

obligation to repay the Revolving Loan (the "Revolving Note"), which matures on February 18, 2006. In addition, the Credit Agreement provides for the issuance by PNC of letters of credit under the Line of Credit.

The obligations of ETC to PNC under the Credit Agreement are secured by (i) the grant of a first and prior security interest in all of the personal property of ETC, Entertainment Technology Corporation ("Entertainment") and ETC Delaware, Inc. ("ETC Delaware"), each a wholly-owned subsidiary of ETC, pursuant to the terms of a Security Agreement, dated as of February 18, 2003, made by ETC, Entertainment and ETC Delaware in favor of PNC; (ii) ETC's grant of a first and prior security interest in all of ETC's accounts, deposits and all other negotiable and non-negotiable instruments owned by ETC, pursuant to the terms of a Bank Deposit Pledge Agreement, made as of February 18, 2003, by ETC in favor of PNC (iii) ETC's grant of a first and prior mortgage on all of ETC's real property, pursuant to the terms of an Open-End Mortgage and Security Agreement, made as of February 18, 2003, by ETC to and in favor of PNC; and (iv) ETC's grant of a first and prior security interest in all of ETC's right, title and interest to (a) all of the shares of capital stock of each of Entertainment and ETC Delaware owned by ETC and (b) sixty-five percent (65%) of the shares of capital stock owned by ETC of each of its foreign subsidiaries, pursuant to the terms of a Pledge Agreement, dated as of February 18, 2003, made by ETC to and in favor of PNC. In addition, the Credit Agreement requires that Entertainment and ETC Delaware guarantee ETC's obligations in accordance with the terms of a Guaranty, dated February 18, 2003, made by Entertainment and ETC Delaware in favor of PNC.

In connection with the issuance of the Letter of Credit by PNC and the remarketing of the series of 2000 bonds backed by the Letter of Credit, ETC also entered into a (i) First Supplemental Trust Indenture with Wachovia, as trustee; (ii) an Amendment to Remarketing Agreement, with Wachovia Securities Inc., as the remarketing agent of the series of 2000 bonds; and (iii) a Reimbursement and Security Agreement with PNC.

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Lenfest provided senior subordinated convertible debt financing in the original principal amount of \$10,000,000 to ETC (the "Lenfest Financing"). The terms of the Lenfest Financing are set forth in a Convertible Note and Warrant Purchase Agreement, dated as of February 18, 2003, between ETC and Lenfest (the "Purchase Agreement"), including provision for ETC's tender of a 10% senior subordinated convertible note payable to Lenfest, in the original principal amount of \$10,000,000, which accrues interest at the rate of ten percent (10%) per annum and matures on February 18, 2009 (the "Convertible Note"). The Convertible Note entitles Lenfest to convert all or any portion of the outstanding principal thereunder into shares of ETC's common stock at a conversion price of \$6.05 per share. The Convertible Note permits ETC to defer its quarterly payments of interest, which, upon deferral, will be added to principal and accrue interest thereon.

In connection with the Lenfest Financing, ETC issued to Lenfest warrants to purchase 803,048 shares of ETC's common stock (the "Initial Lenfest Warrants"), at an exercise price per share equal to the lesser of (i) \$4.00 or (ii) two-thirds of the average daily high and low closing price of the common stock during the 25 day trading period immediately preceding the date of exercise (the "Market Price"). In addition, upon conversion of the Convertible Note by Lenfest and upon the grant by ETC of any of the 568,368 available, but unissued stock options under ETC's employee stock option plan, ETC is required to issue additional warrants entitling Lenfest to purchase that number of shares of common stock equal to ten percent (10%) of the shares of common stock issued upon conversion of the Convertible Note and issuable upon exercise of such stock options, as the case may be (the "Additional Lenfest Warrants," and together with the Initial Lenfest Warrants, collectively referred to as the "Lenfest Warrants"). Except for Additional Warrants issued to Lenfest upon conversion of principal on the Convertible Note resulting from deferred payments of interest, the maximum number of shares of common stock issuable upon exercise of the Additional Warrants shall be 222,126 and the maximum number of shares of common stock issuable upon all Lenfest Warrants shall be 2,678,067. ETC has agreed to

register the resale of the shares of common stock issuable upon conversion of the Convertible Note and exercise of the Lenfest Warrants in accordance with the terms of a Registration Rights Agreement, dated as of February 18, 2003, between ETC and Lenfest.

The obligations of ETC to Lenfest are secured by (i) the grant of a security interest, subordinated solely to the security interest granted by ETC to PNC, and any other security interest that by its terms ranks senior to the security interest granted to Lenfest, in all personal property of ETC, Entertainment and ETC Delaware, pursuant to the terms of a Security Agreement made as of February 18, 2003 by ETC, Entertainment and ETC Delaware in favor of Lenfest; and (ii) ETC's grant of a second mortgage on all of ETC's real property, pursuant to the terms of an Open-End Mortgage and Security Agreement, dated as of February 18, 2003, made by ETC in favor of Lenfest. In addition, Entertainment and ETC Delaware guaranteed ETC's obligations to Lenfest in accordance with a Guaranty Agreement, dated as of February 18, 2003, made by Entertainment and ETC Delaware in favor of Lenfest.

In connection with the Lenfest Financing, ETC Asset Management, LLC ("EAM"), a holder of warrants to purchase 332,820 shares of common stock, consented to the transactions contemplated under the Credit Agreement and the Lenfest Financing and thereby agreed to waive, solely in connection therewith, its anti-dilution rights. In exchange for EAM's consent, ETC issued to EAM warrants to purchase an additional 105,000 shares of common stock. EAM's warrants have substantially the same terms as the Lenfest Warrants.

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As ETC may issue shares of common stock representing greater than twenty percent (20%) of its issued and outstanding shares of common stock in connection with the Lenfest Financing, and because a portion of such shares will be issued at a price per share that is less than the greater of book value and market value of its common stock, ETC must obtain the approval of its shareholders to the Lenfest Financing to comply with Section 713 of the Listing, Standards, Policies and Requirements of the American Stock Exchange. As a result, ETC will hold a special meeting of its shareholders in April or May 2003 for the purpose of obtaining shareholder approval of the Lenfest Financing. ETC has set a record date of March 20, 2003. If ETC's shareholders do not approve the Lenfest Financing, then the exercise price of the Lenfest Warrants will be reduced from the initial exercise price to an exercise price per share equal to the lesser of (i) \$2.00 or (ii) two-thirds of the Market Price.

Prior to completing the Lenfest Financing, certain shareholders, holding shares of common stock currently representing more than 50% of the voting power of the issued and outstanding shares of common stock entitled to vote at the special meeting, agreed to enter into a Stockholders Voting Agreement, dated as of February 18, 2003, by and among William F. Mitchell, Chairman and President of ETC, Pete L. Stephens, M.D., EAM, Emerald Advisors, Inc., and Lenfest, pursuant to which the shareholders granted to William Mitchell an irrevocable proxy to vote all shares of common stock held by them or it in favor of the Lenfest Financing.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(c) Exhibits

The following exhibits are filed herewith:

- 4.1 \$10,000,000 Senior Subordinated Convertible Note, dated February 18, 2003, issued by ETC in favor of Lenfest
- 4.2 Stock Purchase Warrant, dated February 18, 2003, issued by ETC in favor of Lenfest
- 4.3 Stock Purchase Warrant, dated February 18, 2003, issued by ETC in favor of EAM
- 9.1 Stockholders Voting Agreement, entered into as of February 18, 2003, by and among William F. Mitchell, Pete L. Stephens, M.D., Emerald

Advisors, Inc., EAM and Lenfest

- 10.1 Credit Agreement, dated as of February 18, 2003 between ETC and PNC
- 10.2 \$12,000,000 Revolving Credit Note, dated February 18, 2003, issued by ETC in favor of PNC
- 10.3 Security Agreement, made and entered into as of February 18, 2003, by and between ETC, Entertainment, ETC Delaware and PNC

