Q1 QUARTERLY REPORT

For the thirteen weeks ended May 30, 2025

ENVIRONMENTAL TECTONICS CORPORATION

Quarterly Report
For the thirteen weeks ended May 30, 2025

County Line Industrial Park
125 James Way
Southampton, Pennsylvania 18966
(Address of Issuer's Principal Executive Office)

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Investor Relations Contact:

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

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

Item 2. Security Information

Trading symbol:	ETCC	
CUSIP:	294092	
Title of class of securities outstanding:	Common Stock	Preferred Stock, Series E
Par value:	$0.05	$0.05 (Stated value of $1,000)
Total shares authorized:	50,000,000 as of May 30, 2025	25,000 as of May 30, 2025
Total shares outstanding:	9,578,567 as of May 30, 2025	12,127 as of May 30, 2025

Transfer Agent:

Equiniti Trust Company, LLC ("EQ") *
55 Challenger Road, Floor 2
Ridgefield Park, NJ 07660
Telephone: (800) 468-9716
Website: www.equiniti.com

* registered under the Exchange Act

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

Describe any trading suspension: N/A

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

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

Dividends on the Company's Preferred Stock, as declared, are accrued according to the terms of the Preferred Stock and when paid, are paid in cash. The Preferred Stock is currently entitled to receive cumulative dividends at the rate of four percent (4%) per year in preference to the holders of the Company's Common Stock with respect to dividends. Series E Preferred Stock dividends accrued as of May 30, 2025, which totaled $5,954 thousand, remained unpaid as of July 11, 2025, the date of issuance of the accompanying interim consolidated financial statements.

Item 3. Issuance History

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

Date	Shareholder	Shares	Transaction	Value
November 14, 2024	ETCC Employee	5,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 6,250
December 11, 2024	ETCC Employee	5,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 6,250
December 26, 2024	ETCC Employee	2,500	2015 Stock Option Grant Exercise @ $1.25 per share	$ 3,125
January 7, 2025	ETCC Employee	5,000	2019 Stock Option Grant Exercise @ $0.72 per share	$ 3,600
March 12, 2025	ETCC Director	15,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 18,750
March 12, 2025	ETCC Director	15,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 18,750
March 13, 2025	ETCC Employee	10,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 12,500
March 14, 2025	ETCC Employee	2,500	2015 Stock Option Grant Exercise @ $1.25 per share	$ 3,125
April 1, 2025	ETCC Employee	2,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 2,500
April 2, 2025	ETCC Officer	2,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 2,500
April 2, 2025	ETCC Officer	30,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 37,500
April 9, 2025	ETCC Officer	15,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 18,750
April 11, 2025	ETCC Director and Officer	60,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 75,000
April 14, 2025	ETCC Employee	2,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 2,500
April 16, 2025	ETCC Director	15,000	2015 Stock Option Grant Exercise @ $1.25 per share	$ 18,750
		186,000		$ 229,850

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

C. The number of shares offered: 186,000

D. The number of shares sold: 186,000

E. The price at which the shares were offered, and the amount actually paid to the issuer: $229,850

F. The trading status of the shares: Restricted

G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act: No

Item 4. Financial Statements

Environmental Tectonics Corporation
Consolidated Statements of Operations and Comprehensive Loss
(unaudited)

(in thousands, except per share information)	Thirteen weeks ended May 30, 2025	Thirteen weeks ended May 24, 2024
Net sales	$ 17,601	$ 13,492
Cost of goods sold	12,939	8,965
Gross Profit	4,662	4,527
Operating expenses	2,498	2,975
Operating income	2,164	1,552
Other expenses:		
Interest expense, net	563	116
Other (income) expense, net	(78)	55
Other expense, net total	485	171
Income before income taxes	1,679	1,381
Income tax provision	390	20
Net income	**1,289**	**1,361**
Foreign Currency translation adjustment	(90)	(199)
Comprehensive income	$ 1,199	$ 1,162
Preferred Stock Dividends	(121)	(121)
Income attributable to common and participating shareholders	**$ 1,168**	**$ 1,240**
Per share information:		
Basic earnings per common and participating share:		
Distributed earnings per share:		
Common	$ -	$ -
Preferred	$ 0.02	$ 0.02
Undistributed earnings per share:		
Common	$ 0.07	$ 0.08
Preferred	$ 0.07	$ 0.08
Diluted earnings per share	**$ 0.07**	**$ 0.08**
Basic weighted average common and participating shares:		
Common weighted average number of shares	9,540	9,444
Participating preferred shares	6,125	6,125
Total basic weighted average common and participating shares	15,665	15,569
Diluted weighted average shares:		
Basic weighted average common and participating shares	15,665	15,569
Dilutive effect of stock options	1,333	493
Total diluted weighted average shares	16,998	16,062

