (25,700 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	**128,500**			

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	*** 56.0%
	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	*
	Mark Prudenti	Chief Financial Officer and Treasurer	*
	James D. Cashel	Vice President, General Counsel, Secretary, and Chief Compliance Officer	*
	Thomas G. Loughlin	Chief Operating Officer	*
	William F. Mitchell, Jr.	Vice President, Contracts/Purchasing	*
Control Persons:	William F. Mitchell, Sr. *2355 Fairway Road* *Huntingdon Valley, PA 19006*		14.5%
	T. Todd Martin, III *50 Midtown Park East* *Mobile, AL 36606*		11.3%
	3K Limited Partnership		7.1%
	Pete L. Stephens		6.4%

* less than 1%

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

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

Information is accurate as of October 12, 2015. None of the foregoing persons in the last five years has had a legal/disciplinary issue. On July 1, 2015, James D. Cashel returned to the Company as Vice President, General Counsel, Secretary, and Chief Compliance Officer. Mr. Cashel had previously served as ETC's General Counsel and Secretary from 2008 to 2013.

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: October 12, 2015

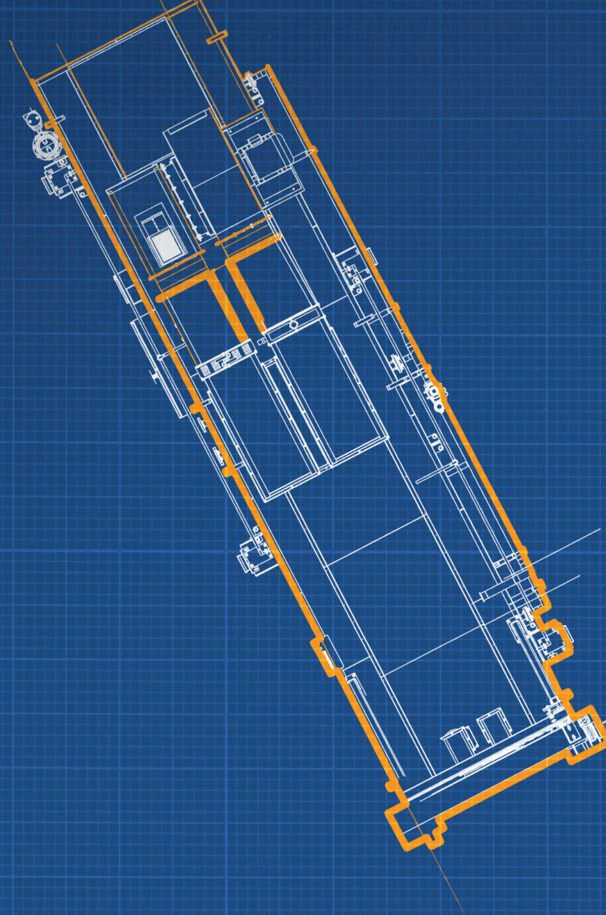
I, Robert L. Laurent, Jr. certify that:

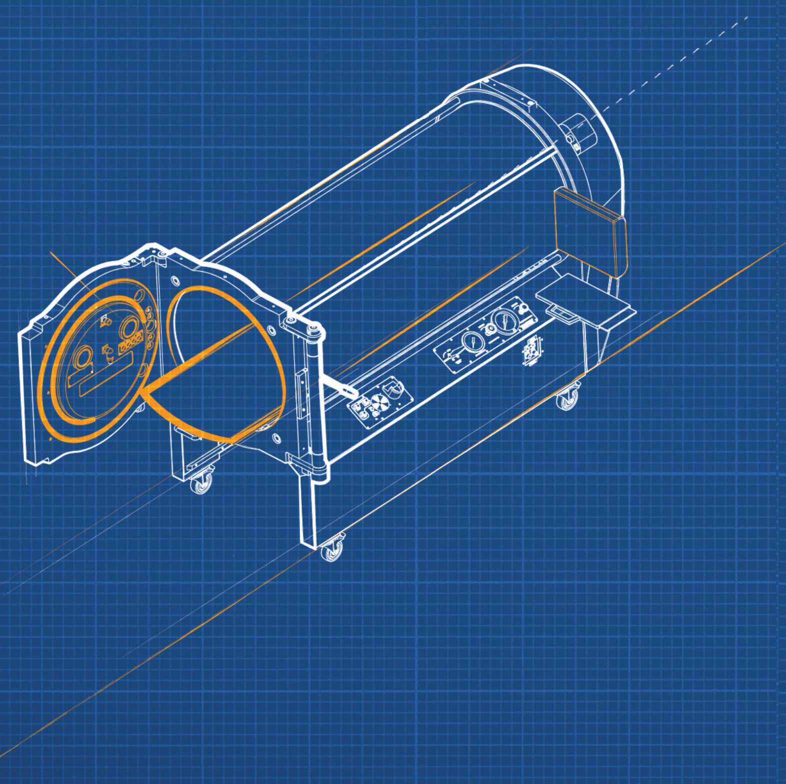
1 I have reviewed this Quarterly Report of Environmental Tectonics Corporation;

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: October 12, 2015





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