FORM 10-QSB
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 August 24,2001

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 October 03, 2000 is: 7,145,614

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Environmental Tectonics Corporation
Consolidated Income Statements
(unaudited)

	Three months ended:		Six months ended:	
	August 24,	August 25,	August 24,	August 25,

	2001	2000	2001	2000
	(thousands, except share and per share information)			
Net Sales	$ 7,414	$ 6,994	$15,754	$14,151
Cost of goods sold	5,021	4,316	10,668	8,118
Gross profit	2,393	2,678	5,086	6,033
Operating expenses:				
Selling and administrative	1,691	1,887	3,767	3,545
Research and development	156	309	324	484
	1,847	2,196	4,091	4,029
Operating income	546	482	995	2,004
Other expenses:				
Interest expense	272	211	530	403
Other, net	(1)	25	32	4
	271	236	562	407
Income before income taxes	275	246	433	1,597
Provision for income taxes	(18)	106	(79)	573
Income before minority interest	293	140	512	1,024
Income (loss) attributable to minority interest	(4)	22	(9)	24
Net income	$ 297	$ 118	$ 521	$ 1,000
Per share information:				
Income available to common shareholders	$ 297	$ 118	$ 521	$ 1,000
Income per share: basic	$ 0.04	$ 0.02	$ 0.07	$ 0.14
Income per share: diluted	$ 0.04	$ 0.02	$ 0.07	$ 0.13
Number of shares: basic	7,143,000	7,097,000	7,143,000	7,071,000
Number of shares: diluted	7,497,000	7,532,000	7,549,000	7,533,000

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

Environmental Tectonics Corporation
Consolidated Balance Sheets

	August 24, 2001	February 23, 2001
	(unaudited)	
	(amounts in thousands, except share information	
Assets		
Current assets:		
Cash and cash equivalents	$ 924	$ 851
Cash equivalents restricted for letters of credit	475	544
Accounts receivable, net	15,880	16,776
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	12,788	9,595
Inventories	6,091	4,624
Deferred tax asset	615	615
Prepaid expenses and other current assets	530	423
	37,303	33,428
Property, plant and equipment, at cost, net of accumulated depreciation of $8,938 at August 24, 2001 and $8,635 at Feb 23, 2001	5,630	5,337
Software development costs, net of accumulated amortization of $5,898 at August 24, 2001 and $5,670 at February 23, 2001	1,211	1,191

Other assets	722	749
Total assets	$44,866	$40,705
Liabilities and Stockholders' Equity		
Liabilities		
Current liabilities:		
Current portion of long-term bonds	$ 295	$ 643
Accounts payable - trade	2,570	1,929
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	597	1,712
Customer deposits	2,042	1,443
Accrued income taxes	824	754
Accrued liabilities	1,781	1,877
Total current liabilities	8,109	8,358
Long-term debt, less current portion:		
Credit facility payable to banks	11,554	7,564
Long-Term Bonds, net	4,920	5,195
Other	13	19
	16,487	12,778
Deferred income taxes	674	674
Total liabilities	25,270	21,810
Minority interest	92	99
Stockholders' Equity		
Common stock; $.05 par value; 20,000,000 shares authorized; 7,142,546 and 7,110,546 issued and outstanding at August 24, 2001 and February 23, 2001, respectively	359	355
Capital contributed in excess of par value of common stock	6,701	6,514
Foreign currency translation adjustment	(230)	(226)
Retained earnings	12,674	12,153
Total stockholders' equity	19,504	18,796
Total liabilities and stockholders' equity	$44,866	$40,705

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

Environmental Tectonics Corporation
Consolidated Statements of Cash Flows
(unaudited)

	Six months ended August 24, 2001	August 25, 2000
	(amounts in thousands)	
Cash flows from operating activities:		
Net income	$ 521	$ 1,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	587	678
Provision for losses on accounts receivable and inventories	54	47
Minority interest	(7)	(26)
Changes in operating assets and liabilities:		
Accounts receivable	896	(3,867)
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	(3,193)	(880)
Inventories	(1,521)	(1,702)
Prepaid expenses and other assets	(107)	65
Other assets	(29)	66
Accounts payable	641	(905)
Billings in excess of costs and estimated earnings on uncom-		

