QUARTERLY REPORT 2

For the thirteen weeks
ended August 28, 2020

ENVIRONMENTAL TECTONICS CORPORATION

Quarterly Report
For the thirteen weeks ended August 28, 2020

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

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

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

Item 2. Security Information

Trading symbol:	ETCC	
CUSIP:	294092	
Title of class of securities outstanding:	Common Stock	Preferred Stock, Series E
Par value:	$0.05	$0.05 (Stated value of $1,000)
Total shares authorized:	50,000,000 as of August 28, 2020	25,000 as of August 28, 2020
Total shares outstanding:	9,443,785 as of August 28, 2020	12,127 as of August 28, 2020

Transfer Agent:

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

* registered under the Exchange Act

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

Describe any trading suspension: N/A

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

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

Dividends on the Company's Preferred Stock, as declared, are accrued according to the terms of the Preferred Stock and when paid, are paid in cash. The Preferred Stock is currently entitled to receive cumulative dividends at the rate of four percent (4%) per year in preference to the holders of the Company's Common Stock with respect to dividends. Series E Preferred Stock dividends accrued as of August 28, 2020, which totaled $3,647 thousand, remained unpaid as of January 26, 2021, the date of issuance of the accompanying interim consolidated financial statements.

On November 27, 2019, the Company entered into an asset purchase agreement to sell substantially all of its rights, title, and interest in and to the assets related to monoplace chambers.

Item 3. Issuance History

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

Date	Shareholder	Shares	Transaction	Value
October 17, 2018	George K. Anderson, M.D.	8,571	Director remuneration at $0.70 per share	$ 6,000
October 17, 2018	Michael D. Malone	7,143	Director remuneration at $0.70 per share	$ 5,000

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

C. The number of shares offered: N/A

D. The number of shares sold: N/A

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

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

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

Item 4. Financial Statements

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

(in thousands, except per share information)	Thirteen weeks ended August 28, 2020	Thirteen weeks ended August 30, 2019	Twenty-six weeks ended August 28, 2020	Twenty-seven weeks ended August 30, 2019
Net sales	$ 4,354	$ 12,012	$ 9,268	$ 22,828
Cost of goods sold	3,580	8,565	7,973	16,901
Gross profit	774	3,447	1,295	5,927
Operating expenses	2,321	2,710	4,314	5,296
Operating (loss) income	(1,547)	737	(3,019)	631
Other expenses:				
Interest expense, net	181	185	337	363
Other expense (income), net	5	110	(12)	260
Other expenses total	186	295	325	623
(Loss) income before income taxes	(1,733)	442	(3,344)	8
Income tax provision	20	20	40	40
Net (loss) income	(1,753)	422	(3,384)	(32)
Loss (income) attributable to non-controlling interest	35	(19)	37	(45)
Net (loss) income attributable to Environmental Tectonics Corporation	**(1,718)**	**403**	**(3,347)**	**(77)**
Foreign currency translation adjustment	(174)	(130)	54	(116)
Comprehensive (loss) income	$ (1,892)	$ 273	$ (3,293)	$ (193)
Preferred Stock dividends	(121)	(121)	(242)	(251)
(Loss) income attributable to common and participating shareholders	$ (1,839)	$ 282	$ (3,589)	$ (328)
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) earnings per share:				
Common	$ (0.12)	$ 0.02	$ (0.23)	$ (0.02)
Preferred	$ (0.12)	$ 0.02	$ (0.23)	$ (0.02)
Diluted (loss) earnings per share	**$ (0.12)**	**$ 0.02**	**$ (0.23)**	**$ (0.02)**
Basic weighted average common and participating shares:				
Common weighted average number of shares	9,444	9,444	9,444	9,444
Participating preferred shares	6,125	6,125	6,125	6,125
Total basic weighted average common and participating shares	15,569	15,569	15,569	15,569
Diluted weighted average shares:				
Basic weighted average common and participating shares	15,569	15,569	15,569	15,569
Dilutive effect of stock options	-	2	-	2
Total diluted weighted average shares	15,569	15,571	15,569	15,571