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- 10.4 Pledge Agreement, dated as of February 18, 2003, made by ETC in favor of PNC
- 10.5 Pledge Agreement (Bank Deposits), dated as of February 18, 2003, made by ETC in favor of PNC
- 10.6 Guaranty, dated as of February 18, 2003, made by Entertainment and ETC Delaware in favor of PNC
- 10.7 Open-End Mortgage and Security Agreement, made as of February 18, 2003, by ETC in favor of PNC
- 10.8 Convertible Note and Warrant Purchase Agreement, dated February 18, 2003, by and between ETC and Lenfest
- 10.9 Registration Rights Agreement, dated as of February 18, 2003, by and between ETC and Lenfest
- 10.10 Security Agreement, made and entered into as of February 18, 2003, by and among ETC, Entertainment, ETC Delaware and Lenfest
- 10.11 Guaranty, dated as of February 18, 2003, made by Entertainment and ETC Delaware in favor of Lenfest
- 10.12 Open-End Mortgage and Security Agreement, made as of February 18, 2003, by ETC in favor of Lenfest
- 10.13 Subordination and Intercreditor Agreement, dated as of February 18, 2003, among PNC, Lenfest and ETC
- 99.1 Press Release dated February 21, 2003

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SIGNATURES

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

ENVIRONMENTAL TECTONICS CORPORATION
Registrant

Date: February 25, 2003

By /s/ Duane D. Deaner

Duane D. Deaner
Chief Financial Officer

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EXHIBIT INDEX

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NEITHER THIS NOTE, NOR THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION HEREOF HAVE BEEN OR WILL BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS, EXCEPT AS EXPRESSLY PROVIDED HEREIN, AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, OR (B) AN OPINION OF COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED AND THAT THE PROPOSED TRANSFER MAY BE MADE WITHOUT VIOLATION OF THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAW.

\$10,000,000

February 18, 2003

ENVIRONMENTAL TECTONICS CORPORATION

SENIOR SUBORDINATED CONVERTIBLE NOTE

ENVIRONMENTAL TECTONICS CORPORATION (the "Company"), a Pennsylvania corporation, for value received, and intending to be legally bound, hereby unconditionally promises to pay to the order of H.F. Lenfest (the "Lender"), or any assignee or holder hereof (together with the Lender, a "Holder"), the principal sum of Ten Million Dollars (\$10,000,000), as increased pursuant to Section 3(c) hereof, plus all accrued and unpaid interest at the rates provided herein, in lawful money of the United States of America. The obligations of the Company under this Note are secured as set forth in the Security Agreement dated as of the date hereof between the Company and the Lender. Capitalized terms used herein and not defined herein shall have the meaning assigned thereto in the Convertible Note and Warrant Purchase Agreement, of even date herewith, by and between the Company and the Lender (as amended, restated, or otherwise modified, the "Purchase Agreement").

Payments of principal or interest on this Note shall be made in lawful money of the United States of America by wire transfer to a bank account designated by the Holder.

1. Definitions. The following terms shall have the following meanings:

(a) "Conversion Amount" means the portion of the principal amount of this Note being converted, from time to time, and/or any accrued and unpaid interest thereon, through the Conversion Date, each as specified in the notice of conversion in the form attached hereto (the "Notice of Conversion").

(b) "Conversion Date" means the date specified in the Notice of Conversion so long as the copy of the Notice of Conversion is faxed (or delivered by other means resulting in notice) to the Company at or before 11:59 p.m., Philadelphia, Pennsylvania time, on the Conversion Date indicated in the Notice of Conversion; provided, however, that if the Notice of Conversion is not so faxed or otherwise delivered before such time, then the Conversion Date shall be the date the Holder faxes or otherwise delivers the Notice of Conversion to the Company.

(c) "Conversion Price" shall mean \$6.05.

(d) "Issue Date" shall mean the date of issuance by the Company of this Note.

2. Principal Payments. The outstanding principal balance of this Note, together with all accrued and unpaid interest thereon, shall be payable on February 18, 2009 (the "Maturity Date"), unless such payment obligation is accelerated pursuant to Section 6 hereof.

3. Interest.

(a) Interest Payments. Interest shall accrue on the outstanding principal amount hereof at a rate of ten percent (10%) per annum until paid in full. Interest shall be due and payable in arrears (i) quarterly on the last Business Day of each calendar quarter commencing on May 31, 2003 and (ii) on the Maturity Date (each, a "Payment Date"). Interest payable hereunder will be computed on the basis of a year of 365 days, for the number of actual days elapsed during which principal is outstanding.

(b) Default Rate. If an Event of Default (hereinafter defined) shall occur and be continuing, then, and in any such event, interest shall accrue on the unpaid principal balance from time to time outstanding hereunder at the rate of thirteen percent (13%) per annum (the "Default Rate") until the entire principal evidenced by this Note and all accrued interest thereon is paid in full or the Event of Default is cured within the applicable cure period.

(c) Deferral Option. During the term of this Note, the Company may elect to defer the payment of all or a portion of the interest due and payable on a Payment Date (other than the Maturity Date) and instead may, at the election of the Company, accrue and add such interest to the outstanding principal balance from time to time outstanding hereunder (thereafter constituting "principal"), to bear interest and become due and payable on the Maturity Date.

4. Conversion of Note.

(a) Holder's Option. A Holder may, at any time, and from time to time, on or after the Issue Date, convert (a "Conversion") all or any part of the outstanding principal amount of this Note on, and/or all accrued interest thereon through, the Conversion Date, into the number of fully paid and nonassessable shares of Common Stock determined in accordance with the following formula:

$$\begin{array}{rcl} \text{Shares of} & = & \text{Conversion Amount} \\ \text{Common Stock} & & \text{-----} \\ & & \text{Conversion Price} \end{array}$$

(2)

(b) Mechanics of Conversion. In order to effect a Conversion, a Holder shall: (x) fax (or otherwise deliver) a copy of the fully completed and executed Notice of Conversion to the Company and (y) surrender or cause to be surrendered this Note, duly endorsed, along with a copy of the Notice of Conversion as soon as practicable thereafter to the Company. Upon receipt by the Company of a facsimile copy of a Notice of Conversion from a Holder, the Company shall promptly send, via facsimile, a confirmation to such Holder stating that the Notice of Conversion has been received, the date upon which the Company expects to deliver the Common Stock issuable upon such conversion and the name and telephone number of a contact person at the Company regarding the conversion. The Company shall not be obligated to issue shares of Common Stock upon a conversion unless either this Note is delivered to the Company as provided above, or the Holder notifies the Company or the transfer agent that this Note has been lost, stolen or destroyed and delivers the documentation to the Company required by Section 7(b) hereof.

(i) Delivery of Common Stock Upon Conversion. Upon Conversion, the Company shall, no later than the fifteenth Business Day following the surrender of this Note accompanied by a Notice of Conversion, issue and deliver to the Holder or its nominee (x) that number of shares of Common Stock issuable upon conversion of the portion of this Note being converted and (y) a new Note in the form hereof representing the balance of the principal amount hereof not being converted, if any.

(ii) Taxes. The Company shall pay any and all taxes which may be imposed upon it with respect to the issuance and delivery of the shares of Common Stock upon the conversion of this Note.

(iii) No Fractional Shares. If any conversion of this Note would result in the issuance of a fractional share of Common Stock, such fractional share shall be disregarded and a cash amount equal to the same fraction of the market price of a share of Common Stock on the Conversion Date shall be added to the outstanding principal balance hereunder (hereafter constituting "principal"), to bear interest and become due and payable on the Maturity Date.