pleted long-term contracts	(1,115)	525
Customer deposits	599	54
Accrued income taxes	70	232
Other accrued liabilities	(96)	(198)
Payments under settlement agreements	-	(60)
Net cash used in operating activities	(2,700)	(4,971)
Cash flows from investing activities:		
Acquisition of equipment	(596)	(365)
Capitalized software development costs	(248)	(83)
Purchase of subsidiary, net	-	142
Net cash used in investing activities	(844)	(306)
Cash flows from financing activities:		
Net borrowings under credit facility	3,990	310
(Repayment of)/proceeds from long-term bonds	(275)	5,470
Deferred financing costs	-	(175)
Cash equivalents restricted for letters of credit	69	(1,362)
Proceeds from issuance of common stock/warrants	191	633
Capital leases payments/other	(354)	(15)
Net cash provided (used) by financing activities	3,621	4,861
Effect of exchange rate changes on cash	(4)	(90)
Net increase (decrease) in cash and cash equivalents	73	(506)
Cash and cash equivalents at beginning of period	851	1,725
Cash and cash equivalents at end of period	$ 924	$ 1,219
Supplemental schedule of cash flow information:		
Interest paid	467	253
Income taxes paid	243	312
Supplemental information on noncash operating and investing activities:		
None		

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

Environmental Tectonics Corporation
Notes to Consolidated Financial Statements
(amounts in dollars, except where noted and share and per share information)

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, Entertainment Technology Corporation, and ETC Europe, 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 conformity with accounting principles generally accepted in the United States of America has been condensed or omitted pursuant to such rules and regulations and the financial results for the period presented may not be indicative of the full year's results, 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-K for the year ended February 23, 2001. Certain reclassifications have been made to the fiscal 2001 financial statements to conform with the fiscal 2002 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 and six month periods ended August 24, 2001 and August 25, 2000.

(amounts in thousands, except share and per share information)

	Three months ended: August 24, 2001	Three months ended: August 25, 2000	Six months ended: August 24, 2001	Six months ended: August 25, 2000
Net income	$297	$118	$521	$1,000
Income available to common stockholders	$297	$118	$521	$1,000
Basic earnings per share:				
Weighted average shares	7,143,000	7,097,000	7,143,000	7,071,000
Per share amount	$0.04	$0.02	$0.04	$0.14
Diluted earnings per share:				
Weighted average shares	7,143,000	7,097,000	7,143,000	7,071,000
Effect of dilutive securities:				
Stock options	43,000	120,000	74,000	162,000
Stock warrants	311,000	315,000	332,000	300,000
	7,497,000	7,532,000	7,549,000	7,533,000
Per share amount	$0.04	$0.02	$0.07	$0.13

3. Accounts Receivable

The components of accounts receivable are as follows:

	August 24, 2001	February 23, 2001
	(amounts in thousands)	
U.S. Government receivables billed and unbilled contract costs subject to negotiation	$ 6,332	$ 5,707
U.S. commercial receivables billed	1,390	2,484
International receivables billed and unbilled contract costs subject to negotiation	8,328	8,955
Other	200	-
	16,250	17,146
Less allowance for doubtful accounts	(370)	(370)
	$15,880	$16,776

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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 beginning in fiscal year 1994, including $1,148,000 recorded during the first quarter of fiscal 2001. The Company has recorded claims, amounting to $3,898,000 to the extent of contract costs incurred, and accounts receivable of $1,649,000 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 2002. In conformity with accounting principles generally accepted in the United States of America, revenue recorded by the Company from a claim does not exceed the incurred contract costs related to the

claim. The Company currently has approximately $12,000,000 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 May 2000, the Company and the U.S. Government reached an agreement in principle which would have included resolution of all U.S. Navy claims on a global basis and contracted additional work on the centrifuge. In July 2000, the Company received notice that the Navy, citing an inability to obtain the prerequisite approvals and thus the necessary funding to effect the settlement, was rescinding the agreement.

International receivables and unbilled contract costs subject to negotiation

International receivables billed includes $930,000 related to a certain contract with the Royal Thai Air Force.

In October 1993, the Company was notified by the Royal Thai Air Force ("RTAF") that the RTAF was terminating a certain $4,600,000 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 $230,000 performance bond, as well as a draw on an approximately $1,100,000 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 remained 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, one of which was a delay in obtaining an export license to ship parts required to complete the trainers. Subsequent to August 24, 2001, the Company received a payment of $230,000 representing the amount due on the performance bond; the balance of $700,000 due on the contract is still under review and at this point the Company is not able to determine what, if any, impact the extended completion period will have upon the receipt of final payment. However, the Company continues to pursue collection.

