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

[x] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act Of 1934 For the fiscal year ended February 27, 1998

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 incorporation or organization)	(I.R.S. Employer 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 x 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.[x]

As of May 15, 1998, the aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant was approximately $16,944,000.

As of May 15, 1998, there were 3,065,106 shares of Registrant's common stock, $0.10 par value per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE. Portions of Registrant's 1998 Annual Report to Stockholders (the "Annual Report") are incorporated by reference in Part II, Items 5, 6, 7, and 8.

Transitional Small Business Disclosure Format: Yes ___ No x

PART I

Item 1. Description of Business

(a) Business Development

Environmental Tectonics Corporation ("ETC" or 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 28, 1997, there has been no material change in the Company's mode of conducting business.

(b) Business of the Company

The company operates in two primary business segments, Aircrew Training Systems and Process Simulation.

Aircrew Training Systems. This segment includes four primary product groups.

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 Company's entertainment products consist of motion-based simulation rides.

The Company's Disaster Management Systems line includes real-time interactive training programs that allow instruction on various disaster situations.

The Company's Hyperbaric line includes monoplace and multiplace chambers for decompression and wound care applications.

The aircrew training system class of products as a whole represented 75% and 61% of consolidated revenues of the Company for the years ended February 27, 1998 and February 28, 1997, respectively.

Process Simulation. This segment also includes two primary product groups:

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's sterilizers range in price from approximately $25,000 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 19% and 28% of consolidated revenues of the Company for the years ended February 27, 1998 and February 28, 1997, 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

Sales of these products were 6% and 11% of consolidated revenues of the Company for the years ended February 27, 1998 and February 28, 1997, respectively.

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

Marketing

The Company currently markets its products and services primarily through its officers and employees. At February 27, 1998, approximately 16 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, there are a few technical personnel whose main activity is the development and integration of new technologies into our existing products. These personnel include the Vice-President of New Product Development whose additional activity is the introduction of product extensions and new applications of existing technology.

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 graphics, and exploring commercial possibilities. The Company's product development efforts will be focused on two areas:

- Disaster Management Simulation. The Company in Fiscal 1997 completed a Firefighting Command and Control System and Trainer for a foreign governmental agency. Product extensions into other disaster situations are currently being investigated.

- Gyro-Product Line. These products address the need for a relatively low cost flight and spatial disorientation trainer.

The Company reported research and development costs of approximately $148,000 and $167,000 for the years ended February 27, 1998 and February 28, 1997, respectively. However, the majority of the Company's research and development efforts are not separately identified and recorded. Instead, they are expressed as part of project job costs in the cost of sales.

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 Disorientation 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 1998, the Company's major customers included the United Kingdom, Japan and the U.S. Government, which accounted for $5,492,000, $3,266,000 and $2,936,000 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 27, 1998 and February 28, 1997, approximately $2,936,000 (10%) and $2,082,000 (10%), 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 27, 1998 and February 28, 1997, approximately $17,490,000 (60%) and $15,422,000 (70%), respectively, of the Company's net revenues were attributable to export sales or sales for export. (See Note 10 to the Company's consolidated financial statements incorporated herein by reference to the Annual Report.) On export sales, customers' obligations to the Company are secured by irrevocable letters of credit based on the credit worthiness of the Customer.

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 for the convenience 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 27, 1998 and February 28, 1997 for work to be performed and revenue to be recognized under written agreements after such dates was approximately $27,523,000 and $25,800,000, respectively. In addition, the Company's training and maintenance contracts backlog at February 27, 1998 and February 28, 1997 for work to be performed and revenue to be recognized after that date under written agreements was approximately $2,925,000 and $5,100,000, respectively. Of the 1998 backlog, approximately $29,135,000 is under contracts for aircrew training systems and maintenance support. Approximately 60% of the 1998 backlog is expected to be completed prior to February 26, 1999.

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 fiscal 1998 nor does it anticipate incurring during fiscal 1999 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 27, 1998, the Company had 185 full-time employees, of whom 5 were employed in executive positions, 29 were engineers, engineering designers, or draftpeople, 47 were administrative (sales, accounting, etc.) and clerical personnel, and 104 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

A lawsuit was commenced against the Company in April 1997 in the United States District Court for the District of Puerto Rico by an employee of a customer who claims to have been injured as a result of an alleged malfunction of a sterilizer manufactured by the Company. The plaintiff is seeking $3 million in damages. Based on the available information, the Company believes that it possesses meritorious defenses to such action. The Company has up to $10 million of products liability coverage, subject to a $100,000 deductible. The Company has notified its insurer of the lawsuit, and the Company's insurer has engaged counsel to defend the Company in this matter.

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

Not applicable.

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 or Officer Since(1)	Principal Occupations and Positions and Offices with the Company
William F. Mitchell(2)	56	1969	Chairman of the Board, President and Director
Richard E. McAdams(3)	62	1985	Executive Vice President and Director
Philip L. Wagner, Ph.D.(4)	61	1993	Director
Pete L. Stephens, M.D.(5)	60	1974	Director
Craig Macnab(6)	42	1997	Director
Duane D. Deaner(7)	50	1996	Chief Financial Officer

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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. Mr. McAdams became Executive Vice President of the Company in 1990.

(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. Macnab has served as Director of the Company since June 1997. Since January 1997, Mr. Macnab has been the President of Tandem Capital, Inc. which makes investments in micro-cap public companies. From 1993 to 1996, Mr. Macnab served as the general partner of MacNiel Advisors, Inc., the general partner of three private funds that invested in the publicly traded securities of small public companies. From 1987 to 1993, Mr. Macnab was a partner of J.C. Bradford & Co., a regional brokerage firm, jointly responsible for the merger and acquisition department and a

private mezzanine capital fund. From 1981 to 1987, Mr. Macnab was employed by Lazard Freres & Co. Mr. Macnab is also a director of JDN Realty, Smart Choice Automotive Group and Teltronics, Inc.

(7) Mr. Deaner has served as Chief Financial Officer of the Company since January 1996. Mr. Deaner served as Vice President of Finance for Pennfield Precision Incorporated from September 1988 to December 1995.

Committees of the Board of Directors

During the year ended February 27, 1998, the Company had an Audit Committee consisting of the following directors: Messrs. Mitchell, Philip L. Wagner and Dr. Pete L. Stephens. The independent outside directors also served on the Company's Compensation Committee during the year ended February 27, 1998. 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 and incentive plans of officers and key personnel.

During the year ended February 27, 1998, the Board of Directors held 5 meetings and the Audit Committee and Compensation Committee each held 1 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.

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 27, 1998, its officers, directors and greater than ten percent beneficial owners complied with all applicable filing requirements.

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 1998, 1997 and 1996. 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 Salary($)	Bonus($)	Other Annual Compen-sation($)(1)	All Other Compen-sation($)(2)
William F. Mitchell,	1998	$178,450	$ -	$ -	$3,876
President and Chief	1997	113,780	-	-	2,731
Executive Officer	1996	119,531	-	-	2,473

(1) The Company's executive officers receive certain perquisites. For fiscal years 1998, 1997 and 1996, 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 15, 1998, the number of shares and percentage of the Company's Common Stock owned beneficially by each 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	933,949	30.5%
Pete L. Stephens, M.D. (2) 1 Eleni Lane West Chester, PA 19382	325,100(3)	10.6%
Richard E. McAdams (4) c/o Environmental Tectonics Corporation County Line Industrial Park Southampton, PA 18966	17,026(5)	1.0%
Philip L. Wagner, Ph.D. (6) Chadds Ford Technologies, Inc. P.O. Box 377 Chadds Ford, PA 19317	6,000(7)	*
Craig Macnab C/o Tandem Capital 500 Church Street, Suite 200 Nashville, TN 37219	499,660(8)	14.0%

Sirrom Capital Corporation 500 Church Street , Suite 200 Nashville, TN 37219	499,660(8)	14.0%
All directors and executive officers as a group (7 persons)	1,782,860(9)	50.0%

* less than 1%

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(1) Chairman of the Board, President and Director of the Corporation. Shares of Common Stock include 100,000 shares held by Mr. Mitchell's wife.

(2) Director of the Corporation.

(3) Includes 9,000 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 500 shares of Common Stock held under the Company's Incentive Stock Option Plan which are presently exercisable.

(6) Director of the Corporation.

(7) Includes 4,000 shares of Common Stock held by or for the benefit of Dr. Wagner's wife.

(8) Shares listed for Craig Macnab and Sirrom Capital Corporation are the shares beneficially owned by Sirrom Capital Corporation. These shares include 333,250 shares of Common Stock underlying 25,000 shares of Series A Preferred Stock that are presently convertible and 166,410 shares of Common Stock underlying a presently exercisable warrant to purchase such shares.

(9) Includes options to purchase 1,625 shares of Common Stock held under the Company's Incentive Stock Option plan of which are presently exercisable.

Item 12. Certain Relationships and Related Transactions

Set forth below is information concerning loans made to the Company by certain affiliates.

Name of Lender(s)	Date of Loan	Original Principal Amount of Loan	Outstanding Principal Balance of Loan as of March 27, 1997	Annual Percentage Interest Rate	Maturity Date
Pete L. Stephens(1)	12/11/96	$100,000.00	$100,000.00	10%	1/1/98 (2)
Pete L. Stephens(1)	1/2/97	$ 60,000.00	$ 60,000.00	10%	1/1/98 (2)
Pete L. Stephens(1)	1/8/97	$100,000.00	$100,000.00	10%	1/1/98 (2)
Pete L. and Anita Stephens(3)	1/8/97	$ 40,000.00	$ 40,000.00	10%	1/1/98 (2)
John Mitchell(4)	1/8/97	$400,000.00	$400,000.00	10%	1/1/98 (5)
Christine Walters(6)	1/8/97	$ 35,000.00	$ 35,000.00	10%	1/1/98 (7)
Christine Walters(6)	1/8/97	$165,000.00	$165,000.00	10%	1/1/98 (7)
William F. Mitchell(8)	2/7/97	$300,000.00	$300,000.00	10%	1/1/99

(1) Director of the Corporation.

