



QUARTERLY REPORT

for the thirteen weeks ended August 25, 2017

2

ENVIRONMENTAL TECTONICS CORPORATION

Quarterly Report
For the thirteen weeks ended August 25, 2017

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

Telephone: (215) 355-9100

Website: www.etcusa.com

Investor Relations Contact:

Mark Prudenti, Chief Financial Officer
Environmental Tectonics Corporation
County Line Industrial Park
125 James Way
Southampton, PA 18966
Telephone: (215) 355-9100 ext. 1531
E-mail: mprudenti@etcusa.com
Website: www.etcusa.com

Table of Contents

Item 1.	Name of Issuer	Inside Cover
Item 2.	Address of Issuer’s Principal Executive Office	Inside Cover
Item 3.	Security Information	1
Item 4.	Issuance History.....	1
Item 5.	Financial Statements	2
Item 6.	Description of Business Operations.....	5
Item 7.	Description of Facilities	13
Item 8.	Officers, Directors, and Control Persons	14
Item 9.	Third Party Providers.....	14
Item 10.	Management’s Certification.....	15

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 25, 2017	25,000 as of August 25, 2017
Total shares outstanding:	9,428,071 as of August 25, 2017	12,127 as of August 25, 2017

Transfer Agent:

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

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 25, 2017, which totaled \$2,186 thousand, remained unpaid as of September 21, 2017, the date of issuance of the accompanying interim consolidated financial statements, per the restrictions stipulated in the October 11, 2013 amendment to the September 28, 2012 Loan Agreement with PNC Bank, National Association ("PNC Bank").

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 20, 2017	Robert L. Laurent, Jr.	71,828	Common Stock award at \$0.67 per share	\$ 48,125
March 20, 2017	Mark Prudenti	41,791	Common Stock award at \$0.67 per share	\$ 28,000
March 20, 2017	James D. Cashel	57,463	Common Stock award at \$0.67 per share	\$ 38,500
March 20, 2017	Thomas G. Loughlin	36,567	Common Stock award at \$0.67 per share	\$ 24,500
March 20, 2017	Alper Kus	35,261	Common Stock award at \$0.67 per share	\$ 23,625

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: All 242,910 shares noted in Item 4A contain a restrictive legend.

Item 5. Financial Statements

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

<i>(in thousands, except per share information)</i>	Thirteen weeks ended		Twenty-six weeks ended	
	August 25, 2017	August 26, 2016	August 25, 2017	August 26, 2016
Net sales	\$ 10,085	\$ 7,459	\$ 21,574	\$ 18,182
Cost of goods sold	6,406	5,105	14,294	12,888
Gross profit	3,679	2,354	7,280	5,294
Operating expenses	2,739	2,814	6,024	5,749
Operating income (loss)	940	(460)	1,256	(455)
Other expenses:				
Interest expense, net	213	193	410	431
Other expense, net	260	131	239	353
Other expenses total	473	324	649	784
Income (loss) before income taxes	467	(784)	607	(1,239)
Income tax provision	25	26	43	50
Net income (loss)	442	(810)	564	(1,289)
Income attributable to non-controlling interest	(26)	(1)	(27)	-
Net income (loss) attributable to Environmental Tectonics Corporation	416	(811)	537	(1,289)
Foreign currency translation adjustment	(234)	228	(286)	176
Comprehensive income (loss)	\$ 182	\$ (583)	\$ 251	\$ (1,113)
Preferred Stock dividends	(121)	(121)	(242)	(242)
Income (loss) attributable to common and participating shareholders	\$ 295	\$ (932)	\$ 295	\$ (1,531)
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 earnings (loss) per share:				
Common	\$ 0.02	\$ (0.06)	\$ 0.02	\$ (0.10)
Preferred	\$ 0.02	\$ (0.06)	\$ 0.02	\$ (0.10)
Diluted earnings (loss) per share	\$ 0.02	\$ (0.06)	\$ 0.02	\$ (0.10)
Basic weighted average common and participating shares:				
Common weighted average number of shares	9,428	9,185	9,396	9,185
Participating preferred shares	6,125	6,063	6,116	6,063
Total basic weighted average common and participating shares	15,553	15,248	15,512	15,248
Diluted weighted average shares:				
Basic weighted average common and participating shares	15,553	15,248	15,512	15,248
Dilutive effect of stock options	-	3	-	3
Total diluted weighted average shares	15,553	15,251	15,512	15,251