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, 2020** (unaudited)	**February 28, 2020**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,053	$ 677
Restricted cash	7,583	8,413
Accounts receivable, net	3,991	8,360
Contract assets	21,260	17,041
Inventories, net	1,516	1,884
Prepaid expenses and other current assets	1,075	1,229
Total current assets	36,478	37,604
Property, plant, and equipment, at cost, net	10,078	10,566
Right-of-use asset	318	388
Capitalized software development costs, net	68	100
Deferred tax assets, non-current, net	154	159
Total assets	**$ 47,096**	**$ 48,817**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt obligations, net of debt issuance costs	$ 21,635	$ -
Accounts payable, trade	3,552	5,345
Contract liabilities	3,560	3,562
Accrued taxes	174	515
Accrued interest and dividends	3,712	3,475
Current portion of lease obligations	189	187
Other accrued liabilities, current	6,289	6,541
Total current liabilities	39,111	19,625
Long-term debt obligations, net of debt issuance costs:		
Credit facility payable to bank, net of debt issuance costs	-	20,078
Paycheck Protection Program loan	2,447	-
Total long-term debt obligations, net of debt issuance costs	2,447	20,078
Lease obligations, non-current	150	227
Other accrued liabilities, non-current	895	864
Total liabilities	42,603	40,794
Commitments and contingencies (Note 7)		
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, 2020 and February 28, 2020	12,127	12,127
Common Stock, $0.05 par value, 50,000,000 shares authorized; 9,443,785 shares issued and outstanding as of August 28, 2020 and February 28, 2020	472	472
Additional paid-in capital	7,462	7,662
Accumulated deficit	(14,905)	(11,558)
Accumulated other comprehensive loss	(836)	(890)
Total shareholders' equity before non-controlling interest	4,320	7,813
Non-controlling interest	173	210
Total shareholders' equity	4,493	8,023
Total liabilities and shareholders' equity	**$ 47,096**	**$ 48,817**

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, 2020	Twenty-seven weeks ended August 30, 2019
Cash flows from operating activities:		
Net loss	$ (3,384)	$ (32)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	563	566
Deferred income taxes	5	(1)
Decrease in allowance for doubtful accounts and inventory obsolescence	(2)	(19)
Stock compensation expense	42	17
Changes in operating assets and liabilities:		
Accounts receivable	4,384	(2,721)
Contract assets	(4,219)	(1,874)
Inventories	355	135
Prepaid expenses and other assets	154	(442)
Accounts payable, trade	(1,793)	275
Contract liabilities	(2)	(2,735)
Accrued taxes	(341)	(1,535)
Accrued interest and dividends	(5)	3
Other accrued liabilities	(226)	(711)
Net cash used in operating activities	**(4,469)**	**(9,074)**
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(43)	(103)
Capitalized software development costs	-	(74)
Net cash used in investing activities	**(43)**	**(177)**
Cash flows from financing activities:		
Borrowings under lines of credit	1,557	6,442
Proceeds from Paycheck Protection Program loan	2,447	-
Net cash provided by financing activities	**4,004**	**6,442**
Effect of exchange rate changes on cash	54	(116)
Net decrease in cash, cash equivalents, and restricted cash	(454)	(2,925)
Cash, cash equivalents, and restricted cash at beginning of period	9,090	11,017
Cash, cash equivalents, and restricted cash at end of period	**$ 8,636**	**$ 8,092**
Less: Restricted cash	(7,583)	(5,955)
Cash and cash equivalents at end of period	**$ 1,053**	**$ 2,137**
Supplemental schedule of cash flow information:		
Interest paid	$ 360	$ 434
Income taxes paid	$ 2	$ 449
Supplemental information on non-cash operating and investing activities:		
Preferred Stock dividends accrued during each respective fiscal period	$ 242	$ 251