(iv) Limitations on Conversion. Prior to the approval of the stockholders of the Company, as required by Section 713 of the Listing, Standards, Policies and Requirements of the American Stock Exchange, in favor of the transactions contemplated by the Purchase Agreement, in no event shall a Holder be entitled to receive shares of Common Stock upon a conversion of any amount under this Note if the aggregate number of shares of Common Stock received by all Holders as a result of (i) such conversion, (ii) all previous conversions of amounts under this Note and (iii) any prior exercise of the Warrants is more than 1,325,732 shares of Common Stock (which such amount represents 19.99% of the issued and outstanding shares of Common Stock on the date hereof, less 105,000 shares of Common Stock issuable to ETC Asset Management, LLC ("EAM") upon exercise of that certain Stock Purchase Warrant of even date herewith issued by the Company in favor of EAM).

(3)

(v) Grant of Warrants upon Conversion.

(A) Upon each conversion of this Note, Borrower shall issue a warrant (each an "Additional Warrant"), entitling the Purchaser to purchase shares of Common Stock equal to ten percent (10%) of the shares of Common Stock issued upon such conversion.

(B) The exercise price and other terms and conditions of each Additional Warrant shall be the same as may then apply to the Warrants including all adjustments, as if each such Additional Warrant had been issued on the date hereof. For all purposes each Additional Warrant shall be deemed to be a Warrant.

THE CONVERSION OF THIS NOTE INTO SHARES OF COMMON STOCK IS EXPRESSLY CONDITIONED UPON SUFFICIENT AUTHORIZED, UNISSUED AND UNRESERVED COMMON STOCK OF THE COMPANY TO PERMIT SUCH CONVERSION. UNTIL THE PRINCIPAL HEREUNDER AND ALL ACCRUED AND UNPAID INTEREST SHALL HAVE BEEN PAID IN FULL, THE COMPANY AGREES TO MAINTAIN A SUFFICIENT NUMBER OF AUTHORIZED, UNISSUED AND UNRESERVED COMMON STOCK OF THE COMPANY TO PERMIT SUCH CONVERSION.

5. Transfer of Securities.

(a) Restrictions on Transfer. By accepting this Note, the Holder hereby acknowledges that, except as expressly set forth herein and in the Registration Rights Agreement, this Note and the shares of Common Stock issuable upon conversion of this Note will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. The Holder represents that it is acquiring this Note for its own account, for investment purposes only and not with a view to, or for sale in connection with, any distribution of such securities. Notwithstanding the foregoing, subject to all applicable securities laws, the Holder may transfer this Note or any shares of Common Stock (or any interest therein) without violation of the Securities Act or any applicable state securities law; provided, however, that the Holder shall not transfer this Note or any shares of Common Stock to a competitor of the Company, or its subsidiaries or affiliates. No transfer of this Note shall be deemed effective to the extent that such transfer conflicts with applicable federal or state securities laws.

(b) Recording of Transfer. The transfer of the Note, or of any right to the principal thereof, and stated interest thereon, may be effected only by surrender of the Note to the Company and the issuance of a new note in the name

of the transferee.

6. Default. If any of the following conditions or events (each an "Event of Default") shall occur and be continuing, then, and in any such event, the Holder may at any time (unless such Event of Default shall theretofore have been remedied) at its option, by written notice to the Company, declare the Note to be due and payable, whereupon the Note shall forthwith mature and become due and payable, without presentment, demand, protest or notice, all of which are hereby waived. In addition, in such case the Company will pay to the Holder such further amount as shall have been incurred by the Holder as the costs and expenses of collection, including reasonable attorneys' fees.

(4)

(a) If the Company shall default in the payment of principal or interest on this Note when the same becomes due and payable, whether on a Payment Date, the Maturity Date or by declaration of acceleration or otherwise and such default shall not have been remedied within five (5) days after the date such payment was due.

(b) If an Event of Default shall have occurred under the Purchase Agreement and such Event of Default shall not have been cured within the applicable cure period.

7. Miscellaneous.

(a) All notices, requests or instructions hereunder shall be in writing and delivered personally, sent by telecopy, sent by nationally recognized, overnight courier service, or sent by registered or certified mail, postage prepaid, as follows:

If to the Holder:

The Lenfest Group
1332 Enterprise Drive
West Chester, PA 19380
Attn: H.F. Lenfest
Thomas K. Pasch, Esquire
Telecopier: (610) 918-8442

If to the Company:

Environmental Tectonics Corporation
County Line Industrial Park
125 James Way
Southampton, PA 18966-3877
Attn: Chief Financial Officer
Telecopier: (215) 357-4000

with a copy to:

Klehr, Harrison, Harvey, Branzburg & Ellers LLP
260 S. Broad Street
Philadelphia, PA 19102
Attn: Michael C. Forman, Esquire
Telecopier: (215) 568-6603

(5)

Any of the above addresses may be changed at any time by notice given as provided above; provided, however, that any such notice of change of address shall be effective only upon receipt. All notices, requests or instructions given in accordance herewith shall be effective on the earlier of (i) the date of delivery to the addressee, or (ii) five business days after it has been mailed, or (iii) three business days after delivery by a nationally recognized courier service.

(b) Lender shall have the right, without obligation, to grant extensions of time or indulgences without affecting the liability of the Company, including periods when payment is not permitted under the Subordination Agreement.

(c) Upon receipt by the Company from a Holder of (i) evidence of the loss, theft, destruction or mutilation of any Note and (ii) (y) in the case of loss, theft or destruction, of indemnity (without any bond or other security) reasonably satisfactory to the Company, or (z) in the case of mutilation, upon surrender and cancellation of any Note, the Company shall execute and deliver a new Note of like tenor and date. However, the Company shall not be obligated to reissue such lost or stolen Note if the Holder contemporaneously requests the Company to convert such Note.

(d) Nothing contained in this Note shall be construed as confessing upon the Holder or any other person the right to vote or to consent or to receive notice as a stockholder of the Borrower.

(e) This Note shall be governed by the laws of the Commonwealth of Pennsylvania without regard to the conflict of law provisions thereof.

(f) Notwithstanding any provision contained in this Note to the contrary, the Company's liability for payment of interest shall not exceed the limits imposed by applicable usury law. If any provision hereof requires interest payments in excess of the then legally permitted maximum rate, such provision shall automatically be deemed to require such payment at the then legally-permitted maximum rate; provided, however, that in such event the Conversion Price shall be adjusted to preserve the economic effects of the transaction contemplated by the Purchase Agreement.

(g) Subject to Section 5 hereof, this Note shall be binding on the Company, its successors and assigns, and shall inure to the benefit of the Holder and the Holder's successors, assigns, legal representatives, heirs and guardians.

(h) In the event of the commencement of a lawsuit or other proceeding to enforce any of the terms of this Note, the prevailing party shall be entitled to recover reasonable attorney's fees and related out-of-pocket expenses.

THIS NOTE WAS ISSUED WITH "ORIGINAL ISSUE DISCOUNT." FOR INFORMATION REGARDING THE ISSUE PRICE, THE AMOUNT OF ORIGINAL ISSUE DISCOUNT, THE ISSUE DATE, AND THE YIELD TO MATURITY, HOLDERS SHOULD CONTACT ENVIRONMENTAL TECTONICS CORP., ATTENTION: CHIEF FINANCIAL OFFICER, 125 JAMES WAY, SOUTHAMPTON, PENNSYLVANIA 18966-3877, TELEPHONE NUMBER: (215) 355-9100.

(6)

IN WITNESS WHEREOF, the Company has caused this Note to be signed in its name by its duly authorized officer as of the day and year first above written.

ENVIRONMENTAL TECTONICS CORPORATION

By: /s/ Duane Deaner (Seal)

Name: Duane Deaner
Title: C.F.O.