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>	August 25, 2017	February 24, 2017
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 556	\$ 445
Restricted cash	5,956	5,956
Accounts receivable, net	4,598	7,053
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	17,244	12,931
Inventories, net	2,807	2,842
Prepaid expenses and other current assets	3,128	2,071
Total current assets	34,289	31,298
Property, plant, and equipment, at cost, net	12,822	13,094
Capitalized software development costs, net	106	146
Total assets	\$ 47,217	\$ 44,538
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt obligations, net of debt issuance costs	\$ 19,217	\$ 362
Accounts payable, trade	3,163	2,709
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	9,524	9,663
Customer deposits	1,310	1,101
Accrued taxes	245	154
Accrued interest and dividends	2,252	1,995
Other accrued liabilities, current	2,312	2,072
Total current liabilities	38,023	18,056
Long-term debt obligations, net of debt issuance costs, less current portion:		
Credit facility payable to bank, net of debt issuance costs	-	17,554
Total long-term debt obligations, net of debt issuance costs, less current portion	-	17,554
Deferred tax liabilities, non-current, net	273	297
Other accrued liabilities, non-current	696	655
Total liabilities	38,992	36,562
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 25, 2017 and February 24, 2017	12,127	12,127
Common Stock, \$0.05 par value, 50,000,000 shares authorized; 9,428,071 and 9,185,161 shares issued and outstanding as of August 25, 2017 and February 24, 2017, respectively	471	459
Additional paid-in capital	8,757	8,798
Accumulated deficit	(12,527)	(13,064)
Accumulated other comprehensive loss	(729)	(443)
Total shareholders' equity before non-controlling interest	8,099	7,877
Non-controlling interest	126	99
Total shareholders' equity	8,225	7,976
Total liabilities and shareholders' equity	\$ 47,217	\$ 44,538

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>	Twenty-six weeks ended	
	August 25, 2017	August 26, 2016
Cash flows from operating activities:		
Net income (loss)	\$ 564	\$ (1,289)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	619	682
Deferred income taxes	(24)	3
Decrease in allowance for doubtful accounts and inventory obsolescence	(4)	(7)
Accretion of loan origination deferred charge and deferred financing costs	17	17
Stock compensation expense	50	60
Issuance of Common Stock	163	-
Changes in operating assets and liabilities:		
Accounts receivable	2,455	1,149
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	(4,313)	523
Inventories	39	137
Prepaid expenses and other assets	(1,198)	(250)
Accounts payable, trade	454	(853)
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(139)	766
Customer deposits	209	60
Accrued taxes	91	(265)
Accrued interest and dividends	15	(17)
Other accrued liabilities	398	(321)
Net cash (used in) provided by operating activities	(604)	395
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(288)	(355)
Capitalized software development costs	(19)	(51)
Net cash used in investing activities	(307)	(406)
Cash flows from financing activities:		
Borrowings under lines of credit	1,308	7,464
Payments on the Term Loan	-	(7,819)
Decrease in restricted cash	-	203
Payments of deferred financing costs	-	(13)
Net cash provided by (used in) financing activities	1,308	(165)
Effect of exchange rate changes on cash	(286)	176
Net increase in cash and cash equivalents	111	-
Cash and cash equivalents at beginning of period	445	976
Cash and cash equivalents at end of period	\$ 556	\$ 976
Supplemental schedule of cash flow information:		
Interest paid	\$ 364	\$ 436
Income taxes paid	\$ -	\$ 55
Supplemental information on non-cash operating and investing activities:		
Preferred Stock dividends accrued during each respective fiscal period	\$ 242	\$ 242

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

CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizers; (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 medical device and pharmaceutical manufacturers. We sell our environmental testing and simulation devices primarily to commercial automotive and heating, ventilation, and air conditioning (“HVAC”) manufacturers. We sell our 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 2018 second quarter are references to the thirteen week period ended August 25, 2017. References to the 2017 second quarter are references to the thirteen week period ended August 26, 2016. References to the 2018 first half are references to the twenty-six week period ended August 25, 2017. References to the 2017 first half are references to the twenty-six week period ended August 26, 2016. References to fiscal 2018 are references to the fifty-two week period ending February 23, 2018. References to fiscal 2017 are references to the fifty-two week period ended February 24, 2017. Certain amounts from prior consolidated financial statements have been reclassified to conform to the presentation in fiscal 2018.

