

FORM 10-KSB  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act OF 1934 [fee required]  
For the fiscal year ended February 23, 1996  
or  
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [no fee required]  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-10655

ENVIRONMENTAL TECTONICS CORPORATION  
(Exact name of small business issuer in its charter)

Pennsylvania 23-1714256  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

County Line Industrial Park  
Southampton, Pennsylvania 18966  
(Address of principal executive offices) (Zip Code)

Issuer's telephone number, including area code (215) 355-9100

Securities registered pursuant to Section 12(b) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.10 per share  
(Title of Class)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

As of May 20, 1996, the aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant was approximately \$8,400,000.

As of May 15, 1996, there were 2,928,944 shares of Registrant's common stock, \$0.10 par value per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE. Portions of Registrant's 1996 Annual Report to Stockholders are incorporated by reference in Part II, Items 5, 6, 7, and 8.

Transitional Small Business Disclosure Format: Yes  No

PART I

Item 1. Description of Business

(a) Business Development

The Company, a Pennsylvania corporation, incorporated in 1969, is principally engaged in the manufacture and sale of products used in controlling, modifying, simulating and measuring environmental factors such as temperature, humidity, pressure, and vacuum. These products include aircrew training systems, sterilizers, environmental and other products which involve similar manufacturing techniques and engineering technologies.

Since February 24, 1995, there has been no material change in the Company's mode of conducting business.

(b) Business of the Company

Principal Products

**Aircrew Training Systems.** The Company's aircrew training devices are used for medical research, advanced flight training, and for the indoctrination and testing of military and commercial pilots. The major devices sold in this product area are commercial flight simulators, high altitude decompression chambers, hyperbaric (high-pressurized oxygen) chambers, night vision trainers, water survival training equipment, disorientation training equipment, human centrifuges, and ejection seat trainers. The Company provides operation and maintenance services for installed equipment it manufactures as well as equipment produced by others.

The aircrew training system class of products represented 52% and 35% of consolidated revenues of the Company for the years ended February 23, 1996 and February 24, 1995, respectively.

**Sterilizers.** The Company manufactures steam and gas sterilizers. Steam sterilizers are used for hospital, medical research laboratory, and industrial purposes. Gas sterilizers are used for the sterilization of packaged products such as food, spices, pharmaceutical, and disposable and reusable medical devices. The Company also furnishes military field sterilizers on a large volume basis to the United States Defense Logistics Agency. The Company's sterilizers range in price from approximately \$3,500 to over \$1,000,000, and in chamber size from three cubic feet to over 4,000 cubic feet, although the Company concentrates on marketing the larger custom-designed sterilizers to the pharmaceutical and medical device industries.

The sterilizer class of products represented 31% and 43% of consolidated revenues of the Company for the years ended February 23, 1996 and February 24, 1995, respectively.

**Environmental Systems and Other Products.** The Company's environmental systems business consists of the design and fabrication of sampling and analysis systems, and test equipment and systems used in measuring, monitoring and testing air pollution. The Company also designs and manufactures environmental simulation systems to meet specific needs of its customers. The simulation systems generally consist of an enclosed chamber with instrumentation and equipment which enable the customer to control and modify such environmental factors as temperature, pressure, humidity, wind velocity and gas content to produce desired conditions. These products include controlled air systems for automotive companies and environmental chambers.

The Company also provides repair and maintenance service for its own and other manufacturers' equipment.

Sales of these products were 17% and 22% of consolidated revenues of the Company for the years ended February 23, 1996 and February 24, 1995, respectively.

## Marketing

The Company currently markets its products and services primarily through its officers and employees. At February 23, 1996, approximately 20 employees were committed to sales and marketing functions. The Company uses branch offices in the United Kingdom, the Middle East, and Asia as well as the services of approximately 100 independent sales organizations in seeking foreign orders for its products.

## Product Development

New products and improvements in existing products are being continually developed in response to inquiries from customers and to management's determination that particular products should be produced or significantly improved. Although the Company does not have a separate research and development group, significant efforts are expended in developing new applications of existing technologies.

The Company is currently focusing its product development efforts in the aircrew training systems segment, with a particular emphasis on enhancing the related control systems and software, and exploring commercial possibilities. The Company is near completion of a Firefighting Command and Control System and Trainer for a certain foreign governmental agency. The control system is a real-time interactive training program that provides instructor-selective, computer-generated image scenarios that train and test a firefighter's ability to fight various types of aircraft fires. The trainer simulates fires in aircraft and structures that must be physically fought and controlled by a team of firefighters. The Company believes that this development will provide it with the potential for establishing a new standardized product for commercial as well as governmental use. Additionally, the Company believes this area will expand to training systems for other disaster situations.

The Company incurred research and development costs of approximately \$154,000 and \$336,000 for the years ended February 23, 1996 and February 24, 1995, respectively.

## Supplies

The components being used in the assembly of systems and the parts used to manufacture the Company's products are purchased from equipment manufacturers, electronics supply firms and others. To date, the Company has had no difficulty in obtaining supplies. Further, all raw materials, parts, components, and other supplies used by the Company in the manufacture of its products can be obtained at competitive prices from alternate sources should existing sources of supply become unavailable.

## Patents and Trademarks

The Company has no patents or trademarks which it considers significant to its operations, except a patent on the GYROLAB Spatial Orientation Trainer which expires in December 2004.

## Customers

In the current year and recent past, it has been the Company's experience that a substantial portion of sales are made to a small number of customers that vary within any given year. The Company's business does not depend upon repeat orders from these same customers. Sales of aircrew training systems are made principally to U.S. and foreign governmental agencies. Sales of sterilizers and environmental systems are made to commercial and governmental entities worldwide.

In fiscal 1996, the Company's major customers included the United Kingdom and the U.S. Government, which accounted for \$2,366,000 and \$1,631,000 of the Company's sales, respectively. These governmental entities do not have any relationship with the Company other than as customers.

#### Foreign and Domestic Operations and Export Sales

During the years ended February 23, 1996 and February 24, 1995, 1994, approximately \$1,631,000 (10%) and \$2,643,000 (16%), respectively, of the Company's net revenues were attributable to contracts with agencies of the U.S. Government or with other customers who had prime contracts with agencies of the federal government.

During the years ended February 23, 1996 and February 24, 1995, approximately \$9,198,000 (59%) and \$6,310,000 (40%), respectively, of the Company's net revenues were attributable to export sales or sales for export. (See Note 9 to the Company's consolidated financial statements incorporated herein by reference to the Annual Report.) On export sales, customers' obligations to the Company may be secured by irrevocable letters of credit.

The Company does not believe that the distribution of its sales for any particular period is necessarily indicative of the distribution expected for any other period.

A large portion of the Company's sales are under long-term contracts requiring more than one year to complete. The Company accounts for sales under long-term contracts on the percentage of completion basis. See Notes 1 and 3 to consolidated financial statements.

The Company's U.S. Government contracts contain standard terms permitting termination without cause at the option of the Government. In the event of termination of such contracts, the Company is entitled to receive reimbursement on the basis of work completed (cost incurred plus a reasonable profit), recording the amounts anticipated to be recovered from termination claims in income as soon as those amounts can be reasonably determined rather than at the time of final settlement. All costs applicable to a termination claim are charged as an offsetting expense concurrently with the recognition of income from the claim.

#### Backlog

The Company's sales backlog at February 23, 1996 and February 24, 1995 for work to be performed and revenue to be recognized under written agreements after such dates was approximately \$20,900,000 and \$12,200,000, respectively. In addition, the Company's training and maintenance contracts backlog at February 23, 1996 and February 24, 1995 for work to be performed and revenue to be recognized after that date under written agreements was approximately \$2,100,000 and \$3,500,000, respectively. Of the 1996 backlog, approximately \$18,100,000 is under contracts for aircrew training systems and maintenance support principally for U.S. (approximately \$700,000) and foreign governments (approximately \$17,400,000). The U.S. Government contracts are subject to termination at the convenience of the Government with equitable cancellation cost recovery. Approximately 71% of the 1996 backlog is expected to be completed prior to February 28, 1997.

#### Competition

The Company's business strategy in recent years has been to seek niche markets in which there are not numerous competitors. However, in some areas of its business the Company competes with well-established firms, some of which have substantially greater financial and personnel resources.

Some competitor firms have technical expertise and production capabilities in one or more of the areas involved in the design and production of physiological flight training equipment, environmental systems, and other specially designed products, and compete with the Company for this business. The competition for any particular project generally is determined by the technological requirements of the project, with consideration also being given to a bidder's reliability, product performance, past performance, and price.

The Company faces particularly intense competition from a number of firms in the sale of hospital sterilizers but faces less competition in the sale of the larger custom-designed industrial sterilizers.

The Company believes that it is a significant participant in the markets in which it competes, especially in aircrew training systems in which the Company believes it is a principal provider of this type of equipment and training in its market area.

#### Compliance with Environmental Laws

The Company has not incurred during 1996 nor does it anticipate incurring during fiscal 1997 any material capital expenditures to maintain compliance with Federal, state and local statutes, rules and regulations concerning the discharge of materials into the environment, nor does the Company anticipate that compliance with these provisions will have a material adverse effect on its earnings or competitive position.

#### Employees

On February 23, 1996, the Company had 160 full-time employees, of whom 10 were employed in executive positions, 33 were engineers, engineering designers, or draftpeople, 59 were administrative (sales, accounting, etc.) and clerical personnel, and 58 were engaged principally in production and operations.

#### Item 2. Description of Property

The Company owns its executive offices and principal production facilities located on a 5-acre site in the County Line Industrial Park, Southampton, Pennsylvania in an approximately 70,000 square foot steel and masonry building. Approximately 55,000 square feet are devoted to manufacturing, and 15,000 square feet to office space. The original building was erected in 1969 and additions were made in 1973, 1976, 1985 and 1991. This property collateralizes the Company's revolving credit facility.

The Company considers its machinery and plant to be in satisfactory operating condition and adequate for the Company's present level of business. Increases in the level of operations beyond that expected in the current fiscal year might require the Company to obtain additional facilities and equipment.

#### Item 3. Legal Proceedings

In October 1993, the Company was notified by the Royal Thai Air Force (the "RTAF") that the RTAF was terminating a certain \$4.6 million simulator contract with the Company. Although the Company has performed in excess of 90% of the contract, the RTAF

alleged a failure to completely perform. In connection with this termination, the RTAF made a call on a \$229 performance bond, as well as a draw on approximately \$1.1 million of advance payment letters of credit. The RTAF has also asserted liquidated damages pursuant to the contract against the Company. In October 1993, the surety made payment on the \$229 performance bond, and in the first quarter of fiscal 1995, it made payment on the approximately \$1.1 million advance payment letters of credit. The Company has commenced arbitration with the RTAF. In the arbitration, the Company is asserting claims against the RTAF for reimbursement of the costs incurred on the bond and letters of credit called, as well as claims for costs incurred in connection with RTAF-directed changes in the work and RTAF-caused delays and damages to the Company's work. The Company is also claiming that the termination was wrongful and that the company is entitled to complete the work and to be paid the balance of the contract price. The case is pending before the Thailand Arbitration Board. Management believes the Company has meritorious claims in excess of claims made by the RTAF, as well as meritorious grounds to support nonpayment of the performance bond and letters of credit. The Company has also denied the RTAF claims and believes they are without merit. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements. Management and legal counsel believe that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position or results of operations.

Certain other claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Company. In the opinion of management, all such matters are reserved for or are adequately covered by insurance or, if not so covered, are without merit or are of such kind, or involve such amounts as would not have a significant effect on the financial position of the Company if disposed of unfavorably.

#### Item 4. Submission of Matters to a Vote of Security Holders

None.

### PART II

#### Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

See information appearing under the heading "Market for the Registrant's Common Stock and Related Stockholder Matters" in the Annual Report, attached hereto as Exhibit 13 and incorporated herein by reference.

#### Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

See information appearing under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report, attached hereto as Exhibit 13 and incorporated herein by reference.

#### Item 7. Financial Statements

See the information appearing under the headings "Consolidated Financial Statements" and "Notes to Consolidated Financial Statements" in the Annual Report, attached hereto as Exhibit 13 and incorporated herein by reference.

#### Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Coopers & Lybrand LLP was dismissed by the Company on January 3, 1995. In each of the two fiscal years for the two year period ended February 25, 1994, the accountant's reports on the Company's financial statements contained unqualified opinions, which were modified in fiscal 1994 for (i) an uncertainty paragraph for unsettled litigation, and (ii) an emphasis of a matter paragraph for contract claims receivable and a recently renegotiated extension to the Company's credit facility; and in fiscal 1993 for an uncertainty paragraph for unsettled litigation. The decision to dismiss the accountant was approved by the Company's audit committee.

In each of the two fiscal years for the two year period ended February 25, 1994 there were disagreements which, if not resolved to the satisfaction of the former accountant, would have caused it to make reference to the subject matter of the disagreement in connection with its report. In fiscal 1995, there were no disagreements with the former accountant in the interim periods subsequent to February 25, 1994. In fiscal 1994, there were disagreements as to (i) the amount of revenue to be recognized under the percentage of completion method for a certain contract, (ii) income recognition of a certain insurance settlement, and (iii) the capitalization of certain software development costs. These issues were discussed with the Company's audit committee after final resolution was made to the satisfaction of the former accountant. There were no issues which involved differences of opinion over material matters related to auditing scope or procedures. The Company authorized the former accountant to respond fully to the inquiries of the successor accountant concerning the subject matter of each of these disagreements. In fiscal 1993, there were no issues which involved differences of opinion over material matters related to accounting principles or practices, financial statement disclosures or presentation and auditing scope procedures.

The Company engaged Grant Thornton LLP as its new independent accountants as of February 16, 1995. During the two fiscal years prior to February 24, 1995, and through February 24, 1995, the Company did not consult with Grant Thornton LLP on items which (i) were or should have been subject to SAS 50 or (ii) concerned the subject matter of a disagreement or reportable event with the former auditors, Coopers & Lybrand LLP.

PART III

Item 9. Directors and Executive Officers of the Registrant;  
Compliance with Section 16(a) of the Exchange Act

The following table sets forth certain information with respect to the directors of the Registrant:

Name	Age	Served as Director Since (1)	Principal Occupations and Positions and Offices with the Company
William F. Mitchell(2)	54	1969	Chairman of the Board, President and Director
Richard E. McAdams(3)	60	1985	Vice President and Director
Philip L. Wagner, Ph.D.(4)	59	1993	Director
Pete L. Stephens, M.D.(5)	58	1974	Director

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- (1) Directors serve one-year terms.
  - (2) Mr. Mitchell has been Chairman of the Board, President and Chief Executive Officer of the Company since 1969, except for the period from January 24, 1986 through January 24, 1987, when he was engaged principally in soliciting sales for the Company's products in the overseas markets.
  - (3) Mr. McAdams has been with the Company since 1970. He became a Vice President in 1978 with responsibility for contract administration.
  - (4) Dr. Wagner is an organic chemist with over 30 years of diversified experience managing research and development and new business development at E.I. du Pont de Nemours & Company and thereafter founded Chadds Ford Technologies, Inc., a consulting firm. He is currently President of Chadds Ford Technologies, Inc.
  - (5) Dr. Stephens has been a physician engaged in the private practice of medicine for 30 years.
  - (6) Mr. Mulshine has served as a Director of VASCO Corporation, a public company in the computer data security business, since 1991. He has been President of Osprey Partners, a management consulting firm, since 1977. He is Chairman of the Board of Dynex Sport Optics, Inc., an exclusive licensee of Wilson Sporting Goods Company, and has been a Director and Secretary of Scangraphics, Inc., a public company, since 1985. Mr. Mulshine is an instrument-rated pilot who served as General Manager of a flight simulator company and was involved in simulation and modeling in his early career. He received a Bachelor of Science degree in Electrical Engineering in 1961 from Newark College of Engineering.

#### Committees of the Board of Directors

During the year ended February 23, 1996, the Company had an Audit Committee consisting of three independent outside directors: Messrs. Michael A. Mulshine, Philip L. Wagner and Dr. Pete L. Stephens. These three independent outside directors also served on the Company's Compensation Committee during the year ended February 24, 1995. The Audit Committee is charged with reviewing and overseeing the Company's financial systems and internal control procedures and conferring with the Company's independent accountants with respect thereto. The Compensation Committee is charged with reviewing the compensation of officers and key personnel.

During the year ended February 23, 1996, the Board of Directors held two meetings and the Audit Committee and Compensation Committee each held one meeting. All members of the Board attended all of the meetings of the Board held while they were members of the Board. All members of the Audit Committee and Compensation Committee attended all meetings of the Committee held while they were members thereof.

There are no executive officers of the Company who are not also directors of the Company.

#### Compliance With Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's



equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC") and the American Stock Exchange. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) Forms they file. The rules of the SEC regarding the filing of such statement require that "late filings" of such statements be disclosed in the Company's proxy statement.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that, during the fiscal year ended February 23, 1996, all filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

Item 10. Executive Compensation

REMUNERATION OF DIRECTORS AND OFFICERS

The following table sets forth compensation paid by the Company to the Chief Executive Officer for services rendered during fiscal years 1996, 1995 and 1994. There are no other executive officers whose total annual salary and bonus exceeds \$ 100,000. The footnotes to the table provide additional information concerning the Company's compensation and benefit programs.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation		Other	All Other
		Salary(\$)	Bonus(\$)	Annual Compen- sation(\$)(1)	Compen- sation(\$)(2)
William F. Mitchell, President and Chief Executive Officer	1996	\$119,531	\$ -	\$ -	\$2,473
	1995	131,568	-	-	1,154
	1994	165,105	-	-	1,453

(1) The Company's executive officers receive certain perquisites. For fiscal years 1996, 1995 and 1994, the perquisites received by Mr. Mitchell did not exceed the lesser of \$50,000 or 10% of his salary and bonus.

(2) These amounts represent the Company's contribution to the Retirement Savings Plan.

Directors of the Company who are not officers of the Company are paid \$600 for Board of Directors meetings which they attend. Additional compensation is not paid for committee meetings.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth as of May 20, 1996, the number of shares and percentage of the Company's Common Stock owned beneficially by each director, each nominee for director, each executive officer named in the Summary Compensation Table, and each person holding, to the Company's knowledge, more than 5% of the outstanding Common Stock. The table also sets forth the

holdings of all directors and executive officers as a group.

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership -----	Percent of Class -----
William F. Mitchell (1) c/o Environmental Tectonics Corporation County Line Industrial Park Southampton, PA 18966	943,949	32.2%
Pete L. Stephens, M.D. (2) 1 Eleni Lane West Chester, PA 19382	310,650 (3)	10.6%
Richard E. McAdams (4) c/o Environmental Tectonics Corporation County Line Industrial Park Southampton, PA 18966	19,526 (5)	*
Michael A. Mulshine (6) Osprey Partners 2517 Route 35 Manasquan, NJ 08736	0 (7)	*
Philip L. Wagner, Ph.D. (8) Chadds Ford Technologies, Inc. P.O. Box 377 Chadds Ford, PA 19317	6,000 (9)	*
All directors and executive officers as a group (12 persons)	1,289,274 (10)	44.0%

\* less than 1%

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- (1) Chairman of the Board, President and Director of the Corporation.
  - (2) Director of the Corporation.
  - (3) Includes 8,550 shares held by or for the benefit of Dr. Stephens' wife and two of his children.
  - (4) Director of the Corporation.
  - (5) Includes options to purchase 6,000 shares held under the Company's Incentive Stock Option Plan that are presently exercisable.
  - (6) Director of the Corporation.
  - (7) Does not include warrants to purchase 125,000 shares of stock that are exercisable only upon completion of certain activities under a separate consulting agreement.
  - (8) Director of the Corporation.
  - (9) Includes 4,000 shares held by or for the benefit of Dr. Wagner's wife.
  - (10) Includes options to purchase 36,800 shares held under the Company's Incentive Stock Option plan that are presently exercisable.

#### Item 12. Certain Relationships and Related Transactions

On October 20, 1994, the Company and Mr. Mulshine entered into a Consulting Agreement, pursuant to which the Company has agreed to issue warrants to Mr. Mulshine to purchase 125,000 shares of the Company's common stock at an initial exercise price of \$4.75 in consideration for Mr. Mulshine

providing certain consulting services to the Company.

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits:

Number	Item
- - - - -	-----
3(i)	Registrant's Articles of Incorporation, as amended, was filed as Exhibit 3(i) to Registrant's Form 10-K for the year ended February 25, 1994 and is incorporated herein by reference.
3(ii)	Registrant's By-Laws, as amended, was filed as Exhibit 3(ii) to Registrant's Form 10-K for the year ended February 25, 1994 and is incorporated herein by reference.
10(i)	Chief Executive Compensation Plan, Executive Management/Key Employee Compensation Plan, General Compensation Policy was filed as Exhibit 10(i) to the Registrant's Form 10-K for the year ended February 25, 1994 and is incorporated herein by reference.*
10(ii)	Registrant's 1988 Incentive Stock Option Plan was filed as Exhibit 10(v) to Registrant's Form 10-K for the year ended February 23, 1990 and is incorporated herein by reference.*
10(iii)	Registrant's Employee Stock Purchase Plan was filed on July 6, 1988 as Exhibit A to the Prospectus included in Registrant's Registration Statement (File No. 33-42219) on Form S-8 and is incorporated herein by reference.*
10(iv)	Registrant's Revolving Credit Agreement with the Chase Manhattan Bank, N.A. as Agent, dated as of November 20, 1990, filed as Exhibit 4 to the Registrant's Form 10-Q for the quarter ended November 23, 1990 and is incorporated herein by reference.
10(v)	Registrant's Promissory Note to the Chase Manhattan Bank, N.A., dated November 20, 1990, filed as Exhibit 4 to the Registrant's Form 10-K for the fiscal year ended February 22, 1991 and is incorporated herein by reference.
10(vi)	Registrant's Promissory Note to Chemical Bank, dated November 20, 1990, filed as Exhibit 4 to the Registrant's Form 10-K for the fiscal year ended February 22, 1991 and is incorporated herein by

reference.

- 10(vii) First Amendment to Registrant's Revolving Credit Agreement with the Chase Manhattan Bank, N.A. as Agent, as Exhibit 10(viii) to the Registrant's Form 10-K for the fiscal year ended February 25, 1994 and is incorporated herein by reference.
- 10(viii) Second Amendment to Registrant's Revolving Credit Agreement with the Chase Manhattan Bank, N.A. as Agent, dated as of February 28, 1993, filed as Exhibit 10(ix) to the Registrant's Form 10-K for the fiscal year ended February 24, 1995 and is incorporated herein by reference.
- 10(ix) Third Amendment to Registrant's Revolving Credit Agreement with the Chase Manhattan Bank, N.A. as Agent, dated as of September 15, 1994, filed as Exhibit 10(x) to the Registrant's Form 10-K for the fiscal year ended February 24, 1995 and is incorporated herein by reference.
- 10(x) Fourth Amendment to Registrant's Revolving Credit Agreement with the Chase Manhattan Bank, N.A. as Agent, dated as of July 12, 1995.
- 10(xi) Registrant's Stock Award Plan adopted April 7, 1993, filed as Exhibit 10(ix) to the Registrant's Form 10-K for the fiscal year ended February 25, 1994 and is incorporated herein by reference.\*
- 10(xii) Fifth Amendment to Registrant's Revolving Credit Agreement with the Chase Manhattan Bank, N.A., as Agent, dated as of November 20, 1995, was filed as Exhibit 10 to the Registrant's Form 10-QSB for the quarter ended November 24, 1995 and is incorporated herein by reference.
- 10(xiii) Form of Sixth Amendment to Registrant's Revolving Credit Agreement with the Chase Manhattan Bank, N.A., as Agent, dated as of May 23, 1996.
- 10(xiv) Form of 1996 Warrant Agreement between the Registrant and Chase Manhattan Capital Corporation.
- 10(xv) Form of 1997 Warrant Agreement between the Registrant and Chase Manhattan Capital Corporation.
- 13 Portions of Registrant's 1996 Annual Report to Shareholders which are

incorporated by reference into this  
Form 10-KSB.

- 21 No material subsidiaries.  
23 Consent of Grant Thornton L.L.P.  
27 Financial Data Schedule

- -----  
\* Represents a management contract or  
a compensatory plan or arrangement.

(b) Reports on Form 8-K:  
None.

#### SIGNATURES

In accordance with Section 13 or 15 (d) of the Securities  
Exchange Act of 1934, the registrant caused this report to be  
signed on its behalf by the undersigned, thereunto duly  
authorized.

#### ENVIRONMENTAL TECTONICS CORPORATION

By/s/ William F. Mitchell  
William F. Mitchell, President  
and Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this  
report has been signed below by the following persons on behalf  
of the registrant and in the capacities and on the dates  
indicated.

Name ----	Position -----	Date ----
/s/ William F. Mitchell William F. Mitchell	Chairman of the Board, President and Director	May 23, 1996
/s/ Duane D. Deaner Duane D. Deaner	Chief Financial Officer (Principal Accounting Officer)	May 23, 1996
/s/ Richard E. McAdams Richard E. McAdams	Director	May 23, 1996
/s/ Michael A. Mulshine Michael A. Mulshine	Director	May 23, 1996
/s/ Pete L. Stephens, M.D. Pete L. Stephens, M.D.	Director	May 23, 1996
/s/ Philip L. Wagner Philip L. Wagner	Director	May 23, 1996

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as Exhibit 10(ix) to the Registrant's Form 10-K for the fiscal year ended February 24, 1995 and is incorporated herein by reference.

- 10(ix) Third Amendment to Registrant's Revolving Credit Agreement with the Chase Manhattan Bank, N.A. as Agent, dated as of September 15, 1994, filed as Exhibit 10(x) to the Registrant's Form 10-K for the fiscal year ended February 24, 1995 and is incorporated herein by reference.
- 10(x) Fourth Amendment to Registrant's Revolving Credit Agreement with the Chase Manhattan Bank, N.A. as Agent, dated as of July 12, 1995.
- 10(xi) Registrant's Stock Award Plan adopted April 7, 1993, filed as Exhibit 10(ix) to the Registrant's Form 10-K for the fiscal year ended February 25, 1994 and is incorporated herein by reference.\*
- 10(xii) Fifth Amendment to Registrant's Revolving Credit Agreement with the Chase Manhattan Bank, N.A., as Agent, dated as of November 20, 1995, was filed as Exhibit 10 to the Registrant's Form 10-QSB for the quarter ended November 24, 1995 and is incorporated herein by reference.
- 10(xiii) Form of Sixth Amendment to Registrant's Revolving Credit Agreement with the Chase Manhattan Bank, N.A., as Agent, dated as of May 23, 1996.
- 10(xiv) Form of 1996 Warrant Agreement between the Registrant and Chase Manhattan Capital Corporation.
- 10(xv) Form of 1997 Warrant Agreement between the Registrant and Chase Manhattan Capital Corporation.
- 13 Portions of Registrant's 1996 Annual Report to Stockholders which are incorporated by reference into this Form 10-KSB.
- 21 No material subsidiaries.
- 23 Consent of Grant Thornton L.L.P.
- 27 Financial Data Schedule

- - - - -  
\* Represents a management contract or a compensatory plan or arrangement.

SIXTH AMENDMENT  
TO  
CREDIT AGREEMENT  
DATED NOVEMBER 20, 1990

AMENDMENT dated as of May 23, 1996 (the "Sixth Amendment"), to the CREDIT AGREEMENT dated as of November 20, 1990, as amended from time to time (the "Credit Agreement") among ENVIRONMENTAL TECTONICS CORPORATION (the "Borrower"), THE CHASE MANHATTAN BANK, N.A., CHEMICAL BANK, AS AGENT FOR CHEMICAL BANKING CORPORATION, SUCCESSOR IN INTEREST TO CHEMICAL BANK NEW JERSEY, N.A. (collectively, the "Banks") and THE CHASE MANHATTAN BANK, N.A., as Agent (the "Agent").

WHEREAS, the Borrowers, the Banks and the Agent are parties to the Credit Agreement (as defined above), which Credit Agreement has been amended by the First Amendment to Credit Agreement, dated as of November 13, 1992, an Amendment dated as of February 28, 1993, an Amendment dated as of September 15, 1994, a Fourth Amendment (dated as of July 12, 1995) to Credit Agreement dated November 20, 1990, and a Fifth Amendment (dated as of October 31, 1995) to Credit Agreement dated as of November 20, 1990 (the "Credit Agreement" being such agreement as so amended); and

WHEREAS, the Borrower has requested the Banks and the Agent, to amend the Credit Agreement as provided herein, to inter alia, facilitate the Borrower's ability to comply with the terms and conditions of the Credit Agreement and the Banks and the Agent have consented to such amendment on the terms and subject to the conditions set forth herein and in the other documents entered into in connection herewith;

NOW, THEREFORE, in consideration of the premises and under the authority of Section 5-1103 of the New York General Obligations Law, the Borrower, the Banks and the Agent agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Credit Agreement.

2. Amendment. Effective as of the later of (i) the date hereof and (ii) the satisfaction of all conditions specified in Section 3 hereof, the Credit Agreement is amended as follows:

2.1 The terms "this Agreement," "hereunder" and similar references in the Credit Agreement shall be deemed to refer to the Credit Agreement as amended hereby.

2.2 Section 1.01 of the Credit Agreement is amended by changing the definitions of "Facility Documents," "Interest Coverage Ratio" and "Termination Date" to read, in their entirety, as follows:

"Facility Documents" means this Agreement, the Notes, the Authorization Letter, the Security Agreement, the Mortgage, the Warrant Agreements, the Warrants and all other instruments and documents now or hereafter executed to evidence or secure, or otherwise in connection with, the Advances or the Letter of Credit, in each case as the same may be amended, modified, restated and/or replaced from time to time.



"Interest Coverage Ratio" means Net Operating Profit minus Capital Expenditures for the relevant period divided by the sum of interest expense plus Letter of Credit fees for the same period.

"Termination Date" means the earlier of (i) March 31, 1997 and (ii) the date upon which the Commitments are reduced to zero, provided, however, that if all amounts payable under this Agreement are declared due and payable upon an Event of Default pursuant to the provisions of Article 9, the Termination Date shall be the date upon which such amounts are declared due and payable.

2.3 Section 1.01 of the Credit Agreement is further amended by adding the following definitions at the appropriate places in the alphabetical order:

"Additional Warrant Agreement" means a Warrant Agreement substantially in the form of Exhibit A hereto, as the same may be amended, modified, restated and/or replaced from time to time.

"Additional Warrants" means warrants issued pursuant to the Additional Warrant Agreement.

"Applicable Percentage" has the meaning given to such term in Section 6.15.

"Carl Marks" means The Carl Marks Consulting Group, Co.

"CCMC" means Chase Manhattan Capital Corporation, a New York Corporation.

"Sixth Amendment" means the Amendment dated as of May 23, 1996 amending the terms of this Agreement.

