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

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 28, 1999

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 of incorporation or organization	(IRS Employer Identification 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 x No

The number of shares outstanding of the registrant's common stock as of June 30, 1999 is: 6,841,628

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Environmental Tectonics Corporation
Consolidated Income Statements
(unaudited)

	Three Months Ended	
	May 28, 1999	May 29, 1998
	(thousands, except share and per share information)	
Net sales	$8,295	$7,460
Cost of goods sold	4,877	4,711
Gross profit	3,418	2,749

Operating expenses:		
Selling and administrative	1,870	1,662
Research and development	122	88
	1,992	1,750
Operating income	1,426	999
Other expenses:		
Interest expense	177	265
Other, net	18	22
	195	287
Income before income taxes	1,231	712
Provision for income taxes	431	248
Income before minority interest	800	464
Income (loss) attributable to minority interest	(35)	-
Net income	$ 835	$ 464
Per share information:		
Income available to common shareholders	$ 669	$ 386
Income per share: basic	$ 0.11	$ 0.07
Income per share: diluted	$ 0.10	$ 0.07
Number of shares: basic	6,293,000	5,180,000
Number of shares: diluted	6,925,000	5,620,000

Note: All share amounts have been restated to reflect a 2 for 1 stock split effective May 28, 1999.

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

Environmental Tectonics Corporation
Consolidated Balance Sheets
(unaudited)

	May 28, 1999	February 26, 1999
	(amounts in thousands, except share and per share information)	
Assets		
Current assets:		
Cash and cash equivalents	$ 6,642	$ 5,344
Cash equivalents restricted for letters of credit	47	47
Accounts receivable, net	8,689	9,656
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	8,304	10,416
Inventories	4,570	3,118
Deferred tax asset	1,136	1,136
Prepaid expenses and other current assets	625	787
	30,013	30,504
Property, plant and equipment, at cost, net of accumulated depreciation of $7,652 at May 28, 1999 and $7,527 at Feb 26, 1999	2,823	2,842
Software development costs, net of accumulated amortization of $4,795 at May 28, 1999 and $4,619 at February 26, 1999	961	1,137

Other assets	991	965
Total assets	$34,788	$35,448
Liabilities and Stockholders' Equity		
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ 121	$ 121
Accounts payable - trade	1,582	1,554
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	6,071	6,775
Customer deposits	5,091	5,696
Accrued income taxes	1,120	920
Accrued liabilities	1,358	1,683
Total current liabilities	15,343	16,749

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Long-term debt, less current portion:		
Subordinated debt	4,135	4,124
Other	61	95
	4,196	4,219
Deferred income taxes	702	702
Total liabilities	20,241	21,670
Redeemable cumulative preferred stock, $100 par and redemption value; 25,000 shares authorized, issued and outstanding at May 29, 1998. (See Note 5)	0	2,372
Minority interest	341	376
Stockholders' Equity		
Common stock; $.05 par value; 10,000,000 shares authorized; 6,840,128 and 6,166,412 issued and outstanding at May 28, 1999 and February 26,1999, respectively	342	308
Capital contributed in excess of par value of common stock	5,720	3,240
Foreign currency exchange adjustment	14	21
Retained earnings	8,130	7,461
Total stockholders' equity	14,206	11,030
Total liabilities and stockholders' equity	$34,788	$35,448

Note: All share amounts have been restated to reflect a 2 for 1 stock split effective May 28, 1999.