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 5. Description of Business Operations

ETC was incorporated in 1969 in Pennsylvania. For over five decades, we have provided our customers with products, services, and support. Innovation, continuous technological improvement and enhancement, and product quality are core values that are critical to our success. We are a significant supplier and innovator in the following areas: (i) software driven products and services used to create and monitor the physiological effects of flight, including high performance jet tactical flight simulation, fixed and rotary wing upset prevention and recovery and spatial disorientation, and both suborbital and orbital commercial human spaceflight, collectively, Aircrew Training Systems ("ATS"); (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); (iv) Advanced Disaster Management Simulators ("ADMS"); (v) steam and gas (ethylene oxide) sterilizers; (vi) environmental testing and simulation systems ("ETSS"); and (vii) hyperbaric (100% oxygen) chambers for one person (monoplace chambers). On November 27, 2019, the Company entered into an asset purchase agreement to sell substantially all of its rights, title, and interest in and to the assets related to 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 ("ARFF") vehicles), fire and emergency training schools, universities, and airports. We also provide ILS for customers who purchase these products or similar products manufactured by other parties.

CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizers; (ii) ETSS; 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 manufacturers, pharmaceutical manufacturers, and universities. We sell ETSS primarily to commercial automotive and heating, ventilation, and air conditioning ("HVAC") manufacturers. Prior to the asset sale on November 27, 2019, we sold 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 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 2021 second quarter are references to the thirteen week period ended August 28, 2020. References to the 2020 second quarter are references to the thirteen week period ended August 30, 2019. References to the 2021 first half are references to the twenty-six week period ended August 28, 2020. References to the 2020 first half are references to the twenty-seven week period ended August 30, 2019. References to fiscal 2021 are references to the fifty-two week period ending February 26, 2021. References to fiscal 2020 are references to the fifty-three week period ended February 28, 2020. Certain amounts from prior consolidated financial statements have been reclassified to conform to the presentation in fiscal 2021.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim consolidated financial statements include the accounts of ETC and our 95%-owned subsidiary in Warsaw, Poland, ETC-PZL Aerospace Industries Sp. z o.o. ("ETC-PZL"). 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. 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 2020 (the "2020 Annual Report").

Significant Accounting Policies Update

There have been no material changes in the Company's significant accounting policies during fiscal 2021 as compared to what was previously disclosed in the 2020 Annual Report.

Note 2. Earnings per Share

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

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

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

As of both August 28, 2020 and August 30, 2019, 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 August 28, 2020 and August 30, 2019, there were outstanding options to purchase the Company's Common Stock totaling 1,027,450 and 742,500 shares at an average price of $0.95 and $1.07 per share, respectively. Due to the conversion price of Common Stock options, 1,027,450 and 732,500 shares were excluded from the calculation of diluted earnings per share as of August 28, 2020 and August 30, 2019, respectively, because the effect of their conversion would be anti-dilutive.

Note 3. Revenue

The majority of our net sales are generated from long-term contracts with U.S. and foreign government agencies (including foreign military sales ("FMS") contracted through the U.S. Government) for the research, design, development, manufacture, integration, and sustainment of ATS products, including Chambers and the simulators manufactured and sold through ETC-PZL, collectively, Aeromedical Training Solutions. The Company also enters into long-term contracts with domestic customers for the sale of sterilizers and ETSS. Net sales of ADMS and monoplace chambers 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 August 28, 2020, our ending sales backlog was $16,128. We expect to recognize approximately 85% over the next twelve (12) months and approximately 93% 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 (loss) income attributable to ETC are presented below:

	Thirteen weeks ended					
	August 28, 2020			August 30, 2019		
	Aerospace	CIS	Total	Aerospace	CIS	Total
Net (loss) income attributable to ETC	$ (108)	$ (212)	$ (320)	$ (44)	$ (172)	$ (216)

