

FORM 10-QSB
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 29, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-10655

ENVIRONMENTAL TECTONICS CORPORATION
(Exact name of registrant as specified in its charter)

PENNSYLVANIA 23-1714256
(State or other jurisdiction (IRS Employer Identification
of incorporation or organization) No.)

COUNTY LINE INDUSTRIAL PARK
SOUTHAMPTON, PENNSYLVANIA 18966
(Address of principal executive offices)
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all
reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 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 at least the past 90 days.

Yes No

The number of shares outstanding of the registrant's common stock
as of November 29, 1996 is: 2,941,344

PART I - Financial Information

Item 1. Financial Statements:

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

9 Months Ended
(\$000's, except per share data, Unaudited)

November 29, 1996 November 24, 1995

Net Sales \$ 14,974 \$ 11,358

Cost of goods sold	10,223	7,411
Gross profit	4,751	3,947
Operating expenses:		
Selling and administrative	2,924	2,764
Research and development	104	106
	3,028	2,870
Operating income	1,723	1,077
Other expenses:		
Interest expense	666	674
Letter of credit fees	21	16
Other, net	185	44
	872	734
Income before income taxes	851	343
Provision for income taxes	272	121
Net income	\$ 579	\$ 222
	=====	=====
Earnings per common share		
(primary and fully diluted)	\$.19	\$.08
	=====	=====

See notes to consolidated financial statements.

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

3 Months Ended
(\$000's, except per share data, Unaudited)

	November 29, 1996	November 24, 1995
Net Sales	\$ 5,568	\$ 4,087
Cost of goods sold	3,794	2,817
Gross profit	1,774	1,270
Operating expenses:		
Selling and administrative	1,041	800
Research and development	30	23
	1,071	823
Operating income	703	447
Other expenses:		
Interest expense	151	242
Letter of credit fees	10	4
Other, net	121	36
	282	282
Income before income taxes	421	165
Provision for income taxes	134	58
Net income	\$ 287	\$ 107

	=====	=====
Earnings per common share		
(primary and fully diluted) \$.09	\$.04
	=====	=====

See notes to consolidated financial statements.

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(\$000's, Unaudited)

ASSETS	November 29, 1996	February 23, 1996
Current assets:		
Cash and cash equivalents	\$ 247	\$ 31
Cash equivalents restricted for letters of credit	355	859
Accounts receivable, net	10,244	7,710
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	2,746	4,024
Inventories	3,997	3,611
Prepaid expenses and other current assets	464	574
Total current assets	18,053	16,809
Property, plant, and equipment, at cost, net	2,402	2,498
Software development costs, net of accumulated amortization of \$2,119 at November 29 and \$1,991 at February 23	1,531	1,617
Other assets	2	2
Total assets	\$21,988 =====	\$20,926 =====

See notes to consolidated financial statements.

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(\$000's, Unaudited)

LIABILITIES	November 29, 1996	February 23, 1996
Current Liabilities:		
Current portion of long-term debt \$	7,092	\$ 2,441

Accounts payable - trade	2,180	1,586
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	3,006	3,355
Customer deposits	666	104
Accrued income taxes	304	188
Net arbitration award	145	445
Accrued liabilities	1,008	812
Total current liabilities	14,401	8,931
Long-term debt, less current portion credit facility payable to banks due March 31, 1997	-	5,214
Other	326	300
	326	5,514
Deferred income taxes	370	370
Total liabilities	15,097	14,815
STOCKHOLDERS' EQUITY		
Common stock - authorized 10,000,000 shares \$.10 par value; 2,941,344 shares issued and outstanding at	294	293
Capital contributed in excess of par value of common stock	1,892	1,692
Retained earnings	4,705	4,126
Total stockholders' equity	6,891	6,111
Total liabilities and stockholders' equity	\$21,988	\$20,926
	=====	=====

See notes to consolidated financial statements.

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

9 Months Ended
(\$000's, Unaudited)

November 29, 1996 November 24, 1995

Increase (decrease) in cash:

Reconciliation of net income to net cash provided by (used in) operating activities:

Net income	\$	579	\$	222
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Adjustments to reconcile net income to net cash provided by (used in) operating activities:

Depreciation and amortization	953	696
(Increase) decrease in assets:		
Accounts receivable	(2,534)	79
Costs and estimated earnings		
in excess of billings	1,278	(642)
Inventories	(386)	(299)
Prepaid expenses		
and other current assets	110	(127)
(Decrease) increase in liabilities:		
Accounts payable	594	(265)
Billings in excess of costs		
and estimated earnings	(349)	2,066
Customer deposits	562	206
Payments under settlement		
agreements	(400)	--
Accrued liabilities and		
income taxes	312	(267)
Net cash provided by		
operating activities	719	1,669
Cash flows from investing activities:		
Acquisition of equipment	(197)	(142)
Increase in software development		
costs	(422)	(474)
Decrease in other assets	--	45
Net cash used in investing		
activities	(619)	(571)
Cash flows from financing activities:		
Borrowings under credit facility		525
(increase) decrease in cash equivalents		
restricted for letters of credit	504	(102)
Payments under credit facility	(475)	(1,350)
Increases in capital leases	68	--
Principal payments of capital		
leases and other long-term debt	(30)	(75)
Proceeds from issuance of common		
stock	49	74
Net cash provided by (used in)		
financing activities	116	(928)
Net increase in cash	216	170
Cash at beginning of period	31	66
Cash at end of period	\$ 247	\$ 236
	=====	=====
Supplemental schedule of cash flow information:		
Interest paid	\$ 516	\$ 567
Income taxes paid	0	--

See notes to consolidated financial statements.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$000's)

1. The information in this report reflects all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented.

There has been no significant change in the Company's effective tax rate since February 23, 1996.

