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 November 23,2001

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 December 31, 2001 is: 7,145,614

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Environmental Tectonics Corporation
Consolidated Income Statements
(unaudited)

	Three months ended:	Nine months ended:

	November 23, 2001	November 24, 2000	November 23, 2001	November 24, 2000
	(thousands, except share and per share information)			
Net Sales	$ 8,230	$ 8,622	$23,984	$22,773
Cost of goods sold	4,563	5,813	15,231	13,931
Gross profit	3,667	2,809	8,753	8,842
Operating expenses:				
Selling and administrative	2,199	2,030	5,966	5,575
Research and development	117	162	441	646
	2,316	2,192	6,407	6,221
Operating income	1,351	617	2,346	2,621
Other expenses:				
Interest expense	450	237	980	640
Other, net	96	45	128	49
	546	282	1,108	689
Income before income taxes	805	335	1,238	1,932
Provision for income taxes	141	108	62	681
Income before minority interest	664	227	1,176	1,251
Income (loss) attributable to minority interest	2	-	(7)	24
Net income	$ 662	$ 227	$ 1,183	$ 1,227
Per share information:				
Income available to common shareholders	$ 662	$ 227	$ 1,183	$ 1,227
Income per share: basic	$ 0.09	$ 0.03	$ 0.17	$ 0.17
Income per share: diluted	$ 0.09	$ 0.03	$ 0.16	$ 0.16
Number of shares: basic	7,143,000	7,107,000	7,143,000	7,089,000
Number of shares: diluted	7,497,000	7,488,000	7,496,000	7,511,000

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

Environmental Tectonics Corporation
Consolidated Balance Sheets

	November 23, 2001	February 23, 2001
	(unaudited)	
	(amounts in thousands, except share information	
Assets		
Current assets:		
Cash and cash equivalents	$ 223	$ 851
Cash equivalents restricted for letters of credit	696	544
Accounts receivable, net	19,582	16,776
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	11,830	9,595
Inventories	6,826	4,624
Deferred tax asset	615	615
Prepaid expenses and other current assets	435	423
Total current assets	40,207	33,428
Property, plant and equipment, at cost, net of accumulated depreciation of $9,095 at November 23, 2001 and $8,635 at Feb 23, 2001	5,493	5,337
Software development costs, net of accumulated amortization of $6,014 at November 23, 2001 and $5,670 at February 23, 2001	1,228	1,191

Other assets	586	749
Total assets	$47,514	$ 40,705
Liabilities and Stockholders' Equity		
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ 291	$ 643
Accounts payable - trade	3,223	1,929
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	899	1,712
Customer deposits	3,174	1,443
Accrued income taxes	900	754
Accrued liabilities	1,375	1,877
Total current liabilities	9,862	8,358
Long-term debt, less current portion:		
Credit facility payable to banks	11,780	7,564
Long-Term Bonds, net	4,920	5,195
Other	13	19
	16,713	12,778
Deferred income taxes	674	674
Total liabilities	27,249	21,810
Minority interest	95	99
Stockholders' Equity		
Common stock; $.05 par value; 20,000,000 shares authorized; 7,145,614 and 7,110,546 issued and outstanding at November 23, 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	(226)	(226)
Retained earnings	13,336	12,153
Total stockholders' equity	20,170	18,796
Total liabilities and stockholders' equity	$47,514	$ 40,705

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

Environmental Tectonics Corporation
Consolidated Statements of Cash Flows
(unaudited)

	Nine months ended November 23, 2001	Nine months ended November 24, 2000
	(amounts in thousands)	
Cash flows from operating activities:		
Net income	$ 1,183	$ 1,227
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,106	1,012
Provision for losses on accounts receivable and inventories	82	83
Minority interest	(4)	(302)
Changes in operating assets and liabilities:		
Accounts receivable	(2,807)	(5,783)
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	(2,235)	(2,499)
Inventories	(2,283)	(672)
Prepaid expenses and other assets	(153)	(182)
Other assets	-	162