Unbilled contract costs subject to negotiation represent claims made or to be made against an international customer for two contracts covering 1996 to the present. Claims receivables and resulting revenue aggregating $5,560,000 have been recorded, including $21,000 in the current quarter. Claim costs have been incurred in connection with customer caused delays, errors in specifications and designs, other out-of-scope items and exchange losses and may not be received in full during fiscal 2002. In conformity with accounting principles generally accepted in the United States of America, revenue recorded by the Company from a claim does not exceed the incurred contract costs related to the claim. The Company has submitted a claim for one of the contracts to the customer and has also submitted to the customer requests for equitable contract price adjustments on the other contract. As a related item, during the third quarter of fiscal 2000, the aforementioned international customer, citing failure to deliver product within contract terms, assessed liquidated damages totalling approximately $1,600,000 on two contracts currently in progress. The Company disputes the basis for these liquidated damages and plans to contest them vigorously. However, following generally accepted accounting principles, the Company has reduced contract values and corresponding revenue recognition by approximately $1,600,000.

On July 20, 2001, the Company was notified by the international customer that they were terminating the centrifuge contract, which was approximately 90% complete. The termination included a request for the refund of advance milestone payments made to date. At this point the Company is not able to assess the ultimate impact of the termination on current operations and financial results. As of August 24, 2001, the Company had recorded on its books the following amounts for the contract inception to date: revenue (including claims revenue) $19,728,000, cost of goods sold $13,202,000, costs and estimated earnings in excess of billings on uncompleted long term contracts $16,677,000, claims receivables $3,051,000, and billings in excess of costs and estimated earnings on uncompleted long term contracts $10,099,000.

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):

	August 24, 2001	February 23, 2001
	(amounts in thousands)	
Raw materials	$ 392	$ 359
Work in Process	5,699	4,265
	$6,091	$4,624

5. Stockholders' Equity

The components of stockholders' equity at February 23, 2001 and August 24, 2001 were as follows:

(amounts in thousands, except share information)

	Common Stock		Additional	Accumulated other comp.	Retained	
	Shares	Amount	Capital	income	Earnings	Total
Balance, February 23, 2001	7,110,546	$355	$6,514	$ (226)	$12,153	$18,796
Net income for six month period ended August 25, 2000	-	-	-	-	521	521
Other conprehensive loss	-	-	-	(4)	-	(4)
Total comprehensive income	-	-	-	(4)	-	517
Shares issued in con- nection with employee						

stock option plans	32,000	4	187	-	-	191
Balance at August 24, 2001	7,142,546	$359	$6,701	$(230)	$12,674	$19,504

6. Business Segment Presentation:

The Company primarily manufactures under contract various types of high-technology equipment that it has designed and developed. The Company considers its business activities to be divided into two segments: Aircrew Training Systems (ATS) and Industrial Simulation. The ATS business segment produces devices which create and monitor the physiological effects of motion, including spatial disorientation and centrifugal forces for the medical, training, research and entertainment markets. The Industrial Group produces chambers that create environments that are used for sterilization, research, and medical applications. The following segment information reflects the accrual basis of accounting:

	ATS	Industrial Group	Total
	(amounts in thousands)		
Three months ended August 24, 2001			
Net Sales	$5,041	$2,373	$7,414
Interest Expense	228	44	272
Deprec. And Amort.	193	87	280
Operating Income	393	410	803
Income Tax Prov.	19	41	60
Identifiable Assets	29,614	6,156	35,770
Expend. For Seg. Assets	101	21	122
Three months ended August 25, 2000			
Net Sales	$4,927	$2,067	$6,994
Interest Expense	146	26	172
Deprec. And Amort.	220	122	342
Operating Income	709	6	715
Income Tax Prov.	197	(7)	190
Identifiable Assets	25,466	5,364	30,864
Expend. For Seg. Assets	239	50	289

Reconciliation to consolidated amounts	2001	2000
Segment operating income	$ 803	$ 715
Less interest expense	(272)	(172)
Less income taxes	(60)	(190)
Total profit for segments	$ 471	$ 353
Corporate home off. exps.	(257)	(233)
Interest and other exps.	1	(64)
Income tax benefit	78	84
Minority interest	4	(22)
Net income	$ 297	$ 118

