

QUARTERLY REPORT 3

For the thirteen weeks ended November 24, 2023

ENVIRONMENTAL TECTONICS CORPORATION

Quarterly Report
For the thirteen weeks ended November 24, 2023

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 November 24, 2023	25,000 as of November 24, 2023
Total shares outstanding:	9,443,785 as of November 24, 2023	12,127 as of November 24, 2023

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

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 November 24, 2023, which totaled $5,219 thousand, remained unpaid as of January 12, 2024, 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 Comparative Statements of Operations and Comprehensive Income (Loss)
(unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
(in thousands, except per share information)	**November 24, 2023**	**November 25, 2022**	**November 24, 2023**	**November 25, 2022**
Net sales	$ 10,210	$ 6,449	$ 26,893	$ 17,560
Cost of goods sold	7,375	4,695	19,934	12,911
Gross Profit	2,835	1,754	6,959	4,649
Operating expenses	2,008	2,296	6,981	6,531
Operating income (loss)	827	(542)	(22)	(1,882)
Other expenses (income):				
Interest expense, net	224	121	650	366
Other expense (income), net	74	56	217	(2,123)
Other expense (income), net total	298	177	867	(1,757)
Income (loss) before income taxes	529	(719)	(889)	(125)
Income tax provision	40	20	120	60
Net income (loss)	489	(739)	(1,009)	(185)
(Loss) income attributable to non-controlling interest	-	(8)	-	16
Net income (loss) attributable to ETC	**489**	**(747)**	**(1,009)**	**(169)**
Foreign Currency translation adjustment	126	(17)	(133)	(109)
Comprehensive income (loss)	$ 615	$ (764)	$ (1,142)	$ (278)
Preferred Stock Dividends	(121)	(121)	(363)	(363)
Income (loss) attributable to common and participating shareholders	**$ 368**	**$ (868)**	**$ (1,372)**	**$ (532)**
Per share information:				
Basic earnings (loss) per common and participating share:				
Distributed earnings per share:				
Common	$ -	$ -	$ -	$ -
Preferred	$ 0.02	$ 0.02	$ 0.06	$ 0.06
Undistributed earnings (loss) per share:				
Common	$ 0.02	$ (0.06)	$ (0.09)	$ (0.03)
Preferred	$ 0.02	$ (0.06)	$ (0.09)	$ (0.03)
Diluted earnings (loss) per share	**$ 0.02**	**$ (0.06)**	**$ (0.09)**	**$ (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 24, 2023 (unaudited)	February 24, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 105	$ 559
Restricted cash	7,412	9,075
Accounts receivable, net	9,371	3,352
Contract assets	4,820	4,174
Inventories, net	2,390	1,957
Prepaid expenses and other current assets	7,055	5,468
Total current assets	31,153	24,585
Property, plant, and equipment, at cost, net	4,479	5,291
Right-of-use asset	2,517	2,768
Capitalized software development costs, net	32	45
Total assets	**$ 38,181**	**$ 32,689**
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt obligations, net of debt issuance costs	$ 13,723	$ 123
Accounts payable, trade	3,585	2,578
Contract liabilities	9,584	7,127
Accrued taxes	438	333
Accrued interest and dividends	5,219	4,895
Current portion of lease obligations	579	759
Other accrued liabilities, current	3,588	3,661
Total current liabilities	36,716	19,476
Long-term debt obligations, net of debt issuance costs, less current portion:		
Credit facility payable to bank, net of debt issuance costs	706	10,017
Total long-term debt obligations, net of debt issuance costs, less current portion	706	10,017
Lease obligations, non-current	1,936	2,006
Other accrued liabilities, non-current	913	1,738
Total liabilities	40,271	33,237
Shareholders' deficit:		
Cumulative convertible participating Preferred Stock, Series E, $0.05 par value, 25,000 shares authorized; 12,127 shares outstanding as of November 24, 2023 and February 24, 2023	12,127	12,127
Common Stock, $0.05 par value, 50,000,000 shares authorized; 9,443,785 shares issued and outstanding as of November 24, 2023 and February 24, 2023	472	472
Additional paid-in capital	6,048	6,411
Accumulated deficit	(19,808)	(18,799)
Accumulated other comprehensive loss	(929)	(796)
Total shareholders' deficit before non-controlling interest	(2,090)	(585)
Non-controlling interest	-	37
Total shareholders' deficit	(2,090)	(548)
Total liabilities and shareholders' deficit	**$ 38,181**	**$ 32,689**