(2) Loan was satisfied on April 14, 1998.

(3) Dr. Stephens is a director of the Corporation. Anita Stephens is the spouse of Doctor Stephens.

(4) Mr. John Mitchell is the brother of William F. Mitchell, Chairman of the Board, President and Director of the Corporation.

(5) Loan was satisfied on April 30, 1997.

(6) Christine Walters is the daughter of William F. Mitchell, Chairman of the Board, President and Director of the Corporation.

(7) Loan was satisfied March 6, 1998.

(8) Mr. Mitchell is Chairman of the Board, President and Director of the Corporation.

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits:

Number	Item
3.1	Registrant's Articles of Incorporation, as amended, were filed as Exhibit 3.1. to Registrant's Form 10-K for the year ended February 28, 1997 and are incorporated herein by reference.
3.2	Registrant's By-Laws, as amended, were filed as Exhibit 3(ii) to Registrant's Form 10-K for the year ended February 25, 1994 and are incorporated herein by reference.
4.1	12% Subordinated Debenture due March 27, 2004 was filed as Exhibit 4.1 to Registrant's Form 10-K for the year ended February 28, 1997 and is incorporated herein by reference.
10.1	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.*
10.2	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.*
10.3	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.*
10.4	Form of 1996 Warrant Agreement between the Registrant and Chase Manhattan Capital Corporation, filed as Exhibit 10(xiv) to the Registrant's Form 10-KSB for the fiscal year ended

February 23, 1996 and is incorporated herein by reference.

10.5	Revolving Credit Agreement, dated as of March 27, 1997, between the Registrant and First Union National Bank was filed as Exhibit 10.6 to Registrant's Form 10-K for the year ended February 28, 1997 and is incorporated herein by reference.
10.6	Amendment to Revolving Credit Agreement dated as of November 28, 1997.
10.7	Debenture Purchase Agreement, dated March 27, 1997, between the Registrant and Sirrom Capital Corporation was filed as Exhibit 10.7 to the Registrant's Form 10-KSB for the fiscal year ended February 28, 1997 and is incorporated herein by reference.
10.8	Preferred Stock Purchase Agreement, dated March 27, 1997, between the Registrant and Sirrom Capital Corporation was filed as Exhibit 10.8 to the Registrant's Form 10-KSB for the fiscal year ended February 28, 1997 and is incorporated herein by reference.
10.9	Stock Purchase Warrant, dated March 27, 1997, issued by the Registrant to Sirrom Capital Corporation was filed as Exhibit 10.9 to the Registrant's Form 10-KSB for the fiscal year ended February 28, 1997 and is incorporated herein by reference.
13	Portions of Registrant's 1998 Annual Report to Shareholders which are incorporated by reference into this Form 10-KSB.
21	List of subsidiaries.
23	Consent of Grant Thornton L.L.P.
27	Financial Data Schedule

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* 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, Chief Executive Officer, President and Director	May 28, 1998
/s/ Duane D. Deaner Duane D. Deaner	Chief Financial Officer (Principal Accounting Officer)	May 28, 1998
/s/ Richard E. McAdams Richard E. McAdams	Director	May 28, 1998
/s/ Craig Macnab Craig Macnab	Director	May 28, 1998
/s/ Pete L. Stephens Pete L. Stephens, M.D.	Director	May 28, 1998
/s/ Philip L. Wagner Philip L. Wagner, Ph.D.	Director	May 28, 1998

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

FIRST AMENDMENT
TO
REVOLVING CREDIT AGREEMENT

FIRST AMENDMENT TO REVOLVING CREDIT AGREEMENT ("First Amendment"), dated as of November 28, 1997 between ENVIRONMENTAL TECTONICS CORPORATION, a Pennsylvania corporation (the "Borrower") and FIRST UNION NATIONAL BANK, a national banking association (the "Bank").

W I T N E S E T H

WHEREAS, the Borrower and the Bank are parties to a Revolving Credit Agreement dated as of March 27, 1997 (the Agreement") pursuant to which the Bank agreed to make available to the Borrower certain loans upon the terms and conditions specified in the Agreement;

WHEREAS, the parties wish to amend certain terms and conditions of the Agreement, as hereinafter set forth.

NOW, THEREFORE, in consideration of the promises and mutual agreements herein contained, the parties hereto, intending to be legally bound hereby, agree to amend the Agreement as herein stated.

1. Effect of Prior Agreements.

This First Amendment is intended to amend the Agreement, as it has been in effect to the date hereof and as it shall be amended on and after the date hereof. All capitalized terms used herein as defined terms shall have the meanings ascribed to them in the Agreement unless herein provided to the contrary.

2. Amendments.

(a) The following definitions contained in Article I of the Agreement are hereby amended and restated in their entirety to read as follows:

> "Letter of Credit Fee Reduction" shall mean a reduction in the standby letter of credit fee otherwise charged by the Bank to the Borrower pursuant to Section 2.1(b)-(2) of this Agreement. The Letter of Credit Fee Reduction shall equal one-quarter of one percent (0.25%) if the Borrower's Leverage Ratio is greater than 0.75 and less than 1.00. The Letter of Credit Fee Reduction shall equal sixty-five one hundredths of one percent (0.65%) if the Borrower's Leverage Ratio is less then or equal to 0.75.
>
> "LIBOR" shall mean the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined by the Bank pursuant to the following formula:
>
> $$\text{LIBOR} = \frac{\text{London InterBank Offered Rate}}{1 - \text{Reserve Percentage}}$$
>
> For purposes of this Agreement, the term "London InterBank Offered Rate" shall mean, for any Interest Period, as applied to any Adjusted LIBO Rate Loan,

the rate per annum determined by the Bank (which determination shall be conclusive) as the rate at approximately 11:00 a.m. London time (or as soon thereafter as practicable) two Eurodollar Business Days prior to the first day of such Interest Period at which leading banks in the London InterBank Market offer deposits of U.S. Dollars for a period and in an amount comparable to the Interest Period and principal amount of such Adjusted LIBO Rate Loan which rates appear on the Reuters Screen LIBO Page, provided that (i) if more than one such offered rate appears on the Reuters Screen LIBO Page, the "London Interbank offered Rate" will be the arithmetic average (rounded upward, if necessary, to the next higher 1/100th of 1%) of such offered rates; (ii) if no such offered rates appear on such page, the "London Interbank Offered Rate" for such Interest Period will be as determined by the Bank from another recognized source of interbank quotation.

(b) Article I of the Agreement is hereby supplemented by adding the following definitions thereto in the Appropriate alphabetical order;

"Reserve Percentage" shall mean, for any Adjusted LIBO Rate Loan for any Interest Period therefor, the daily average of the stated maximum rate (expressed as a decimal) at which reserves (including, without limitation, any basic, supplemental, marginal or emergency reserves) are required to be maintained during such Interest Period against Eurocurrency Liabilities (as that term is defined in Regulation D of the Federal Reserve Board), as prescribed by the Federal Reserve Board (or any successor or any other banking authority to which the Bank is subject, including any board or governmental or administrative agency of the United States or any other jurisdiction to which the Bank is subject). The Adjusted LIBO Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage applicable to it.

"Spot Rate of Exchange" shall mean on a particular day the Bank's spot rate of exchange for the purchase of Sterling in the London Foreign Exchange Market with US Dollars at or about 10:00 a.m. London time on such day. In the event no such spot rate of exchange is available, such spot rate shall be determined by the Bank, in conjunction with the Borrower, by mutual agreement of the Bank and the Borrower.

"Sterling" and "L" shall mean the lawful currency of the United Kingdom.

"US Dollar or $" shall mean the lawful currency of the United States of America;

"US Dollar Amount" shall mean on any particular day the principal amount in US Dollars which is outstanding under the Revolving Credit Facility determined by converting into US Dollars that part of the principal balance of the Revolving Credit Facility that was advanced in Sterling at the Spot Rate of Exchange on the date of determination and adding to such amount the principal balance of the Revolving Credit Facility advanced in US Dollars.

(c) Section 2.1(a) of the Agreement is hereby amended and restated in its entirety to read as follows:

At any time and from time to time during the period commencing on the Closing Date and ending on the Termination Date, upon the request of the Borrower, the Bank shall provide to the Borrower a loan or loans which shall be used by the Borrower for working capital and/or repayment of indebtedness existing at the time of the Closing (the "Line of Credit"). Such loans shall be made in U.S. Dollars or, subject to Section 2.1(f), in Sterling. Subject to Section 2.2(b)(2), any loan request by the Borrower shall be in a minimum amount of $100,000.00. To the extent a loan request exceeds $100,000.00, such excess shall be in multiples of $100,000.00. The Borrower may use the Line of Credit during the period referred to in the preceding sentence by borrowing, repaying and reborrowing in accordance with the terms of this Agreement. On and before May 31, 1998, the aggregate outstanding principal under the Line of Credit (calculated in U.S. Dollars) at any time shall not exceed $9,000,000.00. After May 31, 1998, the aggregate outstanding principal under the Line of Credit (calculated in U.S. Dollars) at any time shall not exceed $8,000,000. If, at any time, the aggregate outstanding principal under the Line of Credit (calculated in U.S. Dollars) exceeds: (i) on or before May 31, 1998, $9,000,000.00 or (ii) after May 31, 1998, $8,000,000.00, then, without any requirement of demand or notice from the Bank, the Borrower shall immediately pay to the Bank the amount of such excess. Upon the Termination Date, unless the same has been extended by written agreement between the Bank and the Borrower (which the Bank shall provide, if at all, no later than forty-five (45) days prior to the Termination Date), the

Bank's commitment to make Line of Credit Loans shall terminate, all Line of Credit Loans shall immediately mature and all Obligations under the Revolving Credit Facility shall be immediately due and payable in full in US Dollars.

