QUARTERLY REPORT 3

For the thirteen weeks ended November 25, 2022

ENVIRONMENTAL TECTONICS CORPORATION

Quarterly Report
For the thirteen weeks ended November 25, 2022

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

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

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

Item 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 November 25, 2022	25,000 as of November 25, 2022
Total shares outstanding:	9,443,785 as of November 25, 2022	12,127 as of November 25, 2022

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: N/A

Dividends on the Company's Preferred Stock, as declared, are accrued according to the terms of the Preferred Stock and when paid, are paid in cash. The Preferred Stock is currently entitled to receive cumulative dividends at the rate of four percent (4%) per year in preference to the holders of the Company's Common Stock with respect to dividends. Series E Preferred Stock dividends accrued as of November 25, 2022, which totaled $4,735 thousand, remained unpaid as of January 9, 2023, the date of issuance of the accompanying interim consolidated financial statements.

Item 3. Issuance History

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

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 Income/(Loss)
(unaudited)

(in thousands, except share information)	Thirteen weeks ended November 25, 2022	Thirteen weeks ended November 26, 2021	Thirty-nine weeks ended November 25, 2022	Thirty-nine weeks ended November 26, 2021
Net sales	$ 6,449	$ 4,427	$ 17,560	$ 14,893
Cost of goods sold	4,695	3,720	12,911	11,790
Gross profit	1,754	707	4,649	3,103
Operating expenses:	2,296	1,658	6,531	5,243
Operating (loss) income	(542)	(951)	(1,882)	(2,140)
Other (income) expenses:				
Interest expense, net	121	127	366	416
Other (income) expense, net	56	(142)	(2,123)	(2,472)
Other (income) expenses, net total	177	(15)	(1,757)	(2,056)
Income/(Loss) before income taxes	(719)	(936)	(125)	(84)
Income tax provision (benefit)	20	20	60	60
Net income/(loss)	(739)	(956)	(185)	(144)
(Income) loss attributable to non-controlling interest	(8)	(8)	16	3
Net income/(loss) attributable to Environmental Tectonics Corporation	**(747)**	**(964)**	**(169)**	**(141)**
Foreign currency translation adjustment	(17)	(30)	(109)	17
Comprehensive income/(loss)	(764)	(994)	(278)	(124)
Preferred Stock dividends	**(121)**	**(121)**	**(363)**	**(242)**
Income/(Loss) attributable to common and participating shareholders	**(868)**	**(1,085)**	**(532)**	**(383)**
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	$ (0.06)	$ (0.07)	$ (0.03)	$ (0.03)
Preferred	$ (0.06)	$ (0.07)	$ (0.03)	$ (0.03)
Diluted earnings/(loss) per share	$ (0.06)	**$ (0.07)**	$ (0.03)	**$ (0.03)**
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	-	-	-	-
Total diluted weighted average shares	15,569	15,569	15,569	15,569