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 24, 2023	Thirty-nine weeks ended November 25, 2022
Cash flows from operating activities:		
Net (loss)	$ (1,009)	$ (185)
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,072	814
(Decrease) in allowance for doubtful accounts and inventory obsolescence	(13)	(58)
Stock compensation expense	-	34
Gain on sale of assets	-	(2,380)
Loss on extinguishment of debt		(109)
Changes in operating assets and liabilities:		
Accounts receivable	(6,027)	3,319
Contract assets	(646)	(685)
Inventories	(412)	(432)
Prepaid expenses and other assets	(1,502)	(815)
Accounts payable, trade	1,007	(416)
Contract liabilities	2,457	2,116
Accrued taxes	105	3
Accrued interest and dividends	(39)	(35)
Other accrued liabilities	(1,019)	179
Net cash (used in) provided by operating activities	**(6,026)**	**1,350**
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(243)	(177)
Proceeds from sale of assets	-	4,700
Capitalized software development costs	(4)	(29)
Net cash (used in) provided by investing activities	**(247)**	**4,494**
Cash flows from financing activities:		
Borrowings (repayments) under lines of credit	4,289	(4,318)
Net cash provided by (used in) financing activities	**4,289**	**(4,318)**
Effect of exchange rate changes on cash	(133)	(305)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(2,117)	1,221
Cash, cash equivalents, and restricted cash at beginning of year	9,634	7,055
Cash, cash equivalents, and restricted cash at end of period	**$ 7,517**	**$ 8,276**
Less: Restricted cash	(7,412)	(7,997)
Cash and cash equivalents at end of period	**$ 105**	**$ 279**
Supplemental schedule of cash flow information:		
Interest paid	$ 650	$ 245
Income taxes paid	$ -	$ -
Supplemental information on non-cash operating and investing activities:		
Preferred Stock dividends accrued during each respective fiscal period	$ 363	$ 363
Unrealized gain (loss) on cash flow hedge	$ -	$ -

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

Environmental Tectonics Corporation

Consolidated Statements of Changes in Shareholders' (Deficit) Equity

(unaudited)

(in thousands, except share information)	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total Shareholders' Equity (Deficit)
Balance, February 24, 2023	**$ 12,127**	**9,443,785**	**$ 472**	**$ 6,411**	**$ (18,799)**	**$ (796)**	**$ (548)**
Less: Prior year non-controlling interest	-	-	-	-	-	-	(37)
Net loss attributable to ETC	-	-	-	-	(1,009)	-	(1,009)
Foreign currency translation adjustment	-	-	-	-	-	(133)	(133)
Preferred Stock dividends	-	-	-	(363)	-	-	(363)
Balance, November 24, 2023	**$ 12,127**	**9,443,785**	**$ 472**	**$ 6,048**	**$ (19,808)**	**$ (929)**	**$ (2,090)**

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

The Company's primary Standard Industrial Classification Code ("SIC Code") is 3569. The Company's fiscal year is the fifty-two week or fifty-three week annual accounting period ending the last Friday in February. References to the 2024 third quarter are references to the thirteen week period ended November 24, 2023. References to the 2023 third quarter are references to the thirteen week period ended November 25, 2022. References to the 2024 fiscal first three quarters are references to the thirty-nine week period ending November 24, 2023. References to the 2023 fiscal first three quarters are references to the thirty-nine week period ending November 25, 2022. References to fiscal 2024 are references to the fifty-two week period ending February 23, 2024. References to fiscal 2023 are references to the fifty-two week period ended February 24, 2023.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Certain information in footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America has been condensed or omitted and the financial results for the periods presented may not be indicative of the full year's results; however, the Company believes that the disclosures are adequate to make the information presented not misleading. These interim consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report to Shareholders for fiscal 2023 (the "2023 Annual Report").