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

Environmental Tectonics Corporation
Consolidated Balance Sheets

(in thousands, except share information)	May 30, 2025 (unaudited)	February 28, 2025
ASSETS		
Current assets:		
Cash and cash equivalents	$ 106	$ 704
Restricted cash	7,304	8,723
Accounts receivable, net	10,279	6,042
Contract assets	27,143	27,486
Inventories, net	2,051	1,887
Prepaid expenses and other current assets	2,921	3,189
Total current assets	49,804	48,031
Property, plant, and equipment, at cost, net	599	558
Right-of-use asset	5,360	5,785
Capitalized software development costs, net	6	8
Deferred tax assets, non-current, net	5,501	5,851
Total assets	**$ 61,270**	**$ 60,233**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt obligations, net of debt issuance costs	$ 7	$ 7
Accounts payable, trade	11,520	8,664
Contract liabilities	3,128	6,185
Accrued taxes	201	197
Accrued interest and dividends	6,006	5,905
Current portion of lease obligations	2,436	2,359
Other accrued liabilities, current	4,408	5,056
Total current liabilities	27,706	28,373
Long-term debt obligations, net of debt issuance costs, less current portion:		
Credit facility payable to bank, net of debt issuance costs	15,421	14,468
Lease obligations, non-current	2,924	3,426
Other accrued liabilities, non-current	743	744
Total liabilities	46,794	47,011
Shareholders' equity:		
Cumulative convertible participating Preferred Stock, Series E, $0.05 par value, 25,000 shares authorized; 12,127 shares outstanding as of May 30, 2025 and February 28, 2025	12,127	12,127
Common Stock, $0.05 par value, 50,000,000 shares authorized; 9,629,785 and 9,443,785 shares issued and 9,578,567 and 9,443,785 outstanding as of May 30, 2025 and February 28, 2025, respectively	479	473
Additional paid-in capital	5,657	5,530
Accumulated deficit	(2,627)	(3,916)
Accumulated other comprehensive loss	(1,082)	(992)
Treasury Stock, at cost 51,218 and 0 shares; as of May 30, 2025 and February 28,2025	(78)	-
Total shareholders' equity	14,476	13,222
Total liabilities and shareholders' equity	**$ 61,270**	**$ 60,233**

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

Environmental Tectonics Corporation
Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)	Fiscal Periods Ended May 30, 2025	Fiscal Periods Ended May 24, 2024
Cash flows from operating activities:		
Net income	$ 1,289	$ 1,361
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	100	209
Deferred income taxes	350	-
Stock compensation expense	46	-
Issuance of Common Stock from options excercised	208	-
Changes in operating assets and liabilities:		
Accounts receivable	(4,231)	5,298
Contract assets	343	(4,058)
Inventories	(170)	(363)
Prepaid expenses and other assets	269	2,824
Accounts payable, trade	2,856	(1,262)
Contract liabilities	(3,057)	(1,249)
Accrued taxes	4	(51)
Accrued interest and dividends	(20)	65
Other accrued liabilities	(649)	134
Net cash (used in) provided by operating activities	**(2,662)**	**2,908**
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(140)	(126)
Net cash (used in) investing activities	**(140)**	**(126)**
Cash flows from financing activities:		
Borrowings (repayments) under lines of credit	953	(3,132)
Repurchase of Common Stock	(78)	-
Net cash provided by (used in) financing activities	**875**	**(3,132)**
Effect of exchange rate changes on cash	(90)	(199)
Net decrease in cash, cash equivalents, and restricted cash	(2,017)	(549)
Cash, cash equivalents, and restricted cash at beginning of year	9,427	8,444
Cash, cash equivalents, and restricted cash at end of period	**$ 7,410**	**$ 7,895**
Less: Restricted cash	(7,304)	(7,873)
Cash and cash equivalents at end of period	**$ 106**	**$ 22**
Supplemental schedule of cash flow information:		
Interest paid	$ 421	$ 282
Income taxes paid	$ -	$ -
Supplemental information on non-cash operating and investing activities:		
Preferred Stock dividends accrued during each respective fiscal period	$ 121	$ 121