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 now dissolved 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, which was officially dissolved on August 15, 2017, functioned as a sales office in the United Kingdom. All significant intercompany accounts and transactions have been eliminated in consolidation.

Environmental Tectonics Corporation
Notes to the Consolidated Financial Statements, continued

(Dollars in thousands, except per share information)

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 to Shareholders for fiscal 2017.

Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies during fiscal 2018 as compared to what was previously disclosed in the Company's Annual Report to Shareholders for fiscal 2017.

Note 2. Earnings per Share

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

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

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

As of both August 25, 2017 and August 26, 2016, there was \$12,127 of cumulative convertible participating Series E Preferred Stock originally issued in July 2009. As of August 25, 2017, Series E Preferred Stock was convertible at an exercise price of \$1.98 per share, equating to 6,124,567 shares of Common Stock. As of August 26, 2016, Series E Preferred Stock was convertible at an exercise price of \$2.00 per share, equating to 6,063,321 shares of Common Stock.

As of August 25, 2017 and August 26, 2016, there were outstanding options to purchase the Company's Common Stock totaling 509,500 and 585,427 shares at an average price of \$1.24 per share. Due to the conversion price of Common Stock options, 499,500 and 575,427 shares were excluded from the calculation of diluted earnings per share as of August 25, 2017 and August 26, 2016, respectively, because the effect of their conversion would be anti-dilutive.

Environmental Tectonics Corporation
Notes to the Consolidated Financial Statements, continued
(Dollars in thousands, except per share information)

Note 3. Long-Term Obligations

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

- (i) The PNC Line of Credit and the Term Loan were consolidated into a \$21,000 Revolving Line of Credit (the “Revolving Line of Credit”), under which amounts may be borrowed, repaid, and re-borrowed until the maturity date.
- (ii) The existing Committed Line of Credit (the “Committed Line of Credit”) is capped at \$8,600, an amount equivalent to the total outstanding standby letters of credit under which the Committed Line of Credit covered as of May 27, 2016. Total outstanding standby letters of credit covered by the Committed Line of Credit decreased to approximately \$5,155 as of September 21, 2017, the date of issuance of our consolidated financial statements.
- (iii) A new \$1,000 FX Equivalent Line of Credit (the “FX Equivalent Line of Credit”) for potential future foreign exchange obligations.
- (iv) The Revolving Line of Credit, the Committed Line of Credit, and the FX Equivalent Line of Credit (collectively, the “2016 PNC Credit Facilities”) had an original maturity date of December 31, 2017, which on May 26, 2017 was subsequently extended to June 30, 2018.
- (v) The interest rate on the 2016 PNC Credit Facilities will be based on the PNC Daily LIBOR Rate (1.2317% as of September 2, 2017, the date of our most current Revolving Line of Credit statement) plus a margin of 3.00%.
- (vi) The 2016 PNC Credit Facilities are collateralized by a combination of the Company’s pledged restricted cash (\$5,956 as of August 25, 2017), substantially all of the Company’s additional assets, and the pledged cash collateral of H.F. Lenfest, a major shareholder and member of the Company’s Board of Directors (the “Board of Directors”).

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

	August 25, 2017	February 24, 2017
	(unaudited)	
Credit facility payable to bank	\$ 19,224	\$ 17,578
Borrowed under the ETC-PZL Line of Credit	-	362
Total long-term debt obligations	19,224	17,940
Less: debt issuance costs	(7)	(24)
Total long-term debt obligations, net of debt issuance costs	19,217	17,916
Less: current portion	(19,217)	(362)
Total long-term debt obligations, net of debt issuance costs, less current portion	\$ -	\$ 17,554

Note 4. 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 carryforwards. 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 liabilities and assets are offset and presented as a single non-current liability.

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.

Environmental Tectonics Corporation
Notes to the Consolidated Financial Statements, continued

(Dollars in thousands, except per share information)

An income tax provision of \$25, primarily related to an increase in unrecognized tax benefits, was recorded in the 2018 second quarter compared to an income tax provision of \$26 recorded in the 2017 second quarter. Effective tax rates were 5.4% and -3.3% for the 2018 second quarter and the 2017 second quarter, respectively. An income tax provision of \$43, also primarily related to an increase in unrecognized tax benefits, was recorded in the 2018 first half compared to an income tax provision of \$50 recorded in the 2017 first half. Effective tax rates were 7.1% and -4.0% for the 2018 first half and the 2017 first half, respectively. As of August 25, 2017, the Company had approximately \$25,746 of federal net loss carryforwards available to offset future income tax liabilities, which begin to expire in 2025. The unrecognized tax benefits, which are recorded on the Company's balance sheet within other accrued liabilities, are primarily associated with U.S. federal tax issues such as the amount of research and development tax credits claimed and taxation of foreign earnings. Also included in these amounts are accruals for domestic state tax issues such as the allocation of income among various state tax jurisdictions.