Significant Accounting Policies Update

There have been no material changes in the Company's significant accounting policies during fiscal 2024 as compared to what was previously disclosed in the 2023 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 24, 2023 and November 25, 2022, 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, The Series E Preferred Stock was originally issued in July 2009.

As of November 24, 2023 and November 25, 2022, there were outstanding options to purchase the Company's Common Stock at an average price of $0.88 and $0.95, respectively totaling 722,450 and 957,950 shares, respectively. Due to the conversion price of Common Stock options, all 722,450 and 957,950 shares, respectively were excluded from the calculation of diluted earnings per share as of November 24, 2023 and November 25, 2022, 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 sterilizer systems 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 under existing contracts) 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 24, 2023, our ending sales backlog was $114.5 million, compared to $23.7 million as of November 25, 2022. We expect to recognize as revenue approximately 63% of the backlog over the next twelve (12) months and approximately 91% of the backlog over the next twenty-four (24) months, 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 24, 2023			November 25, 2022		
	Aerospace	CIS	Total	Aerospace	CIS	Total
Net income attributable to adjustments in contract estimates	$ (176)	$ (15)	$ (191)	$ (6)	$ -	$ (6)

	Thitry-nine weeks ended					
	November 24, 2023			November 25, 2022		
	Aerospace	CIS	Total	Aerospace	CIS	Total
Net income attributable to adjustments in contract estimates	$ (258)	$ 58	$ (200)	$ (79)	$ 35	$ (43)

(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 2024 third quarter compared to the 2023 third quarter:

	Thirteen weeks ended							
	November 24,2023				November 25, 2022			
	Domestic	U.S. Govt.	International	Total	Domestic	U.S. Govt.	International	Total
Aerospace Solutions								
Aeromedical Training Solutions	$ 50	$ 153	$ 4,958	$ 5,161	112	182	1,606	1,900
Simulation (ADMS)	57	353	641	$ 1,051	1	10	1,486	1,497
Subtotal	107	506	5,599	6,212	113	192	3,092	3,397
Commercial/Industrial Systems								
Sterilizers	590	-	2,958	3,548	1,948	-	270	2,218
Environmental (ETSS)	238	-	4	242	407	-	18	425
Service and spares	203	-	6	209	402	-	7	409
Subtotal	1,031	-	2,968	3,999	2,757	-	295	3,052
Net Sales Total	**$ 1,138**	**$ 506**	**$ 8,567**	**$ 10,211**	**$ 2,870**	**$ 192**	**$ 3,387**	**$ 6,449**

The following schedule presents the Company's net sales by segment, business unit, and geographic area for the 2024 first three quarters compared to the 2023 first three quarters:

	Thirty-nine weeks ended							
	November 24,2023				November 25, 2022			
	Domestic	U.S. Govt.	International	Total	Domestic	U.S. Govt.	International	Total
Aerospace Solutions								
Aeromedical Training Solutions (ATS)	$ 361	$ 514	$ 11,527	$ 12,402	779	576	4,666	6,021
Simulation (ADMS)	104	560	2,115	2,779	209	520	1,997	2,726
Subtotal	465	1,074	13,642	15,181	988	1,096	6,663	8,747
Commercial/Industrial Systems								
Sterilizers	2,600	-	6,885	9,485	3,672	-	1,121	4,793
Environmental (ETSS)	1,223	-	38	1,261	2,654	-	49	2,703
Service and spares	894	-	73	967	1,246	-	71	1,317
Subtotal	4,717	-	6,996	11,713	7,572	-	1,241	8,813
Net Sales Total	**$ 5,182**	**$ 1,074**	**$ 20,638**	**$ 26,894**	**$ 8,560**	**$ 1,096**	**$ 7,904**	**$ 17,560**

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

	Thirteen weeks ended	
Type of Revenue	**November 24,2023**	**November 25, 2022**
Products	79.8%	78.5%
Maintenance & Support	15.6%	12.2%
Services	3.4%	4.8%
Spare parts	1.2%	4.5%
Total	**100.0%**	**100.0%**