Accounts payable	1,294	(400)
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(813)	1,662
Customer deposits	1,731	284
Accrued income taxes	146	17
Other accrued liabilities	(500)	(300)
Payments under settlement agreements	-	(48)
Net cash used in operating activities	(3,253)	(5,739)
Cash flows from investing activities:		
Acquisition of equipment	(616)	(1,907)
Capitalized software development costs	(381)	(330)
Purchase of subsidiary, net	-	142
Net cash used in investing activities	(997)	(2,095)
Cash flows from financing activities:		
Borrowings under credit facility	7,275	4,460
Payments under credit facility	(3,059)	(2,500)
(Repayment of)/proceeds from long-term bonds	(275)	5,470
Deferred financing costs	-	(175)
Cash equivalents restricted for letters of credit	(152)	(751)
Proceeds from issuance of common stock/warrants	191	678
Capital leases/other	(358)	(66)
Net cash provided (used) by financing activities	3,622	7,116
Effect of exchange rate changes on cash	-	(233)
Net increase (decrease) in cash and cash equivalents	(628)	(951)
Cash and cash equivalents at beginning of period	851	1,725
Cash and cash equivalents at end of period	$ 223	$ 774
Supplemental schedule of cash flow information:		
Interest paid	701	429
Income taxes paid	195	661

Supplemental information on noncash operating and investing activities:
During the nine months ended November 23, 2001, the Company purchased for $100 a 99% ownership in ETC Europe, resulting in goodwill of $26. During the nine months ended November 24, 2000, 25,000 shares of the Company's Series A Preferred stock were converted into 666,666 shares of common stock, which was subsequently issued to Sirrom Capital Corporation.

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 nine-month periods ended November 23, 2001 and November 24, 2000.

	(amounts in thousands, except share and per share information) Three months ended:		Nine months ended:	
	November 23, 2001	November 24, 2000	November 23, 2001	November 24, 2000
Net income	$662	$227	$1,183	$1,227
Income available to common stockholders	$662	$227	$1,183	$1,227
Basic earnings per share:				
Weighted average shares	7,143,000	7,107,000	7,143,000	7,089,000
Per share amount	$0.09	$0.03	$0.17	$0.17
Diluted earnings per share:				
Weighted average shares	7,143,000	7,107,000	7,143,000	7,089,000
Effect of dilutive securities:				
Stock options	43,000	69,000	43,000	124,000
Stock warrants	311,000	312,000	310,000	298,000
	7,497,000	7,488,000	7,496,000	7,511,000
Per share amount	$0.09	$0.03	$0.16	$0.16

3. Accounts Receivable

The components of accounts receivable are as follows:

	November 23, 2001	February 23, 2001
	(amounts in thousands)	
U.S. Government receivables billed and unbilled contract costs subject to negotiation	$ 6,229	$ 5,707
U.S. commercial receivables billed	6,199	2,484
International receivables billed and unbilled contract costs subject to negotiation	7,373	8,955
Other	150	-
	19,951	17,146
Less allowance for doubtful accounts	(369)	(370)
	$19,582	$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. With respect to this portion of the claim, the Government has alleged defects and other discrepencies as a basis for non-payment of contract amounts. To the extent the Government is successful in this effort, payment of this balance due would be reduced or completely offset. 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. The Company is currently engaged in litigation and has agreed to pursue Alternative Dispute Resolution (ADR) procedures in parallel with the litigation.

International receivables and unbilled contract costs subject to negotiation

International receivables billed includes $700,000 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. On August 30, 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. 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 November 23, 2001, the Company had recorded on its books the following amounts for the contract inception to date: revenue (including claims revenue) of $19,728,000, cost of goods sold of $13,202,000, costs and estimated earnings in excess of billings on uncompleted long term contracts of $16,677,000, claims receivables of $3,051,000, and billings in excess of costs and estimated earnings on uncompleted long term contracts of $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):

	November 23, 2001	February 23, 2001
	(amounts in thousands)	
Raw materials	$ 382	$ 359
Work in Process	6,444	4,265
	$6,826	$4,624

5. Stockholders' Equity

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

(amounts in thousands, except share information)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Accumulated other comp. income	Retained Earnings	Total
Balance, February 23, 2001	7,110,546	$355	$6,514	$ (226)	$12,153	$18,796
Net income for nine month period ended November 23, 2001	-	-	-	-	1,183	1,183
Other conprehensive loss	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	1,183
Shares issued in connection with employee stock option plans	35,068	4	187	-	-	191

Balance at November 23, 2001	7,145,614	$359	$6,701	$(226)	$13,336	$20,170

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 November 23, 2001			
Net Sales	$ 5,809	$ 2,421	$ 8,230
Interest Expense	380	70	450
Deprec. And Amort.	335	184	519
Operating Income	1,335	287	1,622
Income Tax Prov.	206	36	242
Identifiable Assets	32,732	6,584	39,316
Expend. For Seg. Assets	16	4	20
Three months ended November 24, 2000			
Net Sales	$ 5,758	$ 2,864	$ 8,622
Interest Expense	209	28	237
Deprec. And Amort.	176	158	334
Operating Income	1,467	(560)	907
Income Tax Prov.	441	(207)	234
Identifiable Assets	28,981	4,411	33,392
Expend. For Seg. Assets	1,391	151	1,542