(d) The first two sentences of Section 2.1(b) of the Agreement are is hereby amended and restated in its entirety to read as follows:

In addition to making loans to the Borrower under the Line of Credit as provided in Section 2.1(a) hereof, the Bank shall, upon the request of the Borrower and subject to the terms of this Agreement, also issue one or more trade or standby letters of credit ("Letters of Credit") for the account of the Borrower to support trade obligations of the Borrower or to benefit customers of the Borrower that have advanced funds to the Borrower or have executed maintenance contracts with the Borrower. The cumulative face amount of all outstanding Letters of Credit, together with the Chase Letters of Credit, shall at no time exceed $5,000,000; provided, further, that the cumulative face amount of all outstanding trade Letters of Credit shall at no time exceed $2,500,000.

(e) Section 2.1(b)(2) of the Agreement is hereby amended and restated to read in its entirety as follows:

Issuance of Letters of Credit. Subject to the provisions of Section 2.1(b)(1), the Bank shall issue Letters of Credit for the account of the Borrower, provided that the Borrower (i) provides a written request for each such Letter of Credit specifying the terms thereof, including, without limitation, the amount and the name and address of the beneficiary of such Letter of Credit; (ii) executes and delivers to the Bank an application for each such Letter of Credit pursuant to the form provided for such purpose by the Bank; and (iii) executes and delivers to the Bank such other documents and instruments which the Bank, in its sole and absolute discretion, deems reasonable and necessary. The Borrower shall pay to the Bank on the date of issuance of each standby Letter of Credit hereunder a fee equal to the face amount of the Letter of Credit multiplied by 1.5% less the Letter of Credit Fee Reduction, if any. The Borrower shall pay to the Bank all fees customarily charged by the Bank at the time of issuance of any trade Letters of Credit. The foregoing fees may be deducted by the Bank from the Borrower's accounts maintained at the Bank as such fees are incurred. The determination of whether the Borrower is entitled to a Letter of Credit Fee Reduction with respect to a standby Letter of Credit shall be made in connection with the Borrower's delivery of the certificate required to be delivered by the Borrower to the Bank pursuant to Section 6.2 of this Agreement. Letter of Credit Fee Reductions for future standby Letters of Credit will become effective upon the first Business Day of the fiscal quarter following the Bank's receipt of the above-described certificate.

(f) Section 2.1 of the Agreement is supplemented by adding the following Section 2.1(f)

2.1(f) Currency Provisions. All requests for Loans shall be accompanied by a request from the Borrower requesting the Loan as to the type of currency that is desired with respect to such Loan. Advances under the Revolving Credit Facility will be available only in US Dollars or in Sterling, provided however, that: (i) each Loan shall be made in only one currency; (ii) the Bank shall perform the notional conversion into US Dollars of any Sterling requested and (iii) total Sterling borrowings shall at no time exceed $1,000,000 (notionally converted at the then existing Spot Rate of Exchange). Requests by the Borrower for Advances in Sterling shall be made to the Bank's London Branch at 3 Bishop's Gate, London, England EC2N3AB (telephone: 44-171-621-1477; telecopy: 44-171-929-4644). Subject to Section 2.7 hereof, all amounts advanced under the Revolving Credit Facility and all of the other Obligations of the Borrower hereunder shall be paid in US Dollars. Borrower's request that an advance under the Revolving Credit Facility be made in Sterling shall be honored by the Bank so long as there does not exist at the time of such Borrower's request any national or international financial, political or economic conditions or currency exchange rates or exchange controls, which in the sole and exclusive opinion of the Bank, make it impractical or impossible for the Bank to make such Loan in Sterling; in such event the Bank shall give the Borrower notice as promptly as possible to the effect that as a result of such event the Loan will not be made in Sterling, but, at the option of the Borrower, such Loan will be made available in US Dollars. Any conversion of Sterling into US Dollars that is required for purposes of calculating (i) the amounts outstanding under the Revolving Credit Facility in US Dollars or (ii) for any other reason, shall be performed by the Bank by its application of the Spot Rate of Exchange on the date of such calculation; provided, however, that on the last Business Day of each month, the Bank shall calculate the amounts outstanding under the Revolving Credit Facility by notionally converting Sterling borrowings by using a Spot Rate of Exchange equal to the then existing Spot Rate of Exchange multiplied by 1.10. To the extent that such calculation causes the Borrower not to be in compliance with Section 2.1(a) or (f) hereof, the Borrower shall immediately pay to the Bank the amount of such excess.

(g) Section 2.2(b)(1) of the Agreement is hereby amended and restated in its entirety to read as follows:

The Borrower may ask the Bank for indications of LIBOR for specified Line of Credit Loans and Interest Periods, as applicable, at any time. If the Borrower anticipates that it may elect the Adjusted LIBO Rate to be applicable to a Line of Credit Loan, the Borrower shall request an indication of LIBOR prior to 11:00 a.m. (Philadelphia time) at least two Eurodollar Business Days prior to the commencement of the applicable Interest Period, and if the Borrower desires to elect the Adjusted LIBO Rate for such Interest Period, the Borrower must accept such indication of LIBOR by notice to the Bank in writing or by telephone (confirmed promptly in writing) prior to 11:00 a.m. (Philadelphia time) on the date of acceptance, which shall be at least two Eurodollar Business Days prior to the commencement of the Interest Period selected by the Borrower. If the Borrower does not provide the applicable notice of election of the Adjusted LIBO Rate, then the Borrower shall be deemed to have requested that the Adjusted Base Rate apply to any Line of Credit Loan which is subject to any expiring Interest Period and to any new Line of Credit Loan, as the case may be, until the Borrower shall have given appropriate notice of a requested change in or determination of the rate of interest in accordance with this Section 2.2. No acceptance of an indication of rate hereunder shall bind the Bank unless timely made.

(h) Section 2.7 of the Agreement is hereby supplemented by adding the following paragraph at the end thereof:

Notwithstanding the foregoing, to the extent the Borrower has received advances in Sterling in accordance with Section 2.1(f) of this Agreement, the Borrower may repay its obligations to the Bank in Sterling at the Bank's London Branch at 3 Bishop's Gate, London, England EC2N3AB (telephone: 44-171-621-1477; telecopy: 44-171-929-4644). Upon the receipt by the Bank's London Branch of a Sterling repayment, the Bank shall notionally convert such payment into US Dollars by application of the then prevailing Spot Rate of Exchange.

(i) Schedule 6.16 of the Agreement is hereby amended as follows:

(1) Section "A" of Schedule 6.16 is amended and restated in its entirety to read as follows:

Current Ratio -- The Borrower shall have at the end of each fiscal quarter a Current Ratio of not less than 1.10 to 1.00.

(2) The definition of "Current Assets" is amended and restated in its entirety to read as follows:

"Current Assets" shall mean, at any time, all assets which, in accordance with GAAP, should be classified as current assets of the Borrower, excluding, however, any and all accounts receivable related to that certain contract between the Borrower and CENTRIFUGE-BASED FLIGHT ENVIRONMENT TRAINER ("CFET") and any and all claims receivable.

(3) The definition of "Current Liabilities is amended and restated in its entirety to read as follows:

"Current Liabilities" shall mean, at any time, all liabilities which, in accordance with GAAP should be classified as current liabilities of the Borrower, plus, if the Line of Credit Loans do not constitute current liabilities in accordance with GAAP, the Line of Credit Loans, plus the face amount of all issued Letters of Credit except those issued for advance payment guaranties.

3. Conditions. To induce the Bank to enter into this First Amendment and to extend the Loans contemplated herein, the Borrower shall perform the following conditions to the Bank's satisfaction prior to the Bank's acting in reliance hereon:

(a) The Borrower shall execute and deliver to the Bank this First Amendment and all other documents as the Bank may require;

(b) The Borrower shall deliver to the Bank certified resolutions of the Board of Directors of the Borrower authorizing the execution of this First Amendment, all in such form as is acceptable to the Bank;

(c) The Borrower shall deliver to the Bank an officer's certificate in form and substance satisfactory to the Bank; and

(d) The Borrower shall deliver all other documents and certificates reasonably requested by the Bank.

4. Representations and Warranties. The Borrower hereby represents and warrants that:

(a) The representations and warranties contained in the Agreement and in each certificate, document or financial statement furnished by the Borrower in connection therewith or in connection with any other Loan Document, are true and correct on and as of the date hereof as though made on and as of the date hereof.

(b) No Event of Default, and no event which with the passage of time or the giving of notice or both could become an Event of Default, exists on the date hereof, and no offsets or defenses exist against the Borrower's obligations under the Agreement or the documents delivered in connection therewith.

(c) This First Amendment have been duly authorized, executed and delivered so as to constitute the legal, valid and binding obligations of the Borrower, enforceable in accordance with their terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, Moratorium or other similar laws affecting creditors, rights generally and general principles of equity.

(d) The execution, delivery and performance of this First Amendment will not violate any applicable provision of law or judgment, order or regulation of any court or of any public or governmental agency or authority nor conflict with or constitute a breach of or a default under any instrument to which the Borrower is a party or by which the Borrower or the Borrower's properties is bound, nor result in the creation of any lien, charge or encumbrance upon any assets of the Borrower except those liens permitted by or created under this First Amendment.