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

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Environmental Tectonics Corporation
Consolidated Statements of Cash Flows
(unaudited)

	Three months ended May 28, 1999	Three months ended May 29, 1998
	(amounts in thousands)	
Cash flows from operating activities:		
Net income	$ 835	$ 464

Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation and amortization	419	373
Provision for losses on accounts receivable and inventories	20	(14)
Minority interest	(35)	0
Changes in operating assets and liabilities:		
Accounts receivable	967	(321)
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	2,112	(2,909)
Inventories	(1,402)	429
Prepaid expenses and other assets	119	(99)
Other assets	(51)	0
Accounts payable	28	(235)
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(704)	(105)
Customer deposits	(605)	(463)
Accrued income taxes	200	(699)
Other accrued liabilities	(325)	527
Payments under settlement agreements	(30)	(60)
Net cash provided (used) by operating activities	1,548	(3,112)
Cash flows from investing activities:		
Acquisition of equipment	(207)	(158)
Capitalized software development costs	0	(99)
Purchase of subsidiary, net	0	60
Net cash used in investing activities	(207)	(197)

Cash flows from financing activities:		
Net borrowings under credit facility	0	4,164
Payment of dividends on preferred stock	(38)	(68)
Increase in cash equivalents restricted for letters of credit	0	(10)
Decrease in notes payable - related party	0	(500)
issuance of common stock/warrants	(12)	0
Capital leases/other	7	27
Net cash (used) provided by financing activities	(43)	3,613
Net increase in cash and cash equivalents	1,298	304
Cash and cash equivalents at beginning of period	5,344	225
Cash and cash equivalents at end of period	$ 6,642	$ 529
Supplemental schedule of cash flow information:		
Interest paid	0	188
Income taxes paid	284	756

Supplemental information on noncash operating and investing activities: During the three month period ended May 28, 1999, the Company transferred a $100 demonstration unit from property, plant and equipment to inventory. The unit was subsequently sold. During the three month period ended May 29, 1998, the Company transferred $36 of other assets to property, plant and equipment. In connection with an acquisition in April 1998, the Company issued 55,000 shares of its common stock and a three-year interest-only note for $350.

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

Environmental Tectonics Corporation
Notes to Consolidated Financial Statements

1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of Environmental Tectonics Corporation ("ETC" or the "Company"), its wholly-owned subsidiaries ETC International Corporation and Entertainment Technology Corporation, and its majority-owned subsidiary ETC-PZL Aerospace Industries, Ltd. ("ETC-PZL").

The accompanying consolidated financial statements have been prepared by Environmental Tectonics Corporation, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

Certain information in footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended February 26, 1999.

Certain reclassifications have been made to the 1998 financial statements to conform with the 1999 presentation.

2. Earnings per Share

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. The following table demonstrates the components of basic and diluted earning per share for the three month periods ended May 28, 1999 and May 29, 1998.

All earnings per share and share amounts have been restated to reflect a 2 for 1 stock split effective May 28, 1999.

	Three months ended May 28, 1999	May 29, 1998
	(amounts in thousands, except share and per share information)	
Net income	$ 835	$ 464
Less preferred stock dividends	(38)	(68)
Less accretion of preferred stock	(128)	(10)
Income available to common stockholders	$ 669	$ 386
Basic earnings per share:		
Weighted average shares	6,293,000	5,180,000

Per share amount	$ 0.11	$ 0.07
Diluted earnings per share:		
Weighted average shares	6,293,000	5,180,000
Effect of dilutive securities:		
Stock options	170,000	49,000
Stock warrants	462,000	391,000
	6,925,000	5,620,000
Per share amount	$ 0.10	$ 0.07

As of May 29, 1998, 800,000 shares of common stock issuable pursuant to the conversion provisions of convertible subordinated debt and preferred stock were not included in the computation of diluted earnings per share because the effect of the assumed conversion was anti-dilutive.

3. Accounts Receivable

The components of accounts receivable are as follows:

	May 28, 1999	February 26, 1999
	(amounts in thousands)	
U.S. Government receivables billed and unbilled contract costs subject to negotiation	$5,543	$ 4,529
U.S. commercial receivables billed	763	598
International receivables billed	2,768	4,914
	9,074	10,041
Less allowance for doubtful accounts	(385)	(385)
	$8,689	$ 9,656

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, to the extent of contract costs incurred, and accounts receivable of $1.7 million, representing the balance due under the contract. Claim 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 2000. 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 currently has approximately $12.0 million in claims filed with the U.S. Government (including the aforementioned recorded claim and accounts receivable balances), which are subject to negotiation and audit by the U.S. Government. The U.S. Government has responded to the claims with either denials or deemed denials that the Company has appealed. In February 1999, the U.S. Government made an unsolicitated offer for settlement which the Company deemed inadequate.