	Thirty-nine weeks ended	
Type of Revenue	**November 24,2023**	**November 25, 2022**
Products	83.4%	76.4%
Maintenance & Support	10.8%	11.8%
Services	3.8%	8.5%
Spare parts	2.0%	3.3%
Total	**100.0%**	**100.0%**

(Dollars in thousands, except per share information)

Note 4. Leases

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

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

The Company leases certain premises and office equipment under operating leases. As of November 24, 2023, these leases have remaining lease terms of one (1) month to sixty-seven (67) months, with a weighted average remaining lease term of approximately fifty-nine (59) months. Maturities of operating lease liabilities are as follows:

Fiscal Year		Amount
2024	$	205
2025		617
2026		481
2027		488
2028		481
2029		484
2030		140
Total lease payments		2,896
Less: imputed interest		(381)
Total future long-term debt obligations		2,515
Less: current portion		(579)
Total future long-term debt obligations, less current portion	**$**	**1,936**

Total operating lease expense was $237 for the 2024 third quarter. For the 2024 third quarter, cash payments against operating lease liabilities totaled $202.

Total operating lease expense was $707 for the first three quarters of fiscal 2024. For the first three quarters of fiscal 2024, cash payments against operating lease liabilities totaled $595.

Note 5. Long-Term Obligations

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

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

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

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

(Dollars in thousands, except per share information)

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

		November 24, 2023		February 24, 2023
		(unaudited)		
Credit facility payable to PNC Bank	$	13,350	$	9,330
Credit facility payable to Spoldzielczy Bank		1,079		687
Total long-term debt obligations		14,429		10,017
Less: debt issuance costs		-		-
Total long-term debt obligations, net of debt issuance		14,429		10,017
Less: current portion		13,723		-
Total long-term debt obligations, net of debt issuance costs	$	706	$	10,017

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 $40 and $20, primarily related to an increase in unrecognized tax benefits, was recorded in the 2024 third quarter and the 2023 third quarter, respectively. Effective tax rates were 7.6% and -2.8% for the 2023 third quarter and the 2022 third quarter, respectively. As of November 24, 2023, 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 that 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

Directorate of Defense Trade Controls Voluntary Disclosure

In the fiscal 2024 first quarter, the Company filed a Voluntary Disclosure with the Director of Compliance, U.S. Department of State, Directorate of Defense Trade Controls ("DDTC"), relating to its discovery it may not have been compliant with a certain requirement of the International Traffic in Arms Regulations ("ITAR"). This Voluntary Disclosure identified that the Company did not disclose to DDTC sales commissions paid to certain sales representatives when the Company filed export license applications pursuant to the ITAR, and also set forth the corrective actions to be taken by the Company. At this time ETC does not believe fines or penalties, if any, assessed against the Company will have a material impact.

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 12, 2024, the date of issuance of the accompanying interim consolidated financial statements, and determined that there were no material subsequent events requiring adjustment to, or disclosure in, the accompanying interim consolidated financial statements for the thirteen weeks ended November 24, 2023.

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 24, 2023 compared to thirteen weeks ended November 25, 2022

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

Summary Table of Results

(unaudited)

	Thirteen weeks ended			
(in thousands, except per share information)	**November 24, 2023**	**November 25, 2022**	**Variance ($)**	**Variance (%)**
Net sales	$ 10,210	$ 6,449	$ 3,761	58.3
Cost of goods sold	7,375	4,695	2,680	57.1
Gross Profit	2,835	1,754	1,081	61.6
Gross profit margin %	*27.8%*	*27.2%*	*0.6%*	*2.1%*
Operating expenses	2,008	2,296	(288)	(12.5)
Operating income (loss)	827	(542)	1,369	252.6
Operating margin %	*8.1%*	*-8.4%*	*16.5%*	*196.4%*
Interest expense, net	224	121	103	85.1
Other expense (income), net	74	56	18	32.1
Income (loss) before income taxes	529	(719)	1,248	173.6
Pre-tax margin %	*5.2%*	*-11.1%*	*16.3%*	*146.4%*
Income tax provision	40	20	20	100.0
Loss attributable to non-controlling interest	-	(8)	8	100.0
Net income (loss) attributable to ETC	**$ 489**	**$ (747)**	**$ 1,236**	**165.5**