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

Environmental Tectonics Corporation

Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(in thousands, except share information)	Preferred Stock	Common Stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Treasury Stock	Total Shareholders' Equity
Balance, February 28, 2025	**$ 12,127**	**$ 473**	**$ 5,530**	**$ (3,916)**	**$ (992)**	**$ -**	**$ 13,222**
Net income	-	-	-	1,289	-	-	1,289
Foreign currency translation adjustment	-	-	-	-	(90)	-	(90)
Preferred Stock dividends	-	-	(121)	-	-	-	(121)
Stock compensation expense	-	-	46	-	-	-	46
Common Stock Option Exercise	-	6	202	-	-	-	208
Repurchase of Common Stock	-	-	-	-	-	(78)	(78)
Balance, May 30, 2025	**$ 12,127**	**$ 479**	**$ 5,657**	**$ (2,627)**	**$ (1,082)**	**$ (78)**	**$ 14,476**

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

Item 5. Description of Business Operations

ETC was incorporated in 1969 in Pennsylvania. For over five decades, we have provided our customers with products, services, and support. Innovation, continuous technological improvement and enhancement, and product quality are core values that are critical to our success. We are a significant supplier and innovator in the following areas: (i) software driven products and services used to create and monitor the physiological effects of flight, including high performance jet tactical flight simulation, fixed and rotary wing upset prevention and recovery and spatial disorientation, and both suborbital and orbital commercial human spaceflight: altitude (hypobaric) chambers; hyperbaric chambers for multiple persons (multiplace chambers) collectively, Aircrew Training Systems ("ATS"); (ii) Advanced Disaster Management Simulators ("ADMS"); (iii) steam and gas (ethylene oxide) sterilizer systems ("Sterilizer Systems" or "Sterilizers"); and (iv) Environmental Testing and Simulation Systems ("ETSS"). We operate in two primary business segments, Aerospace Solutions ("Aerospace") and Commercial/Industrial Systems ("CIS").

Aerospace encompasses the design, manufacture, and sale of: (i) ATS products; and (ii) ADMS, as well as integrated logistics support ("ILS") for customers who purchase these products or similar products manufactured by other parties. These products and services provide customers with an offering of comprehensive solutions for improved readiness and reduced operational costs. Sales of our Aerospace products are made principally to U.S. and foreign government agencies and to civil aviation organizations. We offer integrated ATS products to commercial, governmental, and military defense agencies, and training devices, including altitude (hypobaric) and multiplace chambers ("Chambers"), to governmental and military defense agencies and civil aviation organizations both in the United States and internationally. We sell our ADMS line of products to governmental organizations both in the United States and internationally, original equipment manufacturers in the global special fire truck market (including Aircraft Rescue and Firefighting vehicles), fire and emergency training schools, universities, commercial operations, airports and the oil and gas industry. We also provide ILS for customers who purchase these products or similar products manufactured by other parties.

CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizer systems; and (ii) ETSS; as well as parts and service support for customers who purchase these products or similar products manufactured by other parties. Sales of our CIS products are made principally to the healthcare, pharmaceutical, and automotive industries. We sell our sterilizer systems to medical device manufacturers, pharmaceutical manufacturers, and universities. We sell ETSS primarily to commercial automotive and heating, ventilation, and air conditioning ("HVAC") manufacturers. We also provide upgrade, maintenance, and repair services for our products and similar products manufactured by other parties.

The Company's primary Standard Industrial Classification Code ("SIC Code") is 3569. The Company's fiscal year is the fifty-two week or fifty-three week annual accounting period ending the last Friday in February. References to the 2026 fiscal first quarter are references to the thirteen week period ended May 30, 2025. References to the 2025 fiscal first quarter are references to the thirteen week period ended May 24, 2024. References to fiscal 2026 are references to the fifty-two week period ending February 27, 2026. References to fiscal 2025 are references to the fifty-three week period ended February 28, 2025.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of ETC and ETC-PZL Aerospace Industries Sp. z o.o. ("ETC-PZL"), our 100%-owned subsidiary in Warsaw, Poland. ETC-PZL manufactures certain simulators and provides software to support products manufactured domestically within our Aerospace segment. "ETC-SH" refers to the Company's corporate headquarters and main production plant located in Southampton, Pennsylvania. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Certain information in footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America has been condensed or omitted and the financial results for the periods presented may not be indicative of the full year's results; however, the Company believes that the disclosures are adequate to make the information presented not misleading. These interim consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report to Shareholders for fiscal 2025 (the "2025 Annual Report").