	Twenty-six weeks ended August 28, 2020			Twenty-seven weeks ended August 30, 2019		
	Aerospace	CIS	Total	Aerospace	CIS	Total
Net (loss) income attributable to ETC	$ 571	$ (212)	$ 359	$ (376)	$ (20)	$ (396)

The following schedule presents the Company's net sales by segment, business unit, and geographic area for the 2021 second quarter compared to the 2020 second quarter:

	Thirteen weeks ended							
	August 28, 2020				August 30, 2019			
	Domestic	U.S. Gov't	Inter-national	Total	Domestic	U.S. Gov't	Inter-national	Total
Aerospace Solutions								
Aeromedical Training Solutions	$ 50	$ 1,119	$ 1,044	$ 2,213	$ 42	$ 291	$ 4,568	$ 4,901
Simulation (ADMS)	36	4	835	875	234	5	699	938
Subtotal	86	1,123	1,879	3,088	276	296	5,267	5,839
Commercial/Industrial Systems								
Sterilizers	362	-	(127)	235	778	-	1,247	2,025
Environmental (ETSS)	257	-	340	597	233	-	2,888	3,121
Hyperbaric Chambers	-	-	-	-	-	-	437	437
Service and Spares	434	-	-	434	590	-	-	590
Subtotal	1,053	-	213	1,266	1,601	-	4,572	6,173
Net sales total	**$ 1,139**	**$ 1,123**	**$ 2,092**	**$ 4,354**	**$ 1,877**	**$ 296**	**$ 9,839**	**$ 12,012**

(Dollars in thousands, except per share information)

The following schedule presents the Company's net sales by segment, business unit, and geographic area for the 2021 first half compared to the 2020 first half:

	Twenty-six weeks ended August 28, 2020				Twenty-seven weeks ended August 30, 2019			
	Domestic	U.S. Gov't	Inter-national	Total	Domestic	U.S. Gov't	Inter-national	Total
Aerospace Solutions								
Aeromedical Training Solutions	$ 95	$ 2,383	$ 3,219	$ 5,697	$ 223	$ 532	$ 9,190	$ 9,945
Simulation (ADMS)	38	8	1,156	1,202	876	8	1,047	1,931
Subtotal	133	2,391	4,375	6,899	1,099	540	10,237	11,876
Commercial/Industrial Systems								
Sterilizers	395	-	(106)	289	2,161	-	3,100	5,261
Environmental (ETSS)	876	-	378	1,254	351	-	3,418	3,769
Hyperbaric Chambers	-	-	-	-	-	-	885	885
Service and Spares	826	-	-	826	1,037	-	-	1,037
Subtotal	2,097	-	272	2,369	3,549	-	7,403	10,952
Net sales total	**$ 2,230**	**$ 2,391**	**$ 4,647**	**$ 9,268**	**$ 4,648**	**$ 540**	**$ 17,640**	**$ 22,828**

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

	Thirteen weeks ended	
Type of Revenue	**August 28, 2020**	**August 30, 2019**
Products	72.1%	83.5%
Services	13.7%	8.3%
Maintenance and support agreements	10.1%	7.0%
Spare parts	4.1%	1.2%
Total	**100.0%**	**100.0%**

Type of Revenue	**Twenty-six weeks ended August 28, 2020**	**Twenty-seven weeks ended August 30, 2019**
Products	75.0%	83.1%
Services	11.6%	8.5%
Maintenance and support agreements	10.0%	6.8%
Spare parts	3.4%	1.6%
Total	**100.0%**	**100.0%**

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.