Note 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 September 21, 2017, the date of issuance of the accompanying interim consolidated financial statements, and determined that there were no material subsequent events requiring adjustment to, or disclosure in, the accompanying interim consolidated financial statements for the thirteen weeks ended August 25, 2017.

Management's Discussion and Analysis

Forward-looking Statements

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

These forward-looking statements include statements with respect to the Company's vision, mission, strategies, goals, beliefs, plans, objectives, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance, and business of the Company, including, but not limited to, (i) projections of revenues, costs of materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, capital structure, other financial items, and the effects of foreign currency fluctuations, (ii) statements of our plans and objectives of the Company or its management or the 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 August 25, 2017 compared to thirteen weeks ended August 26, 2016

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		Variance (\$)	Variance (%)
	August 25, 2017	August 26, 2016		
Net sales	\$ 10,085	\$ 7,459	\$ 2,626	35.2
Cost of goods sold	6,406	5,105	1,301	25.5
Gross profit	3,679	2,354	1,325	56.3
<i>Gross profit margin %</i>	36.5%	31.6%	4.9%	15.5%
Operating expenses	2,739	2,814	(75)	(2.7)
Operating income (loss)	940	(460)	1,400	
<i>Operating margin %</i>	9.3%	(6.2%)	15.5%	
Interest expense, net	213	193	20	10.4
Other expense, net	260	131	129	98.5
Income (loss) before income taxes	467	(784)	1,251	
<i>Pre-tax margin %</i>	4.6%	(10.5%)	15.1%	
Income tax provision	25	26	(1)	(3.8)
Income attributable to non-controlling interest	(26)	(1)	(25)	2500.0
Net income (loss) attributable to ETC	\$ 416	\$ (811)	\$ 1,227	

Per share information:

Basic earnings (loss) per common and participating share:

Distributed earnings per share:

Common	\$ -	\$ -	\$ -	
Preferred	\$ 0.02	\$ 0.02	\$ -	0.0
Undistributed earnings (loss) per share:				
Common	\$ 0.02	\$ (0.06)	\$ 0.08	
Preferred	\$ 0.02	\$ (0.06)	\$ 0.08	
Diluted earnings (loss) per share	\$ 0.02	\$ (0.06)	\$ 0.08	

Environmental Tectonics Corporation
Management's Discussion and Analysis, continued

Bookings / Sales Backlog

Bookings in the 2018 second quarter were \$8.1 million, leaving our sales backlog as of August 25, 2017, for work to be performed and revenue to be recognized under written agreements after such date, at \$57.6 million compared to \$64.4 million as of February 24, 2017. The combined bookings by ETC-PZL and the Sterilization Systems business unit represented nearly 80.0% of 2018 second quarter bookings.

Net Income (Loss) Attributable to ETC

Net income attributable to ETC was \$0.4 million, or \$0.02 diluted earnings per share, in the 2018 second quarter, compared to a net loss attributable to ETC of \$0.8 million during the 2017 second quarter, equating to \$0.06 diluted loss per share. The \$1.2 million variance is due to the combined effect of a \$1.3 million increase in gross profit and a \$0.1 million decrease in operating expenses, offset, in part, by a \$0.1 million increase in other expense and slight increases in both interest expense and income attributable to non-controlling interest.

Net Sales

Net sales in the 2018 second quarter were \$10.1 million, an increase of \$2.6 million, or 35.2%, compared to 2017 second quarter net sales of \$7.5 million. The increase reflects higher sales of Environmental Testing and Simulation Systems to Domestic customers within our CIS segment, and higher overall sales of our ADMS line of products and higher sales of simulator upgrade services and training devices provided by ETC-PZL within our Aerospace segment, offset, in part, by an overall decrease in sales of monoplace chambers within the Hyperbaric Chambers business unit of our CIS segment.