Significant Accounting Policies Update

There have been no material changes in the Company's significant accounting policies during fiscal 2026 as compared to what was previously disclosed in the 2025 Annual Report.

Note 2. Earnings per Share

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

The two-class computation method for each period segregates basic earnings per common and participating share into two categories: distributed earnings per share (i.e., the Preferred Stock stated dividend) and undistributed earnings per share, which allocates earnings after subtracting the Preferred Stock dividend to the total of weighted average common shares outstanding plus equivalent converted common shares related to the Preferred Stock. Basic earnings per common and participating share exclude 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 continue to be computed using the if-converted method. Diluted earnings per share assumes the exercise of stock options and warrants using the treasury stock method. If the effect of the conversion of any financial instruments would be anti-dilutive, it is excluded from the diluted earnings per share calculation.

As of both May 30, 2025 and May 24, 2024, there was $12,127 of cumulative convertible participating Series E Preferred Stock convertible at an exercise price of $1.98 per share, equating to 6,124,567 shares of Common Stock, originally issued in July 2009.

As of May 30, 2025 and May 24, 2024, there were outstanding options to purchase the Company's Common Stock at an average price of $1.08 and $0.88 totaling 1,706,950 and 717,950 shares, respectively. Due to the conversion price of Common Stock options, 0 and 224,500 shares were excluded from the calculation of diluted earnings per share as of May 30, 2025 and May 24, 2024, respectively, because the effect of their conversion would be anti-dilutive.

In accordance with provisions in the Company's Stock Plan, Environmental Tectonics provides for net exercise, where a holder of options can sell shares back to Environmental Tectonics to pay for the exercise with the remaining net shares belonging to the option holder as restricted stock. The shares "purchased" by the Company are recorded as Treasury Stock. 51,218 Treasury shares were purchased by the Company during the current quarter.

Note 3. Revenue

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

Sales backlog (i.e., unfulfilled or remaining performance obligations) represents the sales we expect to recognize for our products and services for which control has not yet transferred to the customer. The estimated consideration is determined at the outset of the contract and considers the risks related to the technical, schedule, and cost impacts to complete the contract and an estimate of any variable consideration. We review these risks on a quarterly basis and may increase or decrease backlog accordingly. As the risks on such contracts are successfully retired, the estimated consideration from customers may be reduced, resulting in a reduction of backlog without a corresponding recognition of sales. As of May 30, 2025, our ending sales backlog was $72.5 million. We expect to recognize approximately 78% over the next twelve (12) months and approximately 95% over the next twenty-four (24) months as revenue, with the remainder recognized thereafter.

(Dollars in thousands, except per share information)

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

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

	Thirteen weeks ended May 30, 2025			**Thirteen weeks ended May 24, 2024**		
	Aerospace	**CIS**	**Total**	**Aerospace**	**CIS**	**Total**
Net income attributable to adjustments in contract estimates	$ 39	$ (102)	$ (63)	$ (313)	$ (33)	$ (346)

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

	Thirteen weeks ended May 30, 2025				**Thirteen weeks ended May 24, 2024**			
	Domestic	**U.S. Gov't**	**Inter-national**	**Total**	**Domestic**	**U.S. Gov't**	**Inter-national**	**Total**
Aerospace Solutions								
Aircrew Training Solutions (ATS)	$ 158	$ 551	$ 10,435	$ 11,144	$ 221	$ 276	$ 5,874	$ 6,371
Simulation (ADMS)	49	327	467	843	8	-	778	786
Subtotal	207	878	10,902	11,987	229	276	6,652	7,157
Commercial/Industrial Systems								
Sterilizer Systems	3,235	-	1,697	4,932	344	-	5,402	5,746
Environmental (ETSS)	178	-	-	178	233	-	-	233
Service and Spares	446	-	58	504	331	-	25	356
Subtotal	3,859	-	1,755	5,614	908	-	5,427	6,335
Net sales total	**$ 4,066**	**$ 878**	**$ 12,657**	**$ 17,601**	**$ 1,137**	**$ 276**	**$ 12,079**	**$ 13,492**