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

Environmental Tectonics Corporation
Consolidated Comparative Balance Sheets

(in thousands, except share information)	November 25, 2022	February 25, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 279	$ 427
Restricted cash	7,997	6,628
Accounts receivable, net	3,219	6,573
Contract assets	2,474	1,789
Inventories, net	3,234	2,709
Deferred tax assets, current	-	-
Prepaid expenses and other current assets	7,735	6,920
Total current assets	**24,938**	**25,046**
Property, plant, and equipment, at cost, net	5,603	8,485
Right-of-use asset	2,967	708
Capitalized software development costs, net	50	47
Deferred tax assets, non-current, net	267	267
Total assets	**$ 33,825**	**$ 34,553**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt obligations, net of debt issuance costs	$ 9,040	$ -
Accounts payable, trade	1,875	2,291
Contract liabilities	7,506	5,390
Accrued taxes	111	108
Accrued interest and dividends	4,735	4,407
Current portion of lease obligations	868	490
Other accrued liabilities, current	5,950	5,771
Total current liabilities	**30,085**	**18,457**
Long-term debt obligations, net of debt issuance costs, less current portion:		
Credit facility payable to bank, net of debt issuance costs	-	13,358
Total long-term debt obligations, net of debt issuance costs, less current portion	**-**	**13,358**
Deferred tax liabilities, non-current, net	-	-
Lease obligations, non-current	2,097	218
Other accrued liabilities, non-current	925	924
Total liabilities	**33,107**	**32,958**
Shareholders' equity:		
Cumulative convertible participating Preferred Stock, Series E, $0.05 par value, 25,000 shares authorized; 12,127 shares outstanding as of November 25, 2022 and February 25, 2022	12,127	12,127
Common Stock, $0.05 par value, 50,000,000 shares authorized; 9,443,875 shares issued and outstanding as of November 25, 2022 and February 25, 2022	472	472
Additional paid-in capital	6,532	6,861
Retained earnings / (Accumulated deficit)	(17,412)	(17,243)
Accumulated other comprehensive loss	(1,067)	(704)
Total shareholders' equity before non-controlling interest	**652**	**1,513**
Non-controlling interest	66	82
Total shareholders' equity	**718**	**1,595**
Total liabilities and shareholders' equity	**$ 33,825**	**$ 34,553**

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

Environmental Tectonics Corporation
Consolidated Statements of Cash Flows
(unaudited)

(in thousands)	Thirty-nine weeks ended November 25, 2022	November 26, 2021
Cash flows from operating activities:		
Net income (loss)	$ (185)	$ (144)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	814	897
Increase (decrease) in allowance for doubtful accounts and inventory obsolescence	(58)	11
Forgiveness of PPP Loan	-	(2,447)
Stock compensation expense	34	63
Gain on sale of assets	(2,380)	-
Changes in operating assets and liabilities:		
Accounts receivable	3,319	(822)
Contract assets	(685)	8,487
Inventories	(432)	(361)
Prepaid expenses and other assets	(815)	(3,273)
Accounts payable, trade	(416)	(127)
Contract liabilities	2,116	928
Accrued taxes	3	(175)
Accrued interest and dividends	(35)	(8)
Other accrued liabilities	179	(951)
Net cash provided by (used in) operating activities	**1,350**	**2,078**
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(177)	(105)
Acquisition of leased assets	4,700	-
Capitalized software development costs	(29)	(33)
Net cash used in investing activities	**4,494**	**(138)**
Cash flows from financing activities:		
Borrowings (repayments) under lines of credit	(4,318)	(2,639)
Net cash (used in) provided by financing activities	**(4,318)**	**(2,639)**
Effect of exchange rate changes on cash	(305)	246
Net increase (decrease) in cash, cash equivalents, and restricted cash	1,221	(453)
Cash, cash equivalents, and restricted cash at beginning of year	7,055	8,262
Cash, cash equivalents, and restricted cash at end of period	**$ 8,276**	**$ 7,809**
Less: Restricted cash	(7,997)	(6,190)
Cash and cash equivalents at end of period	**$ 279**	**$ 1,619**
Supplemental schedule of cash flow information:		
Interest paid	$ 245	$ 415
Income taxes paid	$ -	$ 5
Supplemental information on non-cash operating and investing activities:		
Preferred Stock dividends accrued during each respective fiscal period	$ 363	$ 363

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

Environmental Tectonics Corporation

Environmental Tectonics Corporation

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

(unaudited)

(in thousands, except share information)	Preferred Stock	Common Stock shares	Common Stock amount	Additional paid-in capital	Retained Earnings / (Accumulated deficit)	Accumulated other comprehensive loss	Shareholders' Equity
Balance, February 25, 2022	**$ 12,127**	**9,443,785**	**$ 472**	**$ 6,861**	**$ (17,243)**	**$ (704)**	**$ 1,595**
Net income (loss) attributable to ETC	-	-	-	-	(169)	-	(169)
Foreign currency translation adjustment	-	-	-	-	-	(110)	(110)
Preferred Stock dividends	-	-	-	(363)	-	-	(363)
Stock compensation expense	-	-	-	34	-	-	34
Adjustment						(253)	(253)
Balance before non-controlling interest, November 25, 2022	$ 12,127	9,443,785	$ 472	$ 6,532	$ (17,412)	$ (1,067)	$ 734
Non-controlling interest							(16)
Balance, November 25, 2022	**$ 12,127**	**9,443,785**	**$ 472**	**$ 6,532**	**$ (17,412)**	**$ (1,067)**	**$ 718**