(e) No approval, consent or authorization of, or registration, declaration or filing with, any governmental or public body or authority is required in connection with the valid execution, delivery and performance by the Borrower of this First Amendment.

5. Reaffirmation. The Borrower hereby affirms and reaffirms to the Bank all of the terms and conditions of the Agreement and the other Loan Documents, including, without limitation, the confession of judgment provision contained therein, and agrees to abide thereby until all of the Borrower's obligations to the Bank are satisfied and/or discharged in their entirety.

6. Guarantors' Representations. Each Guarantor hereby represents and warrants that:

(a) The representations and warranties which it made in its respective Guaranty Agreement are true and correct as of the date hereof.

(b) This First Amendment has been duly authorized by all requisite action on behalf of each Guarantor and constitutes the legal, valid and binding obligations of each Guarantor enforceable in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general principles of equity.

(c) The execution, delivery and performance of this First Amendment will not violate any applicable provision of law or judgment, order or regulation of any court or of any public or governmental agency or authority nor conflict with or constitute a breach of or a default under any instrument to which each Guarantor is a party or by which any Guarantor or any of such Guarantor's properties is bound.

All of the above representations and warranties shall survive the making of this First Amendment.

7. Guarantors' Acknowledgments. Each Guarantor:

(a) Hereby acknowledges and consents to the provisions of this First Amendment and confirms and agrees that its obligations under its respective Guaranty Agreement shall be unimpaired hereby and that all terms and conditions of its respective Guaranty Agreement shall remain in full force and effect and unmodified hereby and are hereby ratified and confirmed.

(b) Hereby acknowledges the continued existence, validity and enforceability of its respective Guaranty Agreement, agrees that the terms, conditions, representations and covenants of its respective Guaranty Agreement, including, without limitation, such Guarantor's consent to the Bank entering a judgment against it by confession, are binding upon it and certifies that there exists no defenses, offsets or counterclaims thereto as of the date hereof subject to limitation set forth therein.

8. Miscellaneous.

(a) All terms, conditions, provisions and covenants in the Agreement, the Note, the Security Agreement and the Guaranty Agreements and all other Loan Documents delivered to the Bank in connection therewith shall remain unaltered and in full force and effect except as modified or amended hereby and are hereby ratified and confirmed.

(b) This First Amendment shall be governed and construed according to the laws of the Commonwealth of Pennsylvania.

(c) This First Amendment shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and permitted assigns.

(d) This First Amendment may be executed in one or more counterparts, and by different parties on different Counterparts, each of which shall be deemed an original, all of which together shall constitute one and the same instrument, and in making proof of this First Amendment it shall be necessary only to produce one counterpart.

(e) This First Amendment shall have effect as of its date.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the day and year first above written.

ATTEST:	ENVIRONMENTAL TECTONICS CORPORATION
By:/s/ Ann M. Allen	By:/s/ Duane D. Deaner
Title: Corporate Secretary	Title: C.F.O.

FIRST UNION NATIONAL BANK

By:______________________________
Title:___________________________

ATTEST:	ENVIRONMENTAL TECTONICS CORPORATION (EUROPE) LIMITED
By: /s/ Eugene A. Davis	By: /s/ Duane D. Deaner
Title: Director	Title: Director and Vice President

ATTEST:	ETC INTERNATIONAL CORPORATION
By:/s/ Ann M. Allen	By:/s/ Duane D. Deaner
Title: Asst. Secretary	Title: Vice President, C.F.O.

OFFICER'S CERTIFICATE

The undersigned, Duane Deaner, the duly elected and authorized Chief Financial Officer of Environmental Tectonics Corporation, a Pennsylvania corporation (the "Company"), without personal liability, does hereby certify pursuant to Section 4 of that certain First Amendment dated November 28, 1997, to the Revolving Credit Agreement dated March 27, 1997, between the Company and First Union Bank as follows:

(a) The representations and warranties contained in the Agreement and in each certificate, document or financial statement furnished by the Borrower in connection therewith or in connection with any other Loan Document, are true and correct on and as of the date hereof as though made on and as of the date hereof.

(b) No Event of Default, and no event which with the passage of time or the giving of notice or both could become an Event of Default, exists on the date hereof, and no offsets or defenses exist against the Borrower's obligations under the Agreement or the documents delivered in connection therewith.

(c) This First Amendment have been duly authorized, executed and delivered so as to constitute the legal, valid and binding obligations of the Borrower, enforceable in accordance with their terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' right generally and general principles of equity.

(d) The execution, delivery and performance of this First Amendment will not violate any applicable provision of law or judgement, order or regulation of any court or of any public or governmental agency or authority nor conflict with or constitute a breach of or a default under any instrument to which the Borrower is a party or by which the Borrower or the Borrower's properties is bound, nor result in the creation of any lien, charge or encumbrance upon any assets, of the Borrower except those liens permitted by or created under this First Amendment.

(e) No approval, consent or authorization of , or registration, declaration or filing with, any governmental or public body or authority is required in connection with the valid execution, delivery and performance by the Borrower of this First Amendment.

IN WITNESS WHEREOF, the undersigned has executed this officer's certificate this 11th day of February, 1998.

/s/ Duane D. Deaner
Duane D. Deaner
Chief Financial Officer

ENVIRONMENTAL TECTONICS CORPORATION

1998

ANNUAL SHAREHOLDERS' REPORT

FINANCIAL REVIEW
($ in thousands, except share and per share data)

Fiscal Year End	1998	1997	1996	1995	1994
Net sales	$ 29,284	$ 21,884	$ 15,580	$ 16,188	$ 16,986
Gross profit	9,298	5,742	5,206	4,097	2,921
Operating income (loss)	4,208	1,196	1,492	(891)	(1,671)
Net income (loss)	1,794	(20)	299	(1,405)	(1,413)
Earnings (loss) per common share:					
Basic	.50	(.01)	.10	(.49)	(.50)
Diluted	.47	(.01)	.10	(.49)	(.50)
Working capital	11,462	10,334	7,860	9,038	10,130
Long-term obligations	4,356	6,997	5,514	7,133	6,718
Total assets	22,955	23,095	20,926	20,803	18,024
Total stockholders' equity	8,579	6,409	6,111	5,736	7,050
Weighted average common shares:					
Basic	2,990,000	2,965,000	2,935,000	2,874,000	2,838,000
Diluted	3,196,000	2,965,000	2,935,000	2,874,000	2,838,000

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 1998 Versus Fiscal 1997

Certain statements under Item 1 and Item 7 contained herein or as may otherwise be incorporated by reference herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include but are not limited to: statements regarding future product development, technological advances and market acceptance of products. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, general economic and business conditions, competition, technological advances, political unrest in customer countries, contract cancellations and other risk factors that are detailed in this document and in other periodic reports and registration statements filed by Environmental Tectonics Corporation with the Securities and Exchange Commission. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no responsibility to update any such forward-looking statements. Accordingly, past results and trends should not be used by investors to anticipate future results or trends.

The Company had net income of $1,794,000 or $.47 per share compared to a net loss of $20,000 or $.01 per share in 1997. Operating income was $4,208,000, an increase of $3,012,000 or 252% over 1997. These increases were primarily the result of increased sales which were $29,284,000, up $7.4 million or 34% over 1997.

Domestic sales increased $4,477,000 or 102% over 1997 and accounted for 30% of the Company's total sales, up from 20% in 1997. This increase was due to the introduction of the Company's proprietary motion-based technology into the entertainment marketplace as well as a $1,308,000 increase in sales of industrial sterilizers. Sales to the U.S. Government, principally for work on two large altitude chambers and a continuation of our contracted operator maintenance contracts on selected aircrew training devices, increased $854,000 or 41% and accounted for 10% of ETC's total sales, the same percentages as 1997. Sales to international customers, principally government agencies, increased $2,068,000 or 13% over 1997 and accounted for 60% of the Company's total sales, down from 70% in 1997. The increase in international sales was due principally to continued work on a centrifuge for Japan and a multipurpose aircraft trainer for the United Kingdom Ministry of Defence (UKMOD). Sales in 1998 to UKMOD were approximately $9,226,000 or 32% of the Company's total sales. Open orders for UKMOD account for 59% of the Company's sales backlog at February 27, 1998.

On a segment basis, sales of the Company's Aircrew Training Systems (ATS) products which create and monitor the physiological effects of motion, including spatial disorientation and centrifugal forces, on humans and equipment for medical, training, research and entertainment markets were $22,055,000, an increase of $8,808,000 or 66% over 1997. Sales of these products accounted for 75% of ETC's sales compared to 61% in 1997. Sales in the Company's other segment, Process Simulation, which designs and produces chambers that create environments that are used for sterilization, research and medical applications, decreased $1,408,000 or 16% and accounted for 25% of ETC's total sales compared to 39% in 1997. This reduction was due principally to international sales of the Company's sterilizers and environmental chambers, which were $2,533,000 lower in 1998 compared to 1997.

Gross profit increased $3,556,000 or 62%. As a percentage of sales, gross profit was 32%, up from 26% in 1997. These increases were attributable, in part, to the higher sales volume, which improved plant capacity utilization, as well as an increase in sales of higher-margined ATS products.

Operating profit increased $3,012,000 or 252% compared to 1997. On a segment basis, ATS had an operating profit of $4,321,000, an increase of 97%, while the Process Simulation had an operating profit of $691,000 compared to an operating loss of

$304,000 in 1997. These segment operating profits were offset, in part, by unallocated corporate expenses of $714,000, an increase of $61,000 or 9% over 1997.