(7)

SCHEDULE "A"

FORM OF CONVERSION NOTICE

TO: Environmental Tectonics Corporation
County Line Industrial Park
125 James Way
Southampton, PA 18966-3877
Attn: Chief Financial Officer
Telecopier: (215) 357-4000

_____ ("Holder") is the owner and holder of the Senior Subordinated Convertible Note dated February ____, 2003 in the original principal amount of \$10,000,000 (the "Note"), or such lesser amount advanced by H.F. Lenfest to Environmental Tectonics Corporation (the "Company") in accordance with the terms of the Note. Holder hereby confirms that it irrevocably exercises its right to convert \$_____ (which amount shall not exceed all amounts due and owing by the Company under the Note) into that number of shares of Common Stock of the Company, and directs that the shares of Common Stock issuable and deliverable upon such conversion be registered in the name of Holder and delivered to Holder.

The undersigned hereby acknowledges that the Company has no obligation to register the shares of Common Stock issuable upon conversion of the Note except as otherwise provided in the Registration Rights Agreement.

Dated: _____, 200_

Name:

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. EXCEPT AS OTHERWISE SET FORTH HEREIN, NEITHER THIS WARRANT NOR ANY OF SUCH SHARES MAY BE SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH SECURITIES UNDER SAID ACT OR PURSUANT TO AN EXEMPTION THEREFROM.

February 18, 2003

Warrant to Purchase
Shares of Common Stock

ENVIRONMENTAL TECTONICS CORPORATION
STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, H. F. Lenfest, or his registered assigns (each, a "Holder"), is entitled to purchase from Environmental Tectonics Corporation, a Pennsylvania corporation (the "Company"), at any time or from time to time during the period specified in Section 1 hereof, Eight Hundred Three Thousand Forty-Eight (803,048) fully paid and nonassessable shares of the Company's common stock, par value \$0.05 per share (the "Common Stock"), at an exercise price equal to the lesser of (i) \$4.00 per share or (ii) 66 2/3 percent of the Market Price (as hereinafter defined), subject to adjustment as provided herein; provided, however, that in the event the shareholders of the Company do not approve the transactions contemplated by the Note and Warrant Purchase Agreement (as defined below), as required by Section 713 of the Listing, Standards, Policies and Requirements of the American Stock Exchange (the "AMEX Rule"), the exercise price shall equal the lesser of (i) \$2.00 per share or (ii) 66 2/3 percent of the Market Price, subject to adjustment as provided herein (in either case, the "Exercise Price"). The term "Warrant Shares," as used herein, refers to the shares of Common Stock purchasable hereunder. This Warrant has been issued pursuant to, and subject to the terms of, a Note and Warrant Purchase Agreement, dated as of February 19, 2003, by and between the Company and H. F. Lenfest (the "Note and Warrant Purchase Agreement"). The term "Warrants" means this Warrant and any warrants issued as a result of the transfer, exchange or replacement of such warrants. Capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Note and Warrant Purchase Agreement.

This Warrant is subject to the following terms, provisions, and conditions:

1. Period of Exercise. This Warrant is exercisable at any time or from time to time beginning on the date of issuance (the "Issue Date") and ending at 5:00 p.m., Philadelphia, Pennsylvania time on the sixth (6th) anniversary of the Issue Date (the "Exercise Period").

2. Exercise of Warrant.

(a) Manner of Exercise; Issuance of Certificates; Payment for Shares. Subject to the provisions hereof, including, without limitation, the limitations contained in Section 7 hereof, this Warrant may be exercised by the holder hereof, in whole or in part (which such amount shall be not less than 100,000 Warrant Shares, or a whole multiple of 10,000 in excess thereof; provided that, the foregoing shall not apply if the remaining Warrant Shares issuable hereunder are less than such minimum amount), by the surrender of this Warrant, together with a completed exercise agreement in the form attached hereto (the "Exercise Agreement"), to the Company during normal business hours on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), and upon payment to the Company in cash, by certified or official bank check or by wire transfer for the account of the Company of the Exercise Price for the Warrant Shares specified in the Exercise Agreement. The Warrant Shares

so purchased shall be deemed to be issued to the holder hereof or such holder's designee, as the record owner of such shares, as of the close of business on the date on which this Warrant shall have been surrendered, the completed Exercise Agreement shall have been delivered and payment shall have been made for such shares as set forth above. Certificates for the Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the holder hereof within fifteen (15) business days after this Warrant shall have been so exercised. The certificates so delivered shall be in such denominations as may be requested by the holder hereof and shall be registered in the name of such holder or such other name as shall be designated by such holder. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, as soon as practicable after the date of exercise, deliver to the holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

(b) Limitations on Exercise. Prior to the approval of the shareholders of the Company, as required by the AMEX Rule, in favor of the transactions contemplated by the Note and Warrant Purchase Agreement, in no event shall a Holder be entitled to receive Warrant Shares upon exercise of any Warrant if the aggregate number of Warrant Shares received by all Holders as a result of (i) such exercise, (ii) all previous exercises of any Warrants and (iii) all prior conversions of any Note is more than 1,325,732 Warrant Shares (which such amount represents 19.99% of the issued and outstanding shares of Common Stock on the date hereof, less 105,000 shares of Common Stock issuable to ETC Asset Management, LLC ("EAM") upon exercise of that certain Stock Purchase Warrant of even date herewith issued by the Company in favor of EAM).

3. Certain Agreements of the Company. The Company hereby covenants and agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be validly issued, fully paid, and nonassessable and free from all taxes, liens, and charges with respect to the issue thereof.

(b) Reservation of Shares. During the Exercise Period, the Company shall at all times have authorized, and reserved for the purpose of issuance upon exercise of this Warrant, a sufficient number of shares of Common Stock to provide for the exercise in full of this Warrant.

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(c) Listing. The Company shall secure the listing of the Warrant Shares upon each securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance upon exercise of this Warrant) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Warrant Shares.

(d) Certain Actions Prohibited. The Company will not, by amendment of its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, directly or indirectly, by operation of law or otherwise, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant.

(e) Successors and Assigns. This Warrant will be binding upon any entity succeeding to the Company or its assets.

4. Antidilution Provisions. During the Exercise Period, the Exercise Price and the number of Warrant Shares shall be subject to adjustment from time to time as provided in this Section 4. In the event that any adjustment of the Exercise Price as required herein results in a fraction of a cent, such Exercise

Price shall be rounded off to the nearest cent.

(a) Sale of Securities Below Current Exercise Price. Except as otherwise provided in Sections 4(b) and 4(d), if at any time the Company shall issue or, pursuant to the provisions hereof, be deemed to have issued (other than as set forth in Section 4(a)(vi) hereof) any shares of Common Stock, Convertible Securities (as hereinafter defined), Rights (as hereinafter defined) or Related Rights (as hereinafter defined) (collectively, "Securities") without consideration or for a consideration per share less than the Exercise Price in effect immediately prior to the issuance of such Securities, then the Exercise Price in effect immediately prior to each such issuance shall forthwith be reduced to the lowest per share price paid for a share of Common Stock (or deemed paid for a share of Common Stock in the case of Rights, Convertible Securities or Related Rights, as determined below). For the purpose of this Section 4(a), the following definitions, procedures and exceptions shall be applicable:

(i) Rights. In the case of the issuance of options, warrants or other rights to purchase or otherwise acquire shares of Common Stock, whether or not at the time exercisable (collectively, "Rights"), the total number of shares of Common Stock issuable upon exercise of such Rights shall be deemed to have been issued at the time such Rights are issued, for a consideration equal to the sum of the consideration, if any, received by the Company upon the issuance of such Rights and the minimum purchase or exercise price payable upon the exercise of such Rights for the Common Stock to be issued upon the exercise thereof; and the consideration per share shall be determined by dividing (i) the aggregate consideration so received by and payable to the Company, by (ii) the number of shares of Common Stock issuable upon exercise of such Rights.