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

Item 5. Description of Business Operations

ETC was incorporated in 1969 in Pennsylvania. For over five decades, we have provided our customers with products, services, and support. Innovation, continuous technological improvement and enhancement, and product quality are core values that are critical to our success. We are a significant supplier and innovator in the following areas: (i) software driven products and services used to create and monitor the physiological effects of flight, including high performance jet tactical flight simulation, fixed and rotary wing upset prevention and recovery and spatial disorientation, and both suborbital and orbital commercial human spaceflight, 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; and (vi) environmental testing and simulation systems ("ETSS"). We operate in two primary business segments, Aerospace Solutions ("Aerospace") and Commercial/Industrial Systems ("CIS").

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

The Company's primary Standard Industrial Classification Code ("SIC Code") is 3569. The Company's fiscal year is the fifty-two week or fifty-three week annual accounting period ending the last Friday in February. References to the 2023 third quarter are references to the thirteen week period ended November 25, 2022. References to the 2022 third quarter are references to the thirteen week period ended November 26, 2021. References to the 2023 first three quarters are references to the thirty-nine week period ending November 25, 2022. References to the 2022 first three quarters are references to the thirty-nine week period ending November 26, 2021. References to fiscal 2023 are references to the fifty-two week period ending February 24, 2023. References to fiscal 2022 are references to the fifty-two week period ended February 25, 2022.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of ETC and ETC-PZL Aerospace Industries Sp. z o.o. ("ETC-PZL"), our 95%-owned subsidiary in Warsaw, Poland. ETC-PZL manufactures certain simulators and provides software to support products manufactured within our Aerospace segment. "ETC-SH" refers to the Company's corporate headquarters and main production plant located in Southampton, Pennsylvania. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Certain information in footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America has been condensed or omitted and the financial results for the periods presented may not be indicative of the full year's results; however, the Company believes that the disclosures are adequate to make the information presented not misleading. These interim consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report to Shareholders for fiscal 2022 (the "2022 Annual Report").

Significant Accounting Policies Update

There have been no material changes in the Company's significant accounting policies during fiscal 2023 as compared to what was previously disclosed in the 2022 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 November 25, 2022 and November 26, 2021, 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 both November 25, 2022 and November 26, 2021, there were outstanding options to purchase the Company's Common Stock at an average price of $0.95 totaling 957,950 and 1,001,450 shares, respectively. Due to the conversion price of Common Stock options, all 957,950 and 1,001,450 shares were excluded from the calculation of diluted earnings per share as of November 25, 2022 and November 26, 2021, 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 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 November 25, 2022, our ending sales backlog was $23,704, compared to $21,162 at November 26, 2021. We expect to recognize approximately 88% over the next twelve (12) months and approximately 95% over the next twenty-four (24) months as revenue, with the remainder recognized thereafter.

(Dollars in thousands, except per share information)

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

The aggregate impact of adjustments in contract estimates to net income (loss) attributable to ETC are presented below:

	Thirteen weeks ended					
	November 25, 2022			**November 26, 2021**		
	Aerospace	**CIS**	**Total**	**Aerospace**	**CIS**	**Total**
Net loss attributable to adjustments in contract estimates	$ (6)	$ 0	$ (6)	$ 52	$ (18)	$ 34

	Thirty-nine weeks ended					
	November 25, 2022			**November 26, 2021**		
	Aerospace	**CIS**	**Total**	**Aerospace**	**CIS**	**Total**
Net (loss) income attributable to adjustments in contract estimates	$ (79)	$ 35	$ (43)	$ 148	$ (18)	$ 130