Gross Profit

Gross profit for the 2018 second quarter was \$3.7 million compared to \$2.4 million in the 2017 second quarter, an increase of \$1.3 million, or 56.3%. The increase in gross profit was due to both higher net sales and a higher blended gross profit margin as a percentage of net sales, which increased to 36.5% for the 2018 second quarter compared to 31.6% for the 2017 second quarter. The increase in gross profit margin as a percentage of net sales was due to the combination of a reduction in the amount of additional work required on three contracts and a higher concentration of net sales from more off-the-shelf type products requiring less design and engineering work.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2018 second quarter were \$2.7 million, a decrease of \$0.1 million, or 2.7%, compared to \$2.8 million for the 2017 second quarter. This decrease was due primarily to a reduction in expenses associated with maintaining ETC-Europe, which was officially dissolved on August 15, 2017.

Other Expense, Net

Other expense, net for the 2018 second quarter was \$0.2 million compared to \$0.1 million in the 2017 second quarter, an increase of \$0.1 million due primarily to the recognition of a realized foreign currency exchange loss during the 2018 second quarter.

Environmental Tectonics Corporation
Management's Discussion and Analysis, continued

Twenty-six weeks ended August 25, 2017 compared to twenty-six weeks ended August 26, 2016

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>	Twenty-six weeks ended		Variance (\$)	Variance (%)
	August 25, 2017	August 26, 2016		
Net sales	\$ 21,574	\$ 18,182	\$ 3,392	18.7
Cost of goods sold	14,294	12,888	1,406	10.9
Gross profit	7,280	5,294	1,986	37.5
<i>Gross profit margin %</i>	33.7%	29.1%	4.6%	15.8%
Operating expenses	6,024	5,749	275	4.8
Operating income (loss)	1,256	(455)	1,711	
<i>Operating margin %</i>	5.8%	(2.5%)	8.3%	
Interest expense, net	410	431	(21)	(4.9)
Other expense, net	239	353	(114)	(32.3)
Income (loss) before income taxes	607	(1,239)	1,846	
<i>Pre-tax margin %</i>	2.8%	(6.8%)	9.6%	
Income tax provision	43	50	(7)	(14.0)
Income attributable to non-controlling interest	(27)	-	(27)	
Net income (loss) attributable to ETC	\$ 537	\$ (1,289)	\$ 1,826	

Per share information:

Basic earnings (loss) per common and participating share:

Distributed earnings per share:

Common	\$ -	\$ -	\$ -	
Preferred	\$ 0.04	\$ 0.04	\$ -	0.0
Undistributed earnings (loss) per share:				
Common	\$ 0.02	\$ (0.10)	\$ 0.12	
Preferred	\$ 0.02	\$ (0.10)	\$ 0.12	

Diluted earnings (loss) per share

\$ 0.02 \$ (0.10) \$ 0.12

Bookings / Sales Backlog

Bookings in the 2018 first half were \$14.8 million, leaving our sales backlog as of August 25, 2017, for work to be performed and revenue to be recognized under written agreements after such date, at \$57.6 million compared to \$64.4 million as of February 24, 2017. The combined bookings by ETC-PZL, ETC Simulation, and the Sterilization Systems business unit represented approximately 67.0% of 2018 first half bookings.

Net Income (Loss) Attributable to ETC

Net income attributable to ETC was \$0.5 million, or \$0.02 diluted earnings per share, in the 2018 first half, compared to a net loss attributable to ETC of \$1.3 million during the 2017 first half, equating to \$0.10 diluted loss per share. The \$1.8 million variance is due to the combined effect of a \$2.0 million increase in gross profit and a \$0.1 million decrease in other expense, offset, in part, by a \$0.3 million increase in operating expenses.

Net Sales

Net sales in the 2018 first half were \$21.6 million, an increase of \$3.4 million, or 18.7%, compared to 2017 first half net sales of \$18.2 million. The increase reflects higher sales of Environmental Testing and Simulation Systems to both Domestic and International customers within our CIS segment, and higher overall sales of our ADMS line of products and higher sales of simulator upgrade services and training devices provided by ETC-PZL within our Aerospace segment, offset, in part, by an overall decrease in sales of monoplace chambers within the Hyperbaric Chambers business unit of our CIS segment.