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(ii) Convertible Securities and Related Rights. In the case of the issuance of any class or series of stock or any bonds, debentures, notes or other securities or obligations convertible into or exchangeable for Common Stock, whether or not then convertible or exchangeable (collectively, "Convertible Securities"), or options, warrants or other rights to purchase or otherwise acquire Convertible Securities (collectively, "Related Rights"), the total number of shares of Common Stock issuable upon the conversion or exchange of such Convertible Securities or exercise of such Related Rights shall be deemed to have been issued at the time such Convertible Securities or Related Rights are issued, for a consideration equal to the sum of (A) the consideration, if any, received by the Company upon issuance of such Convertible Securities or Related Rights (excluding any cash received on account of accrued interest or dividends) and (B) (1) in the case of Convertible Securities, the minimum additional consideration, if any, to be received by the Company upon the conversion or exchange of such Convertible Securities or (2) in the case of Related Rights, the sum of (x) the minimum purchase or exercise price payable upon the exercise of such Related Rights for Convertible Securities and (y) the minimum additional consideration, if any, to be received by the Company upon the conversion or exchange of the Convertible Securities issued upon the exercise of such Related Rights; and the consideration per share shall be determined by dividing (i) the aggregate consideration so received by and payable to the Company, by (ii) the number of shares of Common Stock issuable upon conversion or exchange of such Convertible Securities or exercise of such Related Rights.

(iii) Changes. On any change in the number of shares of Common Stock issuable upon the exercise of Rights or Related Rights or upon the conversion or exchange of Convertible Securities or on any change in the minimum purchase or exercise price of Rights, Related Rights or Convertible Securities, including, but not limited to, a change resulting from the anti-dilution provisions of such Rights, Related Rights or Convertible Securities, the Exercise Price to the extent in

any way affected by such Rights, Related Rights or Convertible Securities shall forthwith be readjusted to be thereafter the Exercise Price that would have been obtained had the adjustment which was made upon the issuance of such Rights, Related Rights or Convertible Securities been made after giving effect to such change. No further adjustment shall be made in respect of such change upon the actual issuance of Common Stock or any payment of consideration upon the exercise of such Rights or Related Rights or the conversion or exchange of such Convertible Securities.

(iv) Expiration or Cancellation. On the expiration or cancellation of any such Rights, Related Rights or Convertible Securities, if the Exercise Price shall have been adjusted upon the issuance thereof, the Exercise Price shall forthwith be readjusted to such Exercise Price as would have been obtained had the adjustment made upon the issuance of such Rights, Related Rights or Convertible Securities been made upon the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such Rights or Related Rights or the conversion or exchange of such Convertible Securities.

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(v) Cash. In the case of the issuance of such Securities for cash, the amount of consideration received by the Company shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses paid or incurred by the Company for any underwriting or otherwise in connection with the issuance and sale thereof. In the case of the issuance of such Securities for consideration other than cash, the amount of consideration received by the Company shall be determined in good faith by the Company's Board of Directors.

(vi) Exceptions to Adjustment of Exercise Price. No adjustment to the Exercise Price will be made (i) upon the exercise of any warrants, options or convertible securities issued and outstanding on the Issue Date that are set forth on Schedule 5.1(f) of the Note and Warrant Purchase Agreement in accordance with the terms of such securities as of such date; (ii) upon exercise of any stock or options which may hereafter be exercised under any employee benefit plan of the Company now existing or to be implemented in the future, so long as the issuance of such stock or options is approved by a majority of the non-employee members of the Board of Directors of the Company or a majority of the members of a committee of non-employee directors established for such purpose; (iii) upon the issuance of the Notes or Warrants issued or issuable in accordance with the terms of the Note and Warrant Purchase Agreement; (iv) upon conversion of the Notes or exercise of the Warrants; or (v) upon the issuance of securities in connection with a strategic transaction, the primary purpose of which, in the good faith determination of the Board of Directors of the Company, is not to raise capital for the Company.

(b) Subdivision or Combination of Common Stock. If the Company at any time subdivides (by any stock split, stock dividend, recapitalization, reorganization, reclassification or otherwise) the shares of Common Stock acquirable hereunder into a greater number of shares, then, after the date of record for effecting such subdivision, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company at any time combines (by reverse stock split, recapitalization, reorganization, reclassification or otherwise) the shares of Common Stock acquirable hereunder into a smaller number of shares, then, after the date of record for effecting such combination, the Exercise Price in effect immediately prior to such combination will be proportionately increased.

(c) Adjustment in Number of Shares. Upon each adjustment of the Exercise Price pursuant to the provisions of this Section 4, the number of shares of Common Stock issuable upon exercise of this Warrant shall be adjusted

by multiplying a number equal to the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock issuable upon exercise of this Warrant immediately prior to such adjustment and dividing the product so obtained by the adjusted Exercise Price.

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(d) Consolidation, Merger or Sale. In case of any consolidation of the Company with, or merger of the Company into any other Company, or in case of any sale or conveyance of all or substantially all of the assets of the Company other than in connection with a plan of complete liquidation of the Company, then as a condition of such consolidation, merger or sale or conveyance, adequate provision will be made whereby the holder of this Warrant will have the right to acquire and receive upon exercise of this Warrant in lieu of the shares of Common Stock immediately theretofore acquirable upon the exercise of this Warrant, such shares of stock, securities or assets as the holders of the Warrants would have received had the Warrants been exercised immediately prior to such consolidation, merger or sale or conveyance. In any such case, the Company will make appropriate provision to insure that the provisions of this Section 4 hereof will thereafter be applicable as nearly as may be in relation to any shares of stock or securities thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger or sale or conveyance unless prior to the consummation thereof, the successor or acquiring entity (if other than the Company) and, if an entity different from the successor or acquiring entity, the entity whose capital stock or assets the holders of the Common Stock of the Company are entitled to receive as a result of such consolidation, merger or sale or conveyance assumes bywritten instrument the obligations of the Company under this Warrant (including under this Section 4) and the obligations to deliver to the holder of this Warrant such shares of stock, securities or assets as, in accordance with the foregoing provisions, the holder may be entitled to acquire. This Section 4(d) shall apply to any successive consolidations, mergers, sales or conveyances.

(e) Distribution of Assets. In case the Company shall declare or make any distribution of its assets (including cash) to holders of Common Stock as a partial liquidating dividend, by way of return of capital or otherwise, then, after the date of record for determining stockholders entitled to such distribution, but prior to the date of distribution, the holder of this Warrant shall be entitled upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, to receive the amount of such assets which would have been payable to the holder had such holder been the holder of such shares of Common Stock on the record date for the determination of stockholders entitled to such distribution.

(f) Notice of Adjustment. Upon the occurrence of any event which requires any adjustment of the Exercise Price, then, and in each such case, the Company shall give notice thereof to the holder of this Warrant, which notice shall state the Exercise Price resulting from such adjustment and the increase or decrease in the number of Warrant Shares purchasable at such price upon exercise, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such calculation shall be certified by the chief financial officer of the Company.

(g) Minimum Adjustment of Exercise Price. No adjustment of the Exercise Price shall be made in an amount of less than 1% of the Exercise Price in effect at the time such adjustment is otherwise required to be made, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to not less than 1% of such Exercise Price.

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(h) No Fractional Shares. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but the Company shall pay a cash adjustment in respect of any fractional share which would otherwise be issuable

in an amount equal to the same fraction of the Market Price of a share of Common Stock on the date of such exercise.

(i) Other Notices. In case at any time:

(i) the Company shall declare any dividend upon the Common Stock payable in shares of stock of any class or make any other distribution (including dividends or distributions payable in cash out of retained earnings) to the holders of the Common Stock;

(ii) there shall be any capital reorganization of the Company, or reclassification of the Common Stock, or consolidation or merger of the Company with or into, or sale of all, substantially all or a material portion of its assets to, another Company or entity; or

(iii) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in each such case, the Company shall give to the holder of this Warrant (a) notice of the date on which the books of the Company shall close or a record shall be taken for determining the holders of Common Stock entitled to receive any such dividend or distribution or for determining the holders of Common Stock entitled to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, notice of the date (or, if not then known, a reasonable approximation thereof by the Company) when the same shall take place. Such notice shall also specify the date on which the holders of Common Stock shall be entitled to receive such dividend, distribution, or subscription rights or to exchange their Common Stock for stock or other securities or property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such notice shall be given at least ten (10) business days prior to the record date or the date on which the Company's books are closed in respect thereto. Failure to give any such notice or any defect therein shall not affect the validity of the proceedings referred to in clauses (i), (ii) and (iii) above; provided that if notice is not given in accordance with this Section 4(i), the Company will use its best efforts to insure that the holder of this Warrant shall nevertheless receive the same rights and benefits received by other holders of securities of the Company from the proceedings referred to in clauses (i), (ii) and (iii) above, unless the holder of this Warrant chooses not to receive such rights and benefits..