Selling and administrative expenses increased $563,000 or 13% due principally to higher variable costs related to the higher sales volume, such as commissions and travel expenses. As a percentage of sales, selling and administrative expenses were 17% compared to 20% in 1997. This improvement was due, in part, to the fixed administrative costs being spread over the higher sales total as well as a reduction in accounting and legal fees.

Research and development expenses decreased $19,000 or 11% from 1997. The Company's research efforts, which were and continue to be a significant cost of its business, are included in cost of sales for applied research for specific contracts as well as research and development for basic research for feasibility and technology updates. Capitalized software development costs for 1998 were $395,000 compared to $494,000 in 1997. Amortization of software costs, which were charged to cost of sales, were $670,000 and $681,000 for 1998 and 1997, respectively.

Interest expense was virtually unchanged from 1998. Other expense increased during 1998 principally due to foreign exchange charges.

The Company's provision for taxes approximates the statutory rate.

Fiscal 1997 Versus Fiscal 1996

Fiscal 1997 sales increased 40% over fiscal 1996 sales as significant increases in ATS products and the Sterilizers segment were only partially offset by a decrease in the Environmental line (for information concerning business segments, see Note 10 to the consolidated financial statements).

Cost of goods sold as a percentage of sales increased to 74% from 67% in fiscal 1996. Overall, this increase primarily reflected the write-down of $556,000 of certain slow-moving products to the lower of cost or market primarily in the ATS segment, $143,000 of additional depreciation expense for a demonstration unit transferred from inventory to fixed assets, $284,000 related to the Company's outstanding claim with the U.S. Navy, including an arbitration award in late April 1997 to one of the Company's subcontractors in the Navy CFET project for various work performed in the building part of the project, and $109,000 of additional amortization expense relating to capitalized expense relating to capitalized software costs of a certain product. The Company continues to actively market the slow-moving items. The Company is currently reviewing the arbitration costs as well as additional expenditures made through October 1996 on this project to determine which, if any, will be added to the existing claims with the U.S. Government.

The ATS segment reported a significantly higher sales level, up $5,209,000 or 65%, as a result of continuing production on certain large contracts and a further expansion of the Company's COMS business. As has been reported, the Company's backlog in the ATS segment has grown significantly in the most recent period, reflecting to some extent a stabilization of the world defense market. However, despite the sales increase, operating income decreased, reflecting the aforementioned inventory write-downs, depreciation and amortization expense, and arbitration award as well as a larger allocated share of the selling, general and administrative pool of expenses.

Sales in the Sterilizers segment increased $1,451,000 or 30%, reflecting the completion of certain larger contracts coupled with increased service and spare parts activity. Operating performance was a profit of $151,000 versus a loss in the prior period. This profit resulted from the higher volume coupled with a slight increase in the gross margin on a better mix of work and only partially offset by the aforementioned inventory write-downs.

The Environmental Systems segment experienced both decreased sales and a higher operating loss. This segment experienced lower bookings throughout the period coupled with higher costs on certain products. The Company has recently implemented personnel and product changes to strengthen operating results.

Operating and Other Expenses

Selling and administrative expenses in fiscal 1997 increased $819,000 compared to the prior period but as a percent of sales decreased to 20.0% from 22.8%. Approximately 90% of the increase was comprised of increased sales commissions, advertising and trade shows, and accounting and legal fees. The increase in commissions reflected a greater mix of commissionable sales and the increased sales activity. Advertising, brochures and trade show activity increased as the Company made a conscious effort to expand its presence and influence via technical publications, symposiums, etc. Accounting and legal fees increased as the Company evaluated its options for recapitalization that was ultimately completed in March 1997. The increased costs were partially offset by lower salaries expense in the selling and administrative area despite the heightened activity.

Research and development expenditures increased slightly as the Company continued to monitor this activity tightly.

Interest expense increased in fiscal 1997 over fiscal 1996. The increase reflected amortization in the current period of a non-cash deferred finance charge ($202,000) associated with warrants issued in conjunction with the Company's credit facility renewal in February 1996 coupled with interest charges for federal and state tax settlements. Interest on bank borrowing decreased as a result of lower average loan balances.

Other expenses decreased, primarily reflecting reduced foreign exchange and other fees.

Liquidity and Capital Resources

On March 27, 1997, the Company executed an agreement with a bank establishing a credit facility of $10 million. The facility bears interest at the bank's prime rate and expires on May 31, 1999. Substantially all of the Company's short-term financing is provided by this bank. On May 26, 1998, the Company received a commitment from its bank to maintain the total facility at $10 million and to extend the maturity date of the entire facility from May 31, 1999 to May 31, 2000. Additionally, the Company issued $4 million of subordinated debentures, bearing interest at 12% annum, due March 27, 2004. In connection with the subordinated debentures, warrants were issued to acquire 166,410 shares of the Company's common stock at an exercise price of $1.00; $499,000 of the proceeds from the debentures was allocated to the warrants and will be charged to income over the term of the debentures. The Company also issued 25,000 shares of 11%, $100 face value, convertible preferred stock for $2.5 million. Each share of preferred stock is convertible, at the option of the shareholder, into 13.33 shares of the Company's common stock at a price of $7.50 per share. The proceeds from these transactions were used to repay amounts outstanding under the existing credit facility at February 28, 1997. The Company had $5,870,000 available under the Credit Agreement at February 27, 1998. (See Note 6 of the Notes to the Consolidated Financial Statements.)

During fiscal 1998, the Company generated $1,647,000 of cash from operating activities. This was the result of net income and noncash charges as well as a significant reduction in the Company's accounts receivable. These cash sources were offset by increases in costs and estimated earnings in excess of billings for uncompleted long-term contracts and a reduction in billings in excess of costs for uncompleted long-term contracts. The Company used $1,065,000 for investing activities of acquisition of equipment and capitalized software development costs. Funds were provided to support these investing activities from available borrowings under the Company's Credit Agreement. The Company believes that cash generated from operating activities, as well as available borrowings under the Credit Agreement, will be sufficient to meet its obligations. At May 22, 1998, the Company had $2.5 million available borrowings under the Credit Agreement.

In reference to the Company's outstanding claim with the U.S. Government, 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 (see Note 2 of Notes to Consolidated Financial Statements).

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 15, 1998, the Company had 359 shareholders of record.

The following table sets forth the quarterly ranges of high and low sale 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
1998			
First Quarter	$ 9-3/8	$ 6-1/2	$ 9-5/16
Second Quarter	10-1/8	7-7/8	8-1/2
Third Quarter	11-3/4	8-1/2	9-1/8
Fourth Quarter	10	7-3/8	8-3/4
1997			
First Quarter	8-1/2	3	5-5/16
Second Quarter	5-7/8	4-1/2	5-5/8
Third Quarter	8	5-5/8	6-3/8
Fourth Quarter	7-1/2	6	6-5/8

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.

Backlog

The Company's sales backlog at February 27, 1998 and February 28, 1997 for work to be performed and revenue to be recognized under written agreements after such dates was approximately $27,523,000 and $25,800,000, respectively. In addition, the Company's training and maintenance contracts backlog at February 27, 1998 and February 28, 1997 for work to be performed and revenue to be recognized after that date under written agreements was approximately $2,925,000 and $5,100,000, respectively. Of the 1998 backlog, approximately $29,135,000 is under contracts for ATS and maintenance support. Approximately 60% of the 1998 backlog is expected to be completed prior to February 26, 1999.

Consolidated Balance Sheets
($ in thousands, except share data)

	February 27, 1998	February 28, 1997
ASSETS		
Cash and cash equivalents	$ 225	$ 189
Cash equivalents restricted for letters of credit	15	665
Accounts receivable, net	8,448	11,352
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	5,651	3,345
Inventories	3,058	2,719
Deferred tax asset	770	786
Prepaid expenses and other current assets	283	92
Total current assets	18,450	19,148
Property, plant, and equipment, at cost, net	2,837	2,480
Software development costs, net of accumulated amortization of $3,914 and $3,244 in 1998 and 1997, respectively	1,155	1,430
Other assets	513	37
Total assets	$ 22,955	$ 23,095
LIABILITIES		
Current portion of long-term obligations	$ 148	$ 119
Convertible notes payable - related parties	800	1,300
Accounts payable - trade	1,424	1,799
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	1,145	2,051
Customer deposits	1,373	1,746
Accrued income taxes	984	271
Net arbitration awards	-	306
Other accrued liabilities	1,114	1,222
Total current liabilities	6,988	8,814
Long-term obligations, less current portion:		
Credit facility payable to banks	467	6,714
Subordinated debt	3,730	-
Other	159	283
	4,356	6,997
Deferred tax liability	702	875

Total liabilities	12,046	16,686
Redeemable cumulative convertible preferred stock, $100 par and redemption value: 25,000 shares authorized; 25,000 shares issued and outstanding	2,330	-
STOCKHOLDERS' EQUITY		
Common stock - authorized 10,000,000 shares, $.10 par value; 3,006,596 and 2,963,083 shares issued and outstanding in 1998 and 1997, respectively	300	296
Capital contributed in excess of par value of common stock	2,671	2,007
Retained earnings	5,608	4,106
Total stockholders' equity	8,579	6,409
Total liabilities and stockholders' equity	$ 22,955	$ 23,095

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

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

	Year Ended February 27, 1998	Year Ended February 28, 1997
Net sales	$ 29,284	$ 21,884
Cost of goods sold	19,986	16,142
Gross profit	9,298	5,742
Operating expenses:		
Selling and administrative	4,942	4,379
Research and development	148	167
	5,090	4,546
Operating income	4,208	1,196
Other expenses:		
Interest expense	1,244	1,247
Letter of credit fees	58	23
Other, net	146	34
	1,448	1,304
Income (loss) before provision (benefit) for income taxes	2,760	(108)
Provision (benefit) for income taxes	966	(88)
Net income (loss)	$ 1,794	$ (20)
Per share information		
Earnings (loss) per common share:		
Basic	$ .50	$ (.01)
Diluted	$ .47	$ (.01)
Income (loss) available to common stockholders	$ 1,502	$ (20)
Weighted average common shares:		
Basic	2,990,344	2,965,000