"Initial Warrant Agreement" means the Warrant Agreement dated as of May 23, 1996 between the Borrower and CMCC, as the same may be amended, modified, restated and/or replaced from time to time.

"Initial Warrants" means warrants issued pursuant to the Initial Warrant Agreement.

"Monthly Project Cash Flow Report" means a monthly report of cash flow for each project, showing actual versus projected results, the projected results being those contained in the budget dated as February 23, 1996 for such project previously submitted to the Agent.

"RTAF Contract" means, the Borrower's contract with the Royal Thai Air Force, as the same may be amended, restated, modified and/or replaced from time to time.

"RTAF Contract Proceeds" means any amounts received by the Borrower (or any Subsidiary or Affiliate of the Borrower) pursuant to, or in connection with, the RTAF Contract, including, without limitation, any amounts received in respect of any letter of credit issued in connection with the RTAF Contract.

"RTAF Contract Shortfall" has the meaning given such term in Section 2.08(e).

"Warrant Agreements" means, collectively, the Initial Warrant Agreement and the Additional Warrant Agreement.

"Warrants" means warrants issued pursuant to the

Warrant Agreement.

2.4 Section 2.08(e) of the Credit Agreement is amended by adding the following to the end thereof:

Last business day of Month of	Amount
May, 1996	\$150,000
August, 1996	\$150,000
November, 1996	\$150,000 plus the lesser of (i) the RTAF Contract Proceeds received since the date of the Sixth Amendment and on or prior to the last business day of November, 1996 and (ii) \$1,200,000
February, 1997	\$150,000 plus the lesser of (i) the excess of the RTAF Contract Proceeds received since the date of the Sixth Amendment and on or prior to the last business day of February, 1997 over \$1,200,000 and (ii) \$300,000

Notwithstanding the foregoing, in the event that either (x) during the period commencing on the date of the Sixth Amendment and ending on the last business day of November, 1996 the Borrower has received less than \$1,200,000 of RTAF Contract Proceeds (causing the amount of the Commitment reduction on the last business day of November, 1996 to be less than \$1,350,000), or (y) during the period commencing on the date of the Sixth Amendment and ending on the last business day of February, 1997, the Borrower has received less than \$1,500,000 of RTAF Contract Proceeds (causing the amount of the Commitment reduction on the last business day of February, 1997 to be less than \$450,000), the Commitment shall be reduced by the amount of any RTAF Contract Proceeds received on any date after the last business day in November, 1996, such reduction to take effect on the next succeeding business day following each date that such RTAF Contract Proceeds are received, provided, however, that the aggregate amount of all such Commitment reductions pursuant to this sentence shall not exceed the RTAF Contract Shortfall in effect at the time that any RTAF Contract Proceeds are received. As used herein, the term "RTAF Contract Shortfall" means, on or prior to the last business day of February, 1997, \$1,200,000 minus the aggregate amount of RTAF Contract Proceeds received on or prior to the last business day of November, 1996 (if a positive number) and, after the last business day of February, 1997, \$1,500,000 minus the aggregate amount of RTAF Contract Proceeds received on or prior to the last business day of February, 1997 (if a positive number). For purposes of this Section 2.08(e), a "business day" means a Banking

Day.

2.5 Section 6.08 of the Credit Agreement is amended by deleting the word "and" at the end of subsection (j) and adding additional subsections (l) and (m) reading as follows:

- (l) within 30 days after the end of each fiscal quarter, projections of income and cash flow and projected balance sheet (collectively, "Projections") of the Borrower and its Consolidated Subsidiaries, for the next succeeding four fiscal quarters, in each case broken down by business segment, all in a form reasonably satisfactory to the Banks, such Projections to be accompanied by a certificate of the chief financial officer of the Borrower to the effect that the Projections have been prepared on the basis of sound financial planning practice and that such chief financial officer has no reason to believe that they are incorrect or misleading in any material respect; and
  
- (m) within 20 days after the end of August, 1996 and each calendar month thereafter, (i) the balance sheet of the Borrower and its Consolidated Subsidiaries, together with statements of income and cash flow for such month, all broken down in the same manner as the Projections and stating in comparative form the respective figures for the elapsed portion of the fiscal quarter ending on the last day of such month and the most recent Projections for such quarter and (ii) Monthly Project Cash Flow Reports for each project for the most recently ended calendar month, such balance sheet, statements and Monthly Project Cash Flow Reports to be certified (subject to normal year-end adjustments) as to fairness of presentation, generally accepted accounting principals and consistency by the chief financial officer of the Borrower.

2.6 Article 6 is amended by adding new Sections 6.15 and 6.16 reading as follows:

Section 6.15 Delivery of Warrants. On the Termination Date, the Borrower shall deliver Additional Warrants to the CMCC (or such other party as the Banks may direct) entitling CMCC (or such other party) to purchase shares of the Borrower's common stock in an aggregate amount equal to the Applicable Percentage (as defined below) of the outstanding shares of common stock of the Borrower (assuming exercise thereof of the Additional Warrants, any other Warrants previously issued, and any other warrants, stock options, conversion rights and any other rights to acquire or receive common stock of the Borrower and subject to the

antidilution provisions set forth in the Additional Warrants) at an initial exercise price per share of common stock equal to the average trading price of the Borrower's common stock for the last 10 trading days prior to the Termination Date (as such price may be adjusted in accordance with the terms of the Additional Warrants) from the date of the issuance of such Additional Warrants until 5:00 p.m. on the April 1, 2002. As used herein, the Applicable Percentage shall mean the percentage opposite the range set forth in the right-hand column of the table below which accurately states, as of the close of business on the last Banking Day prior to the Termination Date, the sum of (x) the aggregate outstanding principal balance of the Loan plus (y) the aggregate face amount of all outstanding Letters of Credit.

Outstanding Balance on Day prior to Termination Date	Percentage
\$5,000,000 or more	3%
\$4,000,000-4,999,999	2%
\$3,000,000-3,999,999	1%
\$0-2,999,999	0%.

Section 6.16 Cooperation with Carl Marks. Cooperate with Carl Marks in order to enable Carl Marks to provide the Agent and the Banks with semi-annual reports assessing the Borrower's compliance with the recommendations set forth in the report prepared by Carl Marks dated October 12, 1995 (such cooperation to include the making available of books, records, officers, directors and independent accountants to Carl Marks on substantially the same terms upon which the same are to be made available to the Agent and the Banks pursuant to Section 6.07) and pay the fees and expenses of Carl Marks for the preparation of such semi-annual reports, provided, the Banks agree to request Carl Marks to submit all requests for information to the Borrower's chief financial officer and to use its best efforts to minimize the cost of its review.

2.7 Section 8.02 is amended to read, in its entirety, as follows:

Section 8.02 Minimum Tangible Net Worth The Borrower shall maintain a Consolidated Tangible Net Worth of not less than the following amounts through the following dates:

Amount	Dates
\$6,145,000	February 24, 1996 - May 31, 1996;
\$6,266,000	June 1, 1996 - August 31, 1996;
\$6,473,000	September 1, 1996 - November 30, 1996;
\$6,686,000	December 1, 1996 and thereafter.

2.8 Section 8.05 is amended to read, in its entirety, as follows:

Section 8.05 Interest Coverage Ratio The Borrower shall maintain at all times an Interest Coverage Ratio of not less than the following ratio through the following dates:

Ratio	Dates
1.5	February 24, 1996 - May 31, 1996
1.3	June 1, 1996 - August 31, 1996;
1.3	September 1, 1996 - November 30, 1996;
1.7	December 1, 1996 and thereafter."

2.9 Section 8.06 is amended to read, in its entirety, as follows:

Section 8.06 Leverage Ratio The Borrower shall maintain at all times a ratio of Consolidated Funded Debt to Consolidated Tangible Net Worth of not greater than the following ratio through the following dates:

Ratio	Dates
1.52	February 24, 1996 - May 31, 1996
1.45	June 1, 1996 - August 31, 1996;
1.39	September 1, 1996 - November 30, 1996;
1.25	December 1, 1996 and thereafter.

2.10 Section 11.03 is amended by adding the following sentence to the end thereof:

Without derogation from the following, the Borrower shall reimburse the Agent and the Banks on demand for all reasonable costs, expenses, and charges (including, without limitation, fees and charges of external legal counsel for the Agent and each Bank and costs allocated by their respective internal legal departments) incurred by the Agent or the Banks in connection with the preparation, negotiation, performance or enforcement of the Sixth Amendment, the Warrant Agreement or the Warrants.

3. Conditions to Effectiveness. This Sixth Amendment shall not become effective except upon the fulfillment of each of the conditions set forth in Sections 3.1 through 3.5 inclusive and the Banks (or, in the case of Section 3.2, CMCC) shall have additionally received all the documents and payments described below, each document being in form and substance reasonably satisfactory to the Bank and their counsel.

3.1 Receipt of Counterparts. Signed counterparts of this Sixth Amendment from the Borrower and each of the Banks.

3.2 Initial Warrant Agreements, Initial Warrants. Fully executed copies of the Initial Warrant Agreement, together with Initial Warrants entitling the Banks to purchase 100,000 shares of the Borrower's common stock, at an initial exercise price per share equal to the average trading price of the Borrower's common stock for the last 10 trading days prior to the date upon which all of the conditions set forth in Sections 3.1 through 3.5 inclusive have been met, from the date of the issuance of such Initial Warrants until 5:00 p.m. on the date that is 5 years after the date upon which all such conditions have been met.

3.3 Resolutions. Certified copies of the resolutions of the Board of Directors of the Borrower, authorizing and consenting to the Sixth Amendment.

3.4 Opinion of Counsel. An opinion of counsel to the Borrower in respect of this Sixth Amendment in form and substance satisfactory to the Agent and the Banks.

3.5 Payment of Expenses. Payment in immediately available funds of the costs, expenses and charges (including, without limitation, fees and charges of external legal counsel for the Agent and each Bank and costs allocated by their respective internal legal departments) incurred by the Agent and the Banks in connection with the preparation and negotiation of the Sixth Amendment, the Warrant Agreements and the Warrants, provided, however, that the making of payment for costs, expenses and charges invoiced prior to the effective date of the Sixth Amendment shall not excuse the Borrower from its obligation under the Credit Agreement to reimburse the Agent and the Banks for amounts invoiced subsequent to such effective date.

4. Representations and Warranties. The Borrower represents and warrants, with respect to itself and its subsidiaries, to the Agent and each Bank, as of the date hereof, that:

4.1 The Borrower is indebted to the Banks, the outstanding amount of Letters of Credit issued pursuant to the Credit Agreement is \$189,994.20 as of the date of the execution of this Sixth Amendment and the outstanding principal amount of the Loan is \$7,313,929.14 as of the date of execution of this Sixth Amendment, and interest is continuing to accrue on unpaid principal, together with other fees, costs, and expenses incurred and to be incurred by the Banks;

4.2 The Facility Documents are in full force and effect, were duly executed by the parties hereto, constitute legal, valid and binding agreements and obligations of the parties thereto, are enforceable in accordance with their respective terms against the parties thereto and are hereby reaffirmed and ratified, as modified by this Sixth Amendment;

4.3 The execution, delivery and performance of this Sixth Amendment are within the corporate powers of the Borrower and have been duly authorized by all necessary corporate action. This Sixth Amendment has been duly executed by the Borrower and constitutes a legal, valid and binding agreement and obligation of the Borrower, enforceable against the Borrower in accordance with its terms;

4.4 The Borrower has, to the best of its knowledge, no defense, counterclaim, offset, cross-claim, claim or demand of any kind or nature whatsoever which can be asserted to reduce or eliminate all or any part of its liability to repay the Loan, to pay reimbursement obligations with respect to the Letters of Credit or to pay any other amounts outstanding under the Credit Agreement; all of which amounts (immediately prior to the effectiveness hereof) are in default and remain due, owing and unpaid and in any event all defenses, counterclaims, offsets, cross-claims, claims and demands are released under Section 5.1;

4.5 The security interests and Liens granted to the Agent for the benefit of the Banks pursuant to the Security Agreement and the Mortgage are valid, in existence, attached, duly perfected and not subject to any pending dispute or direct or indirect challenge or attack or, to the knowledge of the Borrower, any threatened dispute or direct or indirect challenge or attack by any party other than the Borrower, and the grant of

such security interests and Liens to the Agent for the benefit of the Banks is hereby reaffirmed;

4.6 The Borrower has no Material Subsidiaries;

4.7 Nothing but full and complete performance of all the obligations under the Facility Documents and payment of the Loan, reimbursement obligations with respect to all Letters of Credit, and all other amounts payable under the Facility Documents in full, shall (subject to the terms of the Facility Documents) satisfy and discharge the Borrower's liability to the Banks under the Facility Documents; and

4.8 The representations contained in Article 5 of the Credit Agreement and Article 2 of the Security Agreement are true and correct as of the date hereof and no Default or Event of Default exists as of the date hereof.

5. Release and Indemnification.

5.1 The Borrower on behalf of itself and its successors and assigns, hereby forever and irrevocably releases the Agent and each Bank, and their respective officers, directors, representatives, agents, attorneys, employees, affiliates, subsidiaries, successors and assigns, from any and all claims, demands, suits, cross-claims, causes of action, assertions, liabilities, debts, defenses, counterclaims or offsets of any kind or nature whatsoever existing on the date hereof, whether known or unknown, pertaining to, connected with or arising out of the Credit Agreement, any amendment thereto (including, without limitation, this Sixth Amendment), the transactions described in the Credit Agreement and/or any amendment thereto (including, without limitation, this Sixth Amendment), the Facility Documents, or any document, instrument or agreement entered into in connection therewith or herewith or referred to therein or herein or any other obligation of the Borrower to the Agent or any Bank or any of their respective affiliates (collectively, "Claims").

5.2 The Borrower further agrees to defend, protect, indemnify, and hold harmless the Agent, the Banks, each of their Affiliates and each of the respective officers, directors, employees, agents, attorneys and consultants (collectively called the "Indemnitees") of the Agent, the Banks and their Affiliates from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of counsel for such Indemnitees in connection with any investigative, administrative or judicial proceeding, whether or not such Indemnitees shall be designated a party thereto), imposed on, incurred by, or asserted against such Indemnitees, whether direct, indirect, or consequential and whether based on any federal or state laws or other statutory regulations, including, without limitation, securities and commercial laws and regulations, under common law or at equity, or on contract or otherwise, including any liability and costs under federal, state or local environmental, health or safety laws, regulations, or common law principles, arising from or in connection with any Claims.

5.3 The Borrower further agrees that in the event that the Borrower is the subject of any insolvency, bankruptcy, receivership, dissolution, reorganization or similar proceeding, federal or state, voluntary or involuntary, under any present or future law or act, the Agent and the Banks shall be entitled to the automatic and absolute lifting of any automatic stay as to the enforcement of their rights and remedies under the Facility

Documents, including, specifically, but not limited to, the stay imposed by Section 362 of the United States Bankruptcy Code, as amended, and the Borrower hereby consents to the immediate lifting of any such automatic stay, and will not contest any motion by the Agent or any of the Banks to lift such stay.

5.4 The Borrower acknowledges that it has been advised by counsel with respect to the Credit Agreement (including all prior amendments) and this Sixth Amendment and the release and indemnity contained herein.

6. Waiver of Certain Defaults. The Banks and the Agent hereby waive any non-compliance by the Borrower prior to November 24, 1995 with Sections 8.01 and 8.05 of the Credit Agreement. This waiver shall not extend to any failure of the Borrower to comply with such Sections at any time on or after November 24, 1995. The Banks and the Agent also hereby waive any non-compliance by the Borrower prior to February 24, 1996 with Sections 8.02 and 8.05 of the Credit Agreement. This waiver shall not extend to any failure of the Borrower to comply with such Sections at any time on or after February 24, 1995.

7. Effect on Loan Documents.

7.1 Except as expressly amended above, the terms and conditions of the Credit Agreement and the other Facility Documents shall remain in full force and in effect and are hereby ratified and confirmed. Although counsel for the Agent has prepared the Credit Agreement and this Sixth Amendment, the Borrower waives any right to require that any ambiguity or question about the terms thereof or hereof be construed against the Agent or the Banks.

7.2 Except as expressly provided in this Sixth Amendment, nothing contained herein shall constitute a waiver, release or modification of any Event of Default or of the Agent's or the Banks' rights and remedies under, or any of the terms and conditions of, the Facility Documents. The Agent and the Banks expressly reserve all of their rights and remedies under the Facility Documents.

7.3 GOVERNING LAW. THIS SIXTH AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO ANY CONFLICTS-OF-LAW RULES WHICH WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION.

8. WAIVER OF JURY TRIAL. THE PARTIES HERETO HEREBY WAIVE ANY RIGHT TO A JURY TRIAL FOR ANY CONTROVERSY ARISING OUT OF OR PERTAINING TO THIS SIXTH AMENDMENT, THE FACILITY DOCUMENTS, OR ANY TRANSACTION DESCRIBED HEREIN OR THEREIN.

9. Headings. Section headings in this Sixth Amendment are included herein for convenience of reference only and shall not constitute a part of this Sixth Amendment for any other purpose.

10. Execution in Counterparts. This Sixth Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument. Execution and delivery of this Sixth Amendment by facsimile shall be as effective as physical delivery of a manually executed counterpart.

IN WITNESS WHEREOF, the parties hereto have caused this Sixth Amendment to be duly executed as of the day and year first



above written.

ENVIRONMENTAL TECTONICS CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

THE CHASE MANHATTAN BANK, N.A., as  
Agent

By: \_\_\_\_\_  
Name:  
Title:

THE CHASE MANHATTAN BANK, N.A.

By: \_\_\_\_\_  
Name:  
Title:

CHEMICAL BANK, AS AGENT FOR  
CHEMICAL BANKING CORPORATION,  
SUCCESSOR IN INTEREST TO CHEMICAL  
BANK NEW JERSEY, N.A.

By: \_\_\_\_\_  
Name:  
Title:

WARRANT AGREEMENT dated as of May , 1996, between ENVIRONMENTAL TECTONICS CORPORATION, a Pennsylvania corporation (the "Company"), and CHASE MANHATTAN CAPITAL CORPORATION, a New York corporation ("CMCC").

The Company proposes to issue to CMCC, and CMCC proposes to acquire from the Company, Warrants (as hereinafter defined) providing for the purchase of Stock Units (as hereinafter defined) in the manner hereinafter provided. Accordingly, in consideration of the premises and of the mutual agreements herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

#### ARTICLE I. DEFINITIONS

Section 1.1. Definitions. As used herein:

"Affiliate" shall mean, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person. As used in this Agreement, "control" (including, with correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise). For purposes of this Agreement, CMCC shall not be deemed an Affiliate of the Company.

"Business Day" shall mean any day except a Saturday, a Sunday or a day on which commercial banks in the State of New York are permitted or required by law to close.

"CMCC" shall have the meaning assigned to such term at the head of this Agreement.

"Credit Agreement" shall mean the Credit Agreement dated as of November 20, 1990, as amended from time to time (the "Credit Agreement") among the Company, the Chase Manhattan Bank, N.A., Chemical Bank, as agent for Chemical Banking Corporation, successor in interest to Chemical Bank New Jersey, N.A. and the Chase Manhattan Bank, N.A., as Agent.

"Commission" shall mean the Securities and Exchange Commission or any other similar or successor agency of the Federal government administering the Securities Act.

"Common Stock" shall mean the Company's authorized Common Stock, \$.10 par value per share, irrespective of class unless otherwise specified, as constituted on the date of original issuance of the Warrants, and any stock into which such Common Stock may thereafter be converted or changed, and also shall include any other stock of the Company of any other class, which is not preferred as to dividends or assets over any class of stock of the Company.

"Company" shall have the meaning assigned to such term at the head of this Agreement.

"Sixth Amendment" shall mean the Amendment dated as of May , 1996 amending the terms of the Credit Agreement.

"Holder" shall mean any Person who acquires any Securities or Warrant Stock pursuant to the provisions of this

Agreement.

"include" and "including" shall be construed as if followed by the phrase ", without being limited to,".

"Lien" shall mean, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset. For purposes of this Agreement, the Company shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"Market Price" per share of Common Stock, shall be, for any Business Day, if the Common Stock is traded on a national securities exchange, its last sale price on the next preceding Business Day or, if there was no sale on that day, the last sale price on the next preceding Business Day on which there was a sale, all as made available over the Consolidated Last Sale Reporting System of the CTA Plan or, if the Common Stock is not then eligible for reporting over such system, its last sale price on the next preceding Business Day on such national securities exchange or, if there was no sale on that day, on the next preceding Business Day on which there was a sale on such national securities exchange or, if the principal market for the Common Stock is the over-the-counter market, but the Common Stock is not then eligible for reporting over the Consolidated Last Sale Reporting System of the CTA Plan, but the Common Stock is quoted on the National Association of Securities Dealers Automated Quotations System ("NASDAQ"), the last sale price reported on NASDAQ on the next preceding Business Day or, if the Common Stock is an issue for which last sale prices are not reported on NASDAQ, the closing bid quotation on such day, but, in each of the next preceding two cases, if the relevant NASDAQ price or quotation did not exist on such day, then the price or quotation on the next preceding Business Day in which there was such a price or quotation, but if the Common Stock is not reported or quoted on NASDAQ, the highest bid quotation as quoted in any of The Wall Street Journal, the National Quotation Bureau pink sheets, the Salomon Brothers quotation sheets, quotation sheets of registered marketmakers and, if necessary, dealers' telephone quotations. If the Market Price per share of Common Stock cannot be ascertained by any of the foregoing methods, the Market Price per share of Common Stock shall be deemed to be the net book value per share of Nonpreferred Stock, determined in accordance with generally accepted accounting principles consistently applied.

"Notice" shall have the meaning assigned to such term in Section 5.7.

"Person" shall mean any individual, corporation, partnership, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"Proposed Sale" shall have the meaning assigned to such term in Section 5.15.

"Registration Date" shall mean the date upon which the Sixth Amendment becomes effective.

"Registration Statement" shall have the meaning assigned to such term in Section 4.6.

"Rule 144" shall mean Rule 144 promulgated by the Commission (or any successor or similar rule) under the

Securities Act.

"Rule 144A" shall mean Rule 144A promulgated by the Commission (or any successor or similar rule) under the Securities Act.

"Security" and "Securities" shall have the respective meanings assigned to such terms in Section 2.2(a).

"Securities Act" shall mean the Securities Act of 1933, as amended, or any successor or similar Federal statute, and the rules and regulations of the Commission thereunder.

"Selling Warrantholder" shall have the meaning assigned to such term in Section 5.15.

"Stockholder" shall mean any Person who directly or indirectly owns any shares of Common Stock.

"Stock Unit" shall have the meaning assigned to such term in the form of Warrant Certificate attached as Annex I to this Agreement.

"Subject Warrants" shall have the meaning assigned to such term in Section 5.15.

"Subsidiary" shall mean, with respect to any Person, any entity which is controlled by such Person.

"transfer" (including, with correlative meanings, "transferable", "transferred" and "transferring") shall mean any disposition of any Securities, or of any interest in any thereof, which would constitute an offer or sale thereof within the meaning of the Securities Act.

"Warrant Certificate" shall mean a certificate evidencing the Warrants, which shall be in substantially the form attached as Annex 1 to this Agreement.

"Warrants" shall have the meaning assigned to such term in Section 2.1.

"Warrant Stock" shall mean the Stock Units purchased or purchasable by the Holders of Warrants upon the exercise thereof.

"Warrantholder Notice" shall have the meaning assigned to such term in Section 5.15.

## ARTICLE 2. PURCHASE AND SALE OF SECURITIES

Section 2.1. Authorization and Issuance of Shares and Warrants. The Company has authorized: (a) the issue of one or more Warrant Certificates evidencing the right to purchase, in the aggregate, 100,000 Stock Units (such Warrant Certificates, together with the rights to purchase Stock Units evidenced thereby, herein sometimes called the "Warrants") for issuance to CMCC pursuant to this Agreement; and (b) the issue of such number of shares of Common Stock as shall permit the compliance by the Company with its obligations to issue Common Stock pursuant to the Warrants.

Section 2.2. The Closing. (a) On the date hereof, the Company shall deliver to CMCC, against payment by CMCC to the Company of the purchase price of \$100, one or more Warrant Certificates for 100,000 Warrants, each Warrant Certificate registered in the name of CMCC. The number of Stock Units covered by the Warrants issued under this Agreement and the price at which a Stock Unit may be purchased upon exercise of the

Warrants shall each be subject to adjustment as provided in the Warrant Certificate. The Warrants issued to CMCC pursuant to this Agreement and the Warrant Certificates from time to time evidencing the Warrants are herein sometimes individually called a "Security" and collectively called the "Securities".

Until such time as the Registration Statement first is declared effective, the terms "Security" and "Securities" also shall include the Warrant Stock.

(b) The obligation of CMCC to consummate this Agreement and the transactions contemplated hereby are subject to CMCC having received: (i) Small Business Administration Forms 480 (relating to size status) and 652 (relating to compliance with nondiscrimination rules), duly completed by the Company and in sufficient counterparts to satisfy all filing and record retention requirements set forth in the regulations issued by the Small Business Administration under the Small Business Investment Act of 1958, as amended; and (ii) a legal opinion from counsel reasonably satisfactory to CMCC, which shall be in substantially the form attached as Annex 2 to this Agreement.

Section 2.3. Purchase for CMCC's Account. CMCC represents and warrants to the Company that CMCC is purchasing the Securities for its own account, with no present intention of distributing the Securities or any part thereof, and that CMCC is prepared to bear the economic risk of retaining the Securities for an indefinite period, all without prejudice, however, to the right of CMCC at any time, in accordance with this Agreement, lawfully to transfer or otherwise to dispose of all or any part of the Securities held by it. It is understood that, in making the representations set forth in Article 3, the Company is relying, to the extent applicable, upon the representations and warranties of CMCC contained in this Section 2.3.

Section 2.4. Securities Act Compliance. In reliance upon the representations and warranties of CMCC in Section 2.3, the Company has not registered or qualified any of the Securities under the Securities Act or any applicable state securities laws and CMCC agrees that it shall not offer or transfer any of the Securities without registration or qualification under the Securities Act or any applicable state securities laws or the availability of an exemption therefrom.

Section 2.5. Expenses. The Company shall pay all expenses relating to the preparation of this Agreement and the Securities (including the reasonable fees and expenses of outside counsel to CMCC), the cost of printing the Warrant Certificates and the Warrant Stock, and all expenses relating to any amendments, waivers or consents under this Agreement or the Securities (including the reasonable fees and expenses of outside counsel to the Holders). In addition, all expenses incurred in connection with any registration of the Warrant Stock under this Agreement (including the Registration Statement) shall be paid by the Company, including (i) printing and engraving expenses, (ii) fees and disbursements of counsel for the Company, (iii) fees of the National Association of Securities Dealers, Inc. (or such other national securities association or national securities exchange, as the case may be), in connection with its review of any offering contemplated in any registration statement, (iv) fees of the Commission, (v) expenses of any special audits to which the Company shall agree or which shall be necessary to comply with governmental requirements in connection with any such registration, and (vi) reasonable fees and expenses of counsel to the Holders.

The Company represents and warrants to CMCC that as of the date hereof:

Section 3.1. Corporate Existence. The Company: (i) is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania; (ii) has the corporate power and authority to execute, deliver, issue and perform its obligations under and in respect of this Agreement and the Securities; (iii) has the corporate power and authority to own its property and assets and to transact the business in which it is engaged or presently proposes to engage; and (iv) has duly qualified and is authorized to do business and is in good standing as a foreign corporation in every jurisdiction in which it owns or leases real property or in which the nature of its business requires it to be so qualified, except to the extent that the failure to be so qualified, authorized or in good standing would not have a material adverse effect on the properties, business, operations, financial condition, liabilities or capitalization of the Company.

Section 3.2. Corporate Authority. All corporate action on the part of the Company and its officers, directors and shareholders necessary for (i) the authorization, execution, delivery and performance of this Agreement by the Company, (ii) the authorization, execution, issuance, delivery and performance of the Warrants and the Warrant Certificates by the Company, and (iii) the authorization, delivery and issuance of the Warrant Stock as provided in the Warrant Certificate, has been taken on or prior to the date hereof.

Section 3.3. Due Execution and Enforceability. This Agreement has been duly executed and delivered and constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability affecting the enforcement of creditors' rights, and (ii) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). When issued and delivered pursuant to this Agreement, the Warrants shall have been duly executed, issued and delivered and shall constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability affecting the enforcement of creditors' rights, and (ii) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 3.4. Valid Issuance. The Warrant Stock issuable upon exercise of the Warrants pursuant to the terms hereof and of the Securities will be duly and validly authorized and reserved for issuance, and, upon issuance in accordance with the provisions of this Agreement and the Securities, shall be duly and validly issued, fully paid and nonassessable with no personal liability attaching to the ownership thereof, and free of any Liens of any nature whatsoever. None of the Warrant Stock shall be issued in violation of any preemptive rights of any Stockholder.

Section 3.5. Outstanding Securities. Upon the issuance of the Warrants under this Agreement, the total number of shares of capital stock which the Company has authority to issue is 10,000,000 shares of Common Stock. The Warrants are being issued simultaneously with the execution and delivery hereof. The total number of shares of Common Stock issued and

outstanding is 2,928,944 shares. Upon the issuance of the Warrants under this Agreement, the Company shall not have outstanding any stock or securities convertible or exercisable into or exchangeable for any shares of capital stock nor shall it have outstanding any warrants or rights to subscribe for or to purchase, or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, any capital stock or stock or securities convertible or exercisable into or exchangeable for any capital stock other than (a) the Warrants to be issued pursuant to this Agreement, (b) options issued in respect of Common Stock pursuant to the Company's 1979 Incentive Stock Option Plan, (c) rights to purchase Common Stock pursuant to the Company's Employee Stock Purchase Plan, and (d) options issued and to be issued in respect of Common Stock pursuant to the Company's 1988 Incentive Stock Option Plan.

Section 3.6. No Breach. None of the execution and delivery of this Agreement, or the issue and sale of the Securities or the Warrant Stock, or the consummation of the transactions herein or therein contemplated, or the compliance with the terms and provisions hereof and thereof, will conflict with or result in a breach of, or require any consent under, the charter or by-laws of the Company, or any applicable law, rule or regulation, or any order, writ, injunction or decree of any court or governmental authority or agency, or any agreement or instrument to which the Company is a party or by which it or its property is bound or to which it or its property is subject, or constitute a default under any such agreement or instrument, or result in the creation or imposition of any Lien upon any of the revenues or property of the Company pursuant to the terms of any such agreement or instrument.