The following schedule presents the Company's net sales by segment, business unit, and geographic area for the 2023 third quarter compared to the 2022 third quarter:

	Thirteen weeks ended							
	November 25, 2022				**November 26, 2021**			
	Domestic	**U.S. Gov't**	**Inter-national**	**Total**	**Domestic**	**U.S. Gov't**	**Inter-national**	**Total**
Aerospace Solutions								
Aeromedical Training Solutions (ATS)	$ 112	$ 182	$ 1,606	$ 1,900	$ 125	$ 158	$ 1,648	$ 1,931
Simulation (ADMS)	1	10	1,486	1,497	175	39	917	1,131
Subtotal	113	192	3,092	3,397	300	197	2,565	3,062
Commercial/Industrial Systems								
Sterilizers	1,948	-	270	2,218	619	-	1	620
Environmental (ETSS)	407	-	18	425	247	-	133	380
Service and Spares	402	-	7	409	365	-	-	365
Subtotal	2,757	-	295	3,052	1,231	-	134	1,365
Net sales total	**$ 2,870**	**$ 192**	**$ 3,387**	**$ 6,449**	**$ 1,531**	**$ 197**	**$ 2,699**	**$ 4,427**

The following schedule presents the Company’s net sales by segment, business unit, and geographic area for the 2023 first three quarters compared to the 2022 first three quarters:

	Thirty-nine weeks ended							
	November 25, 2022				November 26, 2021			
	Domestic	U.S. Gov’t	Inter-national	Total	Domestic	U.S. Gov’t	Inter-national	Total
Aerospace Solutions								
Aeromedical Training Solutions (ATS)	$ 779	$ 576	$ 4,480	$ 5,835	$ 303	$ 956	$ 5,600	$ 6,859
Simulation (ADMS)	209	520	1,197	2,726	509	119	1,653	2,281
Subtotal	988	1,096	6,663	8,747	812	1,075	7,253	9,140
Commercial/Industrial Systems								
Sterilizers	3,672	-	1,121	4,793	2,790	-	178	2,968
Environmental (ETSS)	2,654	-	49	2,703	964	-	444	1,408
Service and Spares	1,246	-	71	1,317	1,377	-	-	1,377
Subtotal	7,572	-	1,241	8,813	5,131	-	622	5,753
Net sales total	**$ 8,560**	**$ 1,096**	**$ 7,904**	**$ 17,560**	**$ 5,943**	**$ 1,075**	**$ 7,875**	**$ 14,893**

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

	Thirteen weeks ended	
Type of Revenue	**November 25, 2022**	**November 26, 2021**
Products	82.1%	64.7%
Maintenance and support agreements	9.6%	15.2%
Services	4.9%	16.3%
Spare parts	3.3%	3.8%
Total	**100.0%**	**100.0%**

	Thirty-nine weeks ended	
Type of Revenue	**November 25, 2022**	**November 26, 2021**
Products	78.6%	63.9%
Maintenance and support agreements	11.0%	21.1%
Services	7.1%	11.5%
Spare parts	3.3%	3.5%
Total	**100.0%**	**100.0%**

(Dollars in thousands, except per share information)

Note 4. Leases

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

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

The Company leases certain premises and office equipment under operating leases. In addition, the Company completed the sale and lease back of its Southampton, Pennsylvania facility in the second quarter, resulting in an increase of lease liabilities. As of November 25, 2022, these leases have remaining lease terms of seven (7) months to seventy-eight (78) months, with a weighted average remaining lease term of approximately forty-one (41) months. Maturities of operating lease liabilities are as follows:

Fiscal Year		Amount
Fiscal 2023	$	240
Fiscal 2024		816
Fiscal 2025		438
Fiscal 2026		449
Fiscal 2027		460
Fiscal 2028		471
Fiscal 2029		483
Fiscal 2030		142
Total lease payments		3,499
Less: imputed interest		(532)
Total future long-term debt obligations		2,967
Less: current portion		(870)
Total future long-term debt obligations, less current portion	**$**	**2,097**

Total operating lease expense was $255 for the 2023 third quarter, of which $178 was attributable to variable lease expenses. For the 2023 third quarter, cash payments against operating lease liabilities totaled $239.