Per share information:			
Basic earnings (loss) per common and participating share:			
Distributed earnings per share:			
Common	$ -	$ -	$ -
Preferred	$ 0.02	$ 0.02	$ -
Undistributed earnings (loss) per share:			
Common	$ 0.02	$ (0.06)	$ 0.08
Preferred	$ 0.02	$ (0.06)	$ 0.08
Diluted earnings (loss) per share	**$ 0.02**	**$ (0.06)**	**$ 0.08**

Net Income (Loss) Attributable to ETC

Net income attributable to ETC was $0.5 million, or $0.02 diluted earnings per share, in the 2024 fiscal third quarter, compared to net loss attributable to ETC of ($0.8) million during the 2023 fiscal third quarter, equating to ($0.06) diluted loss per share. The $1.2 million variance is primarily attributable to a $3.8 million increase in revenue as well as a 0.6% increase in gross profit margin percentage.

Net Sales

Net sales in the 2024 fiscal third quarter were $10.2 million, an increase of $3.8 million, or 58.3%, compared to 2023 fiscal third quarter net sales of $6.4 million. The increase in net sales was driven by a $2.8 million, or 82.9%, increase in aerospace solutions and a $1.3 million or 60.0% increase in sterilizer systems net sales in 2024 fiscal third quarter as compared to 2023 fiscal third quarter net sales. Bookings in the 2024 fiscal third quarter were $13.2 million, which were driven by $9.3 of Aerospace Solutions orders and $3.4 of Sterilizer Systems orders.

Gross Profit

Gross profit for the 2024 fiscal third quarter of $2.8 million increased from $1.8 million in the 2023 fiscal third quarter, an increase of $1.1 million or 61.6%. Gross profit margin percentage of 27.8% for the 2024 fiscal third quarter represented an increase of 0.6% as compared to 27.2% in the 2023 third fiscal quarter. The increase in gross profit was mainly due to the increase in sales as well as the improved gross profit margin percentage.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2024 fiscal third quarter were $2.0 million, a decrease of $0.3 million, or (12.5%), compared to $2.3 million for the 2023 fiscal third quarter. The decrease in operating expenses was due primarily to lower research and development costs of $0.2 million in the 2024 fiscal third quarter compared to the 2023 fiscal third quarter.

Thirty-nine weeks ended November 24, 2023 compared to thirty-nine weeks ended November 25, 2022

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

Summary Table of Results

(unaudited)

(in thousands, except per share information)	Thirty-nine weeks ended November 24, 2023	Thirty-nine weeks ended November 25, 2022	Variance ($)	Variance (%)
Net sales	$ 26,893	$ 17,560	$ 9,333	53.1
Cost of goods sold	19,934	12,911	7,023	54.4
Gross Profit	6,959	4,649	2,310	49.7
Gross profit margin %	*25.9%*	*26.5%*	*-0.6%*	*-2.2%*
Operating expenses	6,981	6,531	450	6.9
Operating (loss)	(22)	(1,882)	1,860	98.8
Operating margin %	*-0.1%*	*-10.7%*	*10.6%*	*99.1%*
Interest expense, net	650	366	284	77.6
Other expense (income), net	217	(2,123)	2,340	(110.2)
(Loss)/income before income taxes	(889)	(125)	(764)	(611.2)
Pre tax margin %	*-3.3%*	*-0.7%*	*-2.6%*	*-365.8%*
Income tax provision	120	60	60	100.0
Loss attributable to non-controlling interest	-	16	(16)	100.0
Net (loss) income attributable to ETC	**$ (1,009)**	**$ (169)**	**$ (840)**	(497.0)

Per share information:			
Basic earnings (loss) per common and participating share:			
Distributed earnings per share:			
Common	$ -	$ -	
Preferred	$ 0.06	$ 0.06	$ -
Undistributed (loss) earnings per share:			
Common	$ (0.09)	$ (0.03)	$ (0.06)
Preferred	$ (0.09)	$ (0.03)	$ (0.06)
Diluted (loss) earnings per share	**$ (0.09)**	**$ (0.03)**	**$ (0.06)**

Net (Loss) Attributable to ETC

Net loss attributable to ETC was ($1.0) million, or ($0.09) diluted loss per share, in the 2024 fiscal first three quarters, compared to net loss attributable to ETC of ($0.2) million during the 2023 fiscal first three quarters, equating to ($0.03) diluted loss per share. The ($0.8) million variance is due primarily to the effect of a gain on the sale of the facility at 125 James Way, Southampton, PA in the 2023 fiscal first three quarters partially offset by improved operating results in the 2024 fiscal first three quarters.