Section 3.7. Approvals. All consents, approvals, orders or authorizations of, or registrations, qualifications, designations, declarations or filings with, any federal, state or local governmental authority on the part of the Company required in connection with the consummation of the transactions contemplated herein and the Securities (assuming without independent investigation the accuracy of CMCC's representations in Section 2.3 hereof) have been obtained and remain in full force and effect on the date hereof, except for any of the foregoing that may be required by virtue of CMCC's status as a small business investment company licensed under the Small Business Investment Act of 1958, as amended.

Section 3.8. Governmental Consent. Neither the nature of the Company or of any Subsidiary of the Company, or of any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary of the Company and any other Person, nor any circumstance in connection with the offer, issue or sale of the Securities and the Warrant Stock is such as to require consent, approval or authorization of, or filing, registration or qualification with, any governmental authority on the part of the Company as a condition to the execution and delivery of this Agreement or the execution and filing of any certificate of amendment of the charter of the Company required in connection with the authorization, sale and/or issuance of Warrant Stock or the authorization, offer, issue or sale of the Securities.

Section 3.9. Private Offering. (a) None of the Company or First New York Capital, Inc. (the only Person authorized or employed by the Company as agent, broker, dealer or otherwise in connection with the offering or sale of the Securities or any similar securities of the Company) has offered any of the Securities or any similar securities of the Company for sale to, or solicited offers to buy any thereof from, or otherwise

approached or negotiated with respect thereto with, any prospective purchaser, other than CMCC. The Company agrees that neither the Company nor any Person acting on its behalf has offered or will offer the Securities or any part thereof or any similar securities for issue or sale to, or has solicited or will solicit any offer to acquire any of the same from, any Person so as to bring the issuance and sale of the Securities within (i) the registration and prospectus delivery requirements of the Securities Act, and (ii) the registration and qualification requirements of applicable state securities laws.

(b) Assuming, without independent investigation, the accuracy of CMCC's representation in Section 2.3, all stock and securities of the Company heretofore issued and sold by the Company were issued and sold in accordance with, or were exempt from, (i) the registration and prospectus delivery requirements of the Securities Act, and (ii) the registration and qualification requirements of applicable state securities laws.

Section 3.10. Small Business Concern. The Company is a "small business concern" (within the meaning of 15 U.S.C. Section 684 and the regulations of the Small Business Administration promulgated thereunder) and meets the size eligibility criteria set forth at 13 C.F.R. Section 121.301(c).

Section 3.11. Investment Company Act. The Company is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

Section 3.12. Litigation. There is no action, suit, proceeding or investigation pending or, to the best of its knowledge after due inquiry, threatened against the Company or any of its employees before any court or administrative agency seeking to enjoin the transactions contemplated by this Agreement or the Warrant Certificates.

ARTICLE 4. RESTRICTIONS ON TRANSFERABILITY;  
REGISTRATION AND LISTING OF WARRANT STOCK; ETC.

Section 4.1. Transfers to Affiliates, Prior Holders, Banks, etc. (a) The Securities shall not be transferable except upon the conditions specified in this Article 4, which conditions are intended to insure compliance with the provisions of the Securities-Act and applicable state securities laws in respect of the transfer of any Securities.

(b) Notwithstanding any other provision of this Agreement or the Securities (but, in the case of CMCC, subject to the provisions of Section 5.15), any Holder shall have the right to transfer any securities:

(i) to any Affiliate of such Holder;

(ii) to another Person who, prior to such transfer, is a Holder; or

(iii) in the case of any Holder which is a bank, a bank holding company or a Subsidiary of a bank or a bank holding company, to a third party, if, in the reasoned opinion of counsel to such Holder, such transfer is required to be effected by such Holder because (A) its investment in Securities may exceed any limitation to which it is subject, or is otherwise not permitted, under any law, rule, regulation or other requirement of any governmental authority, or (B) restrictions are imposed on such Holder by any such law, rule, regulation or other requirement which, in the reasoned opinion of such counsel to such Holder, make



it illegal to continue to hold such Securities,

in each case free of the restrictions imposed by this Article 4 other than the requirement as to the legending of the certificates for the Securities specified in Section 4.5; provided, however, that such transfer shall be made in compliance with the Securities Act and all applicable state securities laws. For purposes of clause (iii) of this Section 4.1(b), a reasoned opinion of counsel (which is based on facts and circumstances deemed appropriate by such counsel) to the effect that such transfer is required shall be conclusive. If the circumstances described in clause (iii) above arise, the Company shall use its best efforts to assist the Holder in question to identify a transferee willing and able to purchase the Securities. Each transferee under this Section 4.1(b) shall be subject to the same transfer restrictions imposed on Holders by this Agreement.

Section 4.2. Transfers of Securities Pursuant to Registration Statements, Rule 144, Rule 144A, Etc. Notwithstanding any other provision of this Agreement or the Securities, the Securities may be offered or sold by the Holder thereof pursuant to (i) an effective registration statement under the Securities Act and in compliance with applicable state securities laws, or (ii) to the extent applicable, Rule 144 or Rule 144A.

Section 4.3. Notice of Certain Transfers. If any Holder of any Security desires to transfer such Security other than pursuant to an effective registration statement under the Securities Act, such Holder shall deliver to the Company a notice with respect to the proposed transfer, together with an opinion of counsel reasonably satisfactory to the Company, to the effect that an exemption from registration under the Securities Act is available and that the proposed transfer would comply with applicable securities laws.

Section 4.4. Rule 144; Rule 144A. (a) During any period in which the Company is required to file with the Commission information, documents and other reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (or any similar or successor provisions), in order to permit the Holders of Securities to sell the same, if they so desire, pursuant to Rule 144, the Company: (i) shall comply with all rules and regulations of the Commission applicable in connection with the use of Rule 144, including the timely filing of all reports with the Commission; (ii) shall furnish to such Holders forthwith upon request a written statement by the Company as to such compliance with such rules and regulations; (iii) shall take such other action as any such Holder may reasonably request in connection with the use of Rule 144; and (iv) shall cause any restrictive legends to be removed and any transfer restrictions to be rescinded with respect to any sale of Securities which is exempt from registration under the Securities Act pursuant to Rule 144.

(b) Each Holder of Securities and each prospective holder of Securities who may consider acquiring Securities in reliance upon Rule 144A shall have the right to request from the Company, and the Company will provide upon request, such information regarding the Company and its business, financial results, assets and properties, if any, as is at the time required to be made available by the Company under Rule 144A so as to enable such Holder to transfer Securities to such prospective holder in reliance upon Rule 144A.

Section 4.5. Restrictive Legend. (a) Unless and until otherwise permitted by this Article 4, each Warrant Certificate shall be stamped or otherwise imprinted with a legend in

substantially the following form:

"THE WARRANTS OF ENVIRONMENTAL TECTONICS CORPORATION REPRESENTED BY THIS WARRANT CERTIFICATE AND THE SHARES OF COMMON STOCK (OR OTHER SECURITIES) ISSUABLE UPON EXERCISE THEREOF MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 AND IN COMPLIANCE WITH APPLICABLE STATE SECURITIES LAWS, OR (ii) TO THE EXTENT APPLICABLE, RULE 144 OR RULE 144A UNDER SUCH ACT (OR ANY SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) AN OPINION OF COUNSEL THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE. FURTHER, THIS WARRANT CERTIFICATE AND THE WARRANTS EVIDENCED HEREBY MAY NOT BE TRANSFERRED IN VIOLATION OF THE PROVISIONS OF SECTION 7 HEREOF. THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF SUCH WARRANTS MAY NOT BE ISSUED OR TRANSFERRED IN VIOLATION OF THE PROVISIONS OF SECTION 7 HEREOF."

(b) Unless and until otherwise permitted by this Article 4, each share of Warrant Stock shall be stamped or otherwise imprinted with a legend in substantially the following form:

"THE SECURITY OF ENVIRONMENTAL TECTONICS CORPORATION REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 AND IN COMPLIANCE WITH APPLICABLE STATE SECURITIES LAWS, OR (ii) TO THE EXTENT APPLICABLE, RULE 144 OR RULE 144A UNDER SUCH ACT (OR ANY SUCCESSOR OR SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) AN OPINION OF COUNSEL THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE. THE SECURITY REPRESENTED BY THIS CERTIFICATE MAY NOT BE TRANSFERRED IN VIOLATION OF THE PROVISIONS OF SECTION 7 OF THAT CERTAIN WARRANT CERTIFICATE, DATED [MAY , 1996], ISSUED BY ENVIRONMENTAL TECTONICS CORPORATION."

Section 4.6. Registration and Listing on Securities Exchanges. (a) Not later than 30 days following the occurrence of the Registration Date, the Company shall file the Registration Statement with the Commission to register the Warrant Stock and shall use its best efforts to cause such Registration Statement to be declared effective within 20 days after the date of filing of the Registration Statement. Without limiting the Company's obligations set forth in the next preceding sentence, if, notwithstanding the use of such best efforts, the Registration Statement is not declared effective within such 20-day period, the Company will continue to use its best efforts to have the Registration Statement declared effective promptly after the end of such 20-day period. The Company shall use its best efforts to keep the Registration Statement effective until the earlier of (x) the latest date upon which any of the Warrants may be exercised, provided, however, in the event that any Holder has requested that the Registration Statement relate to transfers of Warrant Stock by such Holder to other Persons, such date will be extended, to the extent necessary, to cause the Registration Statement to remain effective until the end of three years after the last exercise of Warrants by such Holder and (y) such date as all of the Holders indicate that they no longer wish the Registration Statement to remain effective (the period from the Registration Date until the earlier of the dates set forth in the foregoing clauses (x) and (y) being the "Registration Period"). The "Registration Statement" means the registration statement (including each prospectus and prospectus supplement included therein or filed with respect thereto, in each case including all material incorporated by reference therein) under the Securities Act (and any amendments thereof and supplements thereto) relating

to the issuance of the Warrant Stock by the Company to the Holders upon exercise of any of the Warrants and, to the extent requested by any Holder, to any transaction pursuant to which Warrant Stock may be transferred by such Holder to other Persons.

The Registration Statement: (i) shall comply as to form in all material respects with the requirements of the Securities Act and all the rules and regulations of the Commission thereunder; and (ii) shall not contain any untrue statement of a material fact or omit to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading. If at any time during the Registration Period or when a prospectus relating to Warrant Stock is required to be delivered under the Securities Act or the Blue Sky or securities laws of any applicable jurisdiction in the United States, any event occurs as a result of which the Registration Statement or any portion thereof (including any prospectus) relating to any Warrant Stock as then amended or supplemented would (or the Company becomes aware that such Registration Statement or portion thereof does) include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend or supplement the Registration Statement or any portion thereof (including any prospectus) to comply with the Securities Act or any such Blue Sky or securities laws, the Company promptly shall notify the Holders and shall as soon as practicable prepare and file with the Commission an amendment or supplement which will correct such statement or omission or which will effect such compliance. Upon request by any Holder or any managing underwriter, the Company shall incorporate in a prospectus supplement or post-effective amendment, to be filed as promptly as practicable, such information as such Holder or such managing underwriter reasonably requests to be included therein with respect to such Holder, the underwriters, the number of shares of Warrant Stock being sold to any underwriter(s), the purchase price being paid therefor, and any other terms of the offering, or other sales of Warrant Stock.

The form of the Registration Statement and all matters relating thereto shall be reasonably satisfactory to counsel satisfactory to the Holders. The Holders shall use their best efforts to cause their counsel to conduct such counsel's review of the matters referred to in the next preceding sentence on a timely basis so as to enable the Company to fulfill its obligations provided in the first sentence of this Section 4.6(a).

(b) The Company shall use its best efforts to ensure that the Warrant Stock is, simultaneously with the issuance thereof or as soon as practicable thereafter, and at all times thereafter, listed for trading upon such national securities exchange or exchanges or upon such national securities association or associations as the Common Stock is then listed.

#### Section 4.7. Termination of Restrictions.

Notwithstanding the foregoing provisions of this Article 4, the restrictions imposed by this Article 4 upon the transferability of the Warrants and the Warrant Stock shall cease and terminate as to any particular Warrant or Warrant Stock when such Warrant or Warrant Stock shall have been effectively registered under the Securities Act and sold by the Holder thereof in accordance with such registration or sold under Rule 144 or Rule 144A. Whenever the restrictions imposed by this Article 4 shall terminate as to any particular Warrant or Warrant Stock, the Holder thereof shall be entitled to receive from the Company, without expense, a new certificate not bearing the restrictive legend otherwise required to be borne thereby.

ARTICLE 5. MISCELLANEOUS

Section 5.1. Delivery Expenses. If any Holder surrenders any Security or Warrant Stock to the Company or a transfer agent of the Company for exchange for instruments of other denominations or registered in another name or names, the Company shall cause such new instruments to be issued and shall pay the cost of delivering to or from the office of such Holder from or to the Company or its transfer agent, duly insured, the surrendered instrument and any new instruments issued in substitution or replacement for the surrendered instrument.

Section 5.2. Taxes. The Company shall pay all taxes (other than Federal, state or local income taxes) which may be payable in connection with the execution and delivery of this Agreement or the issuance and sale of the Securities hereunder or the issuance and delivery of the Warrant Stock or in connection with any amendments, waivers or consents under this Agreement or the Securities and shall save each Holder harmless without limitation as to time against any and all liabilities with respect to all such taxes. The obligations of the Company under this Section 5.2 shall survive any redemption, repurchase or acquisition of Securities or Warrant Stock by the Company and the termination of this Agreement.

Section 5.3. Replacement of Instruments. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Security or Warrant Stock, and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that, if the owner of the same is a bank or an institutional lender or investor, its own agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender or cancellation thereof,

the Company, at its expense, shall execute, register and deliver, in lieu thereof, a new Security or instrument for (or covering the purchase of) an equal number of Warrants or Warrant Stock.

Section 5.4. Information, etc. The Company shall deliver to each Holder one copy of each report mailed to its security holders and each annual report on Form 10-K (or any successor or similar form) and quarterly report on Form 10-Q (or any successor or similar form) at or about the time such documents become publicly available.

Section 5.5. Inspection. The Company shall afford any Holder of at least 25% of the Warrant Stock or its agents, access, at reasonable times, upon reasonable prior notice, to inspect the books and records of the Company and to discuss with management the business and affairs of the Company.

Section 5.6. Certain Restrictions. The Company shall not at any time enter into an agreement or instrument restricting its ability to perform its obligations under this Agreement or under the Securities.

Section 5.7. Notices.

(a) All notices, waivers, requests and other communications (each a "Notice") under this Agreement shall be in writing and shall be personally delivered, sent by courier guaranteeing overnight delivery or sent by registered or

certified mail, return receipt requested, postage prepaid,

(i) if to the Company:

Environmental Tectonics Corporation  
County Line Industrial Park  
Southampton, Pennsylvania 18966

Attention: William F. Mitchell, President,

(ii) if to CMCC:

Chase Manhattan Capital Corporation]  
1 Chase Manhattan Plaza  
New York, New York 10081

Attention: [                    ],

(iii) if to any other Person who is the registered Holder of any Securities or Warrant Stock, to the address of such Holder as it appears in the stock or warrant ledger of the Company; or, in the case of any Holder, at such other address as such Holder may designate in a Notice to the Company; or, in the case of the Company, at such other address as the Company may designate in a Notice to CMCC and all other Holders of Securities and Warrant Stock at the time outstanding.

(b) Any Notice shall be deemed to have been duly given if personally delivered, on the date delivered, (ii) if sent by courier guaranteeing overnight delivery, on the date delivered, or (iii) if sent by registered or certified mail, five Business Days after being deposited in the mail, in each case given or addressed as aforesaid.

Section 5.8. Survival. (a) All warranties, representations and covenants made by the Company herein or in any certificate or other instrument delivered by it or on its behalf under this Agreement (including any Warrant Certificate) shall be considered to have been relied upon by CMCC and shall survive the issuance of the Securities or the Warrant Stock regardless of the investigation made by or on behalf of CMCC. All statements in any such certificate or other instrument so delivered shall constitute representations and warranties by the Company hereunder.

(b) All representations, warranties and covenants made by CMCC herein shall be considered to have been relied upon by the Company and shall survive the issuance to CMCC of the Securities or the Warrant Stock regardless of any investigation made by the Company or on its behalf.

Section 5.9. Successors and Assigns. Except as otherwise expressly provided herein, this Agreement shall inure to the benefit of and be binding upon the successors, legal representatives and assigns of each of the parties.

Section 5.10. Amendment and Waiver. This Agreement may be amended, and the observance of any term of this Agreement may be waived, but only with the consent of the Company and the Holders of at least 67% of the Warrant Stock; provided, however, that no such amendment or waiver shall, without the consent of all Holders of the Warrant Stock at the time outstanding, amend this Section 5.10.

Section 5.11. Counterparts. This Agreement may be signed by the parties with counterpart signature pages or in counterparts, each of which shall be an original but all of which

together shall constitute one and the same instrument.

Section 5.12. Severability. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

Section 5.13. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK.

Section 5.14. Acknowledgment by the Company. The Company hereby acknowledges that this Agreement provides for the extension to the Company by CMCC of substantial financial accommodations and benefits, and constitutes a contract to issue a security of the Company within the meaning of Section 365 of Title 11 of the United States Code.

Section 5.15. Right of First Offer. (a) If CMCC desires to sell or otherwise transfer (the "Selling Warrantholder") any of its Warrants (the "Proposed Sale"), the Selling Warrantholder shall first give a written notice (the "Warrantholder Notice") of such desire to the Company. The Warrantholder Notice shall specify (i) the number of Warrants proposed to be sold or transferred (the "Subject Warrants"), (ii) the aggregate consideration to be asked therefor, (iii) the date of the closing of the Proposed Sale (which date shall be more than 10 days following the date the Warrantholder Notice is given to the Company), and (iv) the other terms and conditions of the Proposed Sale.

The Company shall have the right to purchase all, but not less than all, of the Subject Warrants for the aggregate consideration set forth in the Warrantholder Notice and on the other terms and conditions of the Proposed Sale specified in the Warrantholder Notice by giving notice to the Selling Warrantholder within 10 days after receipt by the Company of the Warrantholder Notice.

If the Company fails to elect to purchase all the Subject Warrants within the 10-day period specified in the foregoing paragraph (or if the Company timely elects to purchase all the Subject Warrants and the Company fails to close on the date of the closing of the Proposed Sale set forth in the Warrantholder Notice), then the Selling Warrantholder (A) shall be under no obligation to sell any Subject Warrants to the Company unless the Selling Warrantholder so elects, and (B) shall have the right to sell, within a period of six months after receipt by the Company of the Warrantholder Notice, all or any of the Subject Warrants at a price per share not less than the consideration set forth in the Warrantholder Notice. Any Warrants not sold pursuant to the next preceding sentence prior to the expiration of the six-month period referred to therein shall once again be subject to the right of first offer set forth in this Section 5.15.

(b) Notwithstanding anything to the contrary contained in this Section 5.15:

(i) Each of CMCC and its Affiliates shall have the right at any time to transfer any of or all its Warrants to CMCC or any Affiliate of CMCC, as the case may be; provided, however, that at the time of such transfer each such transferee agrees in writing to be bound by all the provisions of this Section 5.15.

(ii) If, in the reasoned opinion of counsel to CMCC or an Affiliate of CMCC, as the case may be, a transfer of any Warrants is required to be effected by CMCC or an Affiliate of CMCC, as the case may be, because (A) its investment in Securities may exceed any limitation to which it is subject, or is otherwise not permitted, under any law, rule, regulation or other requirement of any governmental authority, or (B) restrictions are imposed on CMCC or such Affiliate of CMCC, as the case may be, by any such law, rule, regulation or other requirement which, in the reasoned opinion of such counsel to CMCC or such Affiliate of CMCC, as the case may be, make it illegal to continue to hold such Warrants, then the 10-day period referred to in each of the second and third paragraphs of Section 5.15(a) shall be reduced to a three Business Day period.

For purposes of clause (ii) of this Section 5.15(b), a reasoned opinion of counsel (which is based on facts and circumstances deemed appropriate by such counsel) to the effect that such transfer is required shall be conclusive.

Section 5.16. CMCC's Status. The Company acknowledges that CMCC is a small business investment company licensed by the Small Business Administration under, and subject to the provisions of, the Small Business Investment Act of 1958, as amended, and the rules and regulations of the Small Business Administration promulgated thereunder. The Company shall furnish CMCC with all information in respect of this Agreement and the transactions contemplated thereby reasonably necessary to permit CMCC to comply with reporting, record-keeping and informational requirements of said Act and said rules and regulations.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

ENVIRONMENTAL TECTONICS  
CORPORATION,

By: \_\_\_\_\_  
Name:  
Title:

CHASE MANHATTAN CAPITAL  
CORPORATION,

By: \_\_\_\_\_  
Name:  
Title:

Annex 1  
to  
Warrant Agreement

[Form of Warrant Certificate]

THE WARRANTS OF ENVIRONMENTAL TECTONICS CORPORATION REPRESENTED BY THIS WARRANT CERTIFICATE AND THE SHARES OF COMMON STOCK (OR OTHER SECURITIES) ISSUABLE UPON EXERCISE THEREOF MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 AND IN COMPLIANCE WITH APPLICABLE STATE SECURITIES LAWS, OR (ii) TO THE EXTENT APPLICABLE, RULE 144 OR RULE 144A UNDER SUCH ACT (OR ANY SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES),

OR (iii) AN OPINION OF COUNSEL THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE. FURTHER, THIS WARRANT CERTIFICATE AND THE WARRANTS EVIDENCED HEREBY MAY NOT BE TRANSFERRED IN VIOLATION OF THE PROVISIONS OF SECTION 7 HEREOF. THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF SUCH WARRANTS MAY NOT BE ISSUED OR TRANSFERRED IN VIOLATION OF THE PROVISIONS OF SECTION 7 HEREOF.

No. \_\_\_\_\_ Warrants

WARRANT CERTIFICATE

To Subscribe for and Purchase Stock Units of

ENVIRONMENTAL TECTONICS CORPORATION

THIS CERTIFIES that CHASE MANHATTAN CAPITAL CORPORATION, a New York corporation, or its registered successors and assigns, is the owner of the number of Warrants set forth above, each of which entitles the owner thereof to purchase from Environmental Tectonics Corporation, a Pennsylvania corporation (the "Company"), at any time during the period commencing on [the effective date of the Sixth Amendment to the Credit Agreement], and expiring at 5:00 p.m., New York time, on [the date that is five years after the date of the commencement of the exercise period] (the "Expiration Date"), one Stock Unit (as hereinafter defined) at a price of \$[to be determined in accordance with the Sixth Amendment] per Stock Unit (the "Exercise Price") subject to the conditions hereinafter set forth. For purposes of this Warrant Certificate, a Stock Unit shall consist of one fully paid and nonassessable share of Common Stock as such stock is constituted on [the effective date of the Sixth Amendment to the Credit Agreement] (the "Date of Issuance"), subject to adjustment from time to time pursuant to the provisions of Section 2. Certain defined terms not otherwise defined shall have their respective meanings as defined in Section 9.

Section 1. Exercise of Warrant. The Warrants evidenced hereby may be exercised by the registered holder hereof, in whole or in part, by the surrender of this Warrant Certificate, duly endorsed (unless endorsement is waived by the Company), at the principal executive office of the Company located at County Line Industrial Park, Southampton, Pennsylvania 18966, or at the office of Wilmington Trust Company, located at 1100 North Market Street; Rodney Square North; Wilmington, DE 19890 (the "Transfer Agent") (or such other office or agency of the Company located in the United States of America as the Company may designate by notice to the registered holder hereof at its last address appearing on the books of the Company), and upon payment to the Company in immediately available funds of the purchase price of the Stock Units purchased. The Company agrees that the shares of Common Stock of the Company comprising the Stock Units so purchased shall be deemed to be issued to the registered holder hereof on the date on which this Warrant Certificate shall have been surrendered and payment made for such Stock Units as aforesaid. The certificates for such shares shall be delivered to the registered holder hereof within a reasonable time, not exceeding 10 days, after Warrants evidenced hereby shall have been so exercised and a new Warrant Certificate evidencing the number of Warrants, if any, remaining unexercised also shall be issued to the registered holder hereof within such time unless such Warrants shall have expired. No fractional shares of Common Stock of the Company, or script for any such fractional shares, shall be issued upon the exercise of any Warrants.



Section 2. Adjustment of Stock Unit and Exercise Price. The number of shares of Common Stock comprising a Stock Unit, and the price at which a Stock Unit may be purchased upon exercise of this Warrant Certificate, shall be subject to adjustment from time to time as set forth in this Section 2. The Company shall not take any action with respect to its Nonpreferred Stock of any class requiring an adjustment pursuant to any of the following Subsections A, B, or G without at the same time taking like action with respect to its Nonpreferred Stock of each other class; and the Company shall not, without the prior written consent of the registered holder hereof (which consent may be withheld by such holder in its sole and absolute discretion), create any class of Nonpreferred Stock which carries any rights to dividends or assets differing in any respect from the rights of the Common Stock on the Date of Issuance.

A. Stock Dividends, Subdivisions and Combinations. In case at any time or from time to time the Company shall

(1) take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, Nonpreferred Stock, or

(2) subdivide its outstanding shares of Nonpreferred Stock into a larger number of shares of Nonpreferred Stock, or

(3) combine its outstanding shares of Nonpreferred Stock into a smaller number of shares of Nonpreferred Stock,

then the number of shares of Common Stock comprising a Stock Unit immediately after the happening of any such event shall be adjusted so as to consist of the number of shares of Common Stock which a record holder of the number of shares of Common Stock comprising a Stock Unit immediately prior to the happening of such event would own or be entitled to receive after the happening of such event.

B. Certain Other Dividends and Distributions. In case at any time or from time to time the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive any dividend or other distribution of,

(1) cash (other than a cash distribution made as a dividend and payable out of earnings or earned surplus legally available for the payment of dividends under the laws of the jurisdiction of incorporation of the Company, to the extent, but only to the extent, that the aggregate of all such dividends paid or declared after the date hereof, does not exceed the consolidated net income of the Company and its consolidated Subsidiaries earned subsequent to the date hereof as determined in accordance with generally accepted accounting principles consistently applied), or

(2) any evidence of its indebtedness (other than Convertible Securities), any shares of its stock (other than Additional Shares of Nonpreferred Stock) or any other securities or property of any nature whatsoever (other than cash and other than Convertible Securities or Additional Shares of Nonpreferred Stock), or

(3) any options, warrants or other rights to subscribe for or purchase any evidences of its indebtedness (other than Convertible Securities), any shares of its stock (other than Additional Shares of Nonpreferred Stock) or any other

securities or property of any nature whatsoever (other than cash and other than Convertible Securities or Additional Shares of Nonpreferred Stock),

then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted to that number determined by multiplying the number of shares of Common Stock comprising a Stock Unit immediately prior to such adjustment by a fraction (i) the numerator of which shall be the Current Market Price per share of Common Stock at the date of taking such record and (ii) the denominator of which shall be such Current Market Price per share of Common Stock minus the amount of any and all such cash, and the fair value of any and all such evidences of indebtedness, shares of stock, other securities or property, or options, warrants or other subscription or purchase rights, so distributable in respect of one share of Common Stock. Such fair value shall be reasonably determined in good faith by the Board of Directors of the Company, provided that if such determination is objected to by the holders of Warrants entitled to purchase a majority of the Stock Units covered thereby, such determination shall be made by an independent appraiser selected by such Board of Directors and not objected to by such holders. A reclassification of the Nonpreferred Stock into shares of Nonpreferred Stock and shares of any other class of stock shall be deemed a distribution by the Company to the holders of its Nonpreferred Stock of such shares of such other class of stock within the meaning of this Subsection B and, if the outstanding shares of Nonpreferred Stock shall be changed into a larger or smaller number of shares of Nonpreferred Stock as a part of such reclassification, shall be deemed a subdivision or combination, as the case may be, of the outstanding shares of Nonpreferred Stock within the meaning of Subsection A of this Section 2.

C. Issuance of Additional Shares of Nonpreferred Stock. In case at any time or from time to time the Company shall (except as hereinafter provided) issue any Additional Shares of Nonpreferred Stock for a consideration per share less than the greater of (a) the Current Warrant Price and (b) the Current Market Price per share of Common Stock, then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted to that number determined by multiplying the number of shares of Common Stock comprising a Stock Unit immediately prior to such adjustment by a fraction (i) the numerator of which shall be the number of shares of Nonpreferred Stock outstanding immediately prior to the issuance of such Additional Shares of Nonpreferred Stock plus the number of such Additional Shares of Nonpreferred Stock so issued, and (ii) the denominator of which shall be the number of shares of Nonpreferred Stock outstanding immediately prior to the issuance of such Additional Shares of Nonpreferred Stock plus the number of shares of Nonpreferred Stock which the aggregate consideration for the total number of such Additional Shares of Nonpreferred Stock so issued would purchase at the greater of (A) the Current Warrant Price and (B) the Current Market Price per share of Common Stock. For purposes of this Subsection C, the date as of which the Current Warrant Price and the Current Market Price per share of Common Stock shall be computed shall be the earlier of (1) the date on which the Company shall enter into a firm contract for the issuance of such Additional Shares of Nonpreferred Stock and (2) the date of actual issuance of such Additional Shares of Nonpreferred Stock. This Subsection C shall not apply to any issuance of Additional Shares of Nonpreferred Stock for which an adjustment is provided under Subsection A of this Section 2. No adjustment of the number of shares of Common Stock comprising a Stock Unit shall be made under this Subsection C upon the issuance of any Additional Shares of Nonpreferred Stock which are issued pursuant to the exercise of any options, warrants or other subscription or purchase rights or pursuant to

the exercise of any conversion or exchange rights in any Convertible Securities, if any such adjustment shall previously have been made upon the issuance of such options, warrants or other rights or upon the issuance of such Convertible Securities (or upon the issuance of any option, warrant or other rights therefor) pursuant to Subsection D or E of this Section 2.

D. Issuance of Options, Warrants or Other Rights. In case at any time or from time to time the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a distribution of, or shall otherwise issue to any other Person, any options, warrants or other rights to subscribe for or purchase any Additional Shares of Nonpreferred Stock or any Convertible Securities and the consideration per share for which additional shares of Nonpreferred Stock may at any time thereafter be issuable pursuant to such options, warrants or other rights or pursuant to the terms of such Convertible Securities shall be less than the greater of (a) the Current Warrant Price and (b) the Current Market Price per share of Common Stock, then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted as provided in Subsection C of this Section 2 on the basis that (i) the maximum number of Additional Shares of Nonpreferred Stock issuable pursuant to all such options, warrants or other rights or necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued as of (and, accordingly, the date as of which the Current Warrant Price per share of Common Stock and the Current Market Price per share of Common Stock shall be computed shall be) the computation date specified in the last sentence of this Subsection D, and (ii) the aggregate consideration for such maximum number of additional shares of Nonpreferred Stock shall be deemed to be the minimum consideration received and receivable by the Company for the issuance of such Additional Shares of Nonpreferred Stock pursuant to such options, warrants or other rights or pursuant to the terms of such Convertible Securities. For purposes of this Subsection D, the computation date for clause (i) above shall be the earliest of (A) the date on which the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive any such options, warrants or other rights, (B) the date on which the Company shall enter into a firm contract for the issuance of such options, warrants or other rights and (C) the date of actual issuance of such options, warrants or other rights.