	ATS	Industrial Group	Total
	(amounts in thousands)		
Six months ended August 24, 2001			
Net Sales	$10,586	$5,168	$15,754
Interest Expense	442	88	530
Deprec. And Amort.	413	174	587
Operating Income	344	1,103	1,447
Income Tax Prov.	127	(83)	44
Identifiable Assets	29,614	6,156	35,770
Expend. For Seg. Assets	494	102	596
Six months ended August 25, 2000			
Net Sales	$10,703	$3,448	$14,151
Interest Expense	265	59	324
Deprec. And Amort.	462	216	678
Operating Income	2,686	(253)	2,433
Income Tax Prov.	847	(109)	738
Identifiable Assets	25,466	5,364	30,830
Expend. For Seg. Assets	421	92	513

Reconciliation to consol. amts:	2001	2000
Segment operating income	$ 1,447	$2,433
Less interest expense	(530)	(324)
Less income taxes	(76)	(738)
Total profit for segments	$ 841	$1,371
Corporate home off. exps.	(442)	(429)
Interest and other exps.	(32)	(83)
Income tax benefit	155	165
Minority interest	(1)	(24)
Net income	$ 521	$1,000

Segment operating income consists of net sales less applicable costs and expenses related to those revenues. Unallocated general corporate expenses and other miscellaneous fees have been excluded from total profit for segments. General corporate are primarily central administrative office expenses including executive salaries, stockholders expenses and legal and accounting fees. Other miscellaneous expenses include banking and letter of credit fees. Property, plant and equipment are not identified with specific business segments as these are common resources shared by all segments.

Approximately 54.9% of sales totaling $4,070,000 in the second quarter of fiscal 2002 were made to one international and one domestic customer primarily in the ATS segment. Approximately 50.0% of sales totaling $3,539,000 in the second quarter of fiscal 2001 were made to one domestic and two international customers in the ATS segment.

Approximately 51.4% of sales totaling $8,098,000 in the six months ended August 24, 2001, were made to one international and one domestic customer primarily in the ATS area. Approximately 45.4% of sales totaling $6,421,000 in the six months ended August 25, 2001, were made to two international customer and one domestic customer primarily in the ATS segment.

Included in the segment information for the second quarter of fiscal 2002 are export sales of $ 2,344,000. Of this amount, there are sales to commercial or government accounts in Thailand of $784,000, Great Britain of $471,000, Japan of $324,000, and Turkey of $259,000. Sales to the US government and its agencies aggregate $124,000 for the period.

Included in the segment information for the second quarter of fiscal 2001 are export sales of $3,148,000. Of this amount, there are sales to commercial or government accounts in Great Britain of $863,000, Africa of $881,000, and Poland of $740,000. Sales to the US government and its agencies aggregate $111,000 for the period.

Included in the segment information for the six months ended August 25,2001, are export sales of $5,178,000. Of this amount, there are sales to commercial or government accounts in Thailand of $1,143,000, Great Britain of $1,030,000, Japan of $1,021,000, and Russia of $533,000. Sales to the US government and its agencies aggregate $910,000 for the period.

Included in the segment information for the six months ended August 25, 2000, are export sales of $6,394,000. Of this amount, there are sales to commercial or government accounts in Great Britain of $1,858,000 and Africa of $1,527,000. Sales to the US government and its agencies aggregate $1,573,000 for the period.

7. Subsequent Events

On September 9, 2000, the company purchased the assets of the "Pro-Pilot" flight simulation game for $400,000 cash. The Company plans to develop a next generation "Pro-Pilot 2000"tm game which will be marketed through the internet. Also, this software can be integrated into our General Aviation Trainer product for commercial application.

On September 27, 2000, the Company purchased another 30% ownership in ETC-PZL for $300,000 cash. With this purchase, the Company's ownership increases to 95%. Also, in April 2001 the Company paid off the $350,000 note issued with the original purchase of ETC-PZL in April 1998.

8. Recent Accounting Pronouncements

In January 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, " Accounting and Derivative Instruments and Hedging Activity." SFAS No. 133 requires the recognition of all derivative financial instruments as either assets or liabilities in the Consolidated Balance Sheet, and the periodic adjustment of those instruments to fair value. The classification of gains and losses resulting from changes in the fair value of derivatives is dependent on the intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives that are not considered highly effective hedges are reflected in earnings. Adjustments to reflect changes in fair values of derivatives that are considered highly effective hedges are either reflected in earnings and largely offset by corresponding adjustments related to the fair values of the hedged items, or reflected in other comprehensive income until the hedged transaction matures and the entire transaction is recognized in earnings. The change in fair value of the ineffective portion of a hedge is immediately recognized in earnings. SFAS No. 133 is effective for periods beginning after June 15, 1999. This effective date was later deferred to all periods beginning after June 15, 2000 by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement Number 133" The adoption of SFAS No. 133 had no impact on the Company's consolidated financial position or results of operations.