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

Type of Revenue	**Thirteen weeks ended May 30, 2025**	**Thirteen weeks ended May 24, 2024**
Products	90.6%	85.7%
Maintenance and support agreements	5.8%	9.6%
Services	2.0%	3.2%
Spare parts	1.6%	1.5%
Total	**100.0%**	**100.0%**

(Dollars in thousands, except per share information)

Note 4. Leases

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

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

The Company leases certain premises and office equipment under operating leases. As of May 30, 2025, these leases have remaining lease terms of five (5) months to forty-nine (49) months, with a weighted average remaining lease term of approximately thirty (30) months. Maturities of operating lease liabilities are as follows:

Fiscal Year		Amount
2026	$	2,205
2027		2,267
2028		788
2029		490
2030		142
Total lease payments		5,892
Less: imputed interest		(532)
Total future long-term debt obligations		5,360
Less: current portion		(2,436)
Total future long-term debt obligations, less current portion	**$**	**2,924**

Total operating lease expense was $738 for the 2026 first fiscal quarter. For the 2026 first fiscal quarter, cash payments against operating lease liabilities totaled $625.

Note 5. Long-Term Obligations

On May 23, 2023, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2023 to June 30, 2024.

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

(iii) Provided the ability for ETC to utilize our accounts receivable and inventory as collateral for additional borrowings with alternative lenders.

On May 6, 2024, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that extended the maturity date of the 2016 PNC Credit Facilities from June 30, 2024 to June 30, 2025.

On May 13, 2025, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that extended the maturity date of the 2016 PNC Credit Facilities from June 30, 2025 to June 30, 2026.

(Dollars in thousands, except per share information)

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

	May 30, 2025	February 28, 2025
Credit facility payable to PNC Bank	$ 14,885	$ 14,240
Automobile Loan	44	45
Credit facility payable to Spoldzielczy Bank	499	190
Total long-term debt obligations, net of debt issuance costs	15,428	14,475
Less: current portion	(7)	(7)
Total long-term debt obligations, less current portion, net of debt issuance costs	**$ 15,421**	**$ 14,468**

Note 6. Income Taxes

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

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

An income tax provision of $390 thousand and $20 thousand was recorded in the 2026 first quarter and the 2025 first quarter, respectively. Effective tax rates were 23.2% and 1.4% for the 2026 first quarter and the 2025 first quarter, respectively. As of May 30, 2025, the Company had approximately $8,300 of federal NOL carryforwards available to offset future income tax liabilities, $1,766 of which will expire at various dates through 2045. As of February 28, 2025 the Company reviewed the components of its deferred tax assets and determined, based upon all available information, that it is more likely than not that deferred tax assets relating to its federal deferred tax assets and certain state deferred tax assets will be realized. Accordingly, during the 4th quarter of fiscal 2025 we reversed the previously recorded valuation allowance against these deferred tax assets. If in the future there is a change in our ability to realize these deferred tax assets, then our tax valuation allowance may increase in the period in which we determine that realization is less likely than not.

Note 7. Commitments and Contingencies

Other Matters

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

Note 8. Subsequent Events

The Company has evaluated subsequent events through July 11, 2025 the date of issuance of its consolidated financial statements, and determined that there were no material subsequent events other than disclosed below requiring adjustment to, or disclosure in, the consolidated financial statements for the thirteen weeks ended May 30, 2025.

Sales Leaseback

On June 16, 2025, the Company closed a transaction to sell and lease back finished goods inventory located in Southampton, Pennsylvania. Under the terms of the sale agreement, the finished goods inventory, with a net book value of $1,080 were sold for pre-tax net proceeds of $2,000, resulting in a net gain on the sale of approximately $920. In connection with the sale, the Company entered into an Agreement of Lease ("Lease") with VFI Corporate Finance ("Lessor") for Lessor to lease back to the Company the assets sold. The assets have been leased back for an initial term of forty-eight (48) months (“Initial Term”), and the Lease includes specified end of initial lease term provisions including extending the lease for an additional year, return of the equipment to the Lessor or purchase the equipment at a pre-negotiated price. Net rent expense for the Lease is $600 annually. Proceeds from the sale are being used for additional working capital financing to perform the backlog of existing projects.