E. Issuance of Convertible Securities. In case at any time or from time to time the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a distribution of, or shall otherwise issue to any Person, any Convertible Securities and the consideration per share for which Additional Shares of Nonpreferred Stock may at any time thereafter be issuable pursuant to the terms of such Convertible Securities shall be less than the greater of (a) the Current Warrant Price and (b) Current Market Price per share of Common Stock, then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted as provided in Subsection C of this Section 2 on the basis that (i) the maximum number of Additional Shares of Nonpreferred Stock necessary to effect the conversion, exercise or exchange of all such Convertible Securities shall be deemed to have been issued as of the computation date specified in the penultimate sentence of this Subsection E, and (ii) the aggregate consideration for such maximum number of Additional Shares of Nonpreferred Stock shall be deemed to be the minimum consideration received and receivable by the Company for the issuance of such Additional Shares of Nonpreferred Stock pursuant to the terms of such Convertible Securities. For purposes of this Subsection E, the computation date for clause (i) above shall be the earliest of

(A) the date on which the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive any such Convertible Securities, (B) the date on which the Company shall enter into a firm contract for the issuance of such Convertible Securities and (C) the date of actual issuance of such Convertible Securities. No adjustment of the number of shares of Common Stock comprising a Stock Unit shall be made under this Subsection E upon the issuance of any Convertible Securities which are issued pursuant to the exercise of any warrants or other subscription or purchase rights therefor, if any such adjustment shall previously have been made upon the issuance of such warrants or other rights pursuant to Subsection D of this Section 2.

F. Superseding Adjustment of Stock Unit. If, at any time after any adjustment of the number of shares comprising a Stock Unit shall have been made pursuant to the foregoing Subsection D or E of this Section 2 on the basis of the issuance of options, warrants or other rights or the issuance of other Convertible Securities, or after any new adjustment of the number of shares comprising a Stock Unit shall have been made pursuant to this Subsection,

(1) such options, warrants or rights or the right of conversion or exchange in such other Convertible Securities shall expire, and a portion of such options, warrants or rights, or the right of conversion, exercise or exchange in respect of a portion of such other Convertible Securities, as the case may be, shall not have been exercised, or

(2) the consideration per share, for which shares of Nonpreferred Stock are issuable pursuant to such options, warrants or rights or the terms of such other Convertible Securities, shall be increased solely by virtue of provisions therein contained for an automatic increase in such consideration per share upon the arrival of a specified date or the happening of a specified event,

such previous adjustment shall be rescinded and annulled and the Additional Shares of Nonpreferred Stock which were deemed to have been issued by virtue of the computation made in connection with the adjustment so rescinded and annulled shall no longer be deemed to have been issued by virtue of such computation. Thereupon, a recomputation shall be made of the effect of such options, warrants or rights or other Convertible Securities on the basis of

(3) treating the number of Additional Shares of Nonpreferred Stock, if any, theretofore actually issued pursuant to the previous exercise of such options, warrants or rights or such right of conversion or exchange were previously exercised, as having been issued on the date or dates of such issuance as determined for purposes of such previous adjustment and for the consideration actually received therefor, and

(4) treating any such options, warrants or rights or any such other Convertible Securities which then remain outstanding as having been granted or issued immediately after the time of such increase of the consideration per share for such shares of Nonpreferred Stock are issuable under such Warrants or rights or other Convertible Securities,

and, if and to the extent called for by the foregoing provisions of this Section 2 on the basis aforesaid, a new adjustment of the number of shares comprising a Stock Unit shall be made, which new adjustment shall supersede the previous adjustment so rescinded

and annulled.

G. Other Provisions Applicable to Adjustments Under this Section. The following provisions shall be applicable to the making of adjustments of the number of shares of Common Stock comprising a Stock Unit hereinbefore provided for in this Section 2:

(1) Treasury Stock. The sale or other disposition of any issued shares of Nonpreferred Stock owned or held by or for the account of the Company shall be deemed an issuance thereof for purposes of this Section 2.

(2) Computation of Consideration. To the extent that any Additional Shares of Nonpreferred Stock or any Convertible Securities or any options, warrants or other rights to subscribe for or purchase any Additional Shares of Nonpreferred Stock or any Convertible Securities shall be issued for a cash consideration, the consideration received by the Company therefor shall be deemed to be the amount of cash received by the Company therefor, or, if such Additional Shares of Nonpreferred Stock or Convertible Securities are offered by the Company for subscription, the subscription price, or, if such Additional Shares of Nonpreferred Stock or Convertible Securities are sold to underwriters or dealers for public offering without a subscription offering, the initial public offering price, in any such case excluding any amounts paid or receivable for accrued interest or accrued dividends and without deduction of any compensation, discounts or expenses paid or incurred by the Company for and in the underwriting of, or otherwise in connection with, the issue thereof. To the extent that such issuance shall be for a consideration other than cash, then, except as herein otherwise expressly provided, the amount of such consideration shall be deemed to be the fair value of such consideration at the time of such issuance as reasonably determined in good faith by the Board of Directors of the Company, provided that if such determination is objected to by the holders of Warrants entitled to purchase a majority of the Stock Units covered thereby, such determination shall be made by an independent appraiser selected by such Board of Directors and not objected to by such holders. The consideration for any Additional Shares of Nonpreferred Stock issuable pursuant to any options, warrants or other rights to subscribe for or purchase the same shall be the consideration received or receivable by the Company for issuing such options, warrants or other rights, plus the additional consideration payable to the Company upon the exercise of such options, warrants or other rights. The consideration for any Additional Shares of Nonpreferred Stock issuable pursuant to the terms of any Convertible Securities shall be the consideration received or receivable by the Company for issuing any options, warrants or other rights to subscribe for or purchase such Convertible Securities, plus the consideration paid or payable to the Company in respect of the subscription for or purchase of such Convertible Securities, plus the additional consideration, if any, payable to the Company upon the exercise of the right of conversion, exercise or exchange in such Convertible Securities. In case of the issuance at any time of any Additional Shares of Nonpreferred Stock or Convertible Securities in payment or satisfaction of any dividend upon any class of stock other than Nonpreferred Stock, the Company shall be deemed to have received for such Additional Shares of Nonpreferred Stock or Convertible Securities a consideration equal to the amount of such dividend so paid or satisfied.

(3) When Adjustments to Be Made. The adjustments required by the preceding Subsections of this Section 2 shall be made whenever and as often as any specified event requiring an adjustment shall occur, except that no adjustment of the number of shares of Common Stock comprising a Stock Unit that would otherwise be required shall be made (except in the case of a subdivision or combination of shares of the Nonpreferred Stock, as provided for in Subsection A) unless and until such adjustment, either by itself or with other adjustments not previously made, adds or subtracts at least \$0.05 to the Current Market Price of each share of Common Stock, as reasonably determined in good faith by the Board of Directors of the Company, provided that, in any event such adjustment shall be made if such adjustment either by itself or with other adjustments not previously made adds or subtracts at least 1/20th of a share to or from the number of shares of Common Stock comprising a Stock Unit immediately prior to the making of such adjustment. Any adjustment representing a change of less than such minimum amount (except as aforesaid) shall be carried forward and made as soon as such adjustment, together with other adjustments required by this Section 2 and not previously made, would result in a minimum adjustment. For the purpose of any adjustment, any specified event shall be deemed to have occurred at the close of business on the date of its occurrence.

(4) Fractional Interests. In computing adjustments under this Section 2, fractional interests in Nonpreferred Stock shall be taken into account to the nearest one - thousandth of a share.

(5) When Adjustment Not Required. If the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a dividend or distribution or subscription or purchase rights and shall, thereafter and before the distribution thereof to shareholders, legally abandon its plan to pay or deliver such dividend, distribution, subscription or purchase rights, then thereafter no adjustment shall be required by reason of the taking of such record and any such adjustment previously made in respect thereof shall be rescinded and annulled.

H. Other Action Affecting Nonpreferred Stock. In case at any time or from time to time the Company shall take any action affecting its Nonpreferred Stock, other than an action described in any of the foregoing Subsections A through G (inclusive) of this Section 2 or in Section 3, then, unless in the reasonable opinion of the Board of Directors of the Company such action will not have an adverse effect upon the rights of the holders of the Warrants, the number of shares of Common Stock or other stock comprising a Stock Unit, or the Exercise Price, shall be adjusted in such manner and at such time as the Board of Directors of the Company may reasonably determine in good faith to be equitable in the circumstances.

I. Notice of Adjustment of Stock Unit Price or Exercise Price. Whenever the number of shares of Common Stock comprising a Stock Unit, or the Exercise Price at which a Stock Unit may be purchased upon exercise of the Warrants, shall be adjusted pursuant to the provisions hereof, the Company shall forthwith file with each transfer agent for the shares of Common Stock or other securities of the Company a statement describing in reasonable detail the adjustment and the method of calculation used. As soon as practicable after any such adjustment is made, the Company shall cause a notice of such adjustment to be mailed to the registered holder of this Warrant Certificate at his last

address appearing on the books of the Company.

J. Evidence of Correctness of Computation. The certificate of any independent firm of public accountants of recognized standing selected by the Board of Directors of the Company shall be evidence of the correctness of any computation made pursuant to the provisions of this Section 2 absent manifest error or negligence.

K. Fractional Shares. No fractional shares of Common Stock or script for any such fraction, shall be issued upon the exercise of Warrants evidenced hereby. If more than one Warrant evidenced hereby shall be exercised at any one time, the number of full shares of Common Stock which shall be issuable upon such exercise shall be computed on the basis of the aggregate number of Stock Units purchased. Instead of any fractional share of Common Stock which would otherwise be issuable upon such exercise, the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the Current Market Price per share of Common Stock on the date of such exercise.

Section 3. Consolidation, Merger, etc. In case of a consolidation or merger of the Company with another Person on or after the Date of Issuance, or the sale, lease or transfer of all or substantially all its assets to another Person shall be effected on or after the Date of Issuance, then, as a condition of such consolidation, merger, sale, lease or transfer, lawful and adequate provision shall be made whereby the registered holder of this Warrant Certificate shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified herein and in lieu of each Stock Unit immediately theretofore purchasable and receivable upon the exercise of each Warrant evidenced hereby, such shares of stock, securities, cash or other property receivable upon such consolidation, merger, sale, lease or transfer by the holder of the number of shares of Common Stock comprising a Stock Unit immediately prior to such event. In any such case, appropriate and equitable provision also shall be made with respect to the rights and interest of the registered holder of this Warrant Certificate to the end that the provisions hereof (including Sections 2 and 5) shall thereafter be applicable, as nearly as may be, in relation of any shares of stock, securities, cash or other property thereafter deliverable upon the exercise of the Warrants evidenced hereby. The Company shall not effect any such consolidation, merger, sale, lease or transfer unless prior to or simultaneously with the consummation thereof the successor Person (if other than the Company) resulting from such consolidation or merger or the Person purchasing, leasing or otherwise acquiring such assets shall assume, by written instrument mailed to the registered holder hereof at its last address appearing on the books of the Company, the obligation to deliver to such holder such shares of stock, securities, cash or other property as, in accordance with the foregoing provisions, such holder may be entitled to purchase. The above provisions of this Section 3 shall similarly apply to successive consolidations, mergers., sales, leases or transfers.

Section 4. Notice of Certain Corporate Action. If at any time prior to the expiration of the Warrants evidenced hereby the Company shall propose:

(a) to pay any dividend or other distribution on the shares of Nonpreferred Stock of any class (excluding regular cash dividends);

(b) to issue any options, warrants or rights pro rata to all holders of shares of Nonpreferred Stock of any class

entitling them to subscribe for or purchase any shares of stock of the Company of any class or to receive any other rights; or

(c) to issue pro rata to all holders of shares of Nonpreferred Stock any class of evidences of its indebtedness or assets; or

(d) to effect any reclassification of the shares of Nonpreferred Stock of any class, or any consolidation or merger of the Company with or into another Person (other than a consolidation or merger in which the Company is the continuing Person and which does not result in any reclassification of the shares of Nonpreferred Stock of any class) or a sale or transfer to another Person of all or substantially all the assets of the Company; or

(e) to effect the voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company;

then, and in any one or more of such cases, the Company shall send to the registered holder hereof at its last address appearing on the books of the Company, as promptly as practicable but in any event at least 20 days prior to the applicable record date (or determination date) mentioned below, a notice stating, to the extent such information is available, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or rights, or, if a record is not to be taken, the date as of which the holders of shares of Nonpreferred Stock of record to be entitled to such dividend, distribution or rights are to be determined, or (ii) the date on which such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution or winding up is expected to become effective and the date as of which it is expected that holders of shares of Nonpreferred Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution or winding up.

#### Section 5. Covenants of the Company.

(a) The Company covenants and agrees that all shares of capital stock of the Company which may be issued upon the exercise of the Warrants evidenced hereby will be duly authorized, validly issued and fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof to the registered holder hereof.

(b) The Company covenants and agrees that from and after the date the Registration Statement is first declared effective, all shares of Common Stock or other stock or securities which may be issued upon the exercise of the Warrants evidenced hereby will be duly registered under the Securities Act, and duly registered or qualified under all applicable state securities laws.

(c) With respect to any registration or qualification of shares of Common Stock or other stock or securities which may be issued upon exercise of the Warrants evidenced hereby that is effected or to be effected by the Company (including that effected by the Registration Statement), the Company shall indemnify each holder hereof, each such holder's directors and officers, each underwriter (as defined in the Securities Act) of the shares of Common Stock or other stock or securities sold by such holder, each other Person who participates or is to participate in the offering of such holder's securities, and each Person who controls (within



the meaning of the Securities Act) any such holder, underwriter or participating Person from and against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on:

(i) any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document (including any related registration statement, notification or the like), or any amendment thereof or supplement thereto, incident to any such registration or qualification;

(ii) any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; or

(iii) any violation by the Company of the Securities Act or any rule or regulation promulgated thereunder applicable to the Company, or of any blue sky or other state securities laws or any rule or regulation promulgated thereunder applicable to the Company,

in each case, relating to action or inaction required of the Company in connection with any such registration or qualification, and shall reimburse each such Person entitled to indemnity under this Section 5(c) for all legal and other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action; provided, however, that, the foregoing indemnity and reimbursement obligation shall not be applicable to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement (or alleged untrue statement) or omission (or alleged omission) made in reliance upon and in conformity with written information furnished to the Company by any such Person specifically for use in such prospectus, offering circular, other document, amendment or supplement.

(d) Each Person indemnified pursuant to Section 5(c) agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the registration statement and each Person, if any, who controls the Company (within the meaning of the Securities Act) to the same extent as the foregoing indemnity from the Company in Section 5(c), but only with reference to information relating to such Person furnished to the Company in writing by such Person expressly for use in the offering circular, registration statement or the prospectus or any amendments or supplements thereto or any preliminary prospectus.

(e) In case any proceeding (including any governmental investigation) shall be instituted involving any Person for whose benefit indemnity may be sought pursuant to either Section 5(c) or 5(d), such Person (the "indemnified party") shall notify as soon as is reasonably practicable the Person against whom such indemnity may be sought (the "indemnifying party") in writing. The indemnified party, upon request of the indemnifying party, shall retain counsel selected by the indemnifying party (such counsel to be reasonably satisfactory to the indemnified party) to represent the indemnified party and any other Persons the indemnifying party may designate in such proceeding; and the indemnifying party shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any

indemnified party shall have the right to retain counsel selected by it, but the fees and expenses of such indemnified party's counsel shall be at the expense of such indemnified party unless (i) the indemnifying party fails to request that the indemnified party retain counsel selected by the indemnifying party, (ii) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel, or (iii) the representation by the same counsel of the indemnified party and any other Person (including any impleaded parties) would be inappropriate due to actual or potential differing interests between them. The fees and expenses of counsel for which the indemnifying party is responsible pursuant to this Section 5(e) shall be reimbursed as they are incurred if paid by or on behalf of the indemnified party. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgement for the plaintiff, the indemnifying party agrees to indemnify any indemnified party from and against any claim, loss, damage or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of an indemnified party, effect any settlement of any pending or threatened proceeding in respect of which such indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all loss, damage and liability on claims that are the subject matter of such proceeding.

(f) If the indemnity and reimbursement obligation provided for in Section 5(c) is unavailable or insufficient to hold harmless an indemnified party under Section 5(c) in respect of any claims, losses, damages or liabilities (or actions in respect thereof) referred to therein, then the Company shall contribute to the amount paid or payable by such indemnified party as a result of such claims, losses, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and such indemnified party on the other hand in connection with statements or omissions which resulted in such claims, losses, damages or liabilities, as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or such indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Company and the holder hereof agree that it would not be just and equitable if contributions pursuant to this Section 5(f) were to be determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the first sentence of this Section 5(f). The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this Section 5(f) shall be deemed to include any legal and other expenses reasonably incurred by such indemnified party in connection with investigating or defending any claim, loss, damage, liability or action which is the subject of this Section 5(f).

No indemnified party guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the

Securities Act) shall be entitled to contribution from the Company if the Company was not guilty of such fraudulent misrepresentation.

The provisions of Section 5(c) and this Section 5(f) shall be in addition to any other rights to indemnification or contribution which an indemnified party may have pursuant to law, equity, contract or otherwise and shall remain in full force and effect regardless of any investigation made by or on behalf of an indemnified party and shall survive the transfer of the shares of Common Stock or other stock or securities which may be issued upon exercise of the Warrants by an indemnified party.

(g) The Company covenants and agrees that during the period within which the Warrants evidenced hereby may be exercised, the Company shall not, without the prior written consent of the registered holder hereof (which consent may be withheld by such holder in its sole and absolute discretion), issue (i) any options, rights or warrants to acquire Additional Shares of Nonpreferred Stock or Convertible Securities (other than warrants issued pursuant to any warrant agreement entered into in connection with the Credit Agreement and/or the Sixth Amendment), (ii) Convertible Securities, or (iii) "phantom" stock or stock appreciation rights, unless in each case the rights of the holders thereof shall be limited to a fixed sum or percentage of par value in respect of participation in dividends and in the distribution of such assets.

(h) The Company covenants and agrees that during the period within which the Warrants evidenced hereby may be exercised, the Company shall at all times reserve such number of shares of its Common Stock or other shares of stock or securities as may be sufficient to permit the exercise in full of the Warrants evidenced hereby.

(i) The Company covenants and agrees that during the period within which the Warrants evidenced hereby may be exercised, the Company shall at no time issue, without the prior written consent of the registered holder hereof (which consent may be withheld by such holder in its sole and absolute discretion), (i) any Preferred Stock, or (ii) any options, warrants, rights or securities exercisable or convertible into or exchangeable for Preferred Stock.

(j) The Company covenants and agrees that the Company shall give to each holder of a Warrant Certificate notice of the Expiration Date. Such notice may be given by the Company not less than 30 days but not more than 60 days prior to the Expiration Date.

(k) The Company covenants and agrees that on or prior to the date the Registration Statement first becomes effective, the Company shall not declare or effect any stock split or stock dividend on, or subdivision, consolidation or combination of, any class of Nonpreferred Stock.

Section 6. Rights of Registered Holder; Warrant Register. The Person in whose name this Warrant Certificate is registered shall be deemed the owner hereof and of the Warrant Certificate evidenced hereby for all purposes. The registered holder of this Warrant Certificate shall not be entitled to any rights whatsoever as a shareholder of the Company in respect of the Warrants except as herein provided.

Any Warrants issued in connection herewith, upon issuance, transfer or exercise in part or in whole, shall be numbered and registered in a warrant register (the "Warrant

Register") as they are issued. The Company shall cause the Warrant Register to be maintained by the Company or the Transfer Agent or the then existing transfer agent of the Company in the United States of America.

Section 7. Transfers of Warrants. The rights represented by this Warrant Certificate (including the Warrants evidenced hereby) may not be transferred, sold, assigned or hypothecated, at any time, in whole or in part, except upon the conditions specified in Article 4 of the Warrant Agreement. Any transfer shall be effected by the surrender of this Warrant Certificate, along with the form of assignment attached hereto, properly completed and executed by the registered holder hereof, at the principal office or agency of the Company referred to in Section 1. Thereupon, the Company shall issue in the name or names specified by the registered holder hereof and, in the event of a partial transfer, in the name of the registered holder hereof, a new Warrant Certificate or Warrant Certificates evidencing the right to purchase such number of Stock Units as shall be equal to the Stock Units then purchasable hereunder.

Each taker and holder of this Warrant Certificate, the Warrants evidenced hereby and any shares of stock of the Company issued upon exercise of any such Warrants, by taking or holding the same, consents to and agrees to be bound by the provisions of this Section 7.

Section 8. Governing Law. THIS WARRANT CERTIFICATE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

Section 9. Definitions. As used herein, unless the context otherwise requires:

"Additional Shares of Nonpreferred Stock" shall mean shares of Nonpreferred Stock issued by the Company after the date hereof, other than (i) Warrant Stock, and (ii) Plan Stock.

"Business Day" shall mean any day except a Saturday, a Sunday or a day on which commercial banks in the State of New York are permitted or required by law to close.

"Common Stock" shall mean the Company's authorized Common Stock, \$.10 par value per share, irrespective of class unless otherwise specified, as constituted on the Date of Issuance, and any stock into which such Common Stock may thereafter be converted or changed, and also shall include any other stock of the Company of any other class, which is not preferred as to dividends or assets over any other class of any other stock of the Company.

"Company" shall have the meaning set forth at the head of this Warrant Certificate.

"control" (including, with its correlative, meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise).

"Convertible Securities" shall mean evidences of indebtedness, shares of stock or other securities which are convertible or exercisable into or exchangeable for Additional Shares of Nonpreferred Stock, either immediately or upon the arrival of a specified date or the happening of a specified event.

"Credit Agreement" shall mean the Credit Agreement dated as of November 20, 1990, as amended from time to time (the "Credit Agreement") among the Company, the Chase Manhattan Bank, N.A., Chemical Bank, as agent for Chemical Banking Corporation, successor in interest to Chemical Bank New Jersey, N.A. and the Chase Manhattan Bank, N.A., as Agent.

"Current Market Price" per share of Common Stock, for the purposes of any provision of this Warrant at the date herein specified, shall be deemed to be the average of the daily market prices for 30 consecutive Business Days commencing 45 Business Days before such date. The market price for each such Business Day shall be, if the Common Stock is traded on a national securities exchange, its last sale price on the next preceding Business Day or, if there was no sale on that day, the last sale price on the next preceding Business Day on which there was a sale, all as made available over the Consolidated Last Sale Reporting System of the CTA Plan or, if the Common Stock is not then eligible for reporting over such system, its last sale price on the next preceding Business Day on such national securities exchange or, if there was no sale on that day, on the next preceding Business Day on which there was a sale on such national securities exchange or, if the principal market for the Common Stock is the over-the-counter market, but the Common Stock is not then eligible for reporting over the Consolidated Last Sale Reporting System of the CTA Plan, but the Common Stock is quoted on the National Association of Securities Dealers Automated Quotations System ("NASDAQ"), the last sale price reported on NASDAQ on the next preceding Business Day or, if the Common Stock is an issue for which last sale prices are not reported on NASDAQ, the closing bid quotation on such day, but, in each of the next preceding two cases, if the relevant NASDAQ price or quotation did not exist on such day, then the price or quotation on the next preceding Business Day in which there was such a price or quotation, but if the Common Stock is not reported or quoted on NASDAQ, the highest bid quotation as quoted in any of The Wall Street Journal, the National Quotation Bureau pink sheets, the Salomon Brothers quotation sheets, quotation sheets of registered marketmakers and, if necessary, dealers' telephone quotations. If the Current Market Price per share of Common Stock cannot be ascertained by any of the foregoing methods, the Current Market Price per share of Common Stock shall be deemed to be the net book value per share of Nonpreferred Stock, determined in accordance with generally accepted accounting principles consistently applied.

"Current Warrant Price" per share of Common Stock, for the purpose of any provision of this Warrant at the date herein specified, shall mean the amount equal to the quotient resulting from dividing the Exercise Price per Stock Unit in effect on such date by the number of shares (including any fractional share) of Common Stock comprising a Stock Unit on such date.

"Date of Issuance" shall have the meaning set forth at the head of this Warrant Certificate.

"Expiration Date" shall have the meaning set forth at the head of this Warrant Certificate.

"Exercise Price" shall have the meaning set forth at the head of this Warrant Certificate.

"Sixth Amendment" shall mean the Amendment dated as of May , 1996 amending the terms of the Credit Agreement.

"include" and "including" shall be construed as if followed by the phrase ", without being limited to,".

"indemnified party" shall have the meaning assigned to such term in Section 5(e).

"Nonpreferred Stock" shall mean the Common Stock and also shall include stock of the Company of any other class which is not preferred as to dividends or assets over any other class of stock of the Company.

"Person" means any individual, corporation, partnership, association, trust or other entity or organization, including a governmental or political subdivision or an agency or instrumentality thereof.

"Plan Stock" means (i) not more than 280,421 shares of Common Stock issuable to officers, directors and employees of the Company pursuant to the Company's 1979 Incentive Stock Plan and the Company's Employee Stock Purchase Plan, as such Plan is in effect on the Date of Issuance, and (ii) not more than 50,000 shares of Common Stock issuable during each 12-month period commencing on the Date of Issuance to officers, directors and employees of the Company pursuant to the Company's 1988 Incentive Stock Plan, as such Plan is in effect on the Date of Issuance.

"Preferred Stock" shall mean any stock of the Company which is preferred as to dividends or assets over any other class of stock of the Company.

"Registration Statement" shall have the meaning assigned to such term in the Warrant Agreement.

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar Federal statute, and the rules and regulations of the commission thereunder, all as the same shall be in effect at the time.

"Stock Unit" shall mean one share of Common Stock, as such Common Stock was constituted on the date of original issue of this Warrant Certificate and thereafter shall mean such number of shares of Common Stock as shall result from the adjustments specified in Section 2.

"Subsidiary" shall mean, with respect to any Person, any entity which is controlled by such Person.

"Transfer Agent" shall have the meaning set forth at the head of this Warrant Certificate.

"Warrant Agreement" shall mean the Warrant Agreement dated as of May , 1996, between the Company and Chase Manhattan Capital Corporation, as such Warrant Agreement shall be modified and supplemented and in effect from time to time.

"Warrant Register" shall have the meaning assigned to such term in Section 6.

"Warrants" shall mean the Warrants dated as of the date hereof, originally issued by the Company pursuant to the Warrant Agreement, of which this Warrant is one, evidencing rights to purchase up to an aggregate of 100,000 Stock Units, and all Warrants issued upon transfer, division or combination of, or in substitution for, any thereof. All Warrants shall at all times be identical as to terms and conditions and date, except as to the number of Stock Units for which they may be exercised.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be signed in its name by a duly authorized officer and its corporate seal to be impressed hereon and attested by its Secretary or Assistant Secretary.

Dated: \_\_\_\_\_ 19\_\_

ENVIRONMENTAL TECTONICS  
CORPORATION,

By  
Name:  
Title:

[SEAL]

Attest:

Name:  
Title:

FORM OF EXERCISE

(To be executed by the registered holder hereof)

The undersigned hereby exercises \_\_\_\_\_ Warrants to subscribe for and purchase Stock Units of Environmental Tectonics Corporation evidenced by the within Warrant Certificate and herewith makes payment of the purchase price in full. Kindly issue certificates and/or other instruments evidencing Stock Units in accordance with the instructions given below. The certificate for the unexercised balance of the Warrants evidenced by the within Warrant Certificate, if any, will be registered in the name of the undersigned.

Dated: \_\_\_\_\_ 19\_\_

\_\_\_\_\_

Instructions for registration  
of Stock Units

Name (please print)

Social Security or Other Identifying  
Number:

Address:

Street

City, State and Zip Code

FORM OF ASSIGNMENT

(To be executed by the registered holder hereof)

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers all the rights of the undersigned under the within Warrant Certificate with respect to the number of Warrants evidenced thereby set forth hereinbelow unto:

Name of Assignee	Address	Warrants	Number of
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Dated: \_\_\_\_\_ 19\_\_

\_\_\_\_\_  
[Form of Opinion]

Annex 2 to  
Warrant Agreement

[Letterhead of Outside Counsel to the Company]

May , 1990

Chase Manhattan Capital Corporation  
1 Chase Manhattan Plaza  
New York, NY 10081

Ladies and Gentlemen:

We have acted as counsel to Environmental Tectonics Corporation, a Pennsylvania corporation (the "Company"), in connection with the negotiation, execution and delivery of the Warrant Agreement of even date herewith (the "Agreement") between the Company and Chase Manhattan Capital Corporation, a New York corporation ("CMCC"), providing for, among other things, the issuance of 100,000 warrants to subscribe for and purchase Stock Units of the Company (the "Warrants") , and (ii) the Warrant Certificate of even date herewith (the "Warrant Certificate") representing the Warrants. Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Agreement or in the Warrant Certificate. This opinion is being furnished to you pursuant to Section 2.2(b)(ii) of the Agreement.

As to certain matters of fact material to our opinion, we have relied upon the representations of the Company made in the Agreement and upon certificates of certain officers of the Company. We have examined original copies, in each case executed by the Company, of the Agreement and the Warrant Certificate and we have examined originals, or copies certified to our satisfaction, of all such corporate records of the Company,



agreements and other instruments, certificates of public officials and of officers and representatives of the Company and such other documents as we have deemed necessary as a basis for the opinions hereinafter expressed.

In our examination of such documents we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity with the original documents of all documents submitted to us as copies and the authenticity of the originals of such latter documents. When relevant facts were not independently established, we have relied upon written statements of governmental officials and upon representations made in or pursuant to the Agreement and the Warrant Certificate and certificates of the Company and its officers.

Wilmington Trust Company, the Company's Transfer Agent, has delivered a certificate, dated May \_\_, 1990, stating that the total number of shares of Common Stock issued and outstanding as of the close of business on May \_\_, 1996 was \_\_\_\_\_.

Based upon the foregoing and subject to the comments and qualifications set forth below, we are of the opinion that:

1. The Company (i) is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania, (ii) has the corporate power and authority to execute, deliver and perform its obligations under the Agreement, (iii) has the corporate power and authority to execute, deliver, issue and perform its obligations under the Warrant Certificate, (iv) has the corporate power and authority to deliver and issue the Warrant Stock as provided in the Warrant Certificate, (v) has the corporate power and authority to own its property and assets and to transact the business in which it is engaged, and (vi) has duly qualified and is authorized to do business and is in good standing as a foreign corporation in every jurisdiction in which it owns or leases real property or in which the nature of its business requires it to be so qualified, except to the extent that the failure to be so qualified, authorized or in good standing would not have a material adverse effect on the Company.