International receivables billed:

International receivables billed includes $0.9 million related to a certain contract with the Royal Thai Air Force ("RTAF").

In October 1993, the Company was notified by the RTAF that the RTAF was terminating a certain $4.6 million simulator contract with the Company. Although the Company had performed in excess of 90% of the contract, the RTAF alleged a failure to completely perform. In connection with this termination, the RTAF made a call on a $229,000 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. Except as noted in the award, the rights and obligations of the parties remain as per the original contract including the potential invoking of penalties or termination of the contract for delay. On December 22, 1997, the Company successfully performed acceptance testing and the unit passed with no discrepancy reports. Although the contract was not completed in the time allotted, the Company has requested an extension on the completion time due to various extenuating circumstances, including allowable "force majeure" events. The balance due on the contract is still under review. However, the Company is not able to determine what, if any, impact the extended completion period and the current <PAGE 8> economic condition in Thailand will have upon the receipt of final payment.

4. Inventories

Inventories are valued at the lower of cost or market using the first-in, first out (FIFO) method and consist of the following (net of reserves):

	May 28, 1999	February 26, 1999
	(amounts in thousands)	
Raw materials	$ 494	$ 388
Work in Process	4,076	2,730
	$4,570	$3,118

5. Subordinated Debt and Preferred Stock

The components of the subordinated debt and preferred stock at May 28, 1999 and February 26, 1999, were as follows:

	May 28, 1999		February 26, 1999	
	Subordinated Debt	Preferred Stock	Subordinated Debt	Preferred Stock
	(amounts in thousands)			
Face value	$4,000	$0	$4,000	$2,500
Deferred financing costs	(311)	0	(311)	(208)
Amortization of finance costs	96	-	85	-
Accretion of preferred stock	-	0	-	80
	3,785	0	3,774	2,372
Debt issued for acquisition	350	0	350	0
Total	$4,135	$0	$4,124	$2,372

On February 26, 1999, the Company issued a redemption notice to redeem the outstanding 25,000 shares of Series A Preferred Stock in their entirety. On March 25, 1999, the Company received notice that Sirrom Capital Corporation had exercised its conversion rights to convert its 25,000 shares of Series A Preferred Stock into the Company's common shares. Consequently, on April 19, 1999, the Series A Preferred Stock was retired and 666,666 shares of common stock were issued to Sirrom Capital Corporation. Concurrent with this transaction, the Company charged retained earnings for $128 representing the difference between carrying amount and face value of the Preferred Stock.

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6. Stockholders' Equity

The components of stockholders' equity at May 28, 1999 and February 26, 1999 were as follows:

	Common Stock Shares	Common Stock Amount	Additional Capital	Foreign Currency	Retained Earnings	Total
	(amounts in thousands, except share information)					
Balance, February 26, 1999	3,083,206	$308	$3,240	$21	$7,461	$11,030
Net income for three month period ended May 28, 1999	-	-	-	-	835	835
Stock Split effective May 28, 1999	3,083,206	-	-	-		
Dividend on Preferred stock	-	-	-	-	(38)	(38)
Accretion of preferred stock	-	-	-	-	(128)	(128)
Shares issued in connection with conversion of Preferred Stock	666,666	33	2,467	-	-	2,500
Shares issued in connection with employee stock purchase and stock option plans	7,050	1	13	-	-	14
Foreign currency exchange adjustments	-	-	-	(7)	-	(7)
Balance at May 28, 1999	6,840,128	$342	$5,720	$14	$8,130	$14,206