(Dollars in thousands, except per share information)

The Company leases certain premises and office equipment under operating leases. As of August 28, 2020, these leases have remaining lease terms of thirteen (13) months to thirty-four (34) months, with a weighted average remaining lease term of approximately two (2) years. Maturities of operating lease liabilities are as follows:

Fiscal Year		Amount
Fiscal 2021	$	112
Fiscal 2022		203
Fiscal 2023		38
Fiscal 2024		2
Total lease payments		355
Less: imputed interest		(16)
Total future long-term debt obligations		339
Less: current portion		(189)
Total future long-term debt obligations, less current portion	**$**	**150**

Total operating lease expense was $45 for the 2021 second quarter, of which $13 was attributable to variable lease expenses. For the 2021 second quarter, cash payments against operating lease liabilities totaled $32.

Total operating lease expense was $109 for the 2021 first half, of which $31 was attributable to variable lease expenses. For the 2021 first half, cash payments against operating lease liabilities totaled $78 and reclassifications of liabilities to comply with the presentation requirements of Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) totaled $23.

Note 5. Long-Term Obligations

On April 16, 2020, the Company was granted a loan from PNC Bank, National Association ("PNC Bank") in the aggregate amount of $2,447 pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

On June 26, 2020, 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 elimination of the Committed Line of Credit component of the 2016 PNC Credit Facilities.

(ii) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2020 to June 30, 2021.

(iii) The elimination of the Consolidated Tangible Net Worth, which was the last remaining financial covenant; going forward, there are no financial covenants contained within the amended loan agreement.

(iv) The release of the mortgage on the property located at 125 James Way, Southampton, PA.

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

		August 28, 2020 (unaudited)		February 28, 2020
Credit facility payable to bank	$	21,635	$	20,078
PPP loan		2,447		-
Total long-term debt obligations		24,082		20,078
Less: debt issuance costs		-		-
Total long-term debt obligations, net of debt issuance costs		24,082		20,078
Less: current portion		(21,635)		-
Total long-term debt obligations, net of debt issuance costs, less current portion	**$**	**2,447**	**$**	**20,078**

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

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

An income tax provision of $20, primarily related to an increase in unrecognized tax benefits, was recorded in both the 2021 second quarter and the 2020 second quarter. Effective tax rates were -1.2% and 4.5% for the 2021 second quarter and the 2020 second quarter, respectively. An income tax provision of $40, also primarily related to an increase in unrecognized tax benefits, was recorded in both the 2021 first half and the 2020 first half. Effective tax rates were -1.2% and 500.0% for the 2021 first half and the 2020 first half, respectively. As of August 28, 2020, the Company had approximately $24,569 of federal NOL carryforwards available to offset future income tax liabilities, $19,958 of which begin to expire in 2025. The Company continues to record a valuation allowance on the entire NOL carryforward as it believes that it is more likely than not that the deferred tax asset associated with the NOL carryforwards will not be realized. The unrecognized tax benefits, which are recorded on the Company's balance sheet within other accrued liabilities, are primarily associated with U.S. federal tax issues such as the amount of research and development tax credits claimed and taxation of foreign earnings. Also included in these amounts are accruals for domestic state tax issues such as the allocation of income among various state tax jurisdictions.

Note 7. Commitments and Contingencies

Legal Proceedings

US Air Force Research Altitude Chamber Contract

The Company is a party to a contract with the U.S. Air Force ("USAF"), namely a firm fixed-price contract dated June 14, 2010, to build a suite of research altitude chambers at the Wright-Patterson Air Force Base (the "RAC Contract"). Under the RAC Contract, the Company believes that the USAF has made changes to the scope and terms of said Contract that increased cost and resulted in delay to the program schedule. The Company has made objection and claims with respect to these changes. Subsequent to the end of fiscal 2020, the parties executed a modification to the RAC Contract which, among other things, provided for the USAF's final acceptance, resulted in an addition to the RAC Contract base price of approximately two percent (2%), and resolved all potential claims regarding RAC Contract changes and program delay. All amounts owed pertaining to the RAC Contract have now been collected.