2. All corporate action on the part of the Company and its officers, directors and shareholders necessary for (i) the authorization, execution, delivery and performance of the Agreement by the Company, (ii) the authorization, execution, issuance,, delivery and performance of the Warrant Certificate by the Company, and (iii) the authorization, delivery and issuance of the Warrant Stock as provided in the Warrant Certificate, has been taken on or prior to the date hereof.

3. The Agreement has been duly executed and delivered by the Company. The Warrant Certificate has been duly executed, issued and delivered by the Company.

4. Each of the Agreement and the Warrant Certificate constitutes the valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the rights of creditors generally and by general principles of equity.

5. The Warrant Stock initially issuable upon exercise of the Warrants pursuant to the terms of the Agreement and Warrant Certificate has been duly and validly authorized and reserved for issuance, and, upon issuance in accordance with the provisions of the Agreement and Warrant Certificate, will be duly

and validly issued, fully paid and nonassessable with no personal liability attaching to the ownership thereof.

6. Upon the issuance of the Warrants under the Agreement, the total number of shares of capital stock which the Company has authority to issue is 10,000,000 shares of Common Stock. There are options to purchase an aggregate of 513,150 shares of Common Stock outstanding pursuant to the Company's 1979 Incentive Stock Option Plan and its 1988 Incentive Stock Option Plan. There are 265,071 shares of Common Stock reserved for issuance pursuant to the Company's Employee Stock Purchase Plan.

7. None of the execution and delivery of the Agreement, or the issue of the Warrants, Warrant Certificates or the Warrant Stock by the Company, or the consummation by the Company of the transactions therein contemplated, or the compliance by the Company with the terms and provisions thereof, will conflict with or result in a breach of, or require any consent under, the charter or bylaws of the Company, or (assuming without independent investigation the accuracy of CMCC's representations in Section 2.3 of the Agreement) any applicable law, rule or regulation, or, to the best of our knowledge after due inquiry, any order, writ, injunction or decree of any court or governmental authority or agency, or the Credit Agreement dated as of November - , 1990, among the Company, The Chase Manhattan Bank, N.A., as Agent, and the banks listed as signatories thereto, as amended prior to the date hereof (as so amended, the "Credit Agreement"), or any agreement or instrument listed on Schedule II to the Credit Agreement, or constitute a default under the Credit Agreement or any such agreement or instrument, or result in the creation or imposition of any Lien upon any of the revenues or property of the Company pursuant to the terms of the Credit Agreement or any such agreement or instrument.

8. All consents, approvals, orders or authorizations of, or registrations, qualifications, designations, declarations or filings with, any federal, state or local governmental authority on the part of the Company required in connection with the consummation of the transactions contemplated by the Agreement and the Warrant Certificate (assuming without independent investigation the accuracy of CMCC's representations in Section 2.3 of the Agreement) have been obtained and remain in full force and effect on the date hereof, except for any of the foregoing that may be required by virtue of CMCC's status as a small business investment company licensed under the Small Business Investment Act of 1958, as amended.

9. The Company is a "small business concern" (within the meaning of 15 U.S.C. Section 684 and the regulations of the Small Business Administration promulgated thereunder) and meets the size eligibility criteria set forth at 13 C.F.R. Section 121.301(c).

10. The Company is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

11. Based upon the representations, warranties and agreements contained in the Agreement and in the Warrant Certificate, it is not necessary in connection with the issuance and sale of the Warrants to CMCC under the circumstances contemplated in the Agreement to register or qualify the Warrants or the Warrant Stock under the Securities Act of 1933, as amended, or under the securities laws of the Commonwealth of Pennsylvania or the State of New York.

12. There is no action, suit, proceeding or

investigation pending or, to the best of our knowledge after due inquiry, threatened against the Company before any court or administrative agency seeking to enjoin the transactions contemplated by the Agreement or the Warrant Certificate.

Our opinion is limited to the laws of the State of New York, the Commonwealth of Pennsylvania and the United States of America, and we express no opinion on the laws of any other jurisdiction.

We are not members of the Bar of the State of New Jersey and are not giving an opinion as to the laws of the State of New Jersey. We have reviewed the securities laws of the State of New Jersey as reported in standard compilations. We have not consulted with local counsel in New Jersey. Based on our review, and subject to the existence of broad discretionary authority of the administrative bodies or officials having jurisdiction in New Jersey, we believe that it is not necessary in connection with the issuance and sale of the Warrants to CMCC under the circumstances contemplated in the Agreement to register or qualify the Warrants or the Warrant Stock under the securities laws of the State of New Jersey.

This opinion is being rendered solely for the benefit of CMCC in connection with the transactions contemplated by the Agreement, and without the prior express written consent of the undersigned, CMCC may not rely on this opinion for any other purpose, and no Person other than CMCC may rely on this opinion for any purpose. This opinion is limited to the matters set forth herein. This opinion is rendered as of the date hereof, and nothing herein shall obligate us to update this opinion in the future.

Very truly yours,

By:

A Partner

WARRANT AGREEMENT dated as of March 31, 1997, between ENVIRONMENTAL TECTONICS CORPORATION, a Pennsylvania corporation (the "Company"), and CHASE MANHATTAN CAPITAL CORPORATION, a New York corporation ("CMCC").

The Company proposes to issue to CMCC, and CMCC proposes to acquire from the Company, Warrants (as hereinafter defined) providing for the purchase of Stock Units (as hereinafter defined) in the manner hereinafter provided. Accordingly, in consideration of the premises and of the mutual agreements herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

#### ARTICLE I. DEFINITIONS

Section 1.1. Definitions. As used herein:

"Affiliate" shall mean, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person. As used in this Agreement, "control" (including, with correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise). For purposes of this Agreement, CMCC shall not be deemed an Affiliate of the Company.

"Business Day" shall mean any day except a Saturday, a Sunday or a day on which commercial banks in the State of New York are permitted or required by law to close.

"CMCC" shall have the meaning assigned to such term at the head of this Agreement.

"Credit Agreement" shall mean the Credit Agreement dated as of November 20, 1990, as amended from time to time (the "Credit Agreement") among the Company, the Chase Manhattan Bank, N.A., Chemical Bank, as agent for Chemical Banking Corporation, successor in interest to Chemical Bank New Jersey, N.A. and the Chase Manhattan Bank, N.A., as Agent.

"Commission" shall mean the Securities and Exchange Commission or any other similar or successor agency of the Federal government administering the Securities Act.

"Common Stock" shall mean the Company's authorized Common Stock, \$.10 par value per share, irrespective of class unless otherwise specified, as constituted on the date of original issuance of the Warrants, and any stock into which such Common Stock may thereafter be converted or changed, and also shall include any other stock of the Company of any other class, which is not preferred as to dividends or assets over any class of stock of the Company.

"Company" shall have the meaning assigned to such term at the head of this Agreement.

Sixth Amendment shall mean the Amendment dated as of May \_\_, 1996 amending the terms of the Credit Agreement.

"Holder" shall mean any Person who acquires any Securities or Warrant Stock pursuant to the provisions of this

Agreement.

"include" and "including" shall be construed as if followed by the phrase ", without being limited to,".

"Lien" shall mean, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset. For purposes of this Agreement, the Company shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"Market Price" per share of Common Stock, shall be, for any Business Day, if the Common Stock is traded on a national securities exchange, its last sale price on the next preceding Business Day or, if there was no sale on that day, the last sale price on the next preceding Business Day on which there was a sale, all as made available over the Consolidated Last Sale Reporting System of the CTA Plan or, if the Common Stock is not then eligible for reporting over such system, its last sale price on the next preceding Business Day on such national securities exchange or, if there was no sale on that day, on the next preceding Business Day on which there was a sale on such national securities exchange or, if the principal market for the Common Stock is the over-the-counter market, but the Common Stock is not then eligible for reporting over the Consolidated Last Sale Reporting System of the CTA Plan, but the Common Stock is quoted on the National Association of Securities Dealers Automated Quotations System ("NASDAQ"), the last sale price reported on NASDAQ on the next preceding Business Day or, if the Common Stock is an issue for which last sale prices are not reported on NASDAQ, the closing bid quotation on such day, but, in each of the next preceding two cases, if the relevant NASDAQ price or quotation did not exist on such day, then the price or quotation on the next preceding Business Day in which there was such a price or quotation, but if the Common Stock is not reported or quoted on NASDAQ, the highest bid quotation as quoted in any of The Wall Street Journal, the National Quotation Bureau pink sheets, the Salomon Brothers quotation sheets, quotation sheets of registered marketmakers and, if necessary, dealers' telephone quotations. If the Market Price per share of Common Stock cannot be ascertained by any of the foregoing methods, the Market Price per share of Common Stock shall be deemed to be the net book value per share of Nonpreferred Stock, determined in accordance with generally accepted accounting principles consistently applied.

"Notice" shall have the meaning assigned to such term in Section 5.7.

"Person" shall mean any individual, corporation, partnership, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"Proposed Sale" shall have the meaning assigned to such term in Section 5.15.

"Registration Date" shall mean March 31, 1997.

"Registration Statement" shall have the meaning assigned to such term in Section 4.6.

"Rule 144" shall mean Rule 144 promulgated by the Commission (or any successor or similar rule) under the Securities Act.

"Rule 144A" shall mean Rule 144A promulgated by the Commission (or any successor or similar rule) under the Securities Act.

"Security" and "Securities" shall have the respective meanings assigned to such terms in Section 2.2(a).

"Securities Act" shall mean the Securities Act of 1933, as amended, or any successor or similar Federal statute, and the rules and regulations of the Commission thereunder.

"Selling Warrantholder" shall have the meaning assigned to such term in Section 5.15.

"Stockholder" shall mean any Person who directly or indirectly owns any shares of Common Stock.

"Stock Unit" shall have the meaning assigned to such term in the form of Warrant Certificate attached as Annex I to this Agreement.

"Subject Warrants" shall have the meaning assigned to such term in Section 5.15.

"Subsidiary" shall mean, with respect to any Person, any entity which is controlled by such Person.

"transfer" (including, with correlative meanings, "transferable", "transferred" and "transferring") shall mean any disposition of any Securities, or of any interest in any thereof, which would constitute an offer or sale thereof within the meaning of the Securities Act.

"Warrant Certificate" shall mean a certificate evidencing the Warrants, which shall be in substantially the form attached as Annex 1 to this Agreement.

"Warrants" shall have the meaning assigned to such term in Section 2.1.

"Warrant Stock" shall mean the Stock Units purchased or purchasable by the Holders of Warrants upon the exercise thereof.

"Warrantholder Notice" shall have the meaning assigned to such term in Section 5.15.

## ARTICLE 2. PURCHASE AND SALE OF SECURITIES

Section 2.1. Authorization and Issuance of Shares and Warrants. The Company has authorized: (a) the issue of one or more Warrant Certificates evidencing the right to purchase, in the aggregate, [number to be determined in accordance with Section 6.15 of the Credit Agreement] Stock Units (such Warrant Certificates, together with the rights to purchase Stock Units evidenced thereby, herein sometimes called the "Warrants") for issuance to CMCC pursuant to this Agreement; and (b) the issue of such number of shares of Common Stock as shall permit the compliance by the Company with its obligations to issue Common Stock pursuant to the Warrants.

Section 2.2. The Closing. (a) On the date hereof, the Company shall deliver to CMCC, against payment by CMCC to the Company of the purchase price of \$100, one or more Warrant Certificates for [number to be determined in accordance with Section 6.15 of the Credit Agreement] Warrants, each Warrant Certificate registered in the name of CMCC. The number of Stock Units covered by the Warrants issued under this Agreement and the

price at which a Stock Unit may be purchased upon exercise of the Warrants shall each be subject to adjustment as provided in the Warrant Certificate. The Warrants issued to CMCC pursuant to this Agreement and the Warrant Certificates from time to time evidencing the Warrants are herein sometimes individually called a "Security" and collectively called the "Securities".

Until such time as the Registration Statement first is declared effective, the terms "Security" and "Securities" also shall include the Warrant Stock.

(b) The obligation of CMCC to consummate this Agreement and the transactions contemplated hereby are subject to CMCC having received: (i) Small Business Administration Forms 480 (relating to size status) and 652 (relating to compliance with nondiscrimination rules), duly completed by the Company and in sufficient counterparts to satisfy all filing and record retention requirements set forth in the regulations issued by the Small Business Administration under the Small Business Investment Act of 1958, as amended; and (ii) a legal opinion from counsel reasonably satisfactory to CMCC, which shall be in substantially the form attached as Annex 2 to this Agreement.

Section 2.3. Purchase for CMCC's Account. CMCC represents and warrants to the Company that CMCC is purchasing the Securities for its own account, with no present intention of distributing the Securities or any part thereof, and that CMCC is prepared to bear the economic risk of retaining the Securities for an indefinite period, all without prejudice, however, to the right of CMCC at any time, in accordance with this Agreement, lawfully to transfer or otherwise to dispose of all or any part of the Securities held by it. It is understood that, in making the representations set forth in Article 3, the Company is relying, to the extent applicable, upon the representations and warranties of CMCC contained in this Section 2.3.

Section 2.4. Securities Act Compliance. In reliance upon the representations and warranties of CMCC in Section 2.3, the Company has not registered or qualified any of the Securities under the Securities Act or any applicable state securities laws and CMCC agrees that it shall not offer or transfer any of the Securities without registration or qualification under the Securities Act or any applicable state securities laws or the availability of an exemption therefrom.

Section 2.5. Expenses. The Company shall pay all expenses relating to the preparation of this Agreement and the Securities (including the reasonable fees and expenses of outside counsel to CMCC), the cost of printing the Warrant Certificates and the Warrant Stock, and all expenses relating to any amendments, waivers or consents under this Agreement or the Securities (including the reasonable fees and expenses of outside counsel to the Holders). In addition, all expenses incurred in connection with any registration of the Warrant Stock under this Agreement (including the Registration Statement) shall be paid by the Company, including (i) printing and engraving expenses, (ii) fees and disbursements of counsel for the Company, (iii) fees of the National Association of Securities Dealers, Inc. (or such other national securities association or national securities exchange, as the case may be), in connection with its review of any offering contemplated in any registration statement, (iv) fees of the Commission, (v) expenses of any special audits to which the Company shall agree or which shall be necessary to comply with governmental requirements in connection with any such registration, and (vi) reasonable fees and expenses of counsel to the Holders.

The Company represents and warrants to CMCC that as of the date hereof:

Section 3.1. Corporate Existence. The Company: (i) is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania; (ii) has the corporate power and authority to execute, deliver, issue and perform its obligations under and in respect of this Agreement and the Securities; (iii) has the corporate power and authority to own its property and assets and to transact the business in which it is engaged or presently proposes to engage; and (iv) has duly qualified and is authorized to do business and is in good standing as a foreign corporation in every jurisdiction in which it owns or leases real property or in which the nature of its business requires it to be so qualified, except to the extent that the failure to be so qualified, authorized or in good standing would not have a material adverse effect on the properties, business, operations, financial condition, liabilities or capitalization of the Company.

Section 3.2. Corporate Authority. All corporate action on the part of the Company and its officers, directors and shareholders necessary for (i) the authorization, execution, delivery and performance of this Agreement by the Company, (ii) the authorization, execution, issuance, delivery and performance of the Warrants and the Warrant Certificates by the Company, and (iii) the authorization, delivery and issuance of the Warrant Stock as provided in the Warrant Certificate, has been taken on or prior to the date hereof.

Section 3.3. Due Execution and Enforceability. This Agreement has been duly executed and delivered and constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability affecting the enforcement of creditors' rights, and (ii) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). When issued and delivered pursuant to this Agreement, the Warrants shall have been duly executed, issued and delivered and shall constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability affecting the enforcement of creditors' rights, and (ii) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 3.4. Valid Issuance. The Warrant Stock issuable upon exercise of the Warrants pursuant to the terms hereof and of the Securities will be duly and validly authorized and reserved for issuance, and, upon issuance in accordance with the provisions of this Agreement and the Securities, shall be duly and validly issued, fully paid and nonassessable with no personal liability attaching to the ownership thereof, and free of any Liens of any nature whatsoever. None of the Warrant Stock shall be issued in violation of any preemptive rights of any Stockholder.

Section 3.5. Outstanding Securities. Upon the issuance of the Warrants under this Agreement, the total number of shares of capital stock which the Company has authority to issue is 10,000,000 shares of Common Stock. The Warrants are being issued simultaneously with the execution and delivery



hereof. The total number of shares of Common Stock issued and outstanding is [2,928,944] shares. Upon the issuance of the Warrants under this Agreement, the Company shall not have outstanding any stock or securities convertible or exercisable into or exchangeable for any shares of capital stock nor shall it have outstanding any warrants or rights to subscribe for or to purchase, or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, any capital stock or stock or securities convertible or exercisable into or exchangeable for any capital stock other than (a) the Warrants to be issued pursuant to this Agreement and the warrants previously issued pursuant to the warrant agreement dated as of May \_\_, 1996 between the Company and CMCC, (b) options issued in respect of Common Stock pursuant to the Company's 1979 Incentive Stock Option Plan, (c) rights to purchase Common Stock pursuant to the Company's Employee Stock Purchase Plan, and (d) options issued and to be issued in respect of Common Stock pursuant to the Company's 1988 Incentive Stock Option Plan.

Section 3.6. No Breach. None of the execution and delivery of this Agreement, or the issue and sale of the Securities or the Warrant Stock, or the consummation of the transactions herein or therein contemplated, or the compliance with the terms and provisions hereof and thereof, will conflict with or result in a breach of, or require any consent under, the charter or by-laws of the Company, or any applicable law, rule or regulation, or any order, writ, injunction or decree of any court or governmental authority or agency, or any agreement or instrument to which the Company is a party or by which it or its property is bound or to which it or its property is subject, or constitute a default under any such agreement or instrument, or result in the creation or imposition of any Lien upon any of the revenues or property of the Company pursuant to the terms of any such agreement or instrument.

Section 3.7. Approvals. All consents, approvals, orders or authorizations of, or registrations, qualifications, designations, declarations or filings with, any federal, state or local governmental authority on the part of the Company required in connection with the consummation of the transactions contemplated herein and the Securities (assuming without independent investigation the accuracy of CMCC's representations in Section 2.3 hereof) have been obtained and remain in full force and effect on the date hereof, except for any of the foregoing that may be required by virtue of CMCC's status as a small business investment company licensed under the Small Business Investment Act of 1958, as amended.

Section 3.8. Governmental Consent. Neither the nature of the Company or of any Subsidiary of the Company, or of any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary of the Company and any other Person, nor any circumstance in connection with the offer, issue or sale of the Securities and the Warrant Stock is such as to require consent, approval or authorization of, or filing, registration or qualification with, any governmental authority on the part of the Company as a condition to the execution and delivery of this Agreement or the execution and filing of any certificate of amendment of the charter of the Company required in connection with the authorization, sale and/or issuance of Warrant Stock or the authorization, offer, issue or sale of the Securities.

Section 3.9. Private Offering. (a) None of the Company or First New York Capital, Inc. (the only Person authorized or employed by the Company as agent, broker, dealer or otherwise in connection with the offering or sale of the Securities or any

similar securities of the Company) has offered any of the Securities or any similar securities of the Company for sale to, or solicited offers to buy any thereof from, or otherwise approached or negotiated with respect thereto with, any prospective purchaser, other than CMCC. The Company agrees that neither the Company nor any Person acting on its behalf has offered or will offer the Securities or any part thereof or any similar securities for issue or sale to, or has solicited or will solicit any offer to acquire any of the same from, any Person so as to bring the issuance and sale of the Securities within (i) the registration and prospectus delivery requirements of the Securities Act, and (ii) the registration and qualification requirements of applicable state securities laws.

(b) Assuming, without independent investigation, the accuracy of CMCC's representation in Section 2.3, all stock and securities of the Company heretofore issued and sold by the Company were issued and sold in accordance with, or were exempt from, (i) the registration and prospectus delivery requirements of the Securities Act, and (ii) the registration and qualification requirements of applicable state securities laws.

Section 3.10. Small Business Concern. The Company is a "small business concern" (within the meaning of 15 U.S.C. Section 684 and the regulations of the Small Business Administration promulgated thereunder) and meets the size eligibility criteria set forth at 13 C.F.R. Section 121.301(c).

Section 3.11. Investment Company Act. The Company is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

Section 3.12. Litigation. There is no action, suit, proceeding or investigation pending or, to the best of its knowledge after due inquiry, threatened against the Company or any of its employees before any court or administrative agency seeking to enjoin the transactions contemplated by this Agreement or the Warrant Certificates.

ARTICLE 4. RESTRICTIONS ON TRANSFERABILITY;  
REGISTRATION AND LISTING OF WARRANT  
STOCK; ETC.

Section 4.1. Transfers to Affiliates, Prior Holders, Banks, etc. (a) The Securities shall not be transferable except upon the conditions specified in this Article 4, which conditions are intended to insure compliance with the provisions of the Securities-Act and applicable state securities laws in respect of the transfer of any Securities.

(b) Notwithstanding any other provision of this Agreement or the Securities (but, in the case of CMCC, subject to the provisions of Section 5.15), any Holder shall have the right to transfer any securities:

(i) to any Affiliate of such Holder;

(ii) to another Person who, prior to such transfer, is a Holder; or

(iii) in the case of any Holder which is a bank, a bank holding company or a Subsidiary of a bank or a bank holding company, to a third party, if, in the reasoned opinion of counsel to such Holder, such transfer is required to be effected by such Holder because (A) its investment in Securities may exceed any limitation to which it is subject, or is otherwise not permitted, under any law, rule,

regulation or other requirement of any governmental authority, or (B) restrictions are imposed on such Holder by any such law, rule, regulation or other requirement which, in the reasoned opinion of such counsel to such Holder, make it illegal to continue to hold such Securities,

in each case free of the restrictions imposed by this Article 4 other than the requirement as to the legending of the certificates for the Securities specified in Section 4.5; provided, however, that such transfer shall be made in compliance with the Securities Act and all applicable state securities laws. For purposes of clause (iii) of this Section 4.1(b), a reasoned opinion of counsel (which is based on facts and circumstances deemed appropriate by such counsel) to the effect that such transfer is required shall be conclusive. If the circumstances described in clause (iii) above arise, the Company shall use its best efforts to assist the Holder in question to identify a transferee willing and able to purchase the Securities. Each transferee under this Section 4.1(b) shall be subject to the same transfer restrictions imposed on Holders by this Agreement.

Section 4.2. Transfers of Securities Pursuant to Registration Statements, Rule 144, Rule 144A, Etc. Notwithstanding any other provision of this Agreement or the Securities, the Securities may be offered or sold by the Holder thereof pursuant to (i) an effective registration statement under the Securities Act and in compliance with applicable state securities laws, or (ii) to the extent applicable, Rule 144 or Rule 144A.

Section 4.3. Notice of Certain Transfers. If any Holder of any Security desires to transfer such Security other than pursuant to an effective registration statement under the Securities Act, such Holder shall deliver to the Company a notice with respect to the proposed transfer, together with an opinion of counsel reasonably satisfactory to the Company, to the effect that an exemption from registration under the Securities Act is available and that the proposed transfer would comply with applicable securities laws.

Section 4.4. Rule 144; Rule 144A. (a) During any period in which the Company is required to file with the Commission information, documents and other reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (or any similar or successor provisions), in order to permit the Holders of Securities to sell the same, if they so desire, pursuant to Rule 144, the Company: (i) shall comply with all rules and regulations of the Commission applicable in connection with the use of Rule 144, including the timely filing of all reports with the Commission; (ii) shall furnish to such Holders forthwith upon request a written statement by the Company as to such compliance with such rules and regulations; (iii) shall take such other action as any such Holder may reasonably request in connection with the use of Rule 144; and (iv) shall cause any restrictive legends to be removed and any transfer restrictions to be rescinded with respect to any sale of Securities which is exempt from registration under the Securities Act pursuant to Rule 144.

(b) Each Holder of Securities and each prospective holder of Securities who may consider acquiring Securities in reliance upon Rule 144A shall have the right to request from the Company, and the Company will provide upon request, such information regarding the Company and its business, financial results, assets and properties, if any, as is at the time required to be made available by the Company under Rule 144A so as to enable such Holder to transfer Securities to such prospective holder in reliance upon Rule 144A.

Section 4.5. Restrictive Legend. (a) Unless and until otherwise permitted by this Article 4, each Warrant Certificate shall be stamped or otherwise imprinted with a legend in substantially the following form:

"THE WARRANTS OF ENVIRONMENTAL TECTONICS CORPORATION REPRESENTED BY THIS WARRANT CERTIFICATE AND THE SHARES OF COMMON STOCK (OR OTHER SECURITIES) ISSUABLE UPON EXERCISE THEREOF MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 AND IN COMPLIANCE WITH APPLICABLE STATE SECURITIES LAWS, OR (ii) TO THE EXTENT APPLICABLE, RULE 144 OR RULE 144A UNDER SUCH ACT (OR ANY SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) AN OPINION OF COUNSEL THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE. FURTHER, THIS WARRANT CERTIFICATE AND THE WARRANTS EVIDENCED HEREBY MAY NOT BE TRANSFERRED IN VIOLATION OF THE PROVISIONS OF SECTION 7 HEREOF. THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF SUCH WARRANTS MAY NOT BE ISSUED OR TRANSFERRED IN VIOLATION OF THE PROVISIONS OF SECTION 7 HEREOF."

(b) Unless and until otherwise permitted by this Article 4, each share of Warrant Stock shall be stamped or otherwise imprinted with a legend in substantially the following form:

"THE SECURITY OF ENVIRONMENTAL TECTONICS CORPORATION REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 AND IN COMPLIANCE WITH APPLICABLE STATE SECURITIES LAWS, OR (ii) TO THE EXTENT APPLICABLE, RULE 144 OR RULE 144A UNDER SUCH ACT (OR ANY SUCCESSOR OR SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) AN OPINION OF COUNSEL THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE. THE SECURITY REPRESENTED BY THIS CERTIFICATE MAY NOT BE TRANSFERRED IN VIOLATION OF THE PROVISIONS OF SECTION 7 OF THAT CERTAIN WARRANT CERTIFICATE, DATED MARCH 31, 1997, ISSUED BY ENVIRONMENTAL TECTONICS CORPORATION."

Section 4.6. Registration and Listing on Securities Exchanges. (a) Not later than 30 days following the occurrence of the Registration Date, the Company shall file the Registration Statement with the Commission to register the Warrant Stock and shall use its best efforts to cause such Registration Statement to be declared effective within 20 days after the date of filing of the Registration Statement. Without limiting the Company's obligations set forth in the next preceding sentence, if, notwithstanding the use of such best efforts, the Registration Statement is not declared effective within such 20-day period, the Company will continue to use its best efforts to have the Registration Statement declared effective promptly after the end of such 20-day period. The Company shall use its best efforts to keep the Registration Statement effective until the earlier of (x) the latest date upon which any of the Warrants may be exercised, provided, however, in the event that any Holder has requested that the Registration Statement relate to transfers of Warrant Stock by such Holder to other Persons, such date will be extended, to the extent necessary, to cause the Registration Statement to remain effective until the end of three years after the last exercise of Warrants by such Holder and (y) such date as all of the Holders indicate that they no longer wish the Registration Statement to remain effective (the period from the Registration Date until the earlier of the dates set forth in the foregoing clauses (x) and (y) being the "Registration Period"). The "Registration Statement" means the registration statement

(including each prospectus and prospectus supplement included therein or filed with respect thereto, in each case including all material incorporated by reference therein) under the Securities Act (and any amendments thereof and supplements thereto) relating to the issuance of the Warrant Stock by the Company to the Holders upon exercise of any of the Warrants and, to the extent requested by any Holder, to any transaction pursuant to which Warrant Stock may be transferred by such Holder to other Persons.

The Registration Statement: (i) shall comply as to form in all material respects with the requirements of the Securities Act and all the rules and regulations of the Commission thereunder; and (ii) shall not contain any untrue statement of a material fact or omit to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading. If at any time during the Registration Period or when a prospectus relating to Warrant Stock is required to be delivered under the Securities Act or the Blue Sky or securities laws of any applicable jurisdiction in the United States, any event occurs as a result of which the Registration Statement or any portion thereof (including any prospectus) relating to any Warrant Stock as then amended or supplemented would (or the Company becomes aware that such Registration Statement or portion thereof does) include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend or supplement the Registration Statement or any portion thereof (including any prospectus) to comply with the Securities Act or any such Blue Sky or securities laws, the Company promptly shall notify the Holders and shall as soon as practicable prepare and file with the Commission an amendment or supplement which will correct such statement or omission or which will effect such compliance. Upon request by any Holder or any managing underwriter, the Company shall incorporate in a prospectus supplement or post-effective amendment, to be filed as promptly as practicable, such information as such Holder or such managing underwriter reasonably requests to be included therein with respect to such Holder, the underwriters, the number of shares of Warrant Stock being sold to any underwriter(s), the purchase price being paid therefor, and any other terms of the offering, or other sales of Warrant Stock.

The form of the Registration Statement and all matters relating thereto shall be reasonably satisfactory to counsel satisfactory to the Holders. The Holders shall use their best efforts to cause their counsel to conduct such counsel's review of the matters referred to in the next preceding sentence on a timely basis so as to enable the Company to fulfill its obligations provided in the first sentence of this Section 4.6(a).

(b) The Company shall use its best efforts to ensure that the Warrant Stock is, simultaneously with the issuance thereof or as soon as practicable thereafter, and at all times thereafter, listed for trading upon such national securities exchange or exchanges or upon such national securities association or associations as the Common Stock is then listed.

Section 4.7. Termination of Restrictions. Notwithstanding the foregoing provisions of this Article 4, the restrictions imposed by this Article 4 upon the transferability of the Warrants and the Warrant Stock shall cease and terminate as to any particular Warrant or Warrant Stock when such Warrant or Warrant Stock shall have been effectively registered under the Securities Act and sold by the Holder thereof in accordance with such registration or sold under Rule 144 or Rule 144A. Whenever the restrictions imposed by this Article 4 shall terminate as to

any particular Warrant or Warrant Stock, the Holder thereof shall be entitled to receive from the Company, without expense, a new certificate not bearing the restrictive legend otherwise required to be borne thereby.

#### ARTICLE 5. MISCELLANEOUS

Section 5.1. Delivery Expenses. If any Holder surrenders any Security or Warrant Stock to the Company or a transfer agent of the Company for exchange for instruments of other denominations or registered in another name or names, the Company shall cause such new instruments to be issued and shall pay the cost of delivering to or from the office of such Holder from or to the Company or its transfer agent, duly insured, the surrendered instrument and any new instruments issued in substitution or replacement for the surrendered instrument.