Reconciliation to consolidated amounts	2001	2000
Corporate assets	$ 8,198	$ 8,458
Total assets	$47,514	$41,850
Segment operating income	$ 1,622	$ 907
Less interest expense	(450)	(237)
Less income taxes	(242)	(234)
Total profit for segments	$ 930	$ 436
Corporate home off. exps.	(271)	(290)
Interest and other exps.	(96)	(45)
Income tax benefit	101	126
Minority interest	(2)	0
Net income	$ 662	$ 227

	ATS	Industrial Group	Total
	(amounts in thousands		
Nine months ended November 23, 2001			
Net Sales	$ 16,395	$7,589	$23,984
Interest Expense	822	158	980
Deprec. And Amort.	748	358	1,106
Operating Income	1,679	1,390	3,069
Income Tax Prov.	333	(47)	286
Identifiable Assets	32,732	6,584	39,316
Expend. For Seg. Assets	510	106	616
Nine months ended November 24, 2000			
Net Sales	$ 16,461	$6,312	$22,773
Interest Expense	553	87	640
Deprec. And Amort.	638	374	1,012
Operating Income	4,153	(813)	3,340
Income Tax Prov.	1,288	(316)	972
Identifiable Assets	28,981	4,411	33,392
Expend. For Seg. Assets	1,664	243	1,907

Reconciliation to consol. amts:	2001	2000
Corporate assets	$ 8,198	$ 8,458
Total assets	$ 47,514	$41,850
Segment operating income	$ 3,069	$3,340
Less interest expense	(980)	(640)
Less income taxes	(286)	(972)
Total profit for segments	$ 1,803	$1,728
Corporate home off. exps.	(723)	(719)
Interest and other exps.	(128)	(49)
Income tax benefit	224	291
Minority interest	7	(24)
Net income	$ 1,183	$1,227

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 69.4% of sales totaling $5,709,000 in the third quarter of fiscal 2002 were made to one international and one domestic customer primarily in the ATS segment. Approximately 39.9% of sales totaling $3,442,000 in the third quarter of fiscal 2001 were made to one domestic and one international customer in the ATS segment.

Approximately 59.5% of sales totaling $14,265,000 in the nine months ended November 23, 2001, were made to one international and one domestic customer primarily in the ATS area. Approximately 47.2% of sales totaling $10,760,000 in the nine months ended November 24, 2000, were made to two international customers and one domestic customer primarily in the ATS segment.

Included in the segment information for the third quarter of fiscal 2002 are export sales of $ 2,941,000. Of this amount, there are sales to commercial or government accounts in Thailand of $1,729,000. Sales to the US government and its agencies aggregate $122,000 for the period.

Included in the segment information for the third quarter of fiscal 2001 are export sales of $4,108,000. Of this amount, there are sales to commercial or government accounts in Great Britain of $1,425,000 and Africa of $786,000. Sales to the US government and its agencies aggregate $315,000 for the period.

Included in the segment information for the nine months ended November 23,2001, are export sales of $8,200,000. Of this amount, there are sales to commercial or government accounts in Thailand of $2,971,000, Great Britain of $1,033,000 and Japan of $1,103,000. Sales to the US government and its agencies aggregate $939,000 for the period.

Included in the segment information for the nine months ended November 24, 2000, are export sales of $10,490,000. Of this amount, there are sales to commercial or government accounts in Great Britain of $3,394,000 and Africa of $2,313,000. Sales to the US government and its agencies aggregate $1,888,000 for the period.

7. 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, for calendar year-end companies and February 24,2002 for the Company, 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 November 23, 2001 compared to November 24, 2000.