Total operating lease expense was $650 for the 2022 first three quarters, of which $410 was attributable to variable lease expenses. For the 2022 first three quarters, cash payments against operating lease liabilities totaled $596.

Note 5. Long-Term Obligations

On May 23, 2022, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

i) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2022 to June 30, 2023.

ii) The 2016 PNC Credit Facilities will be collateralized by a combination of the Company's pledged restricted cash held by PNC ($6.85 million as of November 25, 2022), substantially all of the Company's additional assets, and the pledged collateral from the estate of H.F. Lenfest

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

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

	November 25, 2022 (unaudited)	February 25, 2022
Credit facility payable to PNC bank	$ 8,638	$ 13,358
Borrowed under ETC-PZL Lines of Credit	402	
Total long-term debt obligations	9,040	13,358
Less: debt issuance costs	-	-
Total long-term obligations, net of debt issuance		
Less: current portion	(9,040)	-
Total long-term debt obligations, net of debt issuance costs	$ -	$ 13,358

Note 6. Income Taxes

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

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

An income tax provision of $20, primarily related to an increase in unrecognized tax benefits, was recorded in both the 2023 third quarter and the 2022 third quarter. Effective tax rates were -2.7% and -2.1% for the 2023 third quarter and the 2022 third quarter, respectively. As of November 25, 2022, the Company had approximately $26,008 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

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 original 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. In August 2021, the parties agreed to an additional $201 reduction in the contract value ($431 in total). On April 20, 2022, the contract was amended to provide for payment of 84% of the total contract value, with the remaining performance schedule extended until June 2023 and we anticipate that an additional extension will be required.

Environmental Testing and Simulation Contract

The Company is a party to a contract to provide environmental testing and simulation equipment for use by a domestic original equipment manufacturer of transmissions and hybrid propulsion systems. Under the contract, there are unresolved discussions as to the scope of the contract's specification in addition to the Company believing that changes to the scope and terms of said contract has resulted in increased cost. Following the end of fiscal 2021, the Company filed an action in the United States District Court for the Eastern District of Pennsylvania, alleging breach of contract. In the 2023 third quarter, this matter was settled with the Company receiving a total payment of $145 on its breach of contract claim.

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 9, 2023, 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 November 25, 2022.

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 November 25, 2022 compared to thirteen weeks ended November 26, 2021

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.

Environmental Tectonics Corporation

Summary Table of Results (unaudited)

	Thirteen Weeks Ended			
(in thousands, except per share information)	November 25, 2022	November 25, 2021	Variance	Variance %
Net sales	$ 6,449	$ 4,427	$ 2,022	45.7%
Cost of goods sold	4,695	3,720	(975)	-26.2%
Gross Profit	1,754	707	1,047	148.1%
Gross profit margin %	*27.2%*	*16.0%*	*7.7%*	
Operating expenses	2,296	1,658	(638)	-38.5%
Operating (loss) income	(542)	(951)	(409)	43.0%
Operating margin %	*-8.4%*	*-21.5%*	*8.1%*	
Interest expense, net	121	127	6	4.7%
Other (income) expense, net	56	(142)	(198)	
Income/(loss) before income taxes	(719)	(936)	217	-23.2%
Pre-tax margin %	*-11.1%*	*-21.1%*	*53.6%*	
Income tax provision (benefit)	20	20	-	
Net income (Loss)	(739)	(956)	217	-22.7%
Loss (income) attributable to non-controlling interest	(8)	(8)	-	
Net Income/(loss) attributable to ETC	**(747)**	**(964)**	**217**	-22.5%
Per share information:				
Basic earnings (loss) per common and participating share:				
Distributed earnings per share:				
Common	$ -	$ -		
Preferred	$ 0.02	$ 0.02	$ -	
Undistributed earnings per share:				
Common	$ (0.06)	$ (0.07)	$ 0.01	
Preferred	$ (0.06)	$ (0.07)	$ 0.01	
Diluted earnings/(loss) per share	**$ (0.06)**	**$ (0.07)**	**$ 0.01**	