Section 5.2. Taxes. The Company shall pay all taxes (other than Federal, state or local income taxes) which may be payable in connection with the execution and delivery of this Agreement or the issuance and sale of the Securities hereunder or the issuance and delivery of the Warrant Stock or in connection with any amendments, waivers or consents under this Agreement or the Securities and shall save each Holder harmless without limitation as to time against any and all liabilities with respect to all such taxes. The obligations of the Company under this Section 5.2 shall survive any redemption, repurchase or acquisition of Securities or Warrant Stock by the Company and the termination of this Agreement.

Section 5.3. Replacement of Instruments. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Security or Warrant Stock, and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that, if the owner of the same is a bank or an institutional lender or investor, its own agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender or cancellation thereof,

the Company, at its expense, shall execute, register and deliver, in lieu thereof, a new Security or instrument for (or covering the purchase of) an equal number of Warrants or Warrant Stock.

Section 5.4. Information, etc. The Company shall deliver to each Holder one copy of each report mailed to its security holders and each annual report on Form 10-K (or any successor or similar form) and quarterly report on Form 10-Q (or any successor or similar form) at or about the time such documents become publicly available.

Section 5.5. Inspection. The Company shall afford any Holder of at least 25% of the Warrant Stock or its agents, access, at reasonable times, upon reasonable prior notice, to inspect the books and records of the Company and to discuss with management the business and affairs of the Company.

Section 5.6. Certain Restrictions. The Company shall not at any time enter into an agreement or instrument restricting its ability to perform its obligations under this Agreement or under the Securities.

Section 5.7. Notices.

(a) All notices, waivers, requests and other communications (each a "Notice") under this Agreement shall be in writing and shall be personally delivered, sent by courier guaranteeing overnight delivery or sent by registered or certified mail, return receipt requested, postage prepaid,

(i) if to the Company:

Environmental Tectonics Corporation  
County Line Industrial Park  
Southampton, Pennsylvania 18966

Attention: William F. Mitchell, President,

(ii) if to CMCC:

Chase Manhattan Capital Corporation  
1 Chase Manhattan Plaza  
New York, New York 10081

Attention: [            ],

(iii) if to any other Person who is the registered Holder of any Securities or Warrant Stock, to the address of such Holder as it appears in the stock or warrant ledger of the Company; or, in the case of any Holder, at such other address as such Holder may designate in a Notice to the Company; or, in the case of the Company, at such other address as the Company may designate in a Notice to CMCC and all other Holders of Securities and Warrant Stock at the time outstanding.

(b) Any Notice shall be deemed to have been duly given if personally delivered, on the date delivered, (ii) if sent by courier guaranteeing overnight delivery, on the date delivered, or (iii) if sent by registered or certified mail, five Business Days after being deposited in the mail, in each case given or addressed as aforesaid.

Section 5.8. Survival. (a) All warranties, representations and covenants made by the Company herein or in any certificate or other instrument delivered by it or on its behalf under this Agreement (including any Warrant Certificate) shall be considered to have been relied upon by CMCC and shall survive the issuance of the Securities or the Warrant Stock regardless of the investigation made by or on behalf of CMCC. All statements in any such certificate or other instrument so delivered shall constitute representations and warranties by the Company hereunder.

(b) All representations, warranties and covenants made by CMCC herein shall be considered to have been relied upon by the Company and shall survive the issuance to CMCC of the Securities or the Warrant Stock regardless of any investigation made by the Company or on its behalf.

Section 5.9. Successors and Assigns. Except as otherwise expressly provided herein, this Agreement shall inure to the benefit of and be binding upon the successors, legal representatives and assigns of each of the parties.

Section 5.10. Amendment and Waiver. This Agreement may be amended, and the observance of any term of this Agreement may be waived, but only with the consent of the Company and the Holders of at least 67% of the Warrant Stock; provided, however, that no such amendment or waiver shall, without the consent of all Holders of the Warrant Stock at the time outstanding, amend this Section 5.10.

Section 5.11. Counterparts. This Agreement may be signed by the parties with counterpart signature pages or in counterparts, each of which shall be an original but all of which together shall constitute one and the same instrument.

Section 5.12. Severability. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

Section 5.13. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK.

Section 5.14. Acknowledgment by the Company. The Company hereby acknowledges that this Agreement provides for the extension to the Company by CMCC of substantial financial accommodations and benefits, and constitutes a contract to issue a security of the Company within the meaning of Section 365 of Title 11 of the United States Code.

Section 5.15. Right of First Offer. (a) If CMCC desires to sell or otherwise transfer (the "Selling Warrantholder") any of its Warrants (the "Proposed Sale"), the Selling Warrantholder shall first give a written notice (the "Warrantholder Notice") of such desire to the Company. The Warrantholder Notice shall specify (i) the number of Warrants proposed to be sold or transferred (the "Subject Warrants"), (ii) the aggregate consideration to be asked therefor, (iii) the date of the closing of the Proposed Sale (which date shall be more than 10 days following the date the Warrantholder Notice is given to the Company), and (iv) the other terms and conditions of the Proposed Sale.

The Company shall have the right to purchase all, but not less than all, of the Subject Warrants for the aggregate consideration set forth in the Warrantholder Notice and on the other terms and conditions of the Proposed Sale specified in the Warrantholder Notice by giving notice to the Selling Warrantholder within 10 days after receipt by the Company of the Warrantholder Notice.

If the Company fails to elect to purchase all the Subject Warrants within the 10-day period specified in the foregoing paragraph (or if the Company timely elects to purchase all the Subject Warrants and the Company fails to close on the date of the closing of the Proposed Sale set forth in the Warrantholder Notice), then the Selling Warrantholder (A) shall be under no obligation to sell any Subject Warrants to the Company unless the Selling Warrantholder so elects, and (B) shall have the right to sell, within a period of six months after receipt by the Company of the Warrantholder Notice, all or any of the Subject Warrants at a price per share not less than the consideration set forth in the Warrantholder Notice. Any Warrants not sold pursuant to the next preceding sentence prior to the expiration of the six-month period referred to therein shall once again be subject to the right of first offer set forth in this Section 5.15.

(b) Notwithstanding anything to the contrary contained in this Section 5.15:

(i) Each of CMCC and its Affiliates shall have the right at any time to transfer any of or all its Warrants to CMCC or any Affiliate of CMCC, as the case may be; provided,



however, that at the time of such transfer each such transferee agrees in writing to be bound by all the provisions of this Section 5.15.

(ii) If, in the reasoned opinion of counsel to CMCC or an Affiliate of CMCC, as the case may be, a transfer of any Warrants is required to be effected by CMCC or an Affiliate of CMCC, as the case may be, because (A) its investment in Securities may exceed any limitation to which it is subject, or is otherwise not permitted, under any law, rule, regulation or other requirement of any governmental authority, or (B) restrictions are imposed on CMCC or such Affiliate of CMCC, as the case may be, by any such law, rule, regulation or other requirement which, in the reasoned opinion of such counsel to CMCC or such Affiliate of CMCC, as the case may be, make it illegal to continue to hold such Warrants, then the 10-day period referred to in each of the second and third paragraphs of Section 5.15(a) shall be reduced to a three Business Day period.

For purposes of clause (ii) of this Section 5.15(b), a reasoned opinion of counsel (which is based on facts and circumstances deemed appropriate by such counsel) to the effect that such transfer is required shall be conclusive.

Section 5.16. CMCC's Status. The Company acknowledges that CMCC is a small business investment company licensed by the Small Business Administration under, and subject to the provisions of, the Small Business Investment Act of 1958, as amended, and the rules and regulations of the Small Business Administration promulgated thereunder. The Company shall furnish CMCC with all information in respect of this Agreement and the transactions contemplated thereby reasonably necessary to permit CMCC to comply with reporting, record-keeping and informational requirements of said Act and said rules and regulations.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

ENVIRONMENTAL TECTONICS CORPORATION,

By: \_\_\_\_\_  
Name:  
Title:

CHASE MANHATTAN CAPITAL CORPORATION,

By: \_\_\_\_\_  
Name:  
Title:

Annex 1  
to  
Warrant Agreement

[Form of Warrant Certificate]

THE WARRANTS OF ENVIRONMENTAL TECTONICS CORPORATION REPRESENTED BY THIS WARRANT CERTIFICATE AND THE SHARES OF COMMON STOCK (OR OTHER SECURITIES) ISSUABLE UPON EXERCISE THEREOF MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 AND IN COMPLIANCE WITH

APPLICABLE STATE SECURITIES LAWS, OR (ii) TO THE EXTENT APPLICABLE, RULE 144 OR RULE 144A UNDER SUCH ACT (OR ANY SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) AN OPINION OF COUNSEL THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE. FURTHER, THIS WARRANT CERTIFICATE AND THE WARRANTS EVIDENCED HEREBY MAY NOT BE TRANSFERRED IN VIOLATION OF THE PROVISIONS OF SECTION 7 HEREOF. THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF SUCH WARRANTS MAY NOT BE ISSUED OR TRANSFERRED IN VIOLATION OF THE PROVISIONS OF SECTION 7 HEREOF.

No. \_\_\_\_\_ Warrants \_\_\_\_\_

WARRANT CERTIFICATE

To Subscribe for and Purchase Stock Units of

ENVIRONMENTAL TECTONICS CORPORATION

THIS CERTIFIES that CHASE MANHATTAN CAPITAL CORPORATION, a New York corporation, or its registered successors and assigns, is the owner of the number of Warrants set forth above, each of which entitles the owner thereof to purchase from Environmental Tectonics Corporation, a Pennsylvania corporation (the "Company"), at any time during the period commencing on March 31, 1997, and expiring at 5:00 p.m., New York time, on April 1, 2002 (the "Expiration Date"), one Stock Unit (as hereinafter defined) at a price of \$[to be determined in accordance with Section 6.15 of the Credit Agreement] per Stock Unit (the "Exercise Price") subject to the conditions hereinafter set forth. For purposes of this Warrant Certificate, a Stock Unit shall consist of one fully paid and nonassessable share of Common Stock as such stock is constituted on March 31, 1997 (the "Date of Issuance"), subject to adjustment from time to time pursuant to the provisions of Section 2. Certain defined terms not otherwise defined shall have their respective meanings as defined in Section 9.

Section 1. Exercise of Warrant. The Warrants evidenced hereby may be exercised by the registered holder hereof, in whole or in part, by the surrender of this Warrant Certificate, duly endorsed (unless endorsement is waived by the Company), at the principal executive office of the Company located at County Line Industrial Park, Southampton, Pennsylvania 18966, or at the office of Security Trust, located at 2 North Charles Street, Baltimore, Maryland 21203 (the "Transfer Agent") (or such other office or agency of the Company located in the United States of America as the Company may designate by notice to the registered holder hereof at its last address appearing on the books of the Company), and upon payment to the Company in immediately available funds of the purchase price of the Stock Units purchased. The Company agrees that the shares of Common Stock of the Company comprising the Stock Units so purchased shall be deemed to be issued to the registered holder hereof on the date on which this Warrant Certificate shall have been surrendered and payment made for such Stock Units as aforesaid. The certificates for such shares shall be delivered to the registered holder hereof within a reasonable time, not exceeding 10 days, after Warrants evidenced hereby shall have been so exercised and a new Warrant Certificate evidencing the number of Warrants, if any, remaining unexercised also shall be issued to the registered holder hereof within such time unless such Warrants shall have expired. No fractional shares of Common Stock of the Company, or script for any such fractional shares, shall be issued upon the exercise of any Warrants.

Section 2. Adjustment of Stock Unit and Exercise Price. The number of shares of Common Stock comprising a Stock Unit, and the price at which a Stock Unit may be purchased upon exercise of this Warrant Certificate, shall be subject to adjustment from time to time as set forth in this Section 2. The Company shall not take any action with respect to its Nonpreferred Stock of any class requiring an adjustment pursuant to any of the following Subsections A, B, or G without at the same time taking like action with respect to its Nonpreferred Stock of each other class; and the Company shall not, without the prior written consent of the registered holder hereof (which consent may be withheld by such holder in its sole and absolute discretion), create any class of Nonpreferred Stock which carries any rights to dividends or assets differing in any respect from the rights of the Common Stock on the Date of Issuance.

A. Stock Dividends, Subdivisions and Combinations. In case at any time or from time to time the Company shall

(1) take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, Nonpreferred Stock, or

(2) subdivide its outstanding shares of Nonpreferred Stock into a larger number of shares of Nonpreferred Stock, or

(3) combine its outstanding shares of Nonpreferred Stock into a smaller number of shares of Nonpreferred Stock,

then the number of shares of Common Stock comprising a Stock Unit immediately after the happening of any such event shall be adjusted so as to consist of the number of shares of Common Stock which a record holder of the number of shares of Common Stock comprising a Stock Unit immediately prior to the happening of such event would own or be entitled to receive after the happening of such event.

B. Certain Other Dividends and Distributions. In case at any time or from time to time the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive any dividend or other distribution of,

(1) cash (other than a cash distribution made as a dividend and payable out of earnings or earned surplus legally available for the payment of dividends under the laws of the jurisdiction of incorporation of the Company, to the extent, but only to the extent, that the aggregate of all such dividends paid or declared after the date hereof, does not exceed the consolidated net income of the Company and its consolidated Subsidiaries earned subsequent to the date hereof as determined in accordance with generally accepted accounting principles consistently applied), or

(2) any evidence of its indebtedness (other than Convertible Securities), any shares of its stock (other than Additional Shares of Nonpreferred Stock) or any other securities or property of any nature whatsoever (other than cash and other than Convertible Securities or Additional Shares of Nonpreferred Stock), or

(3) any options, warrants or other rights to subscribe for or purchase any evidences of its indebtedness (other than Convertible Securities), any shares of its stock (other than Additional Shares of Nonpreferred Stock) or any other

securities or property of any nature whatsoever (other than cash and other than Convertible Securities or Additional Shares of Nonpreferred Stock),

then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted to that number determined by multiplying the number of shares of Common Stock comprising a Stock Unit immediately prior to such adjustment by a fraction (i) the numerator of which shall be the Current Market Price per share of Common Stock at the date of taking such record and (ii) the denominator of which shall be such Current Market Price per share of Common Stock minus the amount of any and all such cash, and the fair value of any and all such evidences of indebtedness, shares of stock, other securities or property, or options, warrants or other subscription or purchase rights, so distributable in respect of one share of Common Stock. Such fair value shall be reasonably determined in good faith by the Board of Directors of the Company, provided that if such determination is objected to by the holders of Warrants entitled to purchase a majority of the Stock Units covered thereby, such determination shall be made by an independent appraiser selected by such Board of Directors and not objected to by such holders. A reclassification of the Nonpreferred Stock into shares of Nonpreferred Stock and shares of any other class of stock shall be deemed a distribution by the Company to the holders of its Nonpreferred Stock of such shares of such other class of stock within the meaning of this Subsection B and, if the outstanding shares of Nonpreferred Stock shall be changed into a larger or smaller number of shares of Nonpreferred Stock as a part of such reclassification, shall be deemed a subdivision or combination, as the case may be, of the outstanding shares of Nonpreferred Stock within the meaning of Subsection A of this Section 2.

C. Issuance of Additional Shares of Nonpreferred Stock. In case at any time or from time to time the Company shall (except as hereinafter provided) issue any Additional Shares of Nonpreferred Stock for a consideration per share less than the greater of (a) the Current Warrant Price and (b) the Current Market Price per share of Common Stock, then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted to that number determined by multiplying the number of shares of Common Stock comprising a Stock Unit immediately prior to such adjustment by a fraction (i) the numerator of which shall be the number of shares of Nonpreferred Stock outstanding immediately prior to the issuance of such Additional Shares of Nonpreferred Stock plus the number of such Additional Shares of Nonpreferred Stock so issued, and (ii) the denominator of which shall be the number of shares of Nonpreferred Stock outstanding immediately prior to the issuance of such Additional Shares of Nonpreferred Stock plus the number of shares of Nonpreferred Stock which the aggregate consideration for the total number of such Additional Shares of Nonpreferred Stock so issued would purchase at the greater of (A) the Current Warrant Price and (B) the Current Market Price per share of Common Stock. For purposes of this Subsection C, the date as of which the Current Warrant Price and the Current Market Price per share of Common Stock shall be computed shall be the earlier of (1) the date on which the Company shall enter into a firm contract for the issuance of such Additional Shares of Nonpreferred Stock and (2) the date of actual issuance of such Additional Shares of Nonpreferred Stock. This Subsection C shall not apply to any issuance of Additional Shares of Nonpreferred Stock for which an adjustment is provided under Subsection A of this Section 2. No adjustment of the number of shares of Common Stock comprising a Stock Unit shall be made under this Subsection C upon the issuance of any Additional Shares of Nonpreferred Stock which are issued pursuant to the exercise of any options, warrants or other subscription or purchase rights or

pursuant to the exercise of any conversion or exchange rights in any Convertible Securities, if any such adjustment shall previously have been made upon the issuance of such options, warrants or other rights or upon the issuance of such Convertible Securities (or upon the issuance of any option, warrant or other rights therefor) pursuant to Subsection D or E of this Section 2.

D. Issuance of Options, Warrants or Other Rights. In case at any time or from time to time the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a distribution of, or shall otherwise issue to any other Person, any options, warrants or other rights to subscribe for or purchase any Additional Shares of Nonpreferred Stock or any Convertible Securities and the consideration per share for which additional shares of Nonpreferred Stock may at any time thereafter be issuable pursuant to such options, warrants or other rights or pursuant to the terms of such Convertible Securities shall be less than the greater of (a) the Current Warrant Price and (b) the Current Market Price per share of Common Stock, then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted as provided in Subsection C of this Section 2 on the basis that (i) the maximum number of Additional Shares of Nonpreferred Stock issuable pursuant to all such options, warrants or other rights or necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued as of (and, accordingly, the date as of which the Current Warrant Price per share of Common Stock and the Current Market Price per share of Common Stock shall be computed shall be) the computation date specified in the last sentence of this Subsection D, and (ii) the aggregate consideration for such maximum number of additional shares of Nonpreferred Stock shall be deemed to be the minimum consideration received and receivable by the Company for the issuance of such Additional Shares of Nonpreferred Stock pursuant to such options, warrants or other rights or pursuant to the terms of such Convertible Securities. For purposes of this Subsection D, the computation date for clause (i) above shall be the earliest of (A) the date on which the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive any such options, warrants or other rights, (B) the date on which the Company shall enter into a firm contract for the issuance of such options, warrants or other rights and (C) the date of actual issuance of such options, warrants or other rights.

E. Issuance of Convertible Securities. In case at any time or from time to time the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a distribution of, or shall otherwise issue to any Person, any Convertible Securities and the consideration per share for which Additional Shares of Nonpreferred Stock may at any time thereafter be issuable pursuant to the terms of such Convertible Securities shall be less than the greater of (a) the Current Warrant Price and (b) Current Market Price per share of Common Stock, then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted as provided in Subsection C of this Section 2 on the basis that (i) the maximum number of Additional Shares of Nonpreferred Stock necessary to effect the conversion, exercise or exchange of all such Convertible Securities shall be deemed to have been issued as of the computation date specified in the penultimate sentence of this Subsection E, and (ii) the aggregate consideration for such maximum number of Additional Shares of Nonpreferred Stock shall be deemed to be the minimum consideration received and receivable by the Company for the issuance of such Additional Shares of Nonpreferred Stock pursuant to the terms of such Convertible Securities. For purposes of this Subsection E, the computation date for clause (i) above shall be the earliest of

(A) the date on which the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive any such Convertible Securities, (B) the date on which the Company shall enter into a firm contract for the issuance of such Convertible Securities and (C) the date of actual issuance of such Convertible Securities. No adjustment of the number of shares of Common Stock comprising a Stock Unit shall be made under this Subsection E upon the issuance of any Convertible Securities which are issued pursuant to the exercise of any warrants or other subscription or purchase rights therefor, if any such adjustment shall previously have been made upon the issuance of such warrants or other rights pursuant to Subsection D of this Section 2.

F. Superseding Adjustment of Stock Unit. If, at any time after any adjustment of the number of shares comprising a Stock Unit shall have been made pursuant to the foregoing Subsection D or E of this Section 2 on the basis of the issuance of options, warrants or other rights or the issuance of other Convertible Securities, or after any new adjustment of the number of shares comprising a Stock Unit shall have been made pursuant to this Subsection,

(1) such options, warrants or rights or the right of conversion or exchange in such other Convertible Securities shall expire, and a portion of such options, warrants or rights, or the right of conversion, exercise or exchange in respect of a portion of such other Convertible Securities, as the case may be, shall not have been exercised, or

(2) the consideration per share, for which shares of Nonpreferred Stock are issuable pursuant to such options, warrants or rights or the terms of such other Convertible Securities, shall be increased solely by virtue of provisions therein contained for an automatic increase in such consideration per share upon the arrival of a specified date or the happening of a specified event,

such previous adjustment shall be rescinded and annulled and the Additional Shares of Nonpreferred Stock which were deemed to have been issued by virtue of the computation made in connection with the adjustment so rescinded and annulled shall no longer be deemed to have been issued by virtue of such computation. Thereupon, a recomputation shall be made of the effect of such options, warrants or rights or other Convertible Securities on the basis of

(3) treating the number of Additional Shares of Nonpreferred Stock, if any, theretofore actually issued pursuant to the previous exercise of such options, warrants or rights or such right of conversion or exchange were previously exercised, as having been issued on the date or dates of such issuance as determined for purposes of such previous adjustment and for the consideration actually received therefor, and

(4) treating any such options, warrants or rights or any such other Convertible Securities which then remain outstanding as having been granted or issued immediately after the time of such increase of the consideration per share for such shares of Nonpreferred Stock are issuable under such Warrants or rights or other Convertible Securities,

and, if and to the extent called for by the foregoing provisions of this Section 2 on the basis aforesaid, a new adjustment of the number of shares comprising a Stock Unit shall be made, which new adjustment shall supersede the previous adjustment so rescinded

and annulled.

G. Other Provisions Applicable to Adjustments Under this Section. The following provisions shall be applicable to the making of adjustments of the number of shares of Common Stock comprising a Stock Unit hereinbefore provided for in this Section 2:

(1) Treasury Stock. The sale or other disposition of any issued shares of Nonpreferred Stock owned or held by or for the account of the Company shall be deemed an issuance thereof for purposes of this Section 2.

(2) Computation of Consideration. To the extent that any Additional Shares of Nonpreferred Stock or any Convertible Securities or any options, warrants or other rights to subscribe for or purchase any Additional Shares of Nonpreferred Stock or any Convertible Securities shall be issued for a cash consideration, the consideration received by the Company therefor shall be deemed to be the amount of cash received by the Company therefor, or, if such Additional Shares of Nonpreferred Stock or Convertible Securities are offered by the Company for subscription, the subscription price, or, if such Additional Shares of Nonpreferred Stock or Convertible Securities are sold to underwriters or dealers for public offering without a subscription offering, the initial public offering price, in any such case excluding any amounts paid or receivable for accrued interest or accrued dividends and without deduction of any compensation, discounts or expenses paid or incurred by the Company for and in the underwriting of, or otherwise in connection with, the issue thereof. To the extent that such issuance shall be for a consideration other than cash, then, except as herein otherwise expressly provided, the amount of such consideration shall be deemed to be the fair value of such consideration at the time of such issuance as reasonably determined in good faith by the Board of Directors of the Company, provided that if such determination is objected to by the holders of Warrants entitled to purchase a majority of the Stock Units covered thereby, such determination shall be made by an independent appraiser selected by such Board of Directors and not objected to by such holders. The consideration for any Additional Shares of Nonpreferred Stock issuable pursuant to any options, warrants or other rights to subscribe for or purchase the same shall be the consideration received or receivable by the Company for issuing such options, warrants or other rights, plus the additional consideration payable to the Company upon the exercise of such options, warrants or other rights. The consideration for any Additional Shares of Nonpreferred Stock issuable pursuant to the terms of any Convertible Securities shall be the consideration received or receivable by the Company for issuing any options, warrants or other rights to subscribe for or purchase such Convertible Securities, plus the consideration paid or payable to the Company in respect of the subscription for or purchase of such Convertible Securities, plus the additional consideration, if any, payable to the Company upon the exercise of the right of conversion, exercise or exchange in such Convertible Securities. In case of the issuance at any time of any Additional Shares of Nonpreferred Stock or Convertible Securities in payment or satisfaction of any dividend upon any class of stock other than Nonpreferred Stock, the Company shall be deemed to have received for such Additional Shares of Nonpreferred Stock or Convertible Securities a consideration equal to the amount of such dividend so paid or satisfied.

(3) When Adjustments to Be Made. The adjustments required by the preceding Subsections of this Section 2 shall be made whenever and as often as any specified event requiring an adjustment shall occur, except that no adjustment of the number of shares of Common Stock comprising a Stock Unit that would otherwise be required shall be made (except in the case of a subdivision or combination of shares of the Nonpreferred Stock, as provided for in Subsection A) unless and until such adjustment, either by itself or with other adjustments not previously made, adds or subtracts at least \$0.05 to the Current Market Price of each share of Common Stock, as reasonably determined in good faith by the Board of Directors of the Company, provided that, in any event such adjustment shall be made if such adjustment either by itself or with other adjustments not previously made adds or subtracts at least 1/20th of a share to or from the number of shares of Common Stock comprising a Stock Unit immediately prior to the making of such adjustment. Any adjustment representing a change of less than such minimum amount (except as aforesaid) shall be carried forward and made as soon as such adjustment, together with other adjustments required by this Section 2 and not previously made, would result in a minimum adjustment. For the purpose of any adjustment, any specified event shall be deemed to have occurred at the close of business on the date of its occurrence.

(4) Fractional Interests. In computing adjustments under this Section 2, fractional interests in Nonpreferred Stock shall be taken into account to the nearest one - thousandth of a share.

(5) When Adjustment Not Required. If the Company shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a dividend or distribution or subscription or purchase rights and shall, thereafter and before the distribution thereof to shareholders, legally abandon its plan to pay or deliver such dividend, distribution, subscription or purchase rights, then thereafter no adjustment shall be required by reason of the taking of such record and any such adjustment previously made in respect thereof shall be rescinded and annulled.

H. Other Action Affecting Nonpreferred Stock. In case at any time or from time to time the Company shall take any action affecting its Nonpreferred Stock, other than an action described in any of the foregoing Subsections A through G (inclusive) of this Section 2 or in Section 3, then, unless in the reasonable opinion of the Board of Directors of the Company such action will not have an adverse effect upon the rights of the holders of the Warrants, the number of shares of Common Stock or other stock comprising a Stock Unit, or the Exercise Price, shall be adjusted in such manner and at such time as the Board of Directors of the Company may reasonably determine in good faith to be equitable in the circumstances.

I. Notice of Adjustment of Stock Unit Price or Exercise Price. Whenever the number of shares of Common Stock comprising a Stock Unit, or the Exercise Price at which a Stock Unit may be purchased upon exercise of the Warrants, shall be adjusted pursuant to the provisions hereof, the Company shall forthwith file with each transfer agent for the shares of Common Stock or other securities of the Company a statement describing in reasonable detail the adjustment and the method of calculation used. As soon as practicable after any such adjustment is made, the Company shall cause a notice of such adjustment to be mailed to the registered holder of this Warrant Certificate at his last



address appearing on the books of the Company.

J. Evidence of Correctness of Computation. The certificate of any independent firm of public accountants of recognized standing selected by the Board of Directors of the Company shall be evidence of the correctness of any computation made pursuant to the provisions of this Section 2 absent manifest error or negligence.

K. Fractional Shares. No fractional shares of Common Stock or script for any such fraction, shall be issued upon the exercise of Warrants evidenced hereby. If more than one Warrant evidenced hereby shall be exercised at any one time, the number of full shares of Common Stock which shall be issuable upon such exercise shall be computed on the basis of the aggregate number of Stock Units purchased. Instead of any fractional share of Common Stock which would otherwise be issuable upon such exercise, the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the Current Market Price per share of Common Stock on the date of such exercise.

Section 3. Consolidation, Merger, etc. In case of a consolidation or merger of the Company with another Person on or after the Date of Issuance, or the sale, lease or transfer of all or substantially all its assets to another Person shall be effected on or after the Date of Issuance, then, as a condition of such consolidation, merger, sale, lease or transfer, lawful and adequate provision shall be made whereby the registered holder of this Warrant Certificate shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified herein and in lieu of each Stock Unit immediately theretofore purchasable and receivable upon the exercise of each Warrant evidenced hereby, such shares of stock, securities, cash or other property receivable upon such consolidation, merger, sale, lease or transfer by the holder of the number of shares of Common Stock comprising a Stock Unit immediately prior to such event. In any such case, appropriate and equitable provision also shall be made with respect to the rights and interest of the registered holder of this Warrant Certificate to the end that the provisions hereof (including Sections 2 and 5) shall thereafter be applicable, as nearly as may be, in relation of any shares of stock, securities, cash or other property thereafter deliverable upon the exercise of the Warrants evidenced hereby. The Company shall not effect any such consolidation, merger, sale, lease or transfer unless prior to or simultaneously with the consummation thereof the successor Person (if other than the Company) resulting from such consolidation or merger or the Person purchasing, leasing or otherwise acquiring such assets shall assume, by written instrument mailed to the registered holder hereof at its last address appearing on the books of the Company, the obligation to deliver to such holder such shares of stock, securities, cash or other property as, in accordance with the foregoing provisions, such holder may be entitled to purchase. The above provisions of this Section 3 shall similarly apply to successive consolidations, mergers., sales, leases or transfers.

Section 4. Notice of Certain Corporate Action. If at any time prior to the expiration of the Warrants evidenced hereby the Company shall propose:

(a) to pay any dividend or other distribution on the shares of Nonpreferred Stock of any class (excluding regular cash dividends);

(b) to issue any options, warrants or rights pro rata to all holders of shares of Nonpreferred Stock of any class

entitling them to subscribe for or purchase any shares of stock of the Company of any class or to receive any other rights; or

(c) to issue pro rata to all holders of shares of Nonpreferred Stock any class of evidences of its indebtedness or assets; or

(d) to effect any reclassification of the shares of Nonpreferred Stock of any class, or any consolidation or merger of the Company with or into another Person (other than a consolidation or merger in which the Company is the continuing Person and which does not result in any reclassification of the shares of Nonpreferred Stock of any class) or a sale or transfer to another Person of all or substantially all the assets of the Company; or

(e) to effect the voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company;

then, and in any one or more of such cases, the Company shall send to the registered holder hereof at its last address appearing on the books of the Company, as promptly as practicable but in any event at least 20 days prior to the applicable record date (or determination date) mentioned below, a notice stating, to the extent such information is available, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or rights, or, if a record is not to be taken, the date as of which the holders of shares of Nonpreferred Stock of record to be entitled to such dividend, distribution or rights are to be determined, or (ii) the date on which such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution or winding up is expected to become effective and the date as of which it is expected that holders of shares of Nonpreferred Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution or winding up.