(j) Certain Events. If any event occurs of the type contemplated by the adjustment provisions of this Section 4 but not expressly provided for by such provisions, the Company will give notice of such event as provided in Section 4(i) hereof, and the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of shares of Common Stock acquirable upon exercise of this Warrant so that the rights of the holder shall be neither enhanced nor diminished by such event.

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(k) Certain Definitions.

(i) "Market Price," as of any date, (i) means the average of the high and the low sale prices for the shares of Common Stock as reported on the American Stock Exchange ("AMEX") by Bloomberg Financial Markets ("Bloomberg") for the twenty five (25) consecutive trading days immediately preceding such date, or (ii) if the AMEX is not the principal trading market for the shares of Common Stock, the average of the reported closing sale prices reported by Bloomberg on the principal trading market for the Common Stock during the same period, or (iii) if the foregoing do not apply, the last sale price of such security in the over-the-counter market on the pink sheets or bulletin board for such security as reported by Bloomberg, or if no sale price is so reported for such security, the last bid price of such security as reported by

Bloomberg, or (iv) if market value cannot be calculated as of such date on any of the foregoing bases, the Market Price shall be determined in good faith by the Board of Directors.

5. Issue Tax. The issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the holder of this Warrant or such shares for any issuance tax or other costs in respect thereof.

6. No Rights or Liabilities as a Shareholder. This Warrant shall not entitle the holder hereof to any voting rights, rights to dividends, or other rights as a shareholder of the Company. No provision of this Warrant, in the absence of affirmative action by the holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer, Exchange, and Replacement of Warrant.

(a) Restriction on Transfer. This Warrant and the rights granted to the holder hereof are transferable, in whole or in part (which such amount shall be not less than 100,000 Warrant Shares, or a whole multiple of 10,000 in excess thereof; provided that, the foregoing shall not apply if the remaining Warrant Shares issuable hereunder are less than such minimum amount), upon surrender of this Warrant, together with a properly executed assignment in the form attached hereto, at the office or agency of the Company referred to in Section 7(e) below; provided, however, that any transfer or assignment shall be subject to the conditions set forth in Section 7(f). Notwithstanding the foregoing, this Warrant, the shares of Common Stock issuable upon exercise hereof, and the rights granted hereunder may not be transferred to a competitor of the Company or any Subsidiary or affiliate of the Company.

(b) Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Section 7(e) below, for new Warrants of like tenor representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by the holder hereof at the time of such surrender.

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(c) Replacement of Warrant. Upon receipt of evidence of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this Warrant in connection with any transfer, exchange, or replacement as provided in this Section 7, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses (other than legal expenses, if any, incurred by the holder or transferees) and charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Section 7.

(e) Register. The Company shall maintain, at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

(f) Exercise or Transfer Without Registration. If, at the time of the surrender of this Warrant in connection with any exercise, transfer, or exchange of this Warrant, this Warrant (or, in the case of any exercise, the

Warrant Shares issuable hereunder), shall not be registered under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such exercise, transfer, or exchange, that the holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel to the effect that such exercise, transfer, or exchange may be made without registration under the Securities Act and under applicable state securities or blue sky laws; provided however, that no legal opinion shall be required in connection with a transfer pursuant to Rule 144 under the Securities Act unless in the opinion of counsel to the Company, such transfer does not comply with the provisions of Rule 144. Notwithstanding the foregoing, the initial holder of this Warrant, by taking and holding the same, represents to the Company that such holder is acquiring this Warrant for investment and not with a present view to the distribution thereof.

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8. Notices. Any notice which is required or provided to be given under this Warrant shall be deemed to have been sufficiently given and received for all purposes when delivered by hand, telecopy (if a copy of such confirmed telecopy transmission shall be contemporaneously sent by first class mail), or nationally recognized overnight courier, or five days after being sent by certified or registered mail, postage and charges prepaid, return receipt requested, to the following addresses:

If to the Company:

Environmental Tectonics Corporation
125 James Way
Southampton, PA 18966
Attention: Chief Financial Officer
Facsimile: (215) 357-4000

With a copy to:

Klehr, Harrison, Harvey, Branzburg & Ellers LLP
260 S. Broad Street
Philadelphia, PA 19102
Attention: Michael C. Forman, Esquire
Facsimile: (215) 568-6603

If to a holder hereof, at the address shown for such holder on the books of the Company; or, with respect to any party hereto, at any other address designated in writing by such party in accordance with the provisions of this Section 8.

9. Governing Law; Jurisdiction. This Warrant shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to agreements made and to be performed in the Commonwealth of Pennsylvania (without regard to principles of conflict of laws). The Company and the holder hereof consent to the jurisdiction of the United States federal courts and the state courts located in the Commonwealth of Pennsylvania with respect to any suit or proceeding based on or arising under this Warrant or the transactions contemplated hereby and agree that all claims in respect of such suit or proceeding may be determined in such courts. The Company and the holder hereof waive the defense of an inconvenient forum to the maintenance of such suit or proceeding and agree that service of process upon a party mailed by first class mail shall be deemed in every respect effective service of process upon the party in any such suit or proceeding. Nothing herein shall affect either party's right to serve process in any other manner permitted by law.

10. Miscellaneous.

(a) Amendments. This Warrant and any provision hereof may only be amended by an instrument in writing signed by the Company and a majority in interest of the outstanding Warrants.

(b) Descriptive Headings. The descriptive headings of the several

paragraphs of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

ENVIRONMENTAL TECTONICS CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner
Title: C.F.O.

Dated as of February 18th, 2003

FORM OF EXERCISE AGREEMENT

Dated: _____, 20__

To: [Company]
[Address]

The undersigned, pursuant to the provisions set forth in the Warrant attached hereto, hereby agrees to purchase _____ shares of Common Stock covered by such Warrant, and makes payment herewith in full therefor at the price per share provided by such Warrant in cash, by wire transfer or by certified or official bank check in the amount of \$_____. Please issue a certificate or certificates for such shares of Common Stock in the name of and pay any cash for any fractional share to:

Name: _____
Signature: _____
Address: _____

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

and, if said number of shares of Common Stock shall not be all the shares purchasable under the within Warrant, a new Warrant is to be issued in the name of said undersigned covering the balance of the shares purchasable thereunder less any fraction of a share paid in cash.

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers all the rights of the undersigned under the within Warrant, with respect to the number of shares of Common Stock covered thereby set forth hereinbelow, to:

Name of Assignee	Address	No. of Shares
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_____, and hereby irrevocably constitutes and appoints _____ as agent and attorney-in-fact to transfer said Warrant on the books of the within-named Company, with full power of substitution in the premises.

Dated: _____, 20__

In the presence of:

Name: _____

Signature: _____

Title of Signing Officer or Agent (if any):

Address: _____

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. EXCEPT AS OTHERWISE SET FORTH HEREIN, NEITHER THIS WARRANT NOR ANY OF SUCH SHARES MAY BE SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH SECURITIES UNDER SAID ACT OR PURSUANT TO AN EXEMPTION THEREFROM.