International Aeromedical Center Contract

The Company is party to a contract with an international military customer to supply aeromedical training equipment and to provide certain equipment upgrades. The value of the contract is $14,700. Due to delay in delivering the equipment required by the contract, the Company was notified that it was subject to liquidated damages of ten percent (10%) of the contract value. The parties have agreed to a $230 reduction in the contract value and have signed a mutually agreeable document to amend the contract value and delivery schedule accordingly.

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 January 26, 2021, the date of issuance of the accompanying interim consolidated financial statements, and determined that there were no material subsequent events other than disclosed below requiring adjustment to, or disclosure in, the accompanying interim consolidated financial statements for the thirteen weeks ended August 28, 2020.

On September 16, 2020, the acceptance milestone was achieved on the RAC Contract. See Note 7 – Commitments and Contingencies for further details regarding the settlement of this contract.

Management's Discussion and Analysis

Forward-looking Statements

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

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

Results of Operations

Thirteen weeks ended August 28, 2020 compared to thirteen weeks ended August 30, 2019

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. This was compounded in the 2021 second quarter due to COVID-19 global pandemic related lock downs, which delayed orders and our ability to deliver.

Summary Table of Results
(unaudited)

(in thousands, except per share information)	Thirteen weeks ended August 28, 2020	Thirteen weeks ended August 30, 2019	Variance ($)	Variance (%)
Net sales	$ 4,354	$ 12,012	$ (7,658)	(63.8)
Cost of goods sold	3,580	8,565	(4,985)	(58.2)
Gross profit	774	3,447	(2,673)	(77.5)
Gross profit margin %	*17.8%*	*28.7%*	*-10.9%*	*-38.0%*
Operating expenses	2,321	2,710	(389)	(14.4)
Operating (loss) income	(1,547)	737	(2,284)	
Operating margin %	*-35.5%*	*6.1%*	*-41.6%*	
Interest expense, net	181	185	(4)	(2.2)
Other expense, net	5	110	(105)	(95.5)
(Loss) income before income taxes	(1,733)	442	(2,175)	
Pre-tax margin %	*-39.8%*	*3.7%*	*-43.5%*	
Income tax provision	20	20	-	0.0
Loss (income) attributable to non-controlling interest	35	(19)	54	
Net (loss) income attributable to ETC	**$ (1,718)**	**$ 403**	**$ (2,121)**	
Per share information:				
Basic earnings (loss) per common and participating share:				
Distributed earnings per share:				
Common	$ -	$ -	$ -	
Preferred	$ 0.02	$ 0.02	$ -	0.0
Undistributed (loss) earnings per share:				
Common	$ (0.12)	$ 0.02	$ (0.14)	
Preferred	$ (0.12)	$ 0.02	$ (0.14)	
Diluted (loss) earnings per share	**$ (0.12)**	**$ 0.02**	**$ (0.14)**	

Net (Loss) Income Attributable to ETC

Net loss attributable to ETC was $1.7 million, or $0.12 diluted loss per share, in the 2021 second quarter, compared to net income attributable to ETC of $0.4 million during the 2020 second quarter, equating to $0.02 diluted earnings per share. The $2.1 million variance is due to the combined effect of a $2.6 million decrease in gross profit, offset, in part, by a $0.4 million decrease in operating expenses and a $0.1 million decrease in other expense, net.

Net Sales

Net sales in the 2021 second quarter were $4.4 million, a decrease of $7.6 million, or 63.8%, compared to 2020 second quarter net sales of $12.0 million. The decrease reflects lower International sales, especially within Aeromedical Training Solutions and ETSS, lower overall Sterilizers sales, and lower monoplace chambers sales as a result of the asset sale on November 27, 2019, offset, in part, by an increase in U.S. Government sales within Aeromedical Training Solutions in conjunction with the USAF's final acceptance of the RAC Contract.