Diluted	3,195,801	2,965,000

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

Consolidated Statements of Changes in Stockholders' Equity
($ in thousands, except share data)

For the years ended February 27, 1998 and February 28, 1997

	Common stock Shares	Amount	Capital contributed in excess of par value of common stock	Retained earnings	Total stock-holders' equity
Balance, February 23, 1996	2,928,944	$ 293	$ 1,692	$ 4,126	$ 6,111
Net loss for the year	-	-	-	(20)	(20)
Issuance of stock purchase warrants	-	-	202	-	202
Shares issued in connection with employee stock purchase and stock option plans	34,139	3	113	-	116
Balance, February 28, 1997	2,963,083	296	2,007	4,106	6,409
Net income for the year	-	-	-	1,794	1,794
Value of warrants issued in connection with issuance of subordinated debt	-	-	499	-	499
Accretion of preferred stock	-	-	-	(38)	(38)
Dividends on preferred stock	-	-	-	(254)	(254)
Shares issued in connection with employee stock purchase and stock option plans	41,550	3	146	-	149
Shares issued in connection with employee stock award	1,963	1	19	-	20
Balance, February 27, 1998	3,006,596	$ 300	$ 2,671	$ 5,608	$ 8,579

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

Consolidated Statements of Cash Flows
($ in thousands)

	Year Ended February 27, 1998	Year Ended February 28, 1997
Cash flows from operating activities:		
Net income (loss)	$ 1,794	$ (20)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,463	1,452
Increase in allowance for accounts receivable and inventory	527	113
(Increase) decrease in assets:		
Accounts receivable	2,762	(3,755)
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	(2,306)	679
Inventories	(882)	606
Prepaid expenses and other current assets	(44)	464
Other assets	(35)	(17)
Increase (decrease) in liabilities:		
Accounts payable	(375)	213

Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(1,543)	(1,304)
Customer deposits	264	1,642
Accrued income taxes	713	83
Net arbitration awards	-	241
Other accrued liabilities	(414)	410
Payments under settlement agreements	(120)	(530)
Decrease in deferred income taxes	(157)	(281)
Net cash provided by (used in) operating activities	1,647	(4)
Cash flows from investing activities:		
Acquisition of equipment	(670)	(231)
Software development costs capitalized	(395)	(494)
Net cash used in investing activities	(1,065)	(725)
Cash flows from financing activities:		
Net payments under credit facility	(6,247)	(775)
Net proceeds from subordinated debt	3,730	-
Net proceeds from preferred stock	2,292	-
Payment of dividends on preferred stock	(254)	-
Deferred financing costs	(876)	-
Decrease in cash equivalents restricted for letters of credit	650	194
(Decrease) increase in notes payable - related party	(500)	1,300
Increase in other long-term obligations	-	68
Net principal payments of other long-term debt	(9)	(16)
Proceeds from issuance of common stock/warrants	668	116
Net cash (used in) provided by financing activities	(546)	887
Net increase in cash and cash equivalents	36	158
Cash and cash equivalents at beginning of year	189	31
Cash and cash equivalents at end of year	$ 225	$ 189
Supplemental schedule of cash flow information:		
Interest paid	$ 1,123	$ 940
Income taxes paid	434	100

Supplemental information on noncash operating and investing activities:
The Company reclassed $158 and $286 of inventory to property, plant, and equipment during the years ended February 27, 1998 and February 28, 1997, respectively.

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

1. Summary of Significant Accounting Policies:

Nature of Business

Environmental Tectonics Corporation (ETC or the Company) is primarily engaged in the development, marketing and manufacturing of Aircrew Training Systems (ATS) and Process Simulation equipment. The Company utilizes its internally developed software systems in virtually all of its products. ETC focuses on software enhancements, product extensions, new product development and new marketplace applications. Sales of ATS products are made principally to U.S. and foreign government agencies and to the entertainment market. Sales of Process Simulation equipment, which includes sterilizers and environmental systems, are made for commercial and governmental agencies worldwide.

Principles of Consolidation:

The consolidated financial statements include the accounts of ETC 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.

Use of Estimates:

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. Significant estimates are made for revenue recognition under the percentage of completion method (see Note 1, Revenue Recognition), claims receivable, inventory, and computer software costs.

The Company has recorded receivables in the amount of $4.6 million for claims made to or against the United States government for contract costs incurred through February 27, 1998. The total net claims amount made is approximately $10.3 million based on costs incurred through February 28, 1997 and is subject to negotiation, arbitration and audit by the United States government.

Many existing computer programs use only two digits to identify a year in the date field. These programs were designed and developed without considering the impact of the upcoming change in the century. If not corrected, many computer applications could fail or create erroneous results by or at the year 2000. The Year 2000 issue affects virtually all companies and organizations. The Company estimates that costs associated with the Year 2000 issue will not have a material impact on its financial position or results of operations.

Revenue Recognition:

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 become known. 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 contracts under $100 or to be competed in less than one year and revenue on parts and services are recognized as shipped. Revenue for service contracts is recognized ratably over the life of the contract. Related material costs are expensed as incurred.

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 $515 at February 27, 1998.

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. The Company periodically reviews the net realizable value of the inventory and, if necessary, writes down the recorded costs.

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:

The Company capitalizes the qualifying costs of developing software contained in certain products. Capitalization of costs requires that technological feasibility has been established. When the software is fully documented and tested, capitalization of development costs cease and amortization commences over a period ranging from 36 to 60 months (dependent upon the life of the product) on a straight-line basis which, at a minimum, approximates estimated sales. Realization of capitalized software costs is subject to the Company's ability to market the related product in the future and generate cash flows to support future operation. Capitalized software costs and related amortization totalled $395 and $670, respectively, for the year ended February 27, 1998. Capitalized software costs and related amortization totalled $494 and $681, respectively, for the year ended February 28, 1997.

Amortization of Deferred Financing Costs:

Capitalized costs relating to the recapitalization of the Company are amortized over the term of the credit facility. Amortization expense relating to deferred financing costs was $241 and $202 in 1998 and 1997, respectively (see Note 6).

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:

In the first quarter of 1997, the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which provides guidance on when to recognize and how to measure impairment losses of long-lived assets and certain identifiable intangibles and how to value long-lived assets to be disposed of. The adoption of SFAS No. 121 had no material effect on the Company's consolidated financial position or results of operations.

Stock Options:

In the first quarter of 1997, the Company adopted 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 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's Incentive Stock Option Plan is accounted for under APB Opinion No. 25.

Advertising Costs:

The Company expenses advertising costs as incurred. Advertising expense was $210 and $189 for the years ended February 27, 1998 and February 28, 1997, respectively.

Earnings (Loss) Per Common Share:

The Company has adopted SFAS No. 128, "Earnings Per Share," which is effective for financial statements issued after December 15, 1997. The new standard eliminates primary and fully diluted earnings per share and requires presentation of basic and diluted earnings per share together with disclosure of how the per share amounts were computed. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Due to the antidilutive effect resulting from the loss, the adoption of this standard did not effect earnings per share for the year ended February 28, 1997.

The following table illustrates the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

	Year ended February 27, 1998		
	Income (numerator)	Weighted average shares (denominator)	Per share amount
Net income	$ 1,794		
Less preferred stock dividends	(254)		
Less accretion of preferred stock	(38)		
Basic earnings per share			
Income available to common stockholders	$ 1,502	2,990,344	$ .50

Effective of dilutive securities			
Stock options		31,655	
Stock warrants		173,802	
Diluted earnings per share			
Income available to common stock-holders plus effect of dilutive securities	$ 1,502	3,195,801	$ .47

There were conversion provisions of convertible subordinated debt and preferred stock totalling 400,000 shares of common stock, which were not included in the computation of diluted earnings per share because the effect of assumed conversions was antidilutive. These conversion provisions were still outstanding at February 27, 1998.

	Year ended February 28, 1997		
	Income (numerator)	Weighted average shares (denominator)	Per share amount
Basic loss per share			
Loss available to common stockholders	$ (20)	2,965,000	$ (.01)
Diluted loss per share			
Loss available to common stockholders plus effect of dilutive securities	$ (20)	2,965,000	$ (.01)

There were options to purchase 98,810 shares of common stock at a range of $2.25 to $4.50 per share and conversion features of convertible notes payable totalling 108,333 shares of common stock, which were not included in the computation of diluted earnings per share because of the net loss for the year making an increase in common stock antidilutive. These stock options and conversion features were both outstanding at February 28, 1997.

Reporting Comprehensive Income:

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards to provide prominent disclosure of comprehensive income items. Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. SFAS No. 130 is effective for all periods beginning after December 15, 1997. Subsequent to the effective date, all prior-period amounts are required to be restated to conform to the provisions of SFAS No. 130. The adoption of SFAS No. 130 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Business Segment Presentation:

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires that public business enterprises report certain information about operating segments in complete sets of financial statements of the enterprise and in condensed financial statements of interim periods issued to shareholders. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers. SFAS No. 131 is effective for all periods beginning after December 15, 1997. The adoption of SFAS No. 131 will have no impact on the Company's consolidated financial position or results of operations.

Reclassifications:

Certain reclassifications have been made to the 1997 financial statements to conform with the 1998 presentation.