Net Sales

Net sales in the 2024 fiscal first three quarters were $26.9 million, an increase of $9.3 million, or 53.1%, compared to 2023 fiscal first three quarters net sales of $17.6 million. The increase in net sales is attributable to a $6.4 million or 106.0% increase in Aircrew Training Systems and a $4.7 million or 97.9% increase in sterilizer systems 2024 fiscal first three quarters net sales offset in part by a ($1.4) million or (53.3%) decrease in environmental net sales in the 2024 fiscal first three quarters as compared to the 2023 fiscal first three quarters.

Gross Profit

Gross profit for the 2024 fiscal first three quarters was $7.0 million compared to $4.6 million in the 2023 fiscal first three quarters, an increase of $2.3 million, or 49.7%. The increase in gross profit was due to an increase in net sales slightly offset by lower gross profit margin percentage. Gross profit margin of 25.9% for the fiscal first three quarters represented a decrease of 0.6% as compared to 26.5% in 2023 fiscal first three quarters. Gross profit margin percentage was negatively affected during the 2024 fiscal first three quarters as the company began to ramp up employment early in the year to handle the significant increase in backlog.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2024 fiscal first three quarters were $7.0 million, an increase of $0.5 million, or 6.9%, compared to $6.5 million for the 2023 fiscal first three quarters. The increase in operating expenses was primarily due to increased expense related to higher sales and personnel expense as the Company continues to grow our capacity to deliver on the increasing sales backlog.

Other Expenses (Income), Net

Other expense, net for the 2024 fiscal first three quarters was $0.2 million compared to other income, net of ($2.1) million for the 2023 fiscal first three quarters, an unfavorable variance of $2.3 million, or 110.2%. This is direct result of the gain on the facility sale of 125 James Way in the 2023 fiscal first three quarters referenced above.

Cash Flows from Operating, Investing, and Financing Activities

During the 2024 fiscal first three quarters, the Company used $6.0 million of cash from operating activities, due primarily from an increase in accounts receivable and prepaid expenses and other assets, slightly offset by an increase in accounts payable, as compared to providing $1.4 million during the 2023 fiscal first three quarters.

Cash used for investing activities was $0.2 million during the 2024 fiscal first three quarters which primarily related to funds used for capital expenditures of equipment and software development as compared to $4.5 million provided by investing activities during the fiscal first three quarters of 2023 primarily from the facility sale of 125 James Way.

The Company's financing activities included increased borrowings of $4.3 million during the fiscal first three quarters of 2024 under the Company's credit facility as compared to using $4.3 million of cash during the 2023 fiscal first three quarters for repayments under the Company's credit facilities.

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	1,940	Software development	Leased	Aerospace CIS
Total	**122,440**			

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 leased property, includes the following aerospace training and research equipment:

- ATFS-400-25 PHOENIX High Performance Human Centrifuge;
- 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	1.3%
	Linda J. Brent, Ed.D.	Director	1.0%
	Winston E. Scott	Director	1.1%
	Brian Eccleston	Director	*
	Robert L. Laurent, Jr.	Chief Executive Officer, President, Corporate Secretary and Director	1.9%
	Timothy R. Kennedy	Chief Financial Officer as of June 14, 2023	*
	Thomas G. Loughlin	Chief Operating Officer	1.0%
	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*		*** 53.6%
	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 12, 2024, 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
518 Township Line Road, Suite 300
Blue Bell, PA 19422
(215) 641-8600

Item 10. Management's Certification

I, Timothy R. Kennedy certify that:

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

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

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

Tim Kennedy

Timothy R. Kennedy
Chief Financial Officer and Treasurer
Date: January 12, 2024

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 12, 2024