Net Income (Loss) Attributable to ETC

Net (loss) attributable to ETC was ($0.8) million, or ($0.06) diluted earnings per share, in the 2023 third fiscal quarter, compared to net loss attributable to ETC of $1.0 million during the 2022 third quarter, equating to ($0.07) diluted loss per share. The $0.2 million variance is due primarily to the favorable sales mix and improved gross margins.

Net Sales

Net sales in the 2023 third fiscal quarter were $6.4 million, an increase of $2.0 million, or 45.7%, compared to 2022 third quarter net sales of $4.4 million. The increase in net sales was mainly a result of increased output related to the higher YTD CIS orders. CIS sales increased $1.7 million, or 124%, compared to same prior year period. Aerospace sales in 2023 third fiscal quarter accounted for 53% of overall sales, compared to 69% in third fiscal quarter 2022. Further, domestic sales of 45% in 2023 third fiscal quarter were increased from 35% in third fiscal quarter of 2022.

Gross Profit

Gross profit for the 2023 third fiscal quarter of $1.8 million increased from $0.7 million in the 2022 third fiscal quarter, and increase of $1.1 million, or 148.1%. Gross profit margin as a percentage of net sales increased to 27.2% for the third quarter 2023 compared to 16.0% in 2022 third fiscal quarter. The increase in gross profit was a result of successful startup performance with the CIS backlog, as well as a reduction in current costs on International programs.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2023 third quarter were $2.3 million, an increase of $0.6 million, or 38.5%, compared to $1.7 million for the 2022 third quarter. The increase in operating expenses was due primarily to higher general and administrative expenses, including expenses related to ETC-PZL.

Other Expenses (Income), Net

Other expenses, net, for the 2023 third fiscal quarter was $0.2 million compared to other income of $15 thousand for the 2022 third fiscal quarter, an unfavorable variance of $0.2 million, due primarily to exchange rate fluctuation.

Thirty-nine weeks ended November 25, 2022 compared to thirty-nine weeks ended November 26, 2021

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.

Environmental Tectonics Corporation

Summary Table of Results (unaudited)

	Thirty-nine weeks ended						
(in thousands, except per share information)		November 25, 2022		November 25, 2021		Variance	Variance %
Net sales	$	17,560	$	14,893	$	2,667	17.9%
Cost of goods sold		12,911		11,790		(1,121)	-9.5%
Gross Profit		4,649		3,103		1,546	49.8%
Gross profit margin %		*26.5%*		*20.8%*			
Operating expenses		6,531		5,243		(1,288)	-24.6%
Operating (loss) income		(1,882)		(2,140)		258	-12.1%
Operating margin %		*-10.7%*		*-14.4%*			
Interest expense, net		366		416		50	12.0%
Other (income) expense, net		(2,123)		(2,472)		(349)	
Income/(loss) before income taxes		(125)		(84)		(41)	48.8%
Pre tax margin %		*-0.7%*		*-0.6%*			
Income tax provision (benefit)		60		60			
Net income (Loss)		(185)		(144)			0.0%
Loss (income) attributable to non-controlling interest		16		3		13	
Net Income/(loss) attributable to ETC		**(169)**		**(141)**		**(28)**	19.9%
Per share information:							
Basic earnings (loss) per common and participating share:							
Distributed earnings per share:							
Common	$	-	$	-			
Preferred	$	0.06	$	0.06	$	-	
Undistributed earnings per share:							
Common	$	(0.03)	$	(0.03)	$	-	
Preferred	$	(0.03)	$	(0.03)	$	-	
Diluted earnings (loss) per share	**$**	**(0.03)**	**$**	**(0.03)**	**$**	**-**	

Net Income (Loss) Attributable to ETC

Net (loss) attributable to ETC was $0.17 million, or ($0.03) diluted earnings per share, in the 2023 first three quarters, compared to net loss of $0.14 million during the 2022 first three quarters, equating to ($0.03) diluted loss per share. The $28 thousand variance is due to the multiple factors, with the largest increase being general and administrative expenses.