The Company had net income of $662,000, or $.09 per share (diluted), versus net income of $227,000 or $.03 per share (diluted), for the corresponding third quarter of fiscal 2001. Sales for the quarter were $8,230,000, a decrease of $392,000 or 4.5%, over the corresponding prior period. The primary contributors to the sales decrease were reduced Sterilizer and Environmental shipments (although both groups had significant work-in-progress at quarter end) and international ATS sales, which have been negatively impacted by global economic conditions. Partial offsets were increases in domestic Entertainment, which recently settled open disputes with a major customer which generated additional revenue in the quarter, and international Hyperbaric sales related to work on a contract for equipment in Thailand. Overall, domestic sales were up $968,000, or 23.1% from the prior period, reflecting the aforementioned Entertainment increase, and represented 62.8% of the Company's total sales, up from 48.7% a year ago. Sales to the U.S. Government decreased $193,000 and represented 1.5% of total sales versus 3.7% for the prior period. International sales were down $1,167,000 or 28.4%, and represented 35.7% of total sales, down from 47.6% in the prior period, reflecting the aforementioned global downturn. Throughout the Company's history, most of the sales for Aircrew Training Products have been made to international customers. The Company has subsidiaries in the United Kingdom, Poland and Turkey, maintains regional offices in the Middle East, Asia, and Canada, and uses the services of approximately 100 independent sales organizations and agents throughout the world. In the three months ended November 23, 2001, international sales totaling at least $500,000 were made to Thailand. In the three months ended November 24, 2000, international sales totaling at least $500,000 per country were made to Nigeria and Great Britain. Fluctuations in sales to international countries from year to year primarily reflect revenue recognition on the level and stage of development and production on multi-year long-term contracts.

Risks associated with international operations that might be different from those domestically include the strength of global economies in general and the strength of the regional and local economies in which the Company conducts operations, the effect of foreign military or political conflicts and turmoil, changes in foreign government trade, monetary and fiscal policies and laws, export controls, exchange rate fluctuations and political and economic instability. Unusual risks that might be associated with sales to less developed nations include U.S. Dollar and monetary system controls and a heightened risk of political, economic and civil turmoil.

The Company recognizes revenue utilizing three methods. On long-term contracts, the percentage of completion method is applied based on costs incurred as a percentage of estimated total costs. Revenue recognized on uncompleted long-term contracts in excess of amounts billed to customer is reflected as an asset. Amounts billed to customers in excess of revenue recognized on uncompleted long-term contracts are 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 milestones. 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 recognition under the percentage of completion method requires significant judgment and therefore involves significant estimates, which are reasonably subject to change. Revenue for contracts under $100,000, or to be completed in less than one year, and where there are no post shipment services included in the contract, and revenue on parts and services, are recognized as shipped. Revenue on contracts under $100,000, or to be completed in less than one year, and where post shipment services (such as installation and customer acceptance) are required, is recognized after customer acceptance. Revenue for service contracts is recognized ratably over the life of the contract with related material costs expensed as incurred.

In accordance with accounting principles generally accepted in the United

States of America, revenue on contract claims and disputes, for customer caused delays, errors in specifications and designs, and other unanticipated causes, and for amounts in excess of contract value, is generally appropriate if it is probable that the claim will result in additional contract revenue and if the amount can be reliably estimated.

Revenue recorded on a contract claim cannot exceed the incurred contract costs related to that claim. Significant claims outstanding at November 23, 2001 included the U.S. Navy ($5.5 million recorded) and two claims against an international customer ($5.6 million recorded). Although claim receivables are recorded as current assets in the financial statements, claim revenues may not be received in full during fiscal 2002. Claims against the U.S. navy totaling approximately $12.0 million were filed in previous years. The Company is currently engaged in litigation with the U.S. Navy and has agreed to pursue Alternate Dispute Resolution (ADR) procedures in parallel with the litigation. One of the claims against the international customer was filed in March 2001, and the other is being developed.

Gross profit was up $858,000 or 30.5% from the prior period, as an improved rate as a percent of sales completely offset the lower sales level. Rate increases were evidenced in Environmental, Hyperbaric (which experienced higher international sales at a higher rate) and Entertainment, up 19.7 percentage points on a higher sales level, reflecting the aforementioned settlement.

Selling and administrative expenses increased $169,000 or 8.3%, primarily reflecting increased commissions and claims expenses. When adjusted for these items, selling and administrative expenses on a pro-forma basis decreased $97,000 or 5.7% from the prior year's corresponding quarter.

Research and development expenses, which are charged to operations as incurred, were down from the prior period reflecting reduced product development primarily in the Company's Turkish operation.

Interest and other expenses were up $264,000 or 93.6%. The major component in this increase was the charge off of $195,000 of deferred finance costs associated with the Company's refinancing in March 1997, which debt was subsequently paid off.