On June 29,2001, FASB approved for issuance SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Intangible Assets. Major provisions of these statements are as follows: all business combinations initiated after June 30, 2001, must use the purchase method of accounting; the pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001; intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, liscensed, rented or exchanged, either individually or as part of a related contract, asset or liability; goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually, except in certain circumstances, and whenever there is an impairment indicator; all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting; effective January 1, 2002, goodwill will no longer be subject to amortization. Although it is still reviewing the provisions of these statements, management's preliminary assessment is that these statements will not have a material impact on the Company's financial position or results of operations.

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

(amounts in dollars, except where noted and share and per share amounts)

Forward Looking Statements

Except for historical information, this report may be deemed to contain "forward-looking" statements. The Company desires to avail itself of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995(the "ACT") and is including this cautionary statement for the express purpose of availing itself of the protection afforded by the ACT.

These forward-looking statements include statements with respect to the Company's vision, mission, strategies, goals, beliefs, plans, objectives, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business of the Company, including but not limited to, (i) projections of revenue, costs of raw materials, income or loss, earnins or loss per share, capital expenditures, growth prospects, dividends, the effects of currency fluctuations, capital structure and other financial items, (ii) statements of objectives or other plans of the Company or its management or Board of Directors, including the introduction of new products, or estimates or predictions of actions of customers, suppliers, competitors or regulating authorities, (iii) statements of future economic performance, (iv) statements of assumptions and other statementsabout the Company or its business, and (v) statements preceeded by, followed by or that include the words "may", "could", "should", "proforma", "lookind forward", "would", "believe", "expect", "anticipate", "estimate", "intend", "plan", or similar expressions. These forward-looking statements involve risks and uncertainties, which are subject to change based on various important factors (some of which, in whole or in part, are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the goals, plans, objectives, intentions and expectations expressed in such forward-looking statements: (1) the strength of the United States and global economies in general and the strength of the regional and local economies in which the Company conducts operations; (2) the effects of, and changes in, U.S. and foreign governmental trade, monetary and fiscal policies and laws; (3) the impact of domestic or foreign military or political conflicts and turmoil; (4) the timely development of competitive new products and services by the Company and the acceptance of such products and services by customers; (5) the willingness of customers to substitute competitors' products and services and vice versa; (6) the impact on operations of changes in U.S. and governmental laws and public policy, including environmental regulations; (7) the level of export sales impacted by export controls, changes in legal and regulatory requirements, policy changes affecting the markets, changes in tax laws and tariffs, exchange rate fluctuations, political and economic instability, and accounts receivable collection; (8) technological changes; (9) regulatory or judicial proceedings; (10) the impact of any current or future litigation involving the Company, and; (11) the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Results of Operations
Three months ended August 24, 2001 compared to August 25, 2000.

The Company had net income of $297,000, or $.04 per share (diluted), versus net income of $118,000 or $.02 per share (diluted), for the corresponding second quarter of fiscal 2001. Sales for the quarter were $7,414,000, an increase of $420,000 or 6.0%, over the corresponding prior period. The primary contributors to the sales increase were a significant across the board increase in Hypo/hyperbaric sales, a smaller increase in Environmental sales, mostly international, and a significant increase in Entertainment sales. Partial offsets were a decrease in domestic Sterilizer work, sales in the Simulator Group, and lower sales for the Company's Polish Subsidiary. Overall, domestic sales were up $1,211,000, or 32.4% from the prior period, and represented 66.7% of the Company's total sales, up from 53.4% a year ago. Sales to the U.S. Government approximated the prior year and represented 1.7% of total sales. International sales were down $805,000 or 25.6%, and represented 31.6% of total sales, down from 45.0% in the prior period.

Gross profit dollars were down $285,000 from the prior period, as the higher sales level was completely offset by a lower rate (down 6 percentage points) as a percent of revenue. Rate decreases were evidenced primarily in the ATS and Environmental groups. ATS performance in the prior period included significant revenue at a high rate as a percent of sales for a centrifuge project sold to Nigeria, while Environmental experiences lower rates primarily for a sale to Russia. Additionally, the Company's Polish Subsidiary experiences lower rates on the reduced sales level.