Net Sales

Net sales in the 2023 first three quarters were $17.6 million, an increase of $2.7 million, or 17.9%, compared to 2022 first three quarters of $14.9 million. The increase in net sales was due primarily to an increase in CIS domestic sales, driven by the higher orders and backlog. Overall, sales of CIS accounted for 50% of first three quarters of 2023 sales, up from 39% of first three quarters of 2022 sales.

Gross Profit

Gross profit for the 2023 first three quarters was $4.6 million compared to $3.1 million in the 2022 first three quarters, an increase of $1.5 million, or 49.8%. The increase in gross profit was due to the combined effect of an increase in net sales along with increased efficiency gains, compared to the first three quarters of 2022, while the company was still navigating the COVID pandemic. Gross profit margin as a percentage of net sales increased to 26.5% for the 2023 first three quarters compared to 20.8% for the 2022 first three quarters. Cost reduction in multiple International programs was also a major factor in the 2023 YTD increase.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2023 first three quarters were $6.5 million, an increase of $1.3 million, or 24.6%, compared to $5.2 million for the 2022 first three quarters. The increase in operating expenses was due primarily to higher general and administrative expenses, including expenses related to ETC-PZL.

Other Income, Net

Other income, net for the 2023 first three quarters was $1.8 million compared to other income, net of $2.1 million for the 2022 first three quarters, a decrease of $0.3 million. This is mainly the difference between the amount received from the forgiveness of the PPP loan in 2022 and the facility sale in 2023.

Cash Flows from Operating, Investing, and Financing Activities

During the 2023 first three quarters, due primarily from a decrease in accounts receivable, an increase in customer deposits and the sale of our Southampton, PA facility, the Company provided $1.4 million of cash from operating activities as compared to providing $2.1 million during the 2022 first three quarters.

Cash used for investing activities primarily relates to funds used for capital expenditures of equipment, leased asset and software development. However, as related to ASC 842, the Company's investing activities used $4.5 million during the 2023 first three quarters compared to $138 thousand during the 2022 first three quarters.

The Company's financing activities used $4.3 million of cash during the 2023 first three quarters for repayments under the Company's credit facilities compared to using $2.6 million of cash during the 2022 first three quarters. This repayment resulted in cash availability of $8.3 million at end of third quarter of 2023.

The Company's Revolving Line of Credit expires at end of June, 2023. Management is in discussion with its lender, and does expect the Line to be renewed prior to expiration.

Item 6. Description of Facilities

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

Location	Approximate Square Footage	Function	Owned/ Leased	Segment
Southampton, Pennsylvania	83,800	Manufacturing (36,000 sq. ft.), NASTAR Center (22,100 sq. ft.), and Corporate Headquarters (25,700 sq. ft.)	Leased	Aerospace CIS
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;
- IPT II Spatial Disorientation Trainer;
- 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 and Executive Officers,:	George K. Anderson, M.D.	Chairman of the Board of Directors	1.4%
	Linda J. Brent, Ed.D.	Director	1.1%
	Roger Colley	Director	1.1%
	Winston E. Scott	Director	1.2%
	Robert L. Laurent, Jr.	Chief Executive Officer, President, Corporate Secretary and Director	2.0%
	Joseph F. Verbitski, Jr.	Chief Financial Officer and Treasurer	*
	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 9, 2023, 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, Joseph F. Verbitski, 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.

Joseph F. Verbitski, Jr.
Chief Financial Officer and Treasurer
Date: January 9, 2023

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 9, 2023