Environmental Tectonics Corporation
Management's Discussion and Analysis, continued

Gross Profit

Gross profit for the 2018 first half was \$7.3 million compared to \$5.3 million in the 2017 first half, an increase of \$2.0 million, or 37.5%. The increase in gross profit was due to both higher net sales and a higher blended gross profit margin as a percentage of net sales, which increased to 33.7% for the 2018 first half compared to 29.1% for the 2017 first half. The increase in gross profit margin as a percentage of net sales was due to the combination of a reduction in the amount of additional work required on three contracts and a higher concentration of net sales from more off-the-shelf type products requiring less design and engineering work.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2018 first half were \$6.0 million, an increase of \$0.3 million, or 4.8%, compared to \$5.7 million for the 2017 first half. The most significant component of this increase was the non-cash expense associated with the issuance of Common Stock awards.

Other Expense, Net

Other expense, net for the 2018 first half was \$0.2 million compared to \$0.3 million in the 2017 first half, a decrease of \$0.1 million due primarily to a decrease in letter of credit fees.

Cash Flows from Operating, Investing, and Financing Activities

During the 2018 first half, as a result of an increase in costs and estimated earnings in excess of billings on uncompleted long-term contracts, offset, in part by a decrease in accounts receivable, the Company used \$0.6 million of cash for operating activities compared to \$0.4 million of cash provided by operating activities during the 2017 first half. Under percentage-of-completion ("POC") revenue recognition, these accounts 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 \$0.3 million in the 2018 first half compared to \$0.4 million in the 2017 first half.

The Company's financing activities provided \$1.3 million of cash in the 2018 first half from borrowings under the Company's various lines of credit. In the 2017 first half, the Company's financing activities used \$0.2 million of cash on payments towards the Term Loan, offset, in part, by borrowings under the Company's various lines of credit and 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 four major locations consisting of manufacturing facilities, product development, and administration. A summary of square footage and use is presented below:

Location	Approximate Square Footage	Function	Owned/Leased	Segment
Southampton, Pennsylvania	83,800	Manufacturing (36,000 sq. ft), NASTAR Center (22,100 sq. ft.), and Corporate Headquarters (25,700 sq. ft.)	Owned	Aerospace CIS
Orlando, Florida	8,700	Product development and administration	Leased	Aerospace
Warsaw, Poland	28,000	Manufacturing, product development, and administration	Leased	Aerospace
Ankara, Turkey	5,700	Software development	Leased	Aerospace CIS
Total	126,200			

The Southampton owned property is encumbered by an Open-End Mortgage and Security Agreement with PNC Bank, which secures the 2016 PNC Credit Facilities. We consider our machinery and plant to be in satisfactory operating condition, and adequate given our expected operations. Significant increases in the level of operations beyond what we expect in the current fiscal year might require us to obtain additional facilities and equipment.

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

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

Item 8. 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	*
	Michael D. Malone	Vice Chairman of the Board of Directors	*
	Linda J. Brent, Ed.D.	Director	*
	Roger Colley	Director	*
	Robert L. Laurent, Jr.	Chief Executive Officer, President, and Director	1.0%
	H.F. Lenfest c/o The Lenfest Group Five Tower Bridge-Suite 460 300 Barr Harbor Drive West Conshohocken, PA 19428	Director	*** 54.1%
	Winston E. Scott	Director	*
	Mark Prudenti	Chief Financial Officer and Treasurer	*
	James D. Cashel	Vice President, General Counsel, Corporate Secretary, and Chief Compliance Officer	*
	Thomas G. Loughlin	Chief Operating Officer	*
Control Persons:	William F. Mitchell, Sr. 2355 Fairway Road Huntingdon Valley, PA 19006		14.2%
	T. Todd Martin, III 50 Midtown Park East Mobile, AL 36606		11.0%
	3K Limited Partnership		6.9%
	Estate of Pete L. Stephens		6.3%

* less than 1%

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

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

Information is accurate as of September 21, 2017, the date of issuance of the accompanying interim consolidated financial statements, based on information available to the Company. None of the foregoing Directors and Executive Officers in the last five years has had a legal/disciplinary issue.

Item 9. Third Party Providers

Legal Counsel:

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

Independent Auditor:

RSM US 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 and Treasurer
Date: September 21, 2017

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: September 21, 2017



ETC GLOBAL
HEADQUARTERS

125 James Way
Southampton, PA 18966
www.etcusa.com

INVESTOR CONTACT

Mark Prudenti | Chief Financial Officer
+1.215.355.9100 x1531
mprudenti@etcusa.com