February 18, 2003

Warrant to Purchase
Shares of Common Stock

ENVIRONMENTAL TECTONICS CORPORATION

STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, ETC Asset Management, LLC, or its registered assigns, is entitled to purchase from Environmental Tectonics Corporation, a Pennsylvania corporation (the "Company"), at any time or from time to time during the period specified in Section 1 hereof, One Hundred Five Thousand (105,000) fully paid and nonassessable shares of the Company's common stock, par value \$0.05 per share (the "Common Stock"), at an exercise price equal to the lesser of (i) \$4.00 per share or (ii) 66 2/3 percent of the Market Price (as hereinafter defined) subject to adjustment as provided herein (the "Exercise Price"). The term "Warrant Shares," as used herein, refers to the shares of Common Stock purchasable hereunder. The term "Warrants" means this Warrant and any warrants issued as a result of the transfer, exchange or replacement of such warrants. Capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Note and Warrant Purchase Agreement.

This Warrant is subject to the following terms, provisions, and conditions:

1. Period of Exercise. This Warrant is exercisable at any time or from time to time beginning on the date of issuance (the "Issue Date") and ending at 5:00 p.m., Philadelphia, Pennsylvania time on the sixth (6th) anniversary of the Issue Date (the "Exercise Period").

2. Manner of Exercise; Issuance of Certificates; Payment for Shares. Subject to the provisions hereof, including, without limitation, the limitations contained in Section 7 hereof, this Warrant may be exercised by the holder hereof, in whole or in part (which such amount shall be not less than 20,000 Warrant Shares, or a whole multiple of 5,000 in excess thereof; provided that, the foregoing shall not apply if the remaining Warrant Shares issuable hereunder are less than such minimum amount), by the surrender of this Warrant, together with a completed exercise agreement in the form attached hereto (the "Exercise Agreement"), to the Company during normal business hours on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), and upon payment to the Company in cash, by certified or official bank check or by wire transfer for the account of the Company of the Exercise Price for the Warrant Shares specified in the Exercise Agreement. The Warrant Shares so purchased shall be deemed to be issued to the holder hereof or such holder's designee, as the record owner of such shares, as of the close of business on the date on which this Warrant shall have been surrendered, the completed Exercise Agreement shall have been delivered and payment shall have been made for such shares as set forth above. Certificates for the Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the holder hereof within fifteen (15) business days after this Warrant shall have been so exercised. The certificates so delivered shall be in such denominations as may be requested by the holder hereof and shall be registered in the name of such holder or such other name as shall be designated

by such holder. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, as soon as practicable after the date of exercise, deliver to the holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

3. Certain Agreements of the Company. The Company hereby covenants and agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be validly issued, fully paid, and nonassessable and free from all taxes, liens, and charges with respect to the issue thereof.

(b) Reservation of Shares. During the Exercise Period, the Company shall at all times have authorized, and reserved for the purpose of issuance upon exercise of this Warrant, a sufficient number of shares of Common Stock to provide for the exercise in full of this Warrant.

(c) Listing. The Company shall secure the listing of the Warrant Shares upon each securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance upon exercise of this Warrant) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Warrant Shares.

(d) Certain Actions Prohibited. The Company will not, by amendment of its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, directly or indirectly, by operation of law or otherwise, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant.

(e) Successors and Assigns. This Warrant will be binding upon any entity succeeding to the Company or its assets.

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4. Antidilution Provisions. During the Exercise Period, the Exercise Price and the number of Warrant Shares shall be subject to adjustment from time to time as provided in this Section 4. In the event that any adjustment of the Exercise Price as required herein results in a fraction of a cent, such Exercise Price shall be rounded off to the nearest cent.

(a) Sale of Securities Below Current Exercise Price. Except as otherwise provided in Sections 4(b) and 4(d), if at any time the Company shall issue or, pursuant to the provisions hereof, be deemed to have issued (other than as set forth in Section 4(a)(vi) hereof) any shares of Common Stock, Convertible Securities (as hereinafter defined), Rights (as hereinafter defined) or Related Rights (as hereinafter defined) (collectively, "Securities") without consideration or for a consideration per share less than the Exercise Price in effect immediately prior to the issuance of such Securities, then the Exercise Price in effect immediately prior to each such issuance shall forthwith be reduced to the lowest per share price paid for a share of Common Stock (or deemed paid for a share of Common Stock in the case of Rights, Convertible Securities or Related Rights, as determined below). For the purpose of this Section 4(a), the following definitions, procedures and exceptions shall be applicable:

(i) Rights. In the case of the issuance of options, warrants or other rights to purchase or otherwise acquire shares of Common Stock, whether or not at the time exercisable (collectively, "Rights"), the total number of shares of Common Stock issuable upon exercise of such Rights shall be deemed to have been issued at the time such Rights are

issued, for a consideration equal to the sum of the consideration, if any, received by the Company upon the issuance of such Rights and the minimum purchase or exercise price payable upon the exercise of such Rights for the Common Stock to be issued upon the exercise thereof; and the consideration per share shall be determined by dividing (i) the aggregate consideration so received by and payable to the Company, by (ii) the number of shares of Common Stock issuable upon exercise of such Rights.

(ii) Convertible Securities and Related Rights. In the case of the issuance of any class or series of stock or any bonds, debentures, notes or other securities or obligations convertible into or exchangeable for Common Stock, whether or not then convertible or exchangeable (collectively, "Convertible Securities"), or options, warrants or other rights to purchase or otherwise acquire Convertible Securities (collectively, "Related Rights"), the total number of shares of Common Stock issuable upon the conversion or exchange of such Convertible Securities or exercise of such Related Rights shall be deemed to have been issued at the time such Convertible Securities or Related Rights are issued, for a consideration equal to the sum of (A) the consideration, if any, received by the Company upon issuance of such Convertible Securities or Related Rights (excluding any cash received on account of accrued interest or dividends) and (B) (1) in the case of Convertible Securities, the minimum additional consideration, if any, to be received by the Company upon the conversion or exchange of such Convertible Securities or (2) in the case of Related Rights, the sum of (x) the minimum purchase or exercise price payable upon the exercise of such Related Rights for Convertible Securities and (y) the minimum additional consideration, if any, to be received by the Company upon the conversion or exchange of the Convertible Securities issued upon the exercise of such Related Rights; and the consideration per share shall be determined by dividing (i) the aggregate consideration so received by and payable to the Company, by (ii) the number of shares of Common Stock issuable upon conversion or exchange of such Convertible Securities or exercise of such Related Rights.

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(iii) Changes. On any change in the number of shares of Common Stock issuable upon the exercise of Rights or Related Rights or upon the conversion or exchange of Convertible Securities or on any change in the minimum purchase or exercise price of Rights, Related Rights or Convertible Securities, including, but not limited to, a change resulting from the anti-dilution provisions of such Rights, Related Rights or Convertible Securities, the Exercise Price to the extent in any way affected by such Rights, Related Rights or Convertible Securities shall forthwith be readjusted to be thereafter the Exercise Price that would have been obtained had the adjustment which was made upon the issuance of such Rights, Related Rights or Convertible Securities been made after giving effect to such change. No further adjustment shall be made in respect of such change upon the actual issuance of Common Stock or any payment of consideration upon the exercise of such Rights or Related Rights or the conversion or exchange of such Convertible Securities.

(iv) Expiration or Cancellation. On the expiration or cancellation of any such Rights, Related Rights or Convertible Securities, if the Exercise Price shall have been adjusted upon the issuance thereof, the Exercise Price shall forthwith be readjusted to such Exercise Price as would have been obtained had the adjustment made upon the issuance of such Rights, Related Rights or Convertible Securities been made upon the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such Rights or Related Rights or the conversion or exchange of such Convertible Securities.

(v) Cash. In the case of the issuance of such Securities for

cash, the amount of consideration received by the Company shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses paid or incurred by the Company for any underwriting or otherwise in connection with the issuance and sale thereof. In the case of the issuance of such Securities for consideration other than cash, the amount of consideration received by the Company shall be determined in good faith by the Company's Board of Directors.