#### Section 5. Covenants of the Company.

(a) The Company covenants and agrees that all shares of capital stock of the Company which may be issued upon the exercise of the Warrants evidenced hereby will be duly authorized, validly issued and fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof to the registered holder hereof.

(b) The Company covenants and agrees that from and after the date the Registration Statement is first declared effective, all shares of Common Stock or other stock or securities which may be issued upon the exercise of the Warrants evidenced hereby will be duly registered under the Securities Act, and duly registered or qualified under all applicable state securities laws.

(c) With respect to any registration or qualification of shares of Common Stock or other stock or securities which may be issued upon exercise of the Warrants evidenced hereby that is effected or to be effected by the Company (including that effected by the Registration Statement), the Company shall indemnify each holder hereof, each such holder's directors and officers, each underwriter (as defined in the Securities Act) of the shares of Common Stock or other stock or securities sold by such holder, each other Person who participates or is to participate in the offering of such holder's securities, and each Person who controls (within

the meaning of the Securities Act) any such holder, underwriter or participating Person from and against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on:

(i) any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document (including any related registration statement, notification or the like), or any amendment thereof or supplement thereto, incident to any such registration or qualification;

(ii) any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; or

(iii) any violation by the Company of the Securities Act or any rule or regulation promulgated thereunder applicable to the Company, or of any blue sky or other state securities laws or any rule or regulation promulgated thereunder applicable to the Company,

in each case, relating to action or inaction required of the Company in connection with any such registration or qualification, and shall reimburse each such Person entitled to indemnity under this Section 5(c) for all legal and other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action; provided, however, that, the foregoing indemnity and reimbursement obligation shall not be applicable to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement (or alleged untrue statement) or omission (or alleged omission) made in reliance upon and in conformity with written information furnished to the Company by any such Person specifically for use in such prospectus, offering circular, other document, amendment or supplement.

(d) Each Person indemnified pursuant to Section 5(c) agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the registration statement and each Person, if any, who controls the Company (within the meaning of the Securities Act) to the same extent as the foregoing indemnity from the Company in Section 5(c), but only with reference to information relating to such Person furnished to the Company in writing by such Person expressly for use in the offering circular, registration statement or the prospectus or any amendments or supplements thereto or any preliminary prospectus.

(e) In case any proceeding (including any governmental investigation) shall be instituted involving any Person for whose benefit indemnity may be sought pursuant to either Section 5(c) or 5(d), such Person (the "indemnified party") shall notify as soon as is reasonably practicable the Person against whom such indemnity may be sought (the "indemnifying party") in writing. The indemnified party, upon request of the indemnifying party, shall retain counsel selected by the indemnifying party (such counsel to be reasonably satisfactory to the indemnified party) to represent the indemnified party and any other Persons the indemnifying party may designate in such proceeding; and the indemnifying party shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain counsel selected by it, but the fees and expenses of such indemnified party's counsel shall be at the expense of such

indemnified party unless (i) the indemnifying party fails to request that the indemnified party retain counsel selected by the indemnifying party, (ii) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel, or (iii) the representation by the same counsel of the indemnified party and any other Person (including any impleaded parties) would be inappropriate due to actual or potential differing interests between them. The fees and expenses of counsel for which the indemnifying party is responsible pursuant to this Section 5(e) shall be reimbursed as they are incurred if paid by or on behalf of the indemnified party. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgement for the plaintiff, the indemnifying party agrees to indemnify any indemnified party from and against any claim, loss, damage or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of an indemnified party, effect any settlement of any pending or threatened proceeding in respect of which such indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all loss, damage and liability on claims that are the subject matter of such proceeding.

(f) If the indemnity and reimbursement obligation provided for in Section 5(c) is unavailable or insufficient to hold harmless an indemnified party under Section 5(c) in respect of any claims, losses, damages or liabilities (or actions in respect thereof) referred to therein, then the Company shall contribute to the amount paid or payable by such indemnified party as a result of such claims, losses, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and such indemnified party on the other hand in connection with statements or omissions which resulted in such claims, losses, damages or liabilities, as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or such indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Company and the holder hereof agree that it would not be just and equitable if contributions pursuant to this Section 5(f) were to be determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the first sentence of this Section 5(f). The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this Section 5(f) shall be deemed to include any legal and other expenses reasonably incurred by such indemnified party in connection with investigating or defending any claim, loss, damage, liability or action which is the subject of this Section 5(f).

No indemnified party guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from the Company if the Company was not guilty of such fraudulent misrepresentation.

The provisions of Section 5(c) and this Section 5(f) shall be in addition to any other rights to indemnification or contribution which an indemnified party may have pursuant to law, equity, contract or otherwise and shall remain in full force and effect regardless of any investigation made by or on behalf of an indemnified party and shall survive the transfer of the shares of Common Stock or other stock or securities which may be issued upon exercise of the Warrants by an indemnified party.

(g) The Company covenants and agrees that during the period within which the Warrants evidenced hereby may be exercised, the Company shall not, without the prior written consent of the registered holder hereof (which consent may be withheld by such holder in its sole and absolute discretion), issue (i) any options, rights or warrants to acquire Additional Shares of Nonpreferred Stock or Convertible Securities (other than warrants issued pursuant to any warrant agreement entered into in connection with the Credit Agreement and/or the Sixth Amendment), (ii) Convertible Securities, or (iii) "phantom" stock or stock appreciation rights, unless in each case the rights of the holders thereof shall be limited to a fixed sum or percentage of par value in respect of participation in dividends and in the distribution of such assets.

(h) The Company covenants and agrees that during the period within which the Warrants evidenced hereby may be exercised, the Company shall at all times reserve such number of shares of its Common Stock or other shares of stock or securities as may be sufficient to permit the exercise in full of the Warrants evidenced hereby.

(i) The Company covenants and agrees that during the period within which the Warrants evidenced hereby may be exercised, the Company shall at no time issue, without the prior written consent of the registered holder hereof (which consent may be withheld by such holder in its sole and absolute discretion), (i) any Preferred Stock, or (ii) any options, warrants, rights or securities exercisable or convertible into or exchangeable for Preferred Stock.

(j) The Company covenants and agrees that the Company shall give to each holder of a Warrant Certificate notice of the Expiration Date. Such notice may be given by the Company not less than 30 days but not more than 60 days prior to the Expiration Date.

(k) The Company covenants and agrees that on or prior to the date the Registration Statement first becomes effective, the Company shall not declare or effect any stock split or stock dividend on, or subdivision, consolidation or combination of, any class of Nonpreferred Stock.

Section 6. Rights of Registered Holder; Warrant Register. The Person in whose name this Warrant Certificate is registered shall be deemed the owner hereof and of the Warrant Certificate evidenced hereby for all purposes. The registered holder of this Warrant Certificate shall not be entitled to any rights whatsoever as a shareholder of the Company in respect of the Warrants except as herein provided.

Any Warrants issued in connection herewith, upon issuance, transfer or exercise in part or in whole, shall be numbered and registered in a warrant register (the "Warrant Register") as they are issued. The Company shall cause the Warrant Register to be maintained by the Company or the Transfer Agent or the then existing transfer agent of the Company in the

United States of America.

Section 7. Transfers of Warrants. The rights represented by this Warrant Certificate (including the Warrants evidenced hereby) may not be transferred, sold, assigned or hypothecated, at any time, in whole or in part, except upon the conditions specified in Article 4 of the Warrant Agreement. Any transfer shall be effected by the surrender of this Warrant Certificate, along with the form of assignment attached hereto, properly completed and executed by the registered holder hereof, at the principal office or agency of the Company referred to in Section 1. Thereupon, the Company shall issue in the name or names specified by the registered holder hereof and, in the event of a partial transfer, in the name of the registered holder hereof, a new Warrant Certificate or Warrant Certificates evidencing the right to purchase such number of Stock Units as shall be equal to the Stock Units then purchasable hereunder.

Each taker and holder of this Warrant Certificate, the Warrants evidenced hereby and any shares of stock of the Company issued upon exercise of any such Warrants, by taking or holding the same, consents to and agrees to be bound by the provisions of this Section 7.

Section 8. Governing Law. THIS WARRANT CERTIFICATE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

Section 9. Definitions. As used herein, unless the context otherwise requires:

"Additional Shares of Nonpreferred Stock" shall mean shares of Nonpreferred Stock issued by the Company after the date hereof, other than (i) Warrant Stock, and (ii) Plan Stock.

"Business Day" shall mean any day except a Saturday, a Sunday or a day on which commercial banks in the State of New York are permitted or required by law to close.

"Common Stock" shall mean the Company's authorized Common Stock, \$.10 par value per share, irrespective of class unless otherwise specified, as constituted on the Date of Issuance, and any stock into which such Common Stock may thereafter be converted or changed, and also shall include any other stock of the Company of any other class, which is not preferred as to dividends or assets over any other class of any other stock of the Company.

"Company" shall have the meaning set forth at the head of this Warrant Certificate.

"control" (including, with its correlative, meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise).

"Convertible Securities" shall mean evidences of indebtedness, shares of stock or other securities which are convertible or exercisable into or exchangeable for Additional Shares of Nonpreferred Stock, either immediately or upon the arrival of a specified date or the happening of a specified event.

"Credit Agreement" shall mean the Credit Agreement dated as of November 20, 1990, as amended from time to time (the "Credit Agreement") among the Company, the Chase Manhattan Bank,

N.A., Chemical Bank, as agent for Chemical Banking Corporation, successor in interest to Chemical Bank New Jersey, N.A. and the Chase Manhattan Bank, N.A., as Agent.

"Current Market Price" per share of Common Stock, for the purposes of any provision of this Warrant at the date herein specified, shall be deemed to be the average of the daily market prices for 30 consecutive Business Days commencing 45 Business Days before such date. The market price for each such Business Day shall be, if the Common Stock is traded on a national securities exchange, its last sale price on the next preceding Business Day or, if there was no sale on that day, the last sale price on the next preceding Business Day on which there was a sale, all as made available over the Consolidated Last Sale Reporting System of the CTA Plan or, if the Common Stock is not then eligible for reporting over such system, its last sale price on the next preceding Business Day on such national securities exchange or, if there was no sale on that day, on the next preceding Business Day on which there was a sale on such national securities exchange or, if the principal market for the Common Stock is the over-the-counter market, but the Common Stock is not then eligible for reporting over the Consolidated Last Sale Reporting System of the CTA Plan, but the Common Stock is quoted on the National Association of Securities Dealers Automated Quotations System ("NASDAQ"), the last sale price reported on NASDAQ on the next preceding Business Day or, if the Common Stock is an issue for which last sale prices are not reported on NASDAQ, the closing bid quotation on such day, but, in each of the next preceding two cases, if the relevant NASDAQ price or quotation did not exist on such day, then the price or quotation on the next preceding Business Day in which there was such a price or quotation, but if the Common Stock is not reported or quoted on NASDAQ, the highest bid quotation as quoted in any of The Wall Street Journal, the National Quotation Bureau pink sheets, the Salomon Brothers quotation sheets, quotation sheets of registered marketmakers and, if necessary, dealers' telephone quotations. If the Current Market Price per share of Common Stock cannot be ascertained by any of the foregoing methods, the Current Market Price per share of Common Stock shall be deemed to be the net book value per share of Nonpreferred Stock, determined in accordance with generally accepted accounting principles consistently applied.

"Current Warrant Price" per share of Common Stock, for the purpose of any provision of this Warrant at the date herein specified, shall mean the amount equal to the quotient resulting from dividing the Exercise Price per Stock Unit in effect on such date by the number of shares (including any fractional share) of Common Stock comprising a Stock Unit on such date.

"Date of Issuance" shall have the meaning set forth at the head of this Warrant Certificate.

"Expiration Date" shall have the meaning set forth at the head of this Warrant Certificate.

"Exercise Price" shall have the meaning set forth at the head of this Warrant Certificate.

"Sixth Amendment" shall mean the Amendment dated as of May \_\_, 1996 amending the terms of the Credit Agreement.

"include" and "including" shall be construed as if followed by the phrase ", without being limited to,".

"indemnified party" shall have the meaning assigned to such term in Section 5(e).

"Nonpreferred Stock" shall mean the Common Stock and also shall include stock of the Company of any other class which is not preferred as to dividends or assets over any other class of stock of the Company.

"Person" means any individual, corporation, partnership, association, trust or other entity or organization, including a governmental or political subdivision or an agency or instrumentality thereof.

"Plan Stock" means (i) not more than 280,421 shares of Common Stock issuable to officers, directors and employees of the Company pursuant to the Company's 1979 Incentive Stock Plan and the Company's Employee Stock Purchase Plan, as such Plan is in effect on the Date of Issuance, and (ii) not more than 50,000 shares of Common Stock issuable during each 12-month period commencing on the Date of Issuance to officers, directors and employees of the Company pursuant to the Company's 1988 Incentive Stock Plan, as such Plan is in effect on the Date of Issuance.

"Preferred Stock" shall mean any stock of the Company which is preferred as to dividends or assets over any other class of stock of the Company.

"Registration Statement" shall have the meaning assigned to such term in the Warrant Agreement.

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar Federal statute, and the rules and regulations of the commission thereunder, all as the same shall be in effect at the time.

"Stock Unit" shall mean one share of Common Stock, as such Common Stock was constituted on the date of original issue of this Warrant Certificate and thereafter shall mean such number of shares of Common Stock as shall result from the adjustments specified in Section 2.

"Subsidiary" shall mean, with respect to any Person, any entity which is controlled by such Person.

"Transfer Agent" shall have the meaning set forth at the head of this Warrant Certificate.

"Warrant Agreement" shall mean the Warrant Agreement dated as of March 31, 1997, between the Company and Chase Manhattan Capital Corporation, as such Warrant Agreement shall be modified and supplemented and in effect from time to time.

"Warrant Register" shall have the meaning assigned to such term in Section 6.

"Warrants" shall mean the Warrants dated as of the date hereof, originally issued by the Company pursuant to the Warrant Agreement, of which this Warrant is one, evidencing rights to purchase up to an aggregate of 100,000 Stock Units, and all Warrants issued upon transfer, division or combination of, or in substitution for, any thereof. All Warrants shall at all times be identical as to terms and conditions and date, except as to the number of Stock Units for which they may be exercised.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be signed in its name by a duly authorized officer and its corporate seal to be impressed hereon and attested by its Secretary or Assistant Secretary.

Dated: \_\_\_\_\_ 19\_\_



ENVIRONMENTAL TECTONICS  
CORPORATION,

By

Name:  
Title:

[SEAL]

Attest:

Name:  
Title:

FORM OF EXERCISE

(To be executed by the registered holder hereof)

The undersigned hereby exercises \_\_\_\_\_ Warrants to subscribe for and purchase Stock Units of Environmental Tectonics Corporation evidenced by the within Warrant Certificate and herewith makes payment of the purchase price in full. Kindly issue certificates and/or other instruments evidencing Stock Units in accordance with the instructions given below. The certificate for the unexercised balance of the Warrants evidenced by the within Warrant Certificate, if any, will be registered in the name of the undersigned.

Dated: \_\_\_\_\_ 19\_\_

\_\_\_\_\_

Instructions for registration  
of Stock Units

\_\_\_\_\_  
Name (please print)

Social Security or Other Identifying  
Number: \_\_\_\_\_

Address:

\_\_\_\_\_  
Street

\_\_\_\_\_  
City, State and Zip Code

FORM OF ASSIGNMENT

(To be executed by the registered holder hereof)

FOR VALUE RECEIVED the undersigned hereby sells,  
assigns and transfers all the rights of the undersigned under the  
within Warrant Certificate with respect to the number of Warrants  
evidenced thereby set forth hereinbelow unto:

Name of Assignee	Address	Warrants	Number of
------------------	---------	----------	-----------

Dated: \_\_\_\_\_ 19\_\_

-----  
[Form of Opinion]

Annex 2 to  
Warrant Agreement

[Letterhead of Outside Counsel to the Company]

March 31, 1997

Chase Manhattan Capital Corporation  
1 Chase Manhattan Plaza  
New York, NY 10081

Ladies and Gentlemen:

We have acted as counsel to Environmental Tectonics Corporation, a Pennsylvania corporation (the "Company"), in connection with the negotiation, execution and delivery of the Warrant Agreement of even date herewith (the "Agreement") between the Company and Chase Manhattan Capital Corporation, a New York corporation ("CMCC"), providing for, among other things, the issuance of 100,000 warrants to subscribe for and purchase Stock Units of the Company (the "Warrants") , and (ii) the Warrant Certificate of even date herewith (the "Warrant Certificate") representing the Warrants. Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Agreement or in the Warrant Certificate. This opinion is being furnished to you pursuant to Section 2.2(b)(ii) of the Agreement.

As to certain matters of fact material to our opinion, we have relied upon the representations of the Company made in the Agreement and upon certificates of certain officers of the Company. We have examined original copies, in each case executed by the Company, of the Agreement and the Warrant Certificate and we have examined originals, or copies certified to our satisfaction, of all such corporate records of the Company, agreements and other instruments, certificates of public officials and of officers and representatives of the Company and such other documents as we have deemed necessary as a basis for the opinions hereinafter expressed.

In our examination of such documents we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity with the original documents of all documents submitted to us as copies and the authenticity of the originals of such latter documents. When relevant facts were not independently established, we have relied upon written statements of governmental officials and upon representations made in or pursuant to the Agreement and the Warrant Certificate and certificates of the Company and its officers.

Security Trust, the Company's Transfer Agent, has delivered a certificate, dated March \_\_, 1997, stating that the total number of shares of Common Stock issued and outstanding as of the close of business on March \_\_, 1997 was \_\_\_\_\_.

Based upon the foregoing and subject to the comments and qualifications set forth below, we are of the opinion that:

1. The Company (i) is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania, (ii) has the corporate power and authority to execute, deliver and perform its obligations under the Agreement, (iii) has the corporate power and authority to execute, deliver, issue and perform its obligations under the Warrant Certificate, (iv) has the corporate power and authority to deliver and issue the Warrant Stock as provided in the Warrant Certificate, (v) has the corporate power and authority to own its property and assets and to transact the business in which it is engaged, and (vi) has duly qualified and is authorized to do business and is in good standing as a foreign corporation in every jurisdiction in which it owns or leases real property or in which the nature of its business requires it to be so qualified, except to the extent that the failure to be so qualified, authorized or in good standing would not have a material adverse effect on the Company.

2. All corporate action on the part of the Company and its officers, directors and shareholders necessary for (i) the authorization, execution, delivery and performance of the Agreement by the Company, (ii) the authorization, execution, issuance,, delivery and performance of the Warrant Certificate by the Company, and (iii) the authorization, delivery and issuance of the Warrant Stock as provided in the Warrant Certificate, has been taken on or prior to the date hereof.

3. The Agreement has been duly executed and delivered by the Company. The Warrant Certificate has been duly executed, issued and delivered by the Company.

4. Each of the Agreement and the Warrant Certificate constitutes the valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the rights of creditors generally and by general principles of equity.

5. The Warrant Stock initially issuable upon exercise of the Warrants pursuant to the terms of the Agreement and Warrant Certificate has been duly and validly authorized and reserved for issuance, and, upon issuance in accordance with the provisions of the Agreement and Warrant Certificate, will be duly and validly issued, fully paid and nonassessable with no personal liability attaching to the ownership thereof.

6. Upon the issuance of the Warrants under the Agreement, the total number of shares of capital stock which the

Company has authority to issue is 10,000,000 shares of Common Stock. There are options to purchase an aggregate of 513,150 shares of Common Stock outstanding pursuant to the Company's 1979 Incentive Stock Option Plan and its 1988 Incentive Stock Option Plan. There are 265,071 shares of Common Stock reserved for issuance pursuant to the Company's Employee Stock Purchase Plan.

7. None of the execution and delivery of the Agreement, or the issue of the Warrants, Warrant Certificates or the Warrant Stock by the Company, or the consummation by the Company of the transactions therein contemplated, or the compliance by the Company with the terms and provisions thereof, will conflict with or result in a breach of, or require any consent under, the charter or bylaws of the Company, or (assuming without independent investigation the accuracy of CMCC's representations in Section 2.3 of the Agreement) any applicable law, rule or regulation, or, to the best of our knowledge after due inquiry, any order, writ, injunction or decree of any court or governmental authority or agency, or the Credit Agreement dated as of November - , 1990, among the Company, The Chase Manhattan Bank, N.A., as Agent, and the banks listed as signatories thereto, as amended prior to the date hereof (as so amended, the "Credit Agreement"), or any agreement or instrument listed on Schedule II to the Credit Agreement, or constitute a default under the Credit Agreement or any such agreement or instrument, or result in the creation or imposition of any Lien upon any of the revenues or property of the Company pursuant to the terms of the Credit Agreement or any such agreement or instrument.

8. All consents, approvals, orders or authorizations of, or registrations, qualifications, designations, declarations or filings with, any federal, state or local governmental authority on the part of the Company required in connection with the consummation of the transactions contemplated by the Agreement and the Warrant Certificate (assuming without independent investigation the accuracy of CMCC's representations in Section 2.3 of the Agreement) have been obtained and remain in full force and effect on the date hereof, except for any of the foregoing that may be required by virtue of CMCC's status as a small business investment company licensed under the Small Business Investment Act of 1958, as amended.

9. The Company is a "small business concern" (within the meaning of 15 U.S.C. Section 684 and the regulations of the Small Business Administration promulgated thereunder) and meets the size eligibility criteria set forth at 13 C.F.R. Section 121.301(c).

10. The Company is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

11. Based upon the representations, warranties and agreements contained in the Agreement and in the Warrant Certificate, it is not necessary in connection with the issuance and sale of the Warrants to CMCC under the circumstances contemplated in the Agreement to register or qualify the Warrants or the Warrant Stock under the Securities Act of 1933, as amended, or under the securities laws of the Commonwealth of Pennsylvania or the State of New York.

12. There is no action, suit, proceeding or investigation pending or, to the best of our knowledge after due inquiry, threatened against the Company before any court or administrative agency seeking to enjoin the transactions contemplated by the Agreement or the Warrant Certificate.

Our opinion is limited to the laws of the State of New York, the Commonwealth of Pennsylvania and the United States of America, and we express no opinion on the laws of any other jurisdiction.

We are not members of the Bar of the State of New Jersey and are not giving an opinion as to the laws of the State of New Jersey. We have reviewed the securities laws of the State of New Jersey as reported in standard compilations. We have not consulted with local counsel in New Jersey. Based on our review, and subject to the existence of broad discretionary authority of the administrative bodies or officials having jurisdiction in New Jersey, we believe that it is not necessary in connection with the issuance and sale of the Warrants to CMCC under the circumstances contemplated in the Agreement to register or qualify the Warrants or the Warrant Stock under the securities laws of the State of New Jersey.

This opinion is being rendered solely for the benefit of CMCC in connection with the transactions contemplated by the Agreement, and without the prior express written consent of the undersigned, CMCC may not rely on this opinion for any other purpose, and no Person other than CMCC may rely on this opinion for any purpose. This opinion is limited to the matters set forth herein. This opinion is rendered as of the date hereof, and nothing herein shall obligate us to update this opinion in the future.

Very truly yours,

By \_\_\_\_\_  
A Partner

EXHIBIT 13

FINANCIAL REVIEW

(\$ in thousands, except per share data)

Fiscal Year End	1996	1995	1994	1993	1992
	----	----	----	----	----
Net sales	\$15,580	\$16,188	\$16,986	\$24,363	\$27,819
Cost of goods sold	10,374	12,091	14,065	17,209	20,160
Operating expenses	3,714	4,988	4,592	5,792	5,530
Net income (loss)	299	(1,405)	(1,413)	373	863
Earnings (loss) per common shares and common stock equivalent shares	.10	(.49)	(.50)	.13	.30
Working capital	7,878	9,038	10,130	9,457	10,977
Long-term obligations	5,514	7,133	6,718	4,383	5,130
Total assets	\$20,296	20,803	\$ 18,024	\$21,306	\$24,536

No cash dividends have ever been paid on the Company's common stock, and the Company is currently prohibited from declaring any cash dividends under the terms of its credit facility.

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

Results of Operations

FISCAL 1996 VERSUS FISCAL 1995

Fiscal year 1996 sales decreased from fiscal 1995 sales as decreases in the Sterilizers and Environmental segments were only partially offset by increased sales in the Aircrew Training System segment. (For information concerning business segments, see Note 9 to the consolidated financial statements).

Cost of goods sold as a percentage of sales decreased to 67% from 75% in fiscal year 1995 primarily reflecting higher sales in the Aircrew Training System Segment (Aircrew Training Systems sales historically reflect higher gross margins) coupled with the continuing positive effects of stringent cost controls.

The Aircrew Training Systems segment reported a significantly increased operating income in fiscal year 1996 versus fiscal year 1995 reflecting the aforementioned increased sales volume (up 40% from the prior fiscal year). Operating income in the Aircrew Training Systems segment was also positively impacted by the continued expansion of the Company's Command Operations and Maintenance (COMS) business which involves training, operation and support, at various operations throughout the world.

The Sterilizer segment incurred a higher operating loss in fiscal year 1996 versus fiscal year 1995 reflecting the decreased sales volume (down 32%) partially offset by reduced operating expenses.

The Environmental segment realized a lower operating loss in fiscal year 1996 versus fiscal year 1995 despite a 21% decrease in sales volume. Reduced operating income from the sales reduction was offset by the completion of higher margin projects domestically and the positive impact of reduced operating expenses.

International sales have been a significant portion of the Company's business in recent years. In fiscal 1996, approximately 59% of the Company's sales represented foreign sales. International sales were spread across all business segments in the recent fiscal period, representing 27% of the total sales from the Sterilizer and Environmental segments. Management believes that the international market will continue to comprise a significant portion of the Company's new business in the next fiscal year.

#### Operating and Other Expenses

Selling and Administrative expenses decreased in fiscal 1996 versus fiscal 1995. The reduction resulted from reduced average headcount in fiscal 1996 coupled with continuing stringent cost controls.

Research and development expenditures in fiscal 1996 decreased significantly from the prior period. This primarily reflected the completion in certain major contracts of the development stage on new products, line extensions, software design, etc., and the beginning of production and attainment of technical feasibility.

Interest expense increased in fiscal 1996 versus fiscal 1995 reflecting higher interest rates coupled with higher interest amortization expense on long-term obligations and only partially offset by a lower average loan balance.

Letter of credit fees and other expenses both decreased in the current fiscal period reflecting reduced bank fees and loan amortization costs.

#### Liquidity and Capital Resources

At February 23, 1996, the Company has a credit facility with two banks which provides financing of up to an aggregate availability of \$7.7 million. The facility is a revolving credit agreement whose expiration has been extended to March 31, 1997. The facility has been amended for certain financial covenants and to reduce, in stages, the availability under the credit facility to \$5.6 million by that date. Reduction of the availability under the credit facility is conditional upon collection of approximately \$1.5 million due under a contract currently in dispute with the Royal Thai Air Force (RTAF). (See Note 11, Claims and Litigation.) Minimum reduction of the facility is \$600,000 with balance conditional upon the aforementioned RTAF proceeds. The proceeds from the credit facility are utilized to provide working capital financing and to support the issuance of letters of credit. The credit facility includes certain covenants related to, among other things, prohibitions on the payment of cash dividends, minimum tangible net worth requirements, and various financial ratios. The credit facility is collateralized by substantially all assets of the Company.

At February 23, 1996, direct borrowings under the credit facility are limited to the lesser of \$7.5 million or the Company's borrowing base as calculated pursuant to the terms of the agreement (approximately \$7.8 million borrowing base at February 23, 1996). The letter of credit sublimit is \$7 million. At February 23, 1996, there were \$1 million letters of credit outstanding (of which approximately \$900,000 were cash collateralized), exclusive of a \$1.0 million letter of credit for the RTAF which was drawn against in the first quarter of fiscal 1995 (see Note 11). Interest is charged on direct borrowings at the banks' prime rate plus 2.0%. The Company is required to pay a commitment fee of 0.5% per annum on the average unused balance.

Fees on letters of credit outstanding are 2.0% per year.

During fiscal year 1996, the Company provided \$2.6 million in cash from operations compared to using \$1.5 million in cash from its 1995 operations. Aggressive collections activity resulting in lower receivables coupled with increased progress billings on new contracts were the primary sources of the increased cash provided from operations. These funds were primarily used to reduce the bank facility, and pay for software development costs, and contract completions. Increased cash equivalents restricted for letters of credit reflected increased international activity at year-end, while increases in costs and estimated earnings in excess of billings on uncompleted long-term contracts and inventories resulted from higher operating activity reflecting the increased backlog. Increased prepaids primarily reflected an increase in prepaid commissions on a foreign contract. The Company has recorded approximately \$4.3 million in receivables billed and unbilled costs subject to negotiation which includes contract costs incurred through February 23, 1996, which may not be received in full during fiscal year 1997. This amount includes receivables billed as well as claims made or to be made against the U.S. Government involving a Navy gyrolab contract and a large centrifuge contract. Such claims are customary in U.S. Government contracts. To the extent the Company is unsuccessful in further recovering contract costs, such an event could have a material adverse effect on the Company's liquidity and results of operations. Historically, the Company has had good experience in that recoveries have exceeded claims. In addition to cash that will be provided from operations during fiscal 1997, the new credit facility that extends to March 31, 1997 will provide the Company its necessary liquidity to meet its increased backlog of new business. Current liabilities increased primarily due to increased billings in excess of costs and estimated earnings on uncompleted long-term contracts coupled with a slight increase in current portion of long-term debt. The increase in billings in excess of costs and estimated earnings on uncompleted long-term contracts resulted from improved billing terms on certain long-term contracts. These increases were partially offset by decreases in all other liability accounts.

During the year ended February 24, 1995, the Companies principal source of cash was the use of its credit facility coupled with progress billings on contracts in excess of costs and estimated earnings. These funds were primarily used for software development costs, contract completions, cash collateralization of letters of credit, payment on called letters of credit and reductions of trade accounts payable and other obligations of the Company.

There are no significant commitments for capital expenditures.

Market for the Registrant's Common Stock and Related Security Holder Matters

The Company's Common Stock (the "Common Stock") is traded on the American Stock Exchange under the symbol ETC. As of May 22, 1996, the Company had 434 shareholders of record.

The following table sets forth the quarterly ranges of high and low sales prices, and the closing sale price, for shares of the Common Stock for the periods indicated. Such prices represent quotations between dealers and do not include mark-ups, mark-downs or commissions, and may not necessarily represent actual transactions.