Selling and administrative expenses decreased $196,000 or 10.4%. This primarily reflected reduced commissions.

Research and development expenses were down from the prior period reflecting reduced product development primarily in the Company's entertainment area.

Interest and other expenses were up $35,000 or 14.8% reflecting increased borrowings albeit at a lower rate.

The Company's tax provision for the current quarter reflected an effective rate of 30% before a $100,000 research tax credit. The prior period rate approximated the statutory rate of 35%.

Results of Operations
Six months ended August 24,2001 compared to August 25, 2000.

The Company had net income of $521,000, or $.07 per share (diluted), versus net income of $1,000,000, or $.13 per share (diluted), for the corresponding period of fiscal 2001. Sales for the six months were $15,754,000, an increase of $1,603,000 or 11.3% over the corresponding prior period. The primary contributors to the sales increase were entertainmnet sales (up 140.8%) and Hypo/hyperbaric sales (up 150.3%). A partial offset were decreased ATS sales and lower sales in the Company's Polish Subsidiary.

Overall, domestic sales were up $4,720,000 or 96.1% over the prior period, and represented 61.1% of the Company's total sales, up from 43.7% a year ago. Government sales were up $486,000 or 114.4% over the prior period, and represented 5.8% of total sales, up from 3.0% in the prior period. International sales were down $2,453,000 or 32.6% and represented 33.1% of total sales, down from 53.2% for the prior period.

Gross profit decreased $947,000, or 15.7%, and the rate as a percent of sales dropped 10.3 percentage points, as the prior period included significant U.S. Government claims revenue at a high rate as a percent of sales. As a percentage of sales, gross profit was 32.2%, compared to 42.6% for the same period a year ago.

Selling and administrative expenses increased $222,000, or 6.3%, reflecting additional expenditures for claim costs and salaries and benefits.

Research and development expenses were down $160,000 or 33.1% between the periods reflecting lower entertainment project development in the prior period.

Interest and other expenses were up $155,000 or 38.1% from the prior period reflecting increased interest charges on higher borrowings.

The Company's tax provision in the current period reflected an effective rate of 30% before a $100,000 research tax credit. The prior period rate approximated the statutory rate of 35%.

Liquidity and Capital Resources

During the six month period ended August 24,2001, the Company used $2,700,000 for operating activities. This was primarily a result of an increase in inventories and costs and estimated earnings in excess of billings on uncompleted long-term contracts, and a decrease in billings in excess of costs and estimated earnings on uncompleted long-term contracts. Positive cash was generated by net income adjusted for non-cash expenses; a decrease in accounts receivable, and increases in accounts payable and customer deposits. Versus last year's corresponding period, net cash used in operating activities reflected a decrease of $2,271,000 as the prior period included higher accounts receivable.

Investment activities consisted of purchases for capital equipment and capitalized software.

Financing activities consisted of bank borrowings and cash from the issuance of stock partially offset by a mandatory repayment of $275,000 on long term bonds and the payment of a $350,000 note related to the original purchase of ETC-PZL, the Company's Polish Subsidiary. On May 21, 2001, the Company signed an amendment to its revolving credit agreement, which modified the Funds Flow Ratio loan covenant for the three fiscal quarters through November 23, 2001.

The Company's sales backlog at August 24, 2001, and February 23, 2001, for work to be performed and revenue to be recognized under written agreements after such dates was approximately $30,066,000 and $40,439,000 respectively. In addition, the Company's training and maintenance contracts backlog at August 24, 2001, and February 23,2001, for work to be performed and revenue to be recognized after that date under written agreements was approximately $1,641,000 and $1,347,000 respectively.

This report contains certain 'forward-looking statements' including, without limitation, statements containing the words "believes", "anticipates", intends", "expects", and words of similar import relating to the Company's operations. There are important factors that could cause actual results to differ materially from those indicated by such forward-looking statements including contract delays and cancellations, political unrest in customer countries, general economic conditions and the risk factors detailed from time to time in ETC's periodic reports and registration statements filed with the Securities and Exchange Commission, including, without limitation, ETC's Annual Report on Form 10-K for the fiscal year ended February 23, 2001.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings
none

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) 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.

Date: October 8, 2001 ENVIRONMENTAL TECTONICS CORPORATION

(Registrant)

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 Registrant's 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).