2. Accounts Receivable:

The components of accounts receivable at February 27, 1998 and February 28, 1997 are as follows:

	1998	1997
U.S. Government receivables billed and unbilled contract costs subject to negotiation	$ 4,563	$ 5,284
U.S. commercial receivables billed	1,071	2,477
International receivables billed	3,193	3,828
	8,827	11,589
Less allowance for doubtful accounts	(379)	(237)
	$ 8,448	$11,352

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 under a contract for a centrifuge. These costs were recorded during fiscal years 1994, 1995 and 1998. The Company has recorded claims, amounting to $2.75 million, including $150 recorded in the first quarter of fiscal 1998, 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 1998. In accordance with generally accepted accounting principles, revenues recorded by the Company from a claim does not exceed the incurred contract costs related to the claim. The Company currently has approximately $8.6 million in claims filed with the U.S. Government. The U.S. Government has responded to the claims with either denials or deemed denials that the Company has appealed. During the first quarter of fiscal 1998, the Company recorded an additional $150 in claims revenue, reflecting additional expenditures on the centrifuge contract that will be incorporated into additional claims to be filed with the U.S. Government in fiscal 1999. Additional amounts are under review for the period November 1995 through October 1996 to determine what, if any, additional amounts above the $150 recorded in fiscal 1998 can be filed as supplemental claims. Such claims are subject to negotiation and audit by the U.S. Government.

In November 1996, the Company invoiced the balance due under a contract with the U.S. Government. At February 27, 1998, approximately $1.7 million was in U.S. Government receivables. Collectibility of these amounts may be dependent upon the resolution of the above claims.

International receivables billed:

In October 1993, the Company was notified by the Royal Thai Air Force (RTAF) that the RTAF was terminating a certain $4.6 million simulator contract with the Company. Although the Company had performed in excess of 90% of the contract, the RTAF alleged a failure to completely perform. In connection with the termination, the RTAF made a call on a $229 performance bond, as well as a draw on an approximately $1.1 million advance payment letter of credit. Work under this contract had stopped while under arbitration, but on October 1, 1996 the Thai Trade Arbitration Counsel rendered its decision under which the contract was reinstated in full and the Company was given a period of nine months to complete the remainder of the work. Upon completion of the contract, the RTAF will pay the Company the open receivable balance ($1.8 million), consisting of the performance bond, the advance payment, and the 10% due on the balance of the contract. Except as noted in the award, the rights and obligations of the parties remain as per the original contract. Should the Company fail to perform under the contract in the time allotted, or should the RTAF not agree to any extension of the time allotted, the RTAF could invoke penalties against the Company, including termination of the contract and delay penalties. The contract was not completed in the time allotted; however, the Company has requested an extension on the completion time due to various extenuating circumstances, including certain allowable "force majeure" events.

On December 22, 1997, the Company successfully performed acceptance testing and the unit passed with no discrepancy reports. The process towards payment of the open balance is currently in progress. At this point, the Company is not able to determine what, if any, impact the extended completion period and the current economic condition in Thailand will have upon final payment.

3. Costs and Estimated Earnings on Uncompleted Contracts:

The following is a summary of long-term contracts in progress at February 27, 1998 and February 28, 1997:

	1998	1997
Costs incurred on uncompleted long-term contracts	$23,420	$12,539
Estimated earnings	10,027	7,507
	33,447	20,046
Less billings to date	(28,941)	(18,752)
	$ 4,506	$ 1,294

	1998	1997
Included in accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted long-		

	1998	1997
term contracts	$ 5,651	$ 3,345
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(1,145)	(2,051)
	$ 4,506	$ 1,294

Included in billings in excess of costs and estimated earnings on uncompleted long-term contracts is a provision for anticipated losses on contracts of $198 and $163 in 1998 and 1997, respectively.

4. Inventories:

Inventories consist of the following:

	Raw material	Work in process	Total
February 27, 1998	$ 404	$2,654	$3,058
February 28, 1997	417	2,302	2,719

Inventory is presented net of an allowance for obsolescence of $1,040 and $756 in 1998 and 1997, respectively.

5. Property, Plant, and Equipment:

The following is a summary of property, plant, and equipment, at cost, and estimated useful lives at February 27, 1998 and February 28, 1997:

	1998	1997	Estimated useful lives
Land	$ 100	$ 100	
Building and building additions	1,811	1,811	40 years
Machinery and equipment	6,084	5,288	3-5 years
Office furniture and equipment	759	727	10 years
Building improvements	812	812	5-10 years
	9,566	8,738	
Less accumulated depreciation	(6,729)	(6,258)	
Property, plant, and equipment, net	$ 2,837	$ 2,480	

Depreciation expense for the years ended February 27, 1998 and February 28, 1997 was $482 and $536, respectively.

6. Long-Term Obligation and Credit Arrangements:

Long-term obligations at February 27, 1998 and February 28, 1997 consist of the following:

	1998	1997

Credit facility payable to banks	$ 467	$ 6,714
Subordinated debt, net	3,730	-
Products liability settlement (net of unamortized discount of $105 and $139, respectively, based on imputed rate of 11%)	220	306
Term loans payable accruing interest at between 9% and 9.9% collateralized by priority liens on certain equipment	87	96
	4,504	7,116
Less current portion	(148)	(119)
	$ 4,356	$ 6,997

The amounts of future long-term obligations maturing in each of the next five fiscal years are as follows:

1999	$ 148
2000	617
2001	106
2002	7
2003 and thereafter	4,000
Total future obligations	4,878
Unamortized discounts or financing costs associated with obligations	(374)
	$ 4,504

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 as of February 27, 1998 and February 28, 1997 are as follows:

	1998	1997
Approximate average loan balance	$ 3,024	$ 7,131
Maximum aggregate	$ 5,134	$ 7,489
Weighted average interest rate	8.37%	10.60%

Interest is charged on direct borrowings at the bank's prime rate in 1998 and at the bank's prime rate plus 2% in 1997. The interest rates were 8.25% and 10.25% at February 27, 1998 and February 28, 1997, respectively.

The Company's letter of credit limit is $5,000, provided that the cumulative of all outstanding trade letters of credit does not exceed $2,500. The balances outstanding under these provisions at February 27, 1998 were $3,644 and $1,255, respectively. Fees on letters of credit outstanding were 1.5% and 2.0% at February 27, 1998 and February 28, 1997, respectively.

Recapitalization:

On March 27, 1997, the Company entered into a revolving credit agreement (the Credit Agreement) with a new financial institution, establishing a credit facility of $10 million through May 31, 1998, at which time the facility is reduced to $9 million. The Credit Agreement is collateralized by substantially all of the Company's assets. The Company is prohibited from declaring any cash dividends under the terms of the Credit Agreement. This facility bears interest at the bank's prime lending rate or adjusted LIBOR and expires on May 31, 1999. A commitment fee of 0.2% is charged for unused available funds. The credit facility includes certain covenants related to, among other things, prohibitions on incurring additional debt, change in ownership of certain officers, payment of dividends and maintenance, on a quarterly basis, a current ratio of not less than 1.50 to 1, a leverage ratio of 1.25 to 1, and a funds flow coverage ratio of 1.10 to 1. Substantially all of the Company's short-term financing is provided by this bank. The Company incurred $357 of financing fees related to origination of the Credit Agreement. This amount is included in prepaid expenses and other assets and will be charged to interest expense over the term of the Credit Agreement, which is two years. The Company had $5,870 available under the Credit Agreement at February 27, 1998.

Additionally, the Company issued $4 million of subordinated debentures, bearing interest at 12% per annum, due March 27, 2004 to a financial institution, a director of which has been subsequently appointed and elected to the Company's Board of Directors. In connection with the subordinated debentures, warrants were issued to acquire 166,410 shares of the Company's common stock at an exercise price of $1.00 per share; $499 of the proceeds from the sale of the debentures was allocated to the warrants and credited to capital contributed in excess of par value of common stock. This amount, along with financing fees of $311, which were netted against the proceeds, will be amortized to interest expense over the term of the debentures, which is seven years.

The Company also issued 25,000 shares of 11% redeemable convertible preferred stock for $2.5 million. Each share of convertible stock is convertible, at the option of the shareholder, into 13.33 shares of the Company's common stock at a price of $7.50 per share. Financing fees for the preferred stock were approximately $208, which were netted against the proceeds and will be accreted to retained earnings over five years. The preferred stock is mandatorily redeemable by the Company beginning in 2002 at a rate of one-third per year.

Total financing fees associated with the recapitalization were approximately $876. The proceeds from these transactions were used to repay, in full, amounts outstanding with a prior lender.

The components of the subordinated debt and preferred stock at February 27, 1998 are as follows:

	Subordinated debt	Preferred stock
Face value	$ 4,300	$ 2,500
Deferred financing costs	(311)	(208)
Accretion of preferred stock	-	38
Amortization of financing costs	41	-
Balance at February 27, 1998	$ 3,730	$ 2,330

As a condition to the issuance of the prior credit facility, warrants to purchase 100,000 shares of the Company's common stock at $5.00 per share were issued on November 20, 1990. These warrants expired on November 20, 1995. As a condition to the extension of the credit facility through March 31, 1997, warrants were issued to purchase 100,000 shares of the Company's common stock at a price equal of $5.18. The warrants will be exercisable through 2001. If the holder desires to sell or transfer any of its warrants, the Company has the right of first refusal. A deferred charge of $202 was assigned to the warrants and amortized to profit and loss during the year ended February 28, 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.