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

During fiscal 2002, the Company received inquiries and tax assessments for the years 1995 through 1999 from Inland Revenue in Great Britain related to the Company's Great Britain operation. In the Company's opinion, the assessments are arbitrary and have no basis in fact. The Company plans to shortly complete and file a formal response to Inland Revenue. Should additional taxes result, the Company believes that any amount would be immaterial and the Company has some options to offset any additional liability including filing for foreign tax credits on the Company's U.S. tax return and applying any tax liability against the Company's current income tax reserve.

Results of Operations
Nine months ended November 23,2001 compared to November 24, 2000.

The Company had net income of $1,183,000, or $.16 per share (diluted), versus net income of $1,227,000, or $.16 per share (diluted), for the corresponding period of fiscal 2001. Sales for the nine months were $23,984,000, an increase of $1,211,000 or 5.3% over the corresponding prior period. The primary contributors to the sales increase were entertainment sales, which more than doubled, and Hypo/hyperbaric sales (up 134.0%). Acting as partial offsets were decreases in the other business groups and for the Company's Polish Subsidiary, which has suffered from disruptions in the Polish government and economy.

Overall, domestic sales were up $4,449,000 or 42.8% over the prior period, and represented 61.9% of the Company's total sales, up from 45.6% a year ago.

The primarily component to this increase was additional entertainment sales for a large entertainment ride contract currently in progress. Government sales were down $949,000 or 50.2% over the prior period, as the prior period included additional governmental claims revenue of $572,000, and represented 3.9% of total sales, down from 8.3% in the prior period. International sales were down $2,289,000 or 21.8% and represented 34.2% of total sales, down from 46.1% for the prior period, reflecting global economic conditions.

During the nine months ended November 23, 2001, international sales totaling at least $500,000 were made to Great Britain, Thailand, Russia, Japan and Turkey. During the nine months ended November 24, 2000, international sales totaling at least $500,000 per country were made to Great Britain and Nigeria.

Gross profit decreased $89,000, or 1.0% and the rate as a percent of sales dropped 2.3 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 36.5%, compared to 38.8% for the same period a year ago.

Selling and administrative expenses increased $391,000, or 7.0%, primarily reflecting increased commissions and claims expenses. When adjusted for these items, selling and administrative expenses on a pro-forma basis increased $78,000 or 1.6%.

Research and development expenses, which are charged to operations as incurred, were down $205,000 or 31.7% between the periods reflecting reduced product development primarily in the Company's Turkish Branch.

Interest and other expenses were up $419,000 or 60.8% from the prior period. The major component in this increase was the charge off of $195,000 of deferred finance costs associated with the Company's refinancing in March 1997. The debt was subsequently paid off. Additional contributors to the increase were additional interest expense on higher borrowings albeit at a lower rate and less interest income on lower invested cash.

The Company's tax provision in the current period reflected a pro-forma effective rate of 30% before a $300,000 research tax credit. The prior period rate approximated the statutory rate of 35%.

Liquidity and Capital Resources

During the nine month period ended November 23,2001, the Company used $3,253,000 for operating activities. This was primarily a result of an increase in accounts receivable, 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. Cash was generated by net income and non-cash expenses and increases in accounts payable and customer deposits. Versus last year's corresponding period, net cash used in operating activities reflected a decrease of $2,486,000 as the prior period included a significant increase in accounts receivable.

Investing activities, consisting of purchases for capital equipment and capitalized software, as a total were down significantly from the prior period.

Financing activities consisted primarily of bank borrowings to fund the operating and financing cash requirements partially reduced 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.

Backlog

The Company's sales backlog at November 23, 2001, and February 23, 2001, for work to be performed and revenue to be recognized under written agreements after such dates was approximately $30,865,000 and $40,439,000 respectively. In addition, the Company's training and maintenance contracts backlog at November 23, 2001, and February 23,2001, for work to be performed and revenue to be recognized after that date under written agreements was approximately $1,941,000 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

At the company's Annual Meeting of Stockholders held on August 30, 2001, the following proposal was adopted by the vote specified below. No other matters were submitted to a vote of security holders at the Annual Meeting.

Proposal One: to elect five directors to serve until successors have been elected and qualified.

Nominee	For	Withheld	Abstentions and Broker Nonvotes
David Lazar	6,220,263	669,895	0
Richard McAdams	6,804,068	86,090	0
William F. Mitchell	6,804,068	86,090	0
Pete L. Stevens	6,889,338	820	0
Phillip L. Wagner	6,889,338	820	0

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: January 14, 2002 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).