Management's Discussion and Analysis

Forward-looking Statements

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

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

Results of Operations

Thirteen weeks ended May 30, 2025 compared to thirteen weeks ended May 24, 2024

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

Summary Table of Results

(unaudited)

(in thousands, except per share information)	Thirteen weeks ended May 30, 2025	Thirteen weeks ended May 24, 2024	Variance ($)	Variance (%)
Net sales	$ 17,601	$ 13,492	$ 4,109	30.5
Cost of goods sold	12,939	8,965	3,974	44.3
Gross Profit	4,662	4,527	135	3.0
Gross profit margin %	*26.5%*	*33.6%*	*-7.1%*	*-21.1%*
Operating expenses	2,498	2,975	(477)	(16.0)
Operating income	2,164	1,552	612	39.4
Operating margin %	*12.3%*	*11.5%*	*0.8%*	*6.9%*
Interest expense, net	563	116	447	385.3
Other (income) expense, net	(78)	55	(133)	(241.8)
Income before income taxes	1,679	1,381	298	21.6
Pre-tax margin %	*9.5%*	*10.2%*	*-0.7%*	*-6.9%*
Income tax provision	390	20	370	1,850.0
Net income	**$ 1,289**	**$ 1,361**	**$ (72)**	**(5.3)**
Per share information:				
Basic earnings per common and participating share:				
Distributed earnings per share:				
Common	$ -	$ -	$ -	
Preferred	$ 0.02	$ 0.02	$ -	
Undistributed earnings per share:				
Common	$ 0.07	$ 0.08	$ (0.01)	
Preferred	$ 0.07	$ 0.08	$ (0.01)	
Diluted earnings per share	**$ 0.07**	**$ 0.08**	**$ (0.01)**	

Net Income

Net income was $1.3 million, or $0.07 diluted earnings per share, in the 2026 first fiscal quarter, compared to net income of $1.4 million during the 2025 first fiscal quarter, or $0.08 diluted earnings per share. The $0.1 million decrease is primarily attributable to a $0.4 million, or 385.3% increase in interest expense, net and a $0.4 million, or 1850.0% increase in income tax provision in the 2026 first fiscal quarter as compared to 2025 first fiscal quarter partially offset by the net effect of a $0.9 million increase in ATS net sales, excluding the Aeromedical center building revenue, and a $0.7 million decrease in Commercial/Industrial Systems ("CIS") net sales, and a $0.5 million decrease in operating expenses.

Net Sales

Net sales in the 2026 first fiscal quarter were $17.6 million, an increase of $4.1 million, or 30.5%, compared to 2025 first fiscal quarter net sales of $13.5 million. The increase in net sales was mainly a result of a $4.8 million, or 74.9% increase in ATS sales, $3.9 million of which relates to aeromedical center building revenue, slightly offset by a $0.8 million, or 14.2% decrease in Sterilizer Systems sales in the 2026 first fiscal quarter as compared to 2025 first fiscal quarter.

Gross Profit

Gross profit for the 2026 first fiscal quarter was $4.7 million (26.5% of net sales) compared to $4.5 million in 2025 first fiscal quarter (33.6% of net sales). The decrease in gross profit margin as a percentage of sales was a direct result of the increase in aeromedical center building revenue within the ATS business unit, which is lower margin than ETC's core businesses as the work is being performed by a sub-contracted construction firm. Excluding the impact of the aeromedical center building revenue, gross profit margin was 34.3% for first fiscal quarter 2026 as compared to 33.9% for first fiscal quarter 2025.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2026 first fiscal quarter were $2.5 million, a decrease of $0.5 million, or 16.0%, compared to $3.0 million for the 2025 first fiscal quarter. The decrease in operating expenses was due primarily to lower research and development expense at ETC-PZL in 2026 first fiscal quarter as compared to 2025 first fiscal quarter. In 2025 first fiscal quarter, ETC-PZL had limited sales which resulted in employees working on non-chargeable research and development projects.

Operating Income

Operating income for the 2026 fiscal first quarter was $2.2 million, an increase of $0.6 million, or 39.4%, compared to $1.6 million for the 2025 first fiscal quarter. The increase in operating income is attributable to the net effect of a $0.9 million increase in ATS net sales, excluding the Aeromedical center building revenue, and a $0.7 million decrease in Commercial/Industrial Systems ("CIS") net sales, and a $0.5 million decrease in operating expenses.