Product Liability Settlement:

During June 1995, the Company entered into a settlement 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 by July 20, 1995 and $100 on April 20, 1996. In September 1996, the Company renegotiated the payment schedule. For the period from October 1996 to September 1997, the Company will pay $10 per month. Beginning October 1997, the Company will pay $5 per month until the obligation is satisfied. The claimant did reserve the right to pursue additional payment amounts as per the original settlement agreement of July 29, 1995. The Company has recorded a discount of $207 on this settlement based on an imputed interest rate of 11%, which is amortized over the term of the settlement.

The carrying value of the aforementioned financial instruments approximates its fair value at February 27, 1998.

7. Related Parties:

Convertible Notes Payable:

Notes payable represent amounts due from directors, executive officers and their affiliates. Notes payable, due on demand, bear interest at 10% and are subordinated to the Company's credit facility. The payees have the right to convert the notes into shares of the Company's common stock. The notes can be converted at a price which is the greater of $5 or 75% of the average closing price of the Company's common stock, as defined, at conversion. In March and April 1998, the Company repaid $500 of these obligations.

ETC Europe:

The Company transacts its business in Europe through ETC Europe, an affiliated entity which is 99% owned by the president of the Company. Sales through ETC Europe were $4,932 and $3,481 in 1998 and 1997, respectively. Amounts due from ETC Europe as of February 27, 1998 and February 28, 1997 were $-0- and $587, respectively.

Subordinated Debt and Preferred Stock:

A director of ETC is also a director of one of its creditors (see Note 6).

8. 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 27, 1998 are $60 in 1999; $21 in 2000; $18 in 2001; $16 in 2002; and $5 in 2003.

Total rental expense for all operating leases for the years ended February 27, 1998 and February 28, 1997 was approximately $106 and $197, respectively.

9. Income Taxes:

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

	Year Ended February 27, 1998	Year Ended February 28, 1997
Currently payable:		
Federal	$ 1,099	$ 190
State	24	3
	1,123	193
Deferred:		
Federal	(142)	(333)
State	(15)	(48)
	(157)	(281)
	$ 966	$ (88)

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

	Year Ended February 27, 1998	Year Ended February 28, 1997
Statutory income tax	34.0%	(34.0)%
State income tax, net of federal tax benefit	(0.6)	(1.7)
Foreign sales corporation	(4.9)	(63.9)
Other	6.5	18.1
	35.0%	(81.5)%

The tax effects of the primary temporary differences are as follows:

	1998	1997
Deferred tax assets:		
Net arbitration award against Company	$ -	$ 127
Net products liability settlement	70	116
Vacation reserve	43	48
Inventory reserve	389	285
Receivable reserve	142	89
Warranty reserve	44	44
Other, net	82	77
Total current deferred tax asset	$ 770	$ 786
Deferred tax liabilities:		
Amortization of capitalized software	$ 432	$ 539
Depreciation	270	336
Total noncurrent deferred tax		

liability	$ 702	$ 875

10. Business Segment Information:

The Company primarily manufactures, under contract, various types of high-technology equipment which it has designed and developed. The Company considers its business activities to be two segments: ATS and Process Simulation. The ATS business produces devices which create and monitor the physiological effects of motion, including spatial disorientation and centrifugal forces for medical, training, research and entertainment markets. The Process Simulation business produces chambers that create environmental situations that are used for sterilization, research and medical applications.

	ATS	Process Simulation	Corporate	Total
1998				
Net sales	$22,055	$ 7,229	$ -	$29,284
Operating income (loss)	4,231	691	(714)	4,208
Identifiable assets	16,609	2,744	2,832	22,185
1997				
Net sales	$13,247	$ 8,637	$ -	$21,884
Operating income (loss)	2,153	(304)	(653)	1,196
Identifiable assets	14,071	4,912	3,326	22,309

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 19%, 11% and 10% of sales in 1998 were made to two international customers and one domestic commercial account, totalling sales of $5,492, $3,266 and $3,013, respectively, in the ATS segment. Approximately 17% and 11% of sales in 1997 were made to two international customers, totalling sales of $3,826 and $2,527, respectively, in the ATS segment.

Included in the segment information for the year ended February 27, 1998 are export sales of $17,490. Of these amounts, there are sales to or relating to governments in Europe ($6,197), the Middle East ($2,547) and Asia ($3,546) for the sales of ATS equipment. Sales to the U.S. Government and its agencies aggregate $2,936 for the year ended February 27, 1998.

Included in the segment information for the year ended February 28, 1997 are export sales of $15,422. Of these amounts, there are sales to or relating to governments or commercial customers of Europe ($3,826), the Middle East ($1,167) and Asia ($4,496) for the sales of ATS and Sterilizer equipment. Sales to the U.S. Government and its agencies aggregated $2,082 for the year ended February 28, 1997.

11. Stock Options:

The Company has a fixed Incentive Stock Option Plan (the Plan) accounted for under APB Opinion No. 25 and related Interpretations. The Plan allows the Company to grant options to employees for up to 500,000 shares of common stock and will terminate on August 24, 1998. At February 27, 1998, there were 316,000 shares available to be granted under the Plan. The options, which have a term of 10 years when issued, vest over a four-year period. The exercise price of each option shall not be less than 100% of the current market price of the Company's stock on the date of grant. Accordingly, no compensation cost has been recognized for the Plan. Had compensation cost for the Plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS No. 123, the Company's net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below.

	1998	1997
Net income (loss):		
As reported	$ 1,794	$ (20)
Pro forma	$ 1,765	$ (37)
Basic earnings (loss) per share:		
As reported	$ .50	$ (.01)
Pro forma	$ .49	$ (.01)
Diluted earnings (loss) per share:		
As reported	$ .47	$ (.01)
Pro forma	$ .46	$ (.01)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions used for grants in 1997: dividend yield of 0%; expected volatility of 60%; risk-free interest rate of 6.2%; and expected life of four years.

A summary of the status of the Plan as of February 27, 1998 and February 28, 1997, and changes during the years ending on those dates is presented below.

	1998		1997	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	98,810	$3.75	79,550	$3.19
Granted	-	-	54,900	4.33
Exercised	(39,835)	3.16	(32,040)	3.30
Forfeited	(12,800)	4.50	(3,600)	4.25
Outstanding at end of year	46,175	3.97	98,810	3.75

Options exercisable at year end	11,144	48,635
Weighted average fair value of options granted during the year	$ -	$4.41

The following information applies to options outstanding at February 27, 1998 and February 28, 1997:

	1998	1997
Number outstanding	46,175	98,810
Range of exercise prices	$2.25 to $4.50	$2.25 to $4.50
Weighted average exercise price	$3.97	$3.75
Weighted average remaining contractual life years	6.4 years	6.6 years

12. Claims and Litigation:

A lawsuit was commenced against the Company in April 1997 in the United States District Court for the District of Puerto Rico by an employee of a customer who claims to have been injured as a result of an alleged malfunction of a sterilizer manufactured by the Company. The plaintiff is seeking $3 million in damages. The Company has up to $10 million of products liability coverage, subject to a $100 deductible. The outcome of this litigation is not currently predictable.

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, after consultation with legal counsel, all such matters are reserved for or adequately covered by insurance or, if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Company if disposed of unfavorably.

13. Employee Benefit Plan:

The Company maintains a retirement savings 401(k) plan for eligible employees. The Company's contributions to the plan are based on a percentage of the employees' qualifying contributions. The Company's contributions totalled $91 and $83 in 1998 and 1997, respectively.

From time to time, the Company had not made employee contribution payments to the trustee of its employee benefit plan concurrent with payroll payments to such employees. The Company is now making these payments concurrent with its payroll. By reason of such past late payments, the Company may be subject to certain additional interest and taxes as well as potential penalties, although the Company denies liability therefor and does not believe that such additional costs will be material.

14. Subsequent Event:

In April 1998, the Company acquired 65% ownership of a simulation and advanced training device manufacturing company located in Warsaw, Poland for $375,000 in cash, a 10% interest-only three-year note payable for $350,000, and 55,000 shares of ETC's common stock.

15. Quarterly Consolidated Financial Information (Unaudited):

Financial data for the interim periods of 1998 and 1997 were as follows:

Fiscal Year 1998	Quarter Ended May 30	August 29	November 28	February 27
Net sales	$ 6,644	$ 7,181	$ 7,639	$ 7,820
Gross profit	1,960	2,358	2,467	2,513
Operating income	790	1,095	1,143	1,180
Income before income taxes	546	631	755	828
Net income	360	406	491	537
Earnings per common share:				
Basic	.10	.11	.14	.15
Diluted	.10	.10	.13	.14

Fiscal Year 1997	Quarter Ended May 31	August 30	November 29	February 28
Net sales	$ 4,509	$ 4,807	$ 5,568	$ 6,910
Gross profit	1,395	1,582	1,774	991
Operating income (loss)	439	581	703	(527)
Income (loss) before income taxes	175	255	421	(959)
Net income (loss)	120	172	287	(599)
Earnings (loss) per common share:				
Basic	.04	.06	.09	(.20)
Diluted	.04	.06	.09	(.20)

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 27, 1998 and February 28, 1997, 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 1 to the consolidated financial statements, the Company has recorded receivables in the amount of $4.6 million related to claims made to or against the United

States government for contract costs incurred through February 27, 1998. The total net claims amount made is approximately $10.3 million based on costs incurred through February 28, 1997 and is subject to negotiation, arbitration and audit by the United States government.

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 27, 1998 and February 28, 1997, and the consolidated results of their operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Philadelphia, Pennsylvania
May 1, 1998

EXHIBIT 21

List of Subsidiaries

Name of Entity	Jurisdiction in Which Organized	Percent of Company's Equity Interest
ETC International Corp.	U.S. Virgin Islands	100%

Exhibit 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We have issued our report dated May 1, 1998, 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 27, 1998. 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

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania
May 1, 1998

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