2. Under the Company's 1988 Incentive Stock Option Plan, 500,000 Shares of the Company's common stock are currently reserved for issuance in connection with the exercise of options, and options to acquire 116,450 shares are currently outstanding.
3. Earnings per common share are based on net income divided by the number of common and common stock equivalent shares (shares issuable upon the exercise of stock options and warrants) outstanding. Weighted average number of common shares and equivalents outstanding were approximately 2,970,000 (primary and fully diluted) in 1996 and 2,930,000 (primary) in 1995.
4. Inventories consist of the following:

	November 29, 1996	February 23, 1996
Raw Materials	\$ 784	\$ 696
Work in Process	3,213	2,915
Finished Goods	-	-
	\$ 3,997	\$ 3,611
	=====	=====

5. The components of accounts receivable are as follows:

	November 29, 1996	February 23, 1996*
U.S. Government receivables		
billed and unbilled		
contract costs		
subject to negotiation	\$ 5,397	\$ 3,848
U.S. receivables billed	620	746
International:		
Receivables billed	4,351	3,240
	10,368	7,834
Less allowance for		
doubtful accounts	(124)	(124)
	\$ 10,244	\$ 7,710
	=====	=====

* Restated to conform to current classifications.

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

Unbilled contract costs subject to negotiation represent claims made or to be made against the U.S. Government. In fiscal 1995, the Company recorded approximately \$1.4 million of claims revenue related to two certain aircrew training

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

6. Contingencies:

Certain 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.

Item 2. Management's Discussion and Analysis:

ENVIRONMENTAL TECTONICS CORPORATION
AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION
November 29, 1996

Material Changes in Financial Condition

Cash provided from operations, although positive, decreased from \$1,669,000 in the prior year period to \$719,000 in the current nine months ended November 29, 1996. The decrease primarily reflected increased receivables partially offset by increased accounts payable, net income and depreciation/amortization reflecting the higher sales activity in the current period.

The Company has a revolving credit agreement with two banks, which provides financing of up to \$7.2 million. The facility expires by its terms on March 31, 1997. The credit facility permits both direct borrowing for working capital and other corporate purposes and the issuance of letters of credit for the Company. At November 29, 1996, there were outstanding letters of credit of approximately \$190,000 and the Company had borrowed approximately \$7.0 million under the credit facility. As of November 29, 1996, the Company was in technical default of the Credit Agreement. Specifically, the Company had failed to make a principal payment due the last business day of November 1996 (such payment was made on December 3, 1996), the Company had failed to supply certain financial information and the Company had failed to file a registration statement for certain warrants issued in connection with the revolving credit agreement. As of the date of this filing, the Company was in the process of completing all requirements to cure the defaults.

The Company's sales backlog at November 29, 1996 and February 23, 1996 for work to be performed, training and maintenance contracts, and prospective revenue to be recognized after that

date under written agreements was approximately \$30,500,000 and \$23,000,000, respectively.

Material Changes in Results of Operations

Net sales of approximately \$15.0 million for the nine months and approximately \$5.6 million for the three months ended November 29, 1996 increased by 32% and 36% in comparison to the respective prior year periods. Increases were evidenced across all product lines with the most significant occurring in Sterilizers (up 63%), Aircrew Training Systems (up 45%) and Simulation (up 25%).

Gross profit increased by \$804,000 for the nine months and \$504,000 for the three months ended November 29, 1996 as compared to the prior year respective periods. The increases reflected the aforementioned sales increases partially offset by a sales mix shift to lower-margin sterilizer sales in the current periods.

Operating expenses were up \$158,000 and \$248,000 for the nine months and three months ended November 29, 1996, respectively, versus the prior year. The increase in the current periods primarily reflected higher commission expense on the increased sales levels. However, as a percent of net sales, operating expenses for the nine months ended November 29, 1996, decreased to 20.2% versus 25.3% in the prior year's period.

Interest expense decreased in both respective current periods reflecting lower average loan balances.

The increase in other expenses for both current periods resulted from amortization of a non-cash deferred finance charge (\$152,000 fiscal year to date) associated with warrants issued in conjunction with the Company's credit facility which expires in March 1997. A non-cash deferred finance charge of approximately \$264,000 associated with contingent warrants issued in conjunction with the Company's credit facility has not been booked to the profit and loss statement because it is management's opinion that the warrants will not be required to be issued.

PART II - Other Information

Item 1. Legal proceedings:

See Note 6 in Part I.

Item 6. Exhibits and Reports on Form 8-K:

a. Exhibits

Exhibit 27 - Financial Data Schedule

b. Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended November 29, 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENVIRONMENTAL TECTONICS CORPORATION
(Registrant)

By: /S/ Duane Deaner
Duane Deaner,
Chief Financial Officer (authorized
officer and principal financial
officer)

Date: January 13, 1997

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