Gross Profit

Gross profit for the 2021 second quarter was $0.8 million compared to $3.4 million in the 2020 second quarter, a decrease of $2.6 million, or 77.5%. The decrease in gross profit was due to lower net sales not being able to support fixed overhead expenses. Lower net sales were generated due to the combination of a lower backlog entering fiscal 2021 compounded with the effects of the COVID-19 global pandemic, which greatly impacted the Company's ability to generate bookings, especially internationally. Gross profit margin as a percentage of net sales decreased to 17.8% for the 2021 second quarter compared to 28.7% for the 2020 second quarter.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2021 second quarter were $2.3 million, a decrease of $0.4 million, or 14.4%, compared to $2.7 million for the 2020 second quarter. The decrease in operating expenses was due primarily to lower selling and marketing expenses, which included a decrease in commission expense based on a lower concentration of International sales related to ATS products, a reduction in headcount, and a decrease in travel caused by the COVID-19 global pandemic.

Other Expense, Net

Other expense, net for the 2021 second quarter was $5 thousand compared to $110 thousand for the 2020 second quarter, a decrease of $0.1 million due primarily to lower letter of credit fees and realized exchange gains on foreign currency.

Twenty-six weeks ended August 28, 2020 compared to twenty-seven weeks ended August 30, 2019

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. This was compounded in the 2021 first half due to COVID-19 global pandemic related lock downs, which delayed orders and our ability to deliver.

Summary Table of Results
(unaudited)

(in thousands, except per share information)		Twenty-six weeks ended August 28, 2020		Twenty-seven weeks ended August 30, 2019		Variance ($)	Variance (%)
Net sales	$	9,268	$	22,828	$	(13,560)	(59.4)
Cost of goods sold		7,973		16,901		(8,928)	(52.8)
Gross profit		1,295		5,927		(4,632)	(78.2)
Gross profit margin %		*14.0%*		*26.0%*		*-12.0%*	*-46.2%*
Operating expenses		4,314		5,296		(982)	(18.5)
Operating (loss) income		(3,019)		631		(3,650)	
Operating margin %		*-32.6%*		*2.8%*		*-35.4%*	
Interest expense, net		337		363		(26)	(7.2)
Other (income) expense, net		(12)		260		(272)	
(Loss) income before income taxes		(3,344)		8		(3,352)	
Pre-tax margin %		*-36.1%*		*0.0%*		*-36.1%*	
Income tax provision		40		40		-	0.0
Loss (income) attributable to non-controlling interest		37		(45)		82	
Net loss attributable to ETC	**$**	**(3,347)**	**$**	**(77)**	**$**	**(3,270)**	**4246.8**
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	$	(0.23)	$	(0.02)	$	(0.21)	1050.0
Preferred	$	(0.23)	$	(0.02)	$	(0.21)	1050.0
Diluted loss per share	**$**	**(0.23)**	**$**	**(0.02)**	**$**	**(0.21)**	**1050.0**

Net Loss Attributable to ETC

Net loss attributable to ETC was $3.3 million, or $0.23 diluted loss per share, in the 2021 first half, compared to $0.1 million during the 2020 first half, equating to $0.02 diluted loss per share. The $3.2 million variance is due to the combined effect of a $4.6 million decrease in gross profit, offset, in part, by a $1.0 million decrease in operating expenses, a $0.3 million decrease in other expense, net, and a $0.1 million increase in loss attributable to non-controlling interest.

Net Sales

Net sales in the 2021 first half were $9.3 million, a decrease of $13.5 million, or 59.4%, compared to 2020 first half net sales of $22.8 million. The decrease reflects lower International sales, especially within Aeromedical Training Solutions and ETSS, lower Domestic sales, especially within Simulation, lower overall Sterilizers sales, and lower monoplace chambers sales as a result of the asset sale on November 27, 2019, offset, in part, by an increase in U.S. Government sales within Aeromedical Training Solutions in conjunction with the USAF's final acceptance of the RAC Contract.