7. Acquisition of ETC-PZL Aerospace Industries, Ltd.

On April 21, 1998, ETC acquired 65% ownership of MP-PZL Aerospace Industries, Ltd. ("MP-PZL"), a simulation and advanced training device manufacturing company located in Warsaw, Poland for $375,000 in cash, a 8% interest-only three-year note payable for $350,000 and 55,000 shares of ETC's common stock. MP-PZL was subsequently renamed ETC-PZL Aerospace Industries, Ltd. ("ETC-PZL"). ETC's cost for this acquisition was $1,220,000 and has been recorded in the accompanying balance sheet under the purchase method of accounting for business combinations. In connection with the acquisition, the Company recorded goodwill of $662,000 and a minority interest of $300,000. Amortization expense was $8 and $0 respectively for the three month periods ending May 28, 1999 and May 29, 1998. Additionally, accumulated amortization was $33 and $25, respectively, at May 28, 1999 and February 26, 1999. ETC-PZL's fiscal period ends December 31, 1999. The results of ETC-PZL for the period January 1, 1999 through March 31, 1999 have been included in ETC's results of operations for the three months ended May 28, 1999. On a pro forma basis, had the Company consolidated the results of ETC-PZL in the prior fiscal period, the following comparisons would result:

	Three months ended: May 28, 1999	May 29, 1998	May 29, 1998 (pro forma)
	(amounts in thousands, except share and per share data)		
Net Sales	8,295	7,460	7,836
Gross Profit	3,418	4,711	4,821
Operating Income	1,426	999	918
Net Income	835	464	430

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Per share information:			
Income available to common shareholders	$ 669	$ 386	$ 352
Income per share: basic	$ 0.11	$ 0.07	$ 0.07
Income per share: diluted	$ 0.10	$ 0.07	$ 0.06
Number of shares: basic	6,293,000	5,180,000	5,180,000
Number of shares: diluted	6,925,000	5,620,000	5,620,000

8. Reporting Comprehensive Income

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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 non-owner sources. SFAS No. 130 is effective for all periods beginning after December 15, 1997. Effective February 28, 1998, the Company adopted SFAS No. 130 which had no material impact on the Company's consolidated financial position or results of operation.

9. Business Segment Presentation:

In June 1997, FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires that public business enterprises report certain financial information about operating segments in the 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. Effective February 28, 1998, the Company adopted SFAS No. 131 which had no impact on the Company's consolidated financial position or results of operation.

10. Derivative Instruments and Hedging Activity

In June 1998, FASB issued SFAS No. 133, "Accounting and Derivative Instruments and Hedging Activity." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments as fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. The accounting for changes in the fair value of a derivative (gains and losses) depends on the intended use of the derivative and resulting designation. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Earlier application is permitted only as of the beginning of any fiscal quarter. The Company is currently reviewing the provisions of SFAS No. 133.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Certain statements contained 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 the Company 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.

Results of Operations

Three months ended May 28, 1999 compared to May 29, 1998.

The Company had net income of $835,000, or $.10 per share (diluted, post-split), for the three months ended May 28, 1999, versus net income of $464,000, or $.07 per share (diluted, post-split), for the corresponding first quarter of fiscal 1999. Sales for the quarter were $8,295,000, an increase of $835,000 or 11% over the corresponding prior period. The primary contributor to the sales increase was international contracts for the Company's Aircrew Training Systems. Overall, international sales were up $1,661,000, 32% over the prior period, and represented 83% of the Company's total sales, up from 70% a year ago. Sales of the Company's Aircrew Training Systems increased $849,000, or 14%, primarily reflecting the international activity.

Gross profit increased $669,000, or 24%, reflecting higher sales at a higher gross margin rate. As a percentage of sales, gross profit was 41%, compared to 37% for the same period a year ago.