Interest Expense, Net

Interest expense, net, for the 2026 first fiscal quarter was $0.6 million compared to $0.1 million in the 2025 first fiscal quarter, an increase of $0.4 million, or 385.3%, reflecting increased borrowing attributable to the leaseback of the demonstration equipment in 2025 fourth fiscal quarter.

Income Tax Provision

Income tax provision for the 2026 first fiscal quarter was $0.4 million compared to $0.0 million in the 2025 first fiscal quarter, an increase of $0.4 million, or 1850.0%. The increase is a non-cash tax expense attributable to the utilization of our Net Operating Loss (NOL) carryforward for which a deferred tax asset was established in the fourth quarter of fiscal 2025.

Cash Flows from Operating, Investing, and Financing Activities

During the 2026 first fiscal quarter, cash flows used in operating activities were $2.7 million, a decrease of $5.6 million compared to cash flows provided by operating activities of $2.9 million during 2025 first fiscal quarter. Cash flows during the 2026 first fiscal quarter primarily decreased as a result of an increase in accounts receivable, net, slightly offset by an increase in accounts payable, trade for 2026 first fiscal quarter as compared to 2025 first fiscal quarter.

Cash used for investing activities primarily relates to funds used for capital expenditures of equipment and software development. The Company's investing activities used $0.1 million during the 2026 and 2025 first fiscal quarter.

The Company's financing activities provided $1.0 million of cash during the 2026 first fiscal quarter from borrowings under the Company's credit facility as compared to repayments under the Company's credit facility of $3.1 during the 2025 first fiscal quarter.

Item 6. Description of Facilities

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

Location	Approximate Square Footage	Function	Owned/ Leased	Segment
Southampton, Pennsylvania	83,800	Manufacturing (36,000 sq. ft.), NASTAR Center (22,100 sq. ft.), and Corporate Headquarters (25,700 sq. ft.)	Leased	Aerospace CIS
Huntingdon Valley, Pennsylvania	13,087	Storage facility	Leased	Aerospace CIS
Orlando, Florida	6,656	Product development and administration	Leased	Aerospace
Warsaw, Poland	28,000	Manufacturing, product development, and administration	Leased	Aerospace
Ankara, Turkey	1,940	Software development	Leased	Aerospace CIS
Total	**133,483**			

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.

Item 7. Officers, Directors, and Control Persons

	Name / *Address* **	Title	Ownership Percentage
Directors and Executive Officers:	George K. Anderson, M.D.	Chairman of the Board of Directors	1.3%
	Linda J. Brent, Ed.D.	Director	1.2%
	Winston E. Scott	Director	1.1%
	Brian Eccleston	Director	*
	Robert L. Laurent, Jr.	Chief Executive Officer, President, Corporate Secretary and Director	1.9%
	Timothy R. Kennedy	Chief Financial Officer	*
	Thomas G. Loughlin	Chief Operating Officer	*
	Alper Kus	Senior Vice President, Aircrew Training Systems	*
	Katarzyna Wrzesinski	Director of Finance and Corporate Controller	*
	Joseph McAvoy	Vice President of Contracts	*
5% Beneficial Owners:	Estate of H.F. Lenfest *c/o The Lenfest Foundation* *Two Logan Square* *100 N. 18th Street, Suite 800* *Philadelphia, PA 19103*		*** 53.1%
	T. Todd Martin, III *50 Midtown Park East* *Mobile, AL 36606*		10.8%

* less than 1%

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

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

Item 8. Legal/Disciplinary History

Information presented in the table above is accurate as of July 11, 2025, the date of issuance of the accompanying interim consolidated financial statements, based on information available to the Company. None of the foregoing Directors, Executive Officers, and Officers in the last ten (10) years has had a legal/disciplinary issue.

Item 9. Third Party Providers

Legal Counsel:

Sadis & Goldberg LLP
551 Fifth Avenue, 21st Floor
New York, NY 10176
(212) 573-8034

Independent Auditor:

RSM US LLP
518 Township Line Road, Suite 300
Blue Bell, PA 19422
(215) 641-8600

Item 10. Management's Certification

I, Timothy R. Kennedy 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.

Timothy R. Kennedy
Chief Financial Officer
Date: July 11, 2025

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

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

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

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

Robert L. Laurent, Jr.
Chief Executive Officer and President
Date: July 11, 2025