Gross Profit

Gross profit for the 2021 first half was $1.3 million compared to $5.9 million in the 2020 first half, a decrease of $4.6 million, or 78.2%. The decrease in gross profit was due to lower net sales not being able to support fixed overhead expenses. Lower net sales were generated due to the combination of a lower backlog entering fiscal 2021 compounded with the effects of the COVID-19 global pandemic, which not only impacted the Company's ability to generate bookings, especially internationally, but also forced the closure of ETC-SH for about one-third of the 2021 first quarter in accordance with Pennsylvania state mandates. Gross profit margin as a percentage of net sales decreased to 14.0% for the 2021 first half compared to 26.0% for the 2020 first half.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2021 first half were $4.3 million, a decrease of $1.0 million, or 18.5%, compared to $5.3 million for the 2020 first half. The decrease in operating expenses was due primarily to lower selling and marketing expenses, which included a decrease in commission expense based on a lower concentration of International sales related to ATS products, a reduction in headcount, and a decrease in travel caused by the COVID-19 global pandemic.

Other (Income) Expense, Net

Other income, net for the 2021 first half was $12 thousand compared to other expense, net of $260 thousand for the 2020 first half, a variance of $0.3 million due primarily to lower letter of credit fees and realized exchange gains on foreign currency.

Cash Flows from Operating, Investing, and Financing Activities

During the 2021 first half, due primarily from the net loss incurred, the increase in contract assets, and the decrease in accounts payable, offset, in part by the decrease in accounts receivable, the Company used $4.7 million of cash for operating activities compared to $9.1 million during the 2020 first half. Under Accounting Standards Codification ("ASC") 606, 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 $43 thousand during the 2021 first half compared to $0.2 million during the 2020 first half.

The Company's financing activities provided $4.0 million of cash during the 2021 first half with proceeds from the PPP loan and borrowings under the Company's credit facility compared to $6.4 million during the 2020 first half exclusively from borrowings under the Company's credit facility.

Item 6. Description of Facilities

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

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

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

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

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

Item 7. Officers, Directors, and Control Persons

	Name / *Address* **	Title	Ownership Percentage
Directors, Executive Officers, and Officers:	George K. Anderson, M.D.	Chairman of the Board of Directors	*
	Linda J. Brent, Ed.D.	Director	*
	Roger Colley	Director	*
	Winston E. Scott	Director	*
	Robert L. Laurent, Jr.	Chief Executive Officer, President, and Director	2.0%
	Mark Prudenti	Chief Financial Officer and Treasurer	1.2%
	James D. Cashel	Vice President, General Counsel, Corporate Secretary, and Chief Compliance Officer	1.5%
	Thomas G. Loughlin	Chief Operating Officer	1.3%
	Alper Kus	Senior Vice President, Aircrew Training Systems	*
Control Persons:	Estate of H.F. Lenfest *c/o The Lenfest Foundation* *Two Logan Square* *100 N. 18th Street, Suite 800* *Philadelphia, PA 19103*		*** 54.1%
	Peter H. Kamin and related family entities *2720 Donald Ross Road, 311* *Palm Beach Gardens, FL 33410*		11.7%
	T. Todd Martin, III *50 Midtown Park East* *Mobile, AL 36606*		11.0%
	Estate of Pete L. Stephens		6.3%

* less than 1%

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

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

Item 8. Legal/Disciplinary History

Information presented in the table above is accurate as of January 26, 2021, the date of issuance of the accompanying interim consolidated financial statements, based on information available to the Company. None of the foregoing Directors, Executive Officers, and Officers in the last ten (10) years has had a legal/disciplinary issue.

Item 9. Third Party Providers

Legal Counsel:

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

Independent Auditor:

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

Item 10. Management's Certification

I, 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: January 26, 2021

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

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

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

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

Robert L. Laurent, Jr.
Chief Executive Officer and President
Date: January 26, 2021