Selling and administrative expenses increased $208,000, or 13%, primarily reflecting the addition of local expenses for the Company's Polish subsidiary acquired in April 1998. Selling and administrative expenses were 23% of revenues for the three months ended May 28, 1999, which approximated the prior period rate.

Research and development expenses were $122,000, an increase of $34,000, or 39%, from the prior period reflecting additional product development primarily in the hyperbaric line.

Interest and other fees were down from the prior period reflecting reduced interest charges on reduced cash borrowings.

The Company's tax rate approximates the statutory rate.

Liquidity and Capital Resources

During the three month period ended May 28,1999, the Company generated $1,548,000 of cash from operating activities. This was primarily a result of a reduction in costs and estimated earnings in excess of billings on uncompleted long-term contracts, a reduction in accounts receivable and cash generated from net income. Strong collections on large percentage-of-completion contracts as well as other billings was the primary contributor to the cash generation. Partial offsets were a build-up in inventory reflecting the production cycle, a reduction in billings in excess of costs and estimated earnings on uncompleted long-term contracts, and a reduction in customer deposits.

Investment activities consisted solely of purchases for capital equipment.

Financing activities were minimal and consisted primarily of dividend payments on preferred stock for a partial period in the quarter. On April 19, 1999, the Series A Preferred Stock was converted into common stock. Thus, the Company's obligation to make dividend payments on the Series A Preferred Stock ceased as of that date. On May 31, 1999, the Company's revolving credit agreement with its lender expired, although there were no cash borrowings outstanding and the Company had a significant cash balance. The lender has indicated its intention to renew the agreement for at least one year.

The Company's sales backlog at May 28, 1999, and February 26, 1999 for work to be performed and revenue to be recognized under written agreements after such dates was approximately $35.2 million and $33.5 million, respectively.

Year 2000 Disclosures

The majority of the Company's information technology and non-information technology systems are Year 2000 compliant. The Company presently anticipates that the remainder of the Company's systems will be Year 2000 compliant by September 1999. The Company is in the process of investigating its supply-chain.

The Company has expended $3,000 in the three-month period ended May 28, 1999 with respect to Year 2000 compliance, and expects to incur approximately $86,000 of additional expenses to complete the compliance process.

The Company's most likely worst case Year 2000 scenario would be to lose the Company's accounting and network applications and PC's in the Company's main facility located in Southampton, Pennsylvania. If this event occurs, the Company will be able to continue its manufacturing activities and would manually proceed to perform other tasks and activities. The Company has a written contingency plan to address potential Year 2000 problems.

PARt II - OTHER INFORMATION

Item 1. Legal Proceedings

In June 1999, a lawsuit 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 claimed to have been injured as a result of an alleged malfunction of a sterilizer manufactured by the Company was settled with no material impact on the Company.

Item 2. Changes in Securities

The constituent instruments defining the rights of the holders of any class of securities were not modified nor were the rights evidenced by any class of registered securities materially limited or qualified during the period covered by this report.

Item 3. Defaults Upon Senior Securities

No defaults occurred during the period covered in this report.

Item 4. Submission of Matters to Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

3.1 Articles of Incorporation (Incorporated herein by reference to Exhibit 3.1 to the Registrants' Annual Report on Form 10-KSB for the fiscal year ended February 28, 1997).

3.2 Bylaws (Incorporated herein by reference to Exhibit 3 (ii) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 25, 1994).

27 Financial Schedule Data

(b) Reports on Form 8-K

None

Signatures

Pursuant to the requirements of the Securities 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)

Date: July 12, 1999   By: /s/ Duane Deaner
Duane Deaner
Chief Financial Officer
(authorized officer and
principal financial officer)

EXHIBIT INDEX

3.1 Articles of Incorporation (Incorporated herein by reference to Exhibit 3.1 to the Registrants' Annual Report on Form 10-KSB for the fiscal year ended February 28, 1997).

3.2 Bylaws (Incorporated herein by reference to Exhibit 3 (ii) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 25, 1994).

27 Financial Schedule Data

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