Sale Prices

Closing



	High	Low	Sale Price
1996			
First Quarter .....	\$ 3-7/8	\$ 2-1/2	\$ 2-3/4
Second Quarter .....	3-5/8	2-3/4	3-1/8
Third Quarter .....	3	2-1/4	2-13/16
Fourth Quarter .....	4-1/8	2-5/16	3-1/2
1995			
First Quarter .....	6-1/8	2-7/8	4-1/8
Second Quarter .....	5	3-1/4	4-1/4
Third Quarter .....	4-1/2	2-5/8	3-3/8
Fourth Quarter .....	4-1/2	2-3/4	3-7/8

The Company has not paid any cash dividends on the Common Stock in the past and does not anticipate that any cash dividends will be declared or paid in the foreseeable future. The Company's current line of credit facility prohibits the payment of any dividends by the Company without the lender's prior written consent.

Consolidated Balance Sheets  
(\$ in thousands)

	February 23, 1996	February 24, 1995
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 31	\$ 66
Cash equivalents restricted for letters of credit	859	592
Accounts receivable, net	7,710	9,631
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	4,024	3,151
Inventories	3,611	3,144
Prepaid expenses and other current assets	574	136
	-----	-----
Total current assets	16,809	16,720
Property, plant, and equipment, at cost, net	2,498	2,547
Software development costs, net of accumulated amortization of \$2,563 and \$1,991 in 1996 and 1995, respectively	1,617	1,488
Other assets	2	48
	-----	-----
Total assets	\$20,926	\$20,803
	=====	=====
LIABILITIES		
Current portion of long-term obligations	\$ 2,441	\$ 2,278
Accounts payable - trade	1,586	1,647
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	3,355	1,343
Customer deposits	104	547
Accrued income taxes	188	205
Net arbitration award	445	746
Other accrued liabilities	812	916
	-----	-----
Total current liabilities	8,931	7,682

Long-term obligations, less current portion; Credit facility payable to banks due March 31, 1997	5,214	6,739
Other	300	394
	5,514	7,133
Deferred income taxes, net	370	252
Total liabilities	14,815	15,067
STOCKHOLDERS' EQUITY		
Common Stock - authorized 10,000,000 shares, \$.10 par value; 2,928,944 and 2,906,980 shares issued and outstanding in 1996 and 1995, respectively	293	291
Capital contributed in excess of par value of common stock	1,692	1,618
Retained earnings	4,126	3,827
Total stockholders' equity	6,111	5,736
Total liabilities and stockholders' equity	\$20,926	\$20,803

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

Consolidated Statements of Operations  
(\$ in thousands, except per share data)

	Year Ended February 23, 1996	Year Ended February 24, 1995
Net sales	\$15,580	\$16,188
Cost of goods sold	10,374	12,091
Gross profit	5,206	4,097
Operating expense:		
Selling and administrative	3,560	4,232
Research and development	154	336
Products liability settlement	-	420
	3,714	4,988
Operating income (loss)	1,492	(891)
Other expenses:		
Interest expense	925	793
Letter of credit fees	23	32
Other, net	106	122
	1,054	947
Income (loss) before income taxes	438	(1,838)
Provision (benefit) for income taxes	139	(433)

Net income (loss)	\$ 299	\$ (1,405)
	-----	-----
Earnings (loss) per share		
(primary and fully diluted)	\$ .10	\$ (.49)
	=====	=====

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

Consolidated Statements of Changes in Stockholders' Equity  
(\$ in thousands)

For the years ended February 23, 1996 and February 25, 1994

	Shares	Amount	Capital contributed in excess of par value of common stock	Retained earnings
	-----	-----	-----	-----
Balance, February 25, 1994	2,866,252	\$287	\$1,531	\$ 5,232
Net loss for the year	-	-	-	(1,405)
Shares issued in connection with employee stock purchase and stock option plans	40,728	4	87	-
	-----	----	-----	-----
Balance, February 24, 1995	2,906,980	291	1,618	3,827
Net income for the year	-	-	-	299
Shares issued in connection with employee stock purchase and stock option plans	3,809	-	11	-
Shares issued in connection with employee stock award	18,155	2	63	-
	-----	----	-----	-----
Balance, February 23, 1996	2,928,944	\$293	\$1,692	\$ 4,126
	=====	=====	=====	=====

<FN>

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

Consolidated Statements of Cash Flows  
(\$ in thousands)

	Year Ended February 23, 1996	Year Ended February 24, 1995
	-----	-----
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:		
Net income (loss)	\$ 299	\$ (1,405)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,006	933
Increase (decrease) in allowance		

for doubtful accounts	29	(40)
(Increase) decrease in assets:		
Accounts receivable	1,891	(2,832)
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	(873)	242
Inventories	(467)	(151)
Prepaid expenses and other current assets	(438)	260
(Decrease) increase in liabilities:		
Accounts payable	(61)	(729)
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	2,012	1,058
Customer deposits	(443)	399
Accrued income taxes	(17)	130
Other accrued liabilities	(104)	933
Payments under settlement agreements	(353)	-
Increase (decrease) in deferred income taxes	118	(333)
	-----	-----
Net cash provided by (used in) operating activities	2,599	(1,535)
	-----	-----
Cash flows from investing activities:		
Acquisition of equipment	(314)	(151)
Software development costs capitalized	(696)	(642)
Decrease in cash surrender value of insurance policy	43	-
	-----	-----
Net cash used in investing activities	967	(793)
	-----	-----
Cash flows from financing activities:		
Net (payments) borrowings under credit facility	(1,450)	2,239
Increase in cash equivalents restricted for letters of credit	(267)	(592)
Increase in notes payable	2	420
Net principal payments of capital leases and other long-term debt	(28)	(24)
Proceeds from issuance of capital stock	76	91
	-----	-----
Net cash (used in) provided by financing activities	(1,667)	2,134
	-----	-----
Net decrease in cash and cash equivalents	(35)	(194)
Cash and cash equivalents at beginning of year	66	260
	-----	-----
Cash and cash equivalents at end of year	\$ 31	\$ 66
	=====	=====
Supplemental schedule of cash flow information:		
Interest paid	\$ 881	\$ 764
Income taxes paid, net	38	276

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

Notes to Consolidated Financial Statements  
(\$ in thousands, except per share amounts)

1. Summary of Significant Accounting Policies

Principles of Consolidation:

The consolidated financial statements include the accounts of Environmental Tectonics Corporation (the "Company") and its wholly-owned subsidiary, ETC International Corporation. All material intercompany accounts and transactions have been eliminated. The Company's fiscal year is the 52- or 53-week annual accounting period ending the last Friday in February.

Risks and Uncertainties:

The Company is primarily engaged in the development and manufacture of aircrew and disaster simulation training systems, sterilizers, and environmental systems. In prior years, a substantial portion of the Company's business had been in the U.S. Defense Industry. As a result of spending cutbacks and other disruptions in the Defense sector, the operating performance of the Company was negatively impacted. However, the Company has now focused on product extension, and new product development, and implemented a cost control program. Sales of aircrew training systems are made principally to U.S. and foreign governmental agencies. Sales of sterilizers and environmental systems are made to commercial and governmental entities worldwide.

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company utilizes estimates as a basis for revenue recognition under the percentage of completion method (see Note 1, "Basis for Recording Revenue"). The Company has also recorded approximately \$4,325 in claims receivable for contract costs incurred through February 23, 1996 (see Note 2), which are subject to negotiation and audit by the U.S. and foreign governments. To the extent the Company is unsuccessful in realizing these claims, there could be a material adverse effect on the Company's liquidity and results of operations.

Basis for Recording Revenue

Revenue is recognized on long-term contracts utilizing the percentage of completion method based on costs incurred as a percentage of estimated total costs. Revenue recognized on uncompleted long-term contracts in excess of amounts billed to customers is reflected as an asset. Amounts billed to customers in excess of revenue recognized on uncompleted long-term contracts is reflected as a liability. When it is estimated that a contract will result in a loss, the entire amount of the loss is accrued. The effect of revisions in cost and profit estimates for long-term contracts is reflected in the accounting period in which the facts requiring the revisions became known. The effect of revisions in estimates of contract revenues was to decrease the net income by approximately \$83 (\$.03 per share) and increase the net loss by approximately \$146 (\$.05 per share) in fiscal 1996 and 1995, respectively. Contract progress billings are based upon contract provisions for customer

advance payments, contract costs incurred, and completion of specified contract objectives. Contracts may provide for customer retainage of a portion of amounts billed until contract completion. Retainage is generally due within one year of completion of the contract. Revenue for service contracts is recognized ratably over the life of the contract.

#### Cash and Cash Equivalents:

Cash and cash equivalents include short-term deposits at market interest rates with original maturities of three months or less. The Company maintains cash balances at several financial institutions located in the Northeast. Accounts in each institution are insured by the Federal Deposit Insurance Corporation up to \$100. Uninsured balances aggregate to \$790 at February 23, 1996. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### Inventories.

Inventories are valued at the lower of cost or market. Cost is determined principally by the first-in, first-out method. The costs of finished goods and work-in-process inventories include material, direct engineering, manufacturing labor, and overhead components.

#### Depreciation of Property, Plant, and Equipment:

Property, plant, and equipment are depreciated over their estimated useful lives by the straight-line method for financial reporting purposes. Accelerated depreciation methods are used for tax purposes. Upon sale or retirement of property, plant, and equipment, the costs and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

#### Amortization of Capitalized Software Development Costs:

Capitalized software development costs are amortized on a product-by-product basis, with amortization beginning in the year costs are capitalized. Amortization is the greater of the amount computed using the ratio of the current year's gross revenues to the total of current and anticipated future gross revenues for that product or the straight-line method over the remaining estimated economic life of the product. Amortization expense relating to software development costs was \$573 and \$492 in 1996 and 1995, respectively. No amounts have been written down to net realizable value in 1996 or 1995.

#### Amortization of Deferred Financing Costs:

Capitalized costs relating to the acquisition of the Company's credit facility are amortized over the term of the credit facility. Amortization expense relating to deferred financing costs was \$3 and \$39 in 1996 and 1995, respectively.

#### Amortization of Discount on Settlement Payable:

The discount related to a products liability settlement the liability for which was recognized in fiscal 1995, is amortized over the term of the note. Amortization expense was \$55 in 1996.

Income Taxes:

The Company accounts for income taxes using the liability method, which reflects the impact of temporary differences between values recorded for assets and liabilities for financial reporting purposes and values utilized for measurement in accordance with tax laws.

Long-Lived Assets:

The Financial Accounting Standards Board (FASB) has issued Statement No. 121 (SFAS No. 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Companies are required to adopt SFAS No. 121 for fiscal years beginning on or after December 15, 1995. The Company intends to adopt SFAS No. 121, beginning in the first quarter of fiscal 1997, and has not yet estimated the effect of adopting the accounting method required by SFAS No. 121.

Stock Options:

The FASB issued a new standard, SFAS No. 123, "Accounting for Stock-Based Compensation," which contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, the standard permits entities to continue accounting for employee stock options and similar equity instruments under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion No. 25 are required to make pro forma disclosures of net income and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied. The Company has not determined which method it will follow in the future. This statement is effective for fiscal years beginning after December 31, 1995.

Advertising Costs:

The Company expenses advertising costs as incurred. Advertising expense was \$83 and \$107 for the years ended February 23, 1996 and February 24, 1995, respectively.

Earnings Per Common Share:

Earnings per common share in 1996 and 1995 are based on net income divided by the weighted average number of common shares and common stock equivalent shares (shares issuable upon the exercise of stock purchase warrants and options, unless anti-dilutive) outstanding. Weighted average number of common shares and equivalents outstanding were approximately 2,935,000 and 2,874,000 in 1996 and 1995, respectively.

2. Accounts Receivable:

The components of accounts receivable at February 23, 1996 and February 24, 1995 are as follows:

	1996	1995
U.S. Government receivables billed and unbilled contract costs	----	----

subject to negotiation	\$3,848	\$3,947
U.S. receivables billed	746	1,724
International:		
Receivables billed	1,866	2,681
Unbilled contract costs subject to negotiation	1,374	1,374
	-----	-----
	7,834	9,726
Less allowance for doubtful accounts	(124)	(95)
	-----	-----
	\$7,710	\$9,631
	=====	=====

U.S. Government receivables billed and unbilled contract costs subject to negotiation:

Unbilled contract costs subject to negotiation represent claims made or to be made against the U.S. Government. In fiscal 1995, the Company recorded approximately \$1.4 million of claims revenue related to two certain aircrew training systems contracts. No claims revenue was recorded in fiscal 1996. The Company has recorded claims to the extent of contract costs incurred. These costs have been incurred in connection with U.S. Government-caused delays, errors in specifications and designs, and other unanticipated causes and may not be received in full during fiscal 1997. In accordance with generally accepted accounting principles, revenue recorded by the Company from a claim does not exceed the incurred contract costs related to the claim. The Company estimates that the total net claims filed and to be filed approximate \$7.3 million, a portion of which has been included in U.S. Government receivables billed and unbilled contract costs subject to negotiation. Such claims are subject to negotiation and audit by the U.S. Government.

International unbilled contract costs subject to negotiation:

Unbilled contract costs subject to negotiation represent claims made or to be made against a certain foreign government. In the first quarter of fiscal 1995, the Company recorded approximately \$1.1 million of claims receivable (but no claims revenue) for letters of credit drawn related to the same contract. The Company has recorded claims to the extent of the drawn letters of credit and called performance bond, which may not be recovered in full in fiscal 1997. The total net claim filed includes these amounts and are subject to arbitration and negotiation with the foreign government.

### 3. Costs and Estimated Earnings on Uncompleted Contracts:

The following is a summary of long-term contracts in progress at February 23, 1996 and February 24, 1995:

	1996	1995
Costs incurred on uncompleted long-term contracts	\$ 19,538	\$ 19,685
Estimated earnings	7,406	5,991
	-----	-----
	26,944	25,676
Less billings to date	(26,275)	(23,868)
	-----	-----
	\$ 669	\$ 1,808
	=====	=====
	1996	1995



Included in accompanying balance sheets under the following captions:

Costs and estimated earnings in excess of billings on uncompleted long-term contracts	\$ 4,024	\$ 3,151
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(3,355)	(1,343)
	\$ 669	\$ 1,908
	=====	=====

Included in billings in excess of costs and estimated earnings on uncompleted long-term contracts is a provision for anticipated losses on contracts of approximately \$72 and \$61 in 1996 and 1995, respectively.

4. Inventories:

Inventories consist of the following:

	Raw material	Work in process	Total
	-----	-----	-----
February 23, 1996	\$696	\$2,915	\$3,611
February 24, 1995	\$676	\$2,468	\$3,144

Inventory is presented net of an inventory valuation allowance of \$100 in 1996 and 1995.

5. Property, Plant and Equipment:

The following is a summary of property, plant, and equipment, at cost, and estimated useful lives at February 23, 1996 and February 24, 1995:

	1996	1995	Estimated useful lives
	----	----	-----
Land	\$ 100	\$ 100	
Building and building additions	1,811	1,811	40 years
Equipment under capital lease	-	437	5-10 years
Machinery and equipment	4,356	4,157	3-5 years
Office furniture and equipment	1,153	632	10 years
Building improvements	812	768	5-10 years
	-----	-----	
	8,232	7,905	
Less accumulated depreciation	(5,734)	(5,358)	
	-----	-----	
Property, plant and equipment, net	\$ 2,498	\$ 2,547	
	=====	+=====	

Depreciation expense for the years ended February 23, 1996, February 24, 1995 and February 25, 1994 was \$375 and \$420, respectively.

Accumulated amortization relating to leased assets under capital leases was \$355 as of February 24, 1995.

6. Long Term-Obligations and Credit Arrangements:

At February 23, 1996, the Company has a credit facility with two banks which provides financing of up to an aggregate of \$7.7 million. The facility is a revolving credit agreement whose expiration has been extended to March 31, 1997. The facility has been amended for certain financial covenants and to reduce, in stages, the availability under the credit facility to \$5.6 million by that date. Reduction of the credit facility is partially conditional upon collection of amounts due of approximately \$1.5 million under a contract currently in dispute with the Royal Thai Air Force (RTAF). Minimum reduction of the facility is \$600, with the balance conditional upon the aforementioned RTAF proceeds. The proceeds from the credit facility are utilized to provide working capital financing and to support the issuance of letters of credit. The credit facility includes certain covenants related to, among other things, prohibitions on the payment of cash dividends, minimum tangible net worth requirements, and various financial ratios. during the fiscal year ended February 23, 1996, the Company was in noncompliance with certain financial covenants. These events of noncompliance have been waived by the lending institutions as part of the new credit facility that extends through March 31, 1997. The credit facility is collateralized by substantially all assets of the Company.

At February 23, 1996, direct borrowings under the credit facility are limited to the lesser of \$7.5 million or the Company's borrowing base as calculated pursuant to the terms of the agreement (approximately \$7.8 million borrowing base at February 23, 1996). The letter of credit sublimit is \$7 million. At February 23, 1996, there were \$1 million letters of credit outstanding (of which approximately \$900 were cash collateralized), exclusive of a \$1.1 million letter of credit for the RTAF which was drawn against in the first quarter of fiscal 1995 (see Note 11). Interest is charged on direct borrowings at the bank's prime rate plus 2.0%. The Company is required to pay a commitment fee of 0.5% per annum on the average unused balance. Fees on letters of credit outstanding are 2.0%.

The approximate average loan balance, maximum aggregate borrowings outstanding at any month-end payable to banks during the fiscal years, and weighted average interest rate computed by the days outstanding method are as follows:

	Year Ended February 23, 1996	Year Ended February 24, 1995
Approximate average loan balance	\$8,189	\$ 9,283
Maximum aggregate borrowings outstanding at any month-end	\$8,938	\$ 10,078
Weighted average interest rate	10.33%	8.35%

The bank's prime interest rate was 8.25% and 9.0% at February 23, 1996 and February 24, 1995, respectively. As a condition to the issuance of the original credit facility, warrants to purchase 100,000 shares of the Company's common stock at \$5.00 per share were issued on November 30, 1990. As a condition to the extension of the credit facility through March 31, 1997, warrants will be issued to purchase 100,000 shares of the Company's common stock at a price equal to the average trading price of the Company's stock

for the 10 days prior to issuance. The warrants will be exercisable through 2001. If the holder desire to sell or transfer any of its warrants, the Company has the right of first refusal. A deferred charge associated with the warrants will be assigned and amortized to profit and loss over the 13-month period ending March 31, 1997. The Company also agreed to issue warrants for purchase of up to 3% of the Company's outstanding shares as of March 31, 1997. Warrants issued provide for adjustments of the exercise price and the number of shares issuable thereunder in the event that the Company issues additional shares of common stock or rights to purchase common stock at a price less than the current warrant price or current market price, whichever is greater.

During June 1995, the Company entered into a settlement agreement with the employee of a customer who brought a products liability claim against the Company. The settlement of \$1,195 will be satisfied with (i) funds of \$547 (including accrued interest) previously deposited by the Company's products liability insurance carrier with the U.S. District Court and (ii) a settlement payable to the plaintiff for the remaining amount of \$648. The Company paid \$53 on or before July 20, 1995 and \$100 on or before April 20, 1996; and will pay \$55 on or before July 31, 1996, and continuing on July 31 of each year thereafter until the amount of \$648 is satisfied, unless (i) the Company is not in compliance with all credit facility covenants and (ii) the lenders object to such payment. If payment of any annual installment is not made in any year, the obligation would be extended accordingly. No interest accrues on this settlement. The Company has recorded a discount of \$173 on this settlement, based on an imputed interest rate of 11% which will be amortized over the term of the note.

Long-term obligations at February 23, 1996 and February 24, 1995 consists of the following:

	1996	1995
	----	----
Credit facility payable to banks due March 31, 1997	\$ 7,489	\$ 8,939
Products liability settlement, non-interest bearing (net of unamortized discount of \$173 and \$228, respectively, based on imputed interest rate of 11%)	422	420
Term loans payable accruing interest at 9.9% collateralized by priority liens on certain equipment	44	34
Capitalized lease obligations	-	18
	-----	-----
	7,955	9,411
Less current portion	(2,441)	(2,278)
	-----	-----
	\$ 5,514	\$ 7,133
	=====	=====

The amount of long-term obligations maturing in each of the next five fiscal years, except for capital lease obligations and the credit facility, is \$155 in 1997; \$55 in 1998; \$55 in 1999; \$55 in 2000; and \$55 in 2001; and \$220 thereafter. Included in the current portion above of \$2,441 for 1996 is a conditional payment of \$1.5 million reflecting the proceeds from the RTAF claim receivable.

Based on the borrowing rates currently available to the

Company for bank loans with similar terms and average maturities, the fair value of long-term debt approximates the carrying value.

7. Leases:

Operating Leases:

The Company leases certain premises and office equipment under operating leases which expire over the next five years. Future minimum rental payments required under noncancellable operating leases having a remaining term expiring after one fiscal year as of February 23, 1996 are \$128 in 1997, \$31 in 1998, \$5 in 1999, and \$0 in 2000 and thereafter.

Total rental expense for all operating leases for the years ended February 23, 1996 and February 24, 1995 was approximately \$29 and \$284, respectively.

8. Income Taxes:

The components of the provision (benefit) for income taxes are as follows:

	Year Ended February 23, 1996	Year Ended February 24, 1995
	-----	-----
Currently payable (benefit):		
Federal	\$ 21	\$ (88)
State	-	(12)
	-----	-----
	21	(100)
	-----	-----
Deferred:		
Federal	72	(320)
State	46	(13)
	-----	-----
	118	(333)
	-----	-----
	\$139	\$ (433)
	=====	=====

A reconciliation of the statutory federal income tax (benefit) to the effective tax is as follows:

	Year Ended February 23, 1996	Year Ended February 24, 1995
	-----	-----
Statutory income tax	34.0%	(34.0)%
State income tax, net of federal tax benefit	8.8	(0.9)
Foreign sales corporation	(13.8)	-
Settlement of federal tax audit	-	10.9
Other	2.7	0.4
	-----	-----
	31.7%	(23.6)%
	=====	=====

The tax effects of the primary temporary differences giving rise to the Company's net deferred tax liability for the years ended February 23, 1996 and February 24, 1995 are as follows:

	Year Ended February 23,	Year Ended February 24,
--	----------------------------	----------------------------

	1996	1995
	-----	-----
Deferred tax liabilities:		
Amortization of capitalized software	\$ 629	\$ 527
Depreciation	371	337
Other, net	4	29
	-----	-----
	1,004	893
	-----	-----
Deferred tax assets:		
Net arbitration award against Company	174	264
Net products liability settlement	165	148
Vacation reserve	71	85
Inventory reserve	39	35
Federal net Operating Loss	74	-
Other, net	111	109
	-----	-----
	634	641
	-----	-----
Net deferred tax liability	\$ 370	\$ 252
	=====	=====

9. Business Segment Information:

The Company primarily manufactures, under contract various types of high technology equipment which it has also designed and developed. A significant portion of the equipment is sold directly or through distributors to foreign markets. Except for the foreign sales activity and certain operations and maintenance contracts, all operations of the Company are conducted in the United States. Information on the Company's industry segments is as follows:

	Year Ended February 23, 1996	Year Ended February 24, 1995
	-----	-----
Net sales:		
Aircrew Training Systems	\$ 8,038	\$ 5,727
Sterilizers	4,762	6,955
Environmental Systems and other	2,780	3,506
	-----	-----
Total	\$15,580	\$16,188
	=====	=====
Operating income (loss):		
Aircrew Training Systems	\$ 2,240	377
Sterilizers		
Excluding products liability settlement	(232)	(29)
Products liability settlement	-	(420)
Environmental Systems and other	(118)	(234)
	-----	-----
	1,890	(306)
General corporate expenses	(398)	(585)
	-----	-----
Operating income (loss)	1,492	(891)
Interest expense	(925)	(793)
Letter of credit fees	(23)	(32)
Other, net	(106)	(122)
	-----	-----
Income (loss) before income		

taxes	\$ 438	\$ (1,838)
	=====	=====
Identifiable assets:		
Aircraft Training Systems	\$14,154	\$12,069
Sterilizers	2,376	3,065
Environmental Systems and other	1,417	1,804
Corporate assets	2,979	3,865
	-----	-----
Total assets	\$20,926	\$20,803
	=====	=====

Operating income (loss) consists of net sales less applicable costs and expenses relating to these revenues. General corporate expenses, letter of credit fees, interest expense, other expenses, and income taxes have been excluded from the determination of segment operating income (loss). General corporate expenses are primarily central administrative office expenses. Property, plant and equipment and, accordingly, depreciation and capital expenditures are not identifiable with specific business segments because most of these assets are used in each of the segments.

Approximately 15% of sales in 1996 were made to one international customer, totalling sales of \$2,366 in the Aeromedical segment. In 1995 13% of the sales were made to one domestic customer, totalling sales of \$2,127 in the Sterilizers segment.

Included in the segment information for the year ended February 23, 1996 are export sales of approximately \$9,198. Of these amounts, there are sales to or relating to the Governments of Japan (\$559), Bangladesh (\$602) and the United Kingdom (\$2,366) for the sale of Aeromedical training equipment. Sales to the U.S. Government and its agencies aggregate approximately \$1,631 for the year ended February 23, 1996.

Included in the segment information for the year ended February 24, 1995 are export sales or sales for export of approximately \$6,310, of which approximately \$4,447 relates to the Far and Middle East. Of these amounts, there are sales to or relating to the Governments of Singapore (\$755) and the United Kingdom (\$880) for the sale of Aircraft Training Systems. Sales to the U.S. Government and its agencies aggregate approximately \$2,643 for the year ended February 24, 1995.

10. Stock Options:

The Company has an Incentive Stock Option Plan (the Plan) which authorizes the granting of options for the purchase of up to 500,000 shares (including options currently outstanding from the 1988 and 1979 Plans) of the Company's common stock to qualifying officers and other key employees. At February 23, 1996 and February 24, 1995, there were 367,464 and 344,564 shares available to be granted under the Plan, respectively. The Plan provides that option prices shall not be less than 100% of the current market price of the stock on the date of grant. Options may be exercised on a cumulative basis at the rate of 25% per year commencing one year after the date of grant. The Plan will terminate on August 24, 1998.

Stock option activity under this Plan and the 1979 Incentive Stock Option Plan for the years ended February 23, 1996, February 24, 1995 was as follows:

	Shares	Stock options price range
	-----	-----
Outstanding, February 25, 1994	156,100	1.39 - 4.25
Granted	-	
Exercised	(37,291)	1.39 - 4.25
Canceled	(16,359)	2.25 - 4.25
	-----	
Outstanding, February 24, 1995	102,450	2.25 - 4.25
Granted	-	
Exercised	-	
Canceled	(22,900)	2.25 - 4.25
	-----	
Outstanding, February 3, 1996	79,550	
	-----	

Options to purchase 79,550  
shares are currently  
exercisable.

#### 11. Claims and Litigation:

In October 1993, the Company was notified by the RTAF that the RTAF was terminating a certain \$4.6 million simulator contract with the Company. Although the Company has performed in excess of 90% of the contract, the RTAF alleged a failure to completely perform. In connection with this termination, the RTAF made a call on a \$229 performance bond, as well as a draw on approximately \$1.1 million of advance payment letters of credit. The RTAF has also asserted liquidated damages pursuant to the contract against the Company. In October 1993, the surety made payment on the \$229 performance bond, and in the first quarter of fiscal 1995, it made payment on the approximately \$1.1 million advance payment letters of credit. The Company has commenced arbitration with the RTAF. In the arbitration, the Company is asserting claims against the RTAF for reimbursement of the costs incurred on the bond and letters of credit called, as well as claims for costs incurred in connection with RTAF-directed changes in the work and RTAF-caused delays and damages to the Company's work. The Company is also claiming that the termination was wrongful and that the company is entitled to complete the work and to be paid the balance of the contract price. The case is pending before the Thailand Arbitration Board. Management believes the Company has meritorious claims in excess of claims made by the RTAF, as well as meritorious grounds to support nonpayment of the performance bond and letters of credit. The Company has also denied the RTAF claims and believes they are without merit. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements. Management and legal counsel believe that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position or results of operations.

Certain other claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Company. In the opinion of management, all such matters are reserved for or are adequately covered by insurance or, if not so covered, are without merit or are of such kind, or involve such amounts as would not have a significant effect on the financial position or results of operations of the Company if disposed of unfavorably.

#### 12. Quarterly Consolidated Financial Information (Unaudited):

Financial data for the interim periods of 1996 and 1995 were as follows:

Fiscal Year 1996	Quarter Ended			
	May 26	August 25	November 24	February 23
Net sales	\$3,712	\$3,559	\$4,087	\$4,222
Gross profit (loss)	1,426	1,251	1,270	1,259
Operating income (loss)	330	300	447	415
Income (loss) before income tax	109	69	165	95
Net income (loss)	70	45	107	77
Earnings (loss) per common share and common share equivalent	\$ .02	\$ .02	\$ .04	\$ .02

Fiscal Year 1995	Quarter Ended			
	May 28	August 27	November 26	February 25
Net sales	\$4,214	\$3,868	\$3,237	\$4,869
Gross profit	797	690	1,279	1,331
Operating income (loss)	(505)	(340)	330	(376)
Income (loss) before income tax	(702)	(582)	100	(654)
Net income (loss)	(439)	(362)	62	(666)
Earnings (loss) per common share and common share equivalent	\$ (.15)	\$ (.13)	\$ .02	\$ (.23)

Report of Independent Certified Public Accountants

Board of Directors  
Environmental Tectonics Corporation

We have audited the accompanying consolidated balance sheets of Environmental Tectonics Corporation and Subsidiary as of February 23, 1996 and February 24, 1995, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company has recorded receivables in the amount of \$4.3 million for claims made to or against the United States and foreign governments for contract costs incurred through February 23, 1996. The total net claims amount made and to be made are approximately \$7.3 million based on costs incurred



through February 23, 1996 and are subject to negotiation, arbitration, and audit by the United States and foreign governments.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Environmental Tectonics Corporation and Subsidiary as of February 23, 1996 and February 24, 1995, and the consolidated results of their operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Grant Thornton LLP  
Philadelphia, Pennsylvania  
May 22, 1996

Consent of Independent Certified Public Accountants

We have issued our report dated May 22, 1996, accompanying the consolidated financial statements incorporated by reference or included in the Annual Report of Environmental Tectonics Corporation and Subsidiary on Form 10-KSB for the year ended February 23, 1996. We hereby consent to the incorporation by reference of said report in the Registration Statement of Environmental Tectonics Corporation and Subsidiary on Form S-8 (File No. 2-92407, effective August 14, 1984) and on Form S-3 (File No. 33-42219, effective September 4, 1991).

GRANT THORNTON LLP

Philadelphia, Pennsylvania  
May 22, 1996

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