(vi) Exceptions to Adjustment of Exercise Price. No adjustment to the Exercise Price will be made (i) upon the exercise of any warrants, options or convertible securities issued and outstanding on the Issue Date that are set forth on Schedule 5.1(f) of the Note and Warrant Purchase Agreement in accordance with the terms of such securities as of such date; (ii) upon the grant or exercise of any stock or options which may hereafter be granted or exercised under any employee benefit plan of the Company now existing or to be implemented in the future, so long as the issuance of such stock or options is approved by a majority of the non-employee members of the Board of Directors of the Company or a majority of the members of a committee of non-employee directors established for such purpose; (iii) upon the issuance of the Notes or Warrants issued or issuable in accordance with the terms of the Note and Warrant Purchase Agreement; (iv) upon conversion of the Notes or exercise of the Warrants; or (v) upon the issuance of securities in connection with a strategic transaction, the primary purpose of which, in the good faith determination of the Board of Directors of the Company, is not to raise capital for the Company.

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(b) Subdivision or Combination of Common Stock. If the Company at any time subdivides (by any stock split, stock dividend, recapitalization, reorganization, reclassification or otherwise) the shares of Common Stock acquirable hereunder into a greater number of shares, then, after the date of record for effecting such subdivision, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company at any time combines (by reverse stock split, recapitalization, reorganization, reclassification or otherwise) the shares of Common Stock acquirable hereunder into a smaller number of shares, then, after the date of record for effecting such combination, the Exercise Price in effect immediately prior to such combination will be proportionately increased.

(c) Adjustment in Number of Shares. Upon each adjustment of the Exercise Price pursuant to the provisions of this Section 4, the number of shares of Common Stock issuable upon exercise of this Warrant shall be adjusted by multiplying a number equal to the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock issuable upon exercise of this Warrant immediately prior to such adjustment and dividing the product so obtained by the adjusted Exercise Price.

(d) Consolidation, Merger or Sale. In case of any consolidation of the Company with, or merger of the Company into any other Company, or in case of any sale or conveyance of all or substantially all of the assets of the Company other than in connection with a plan of complete liquidation of the Company, then as a condition of such consolidation, merger or sale or conveyance, adequate provision will be made whereby the holder of this Warrant will have the right to acquire and receive upon exercise of this Warrant in lieu of the shares of Common Stock immediately theretofore acquirable upon the exercise of this Warrant, such shares of stock, securities or assets as the holders of the Warrants would have received had the Warrants been exercised immediately prior to such consolidation, merger or sale or conveyance. In any such case, the Company will make appropriate provision to insure that the provisions of this Section 4 hereof will thereafter be applicable as nearly as may be in relation to any shares of stock or securities thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger or sale or conveyance unless prior to the consummation thereof, the successor or acquiring entity (if other than the Company) and, if an entity different from the

successor or acquiring entity, the entity whose capital stock or assets the holders of the Common Stock of the Company are entitled to receive as a result of such consolidation, merger or sale or conveyance assumes by written instrument the obligations of the Company under this Warrant (including under this Section 4) and the obligations to deliver to the holder of this Warrant such shares of stock, securities or assets as, in accordance with the foregoing provisions, the holder may be entitled to acquire. This Section 4(d) shall apply to any successive consolidations, mergers, sales or conveyances.

(e) Distribution of Assets. In case the Company shall declare or make any distribution of its assets (including cash) to holders of Common Stock as a partial liquidating dividend, by way of return of capital or otherwise, then, after the date of record for determining stockholders entitled to such distribution, but prior to the date of distribution, the holder of this Warrant shall be entitled upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, to receive the amount of such assets which would have been payable to the holder had such holder been the holder of such shares of Common Stock on the record date for the determination of stockholders entitled to such distribution.

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(f) Notice of Adjustment. Upon the occurrence of any event which requires any adjustment of the Exercise Price, then, and in each such case, the Company shall give notice thereof to the holder of this Warrant, which notice shall state the Exercise Price resulting from such adjustment and the increase or decrease in the number of Warrant Shares purchasable at such price upon exercise, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such calculation shall be certified by the chief financial officer of the Company.

(g) Minimum Adjustment of Exercise Price. No adjustment of the Exercise Price shall be made in an amount of less than 1% of the Exercise Price in effect at the time such adjustment is otherwise required to be made, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to not less than 1% of such Exercise Price.

(h) No Fractional Shares. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but the Company shall pay a cash adjustment in respect of any fractional share which would otherwise be issuable in an amount equal to the same fraction of the Market Price of a share of Common Stock on the date of such exercise.

(i) Other Notices. In case at any time:

(i) the Company shall declare any dividend upon the Common Stock payable in shares of stock of any class or make any other distribution (including dividends or distributions payable in cash out of retained earnings) to the holders of the Common Stock;

(ii) there shall be any capital reorganization of the Company, or reclassification of the Common Stock, or consolidation or merger of the Company with or into, or sale of all, substantially all or a material portion of its assets to, another Company or entity; or

(iii) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in each such case, the Company shall give to the holder of this Warrant (a) notice of the date on which the books of the Company shall close or a record shall be taken for determining the holders of Common Stock entitled to receive any such dividend or distribution or for determining the holders of Common Stock entitled to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up and (b) in the case of any such reorganization, reclassification, consolidation, merger,

sale, dissolution, liquidation or winding-up, notice of the date (or, if not then known, a reasonable approximation thereof by the Company) when the same shall take place. Such notice shall also specify the date on which the holders of Common Stock shall be entitled to receive such dividend, distribution, or subscription rights or to exchange their Common Stock for stock or other securities or property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such notice shall be given at least ten (10) days prior to the record date or the date on which the Company's books are closed in respect thereto. Failure to give any such notice or any defect therein shall not affect the validity of the proceedings referred to in clauses (i), (ii) and (iii) above; provided that if notice is not given in accordance with this Section 4(i), the Company will use its best efforts to insure that the holder of this Warrant shall nevertheless receive the same rights and benefits received by other holders of securities of the Company from the proceedings referred to in clauses (i), (ii) and (iii) above, unless the holder of this Warrant chooses not to receive such rights and benefits.

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(j) Certain Events. If any event occurs of the type contemplated by the adjustment provisions of this Section 4 but not expressly provided for by such provisions, the Company will give notice of such event as provided in Section 4(i) hereof, and the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of shares of Common Stock acquirable upon exercise of this Warrant so that the rights of the holder shall be neither enhanced nor diminished by such event.

(k) Certain Definitions.

(i) "Market Price," as of any date, (i) means the average of the high and the low sale prices for the shares of Common Stock as reported on the American Stock Exchange ("AMEX") by Bloomberg Financial Markets ("Bloomberg") for the twenty five (25) consecutive trading days immediately preceding such date, or (ii) if the AMEX is not the principal trading market for the shares of Common Stock, the average of the reported closing sale prices reported by Bloomberg on the principal trading market for the Common Stock during the same period, or (iii) if the foregoing do not apply, the last sale price of such security in the over-the-counter market on the pink sheets or bulletin board for such security as reported by Bloomberg, or if no sale price is so reported for such security, the last bid price of such security as reported by Bloomberg, or (iv) if market value cannot be calculated as of such date on any of the foregoing bases, the Market Price shall be determined in good faith by the Board of Directors.

5. Issue Tax. The issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the holder of this Warrant or such shares for any issuance tax or other costs in respect thereof.

6. No Rights or Liabilities as a Shareholder. This Warrant shall not entitle the holder hereof to any voting rights, rights to dividends, or other rights as a shareholder of the Company. No provision of this Warrant, in the absence of affirmative action by the holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

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7. Transfer, Exchange, and Replacement of Warrant.

(a) Restriction on Transfer. This Warrant and the rights granted to the holder hereof are transferable, in whole or in part (which such amount shall be not less than 20,000 Warrant Shares, or a whole multiple of 5,000 in excess

thereof; provided that, the foregoing shall not apply if the remaining Warrant Shares issuable hereunder are less than such minimum amount), upon surrender of this Warrant, together with a properly executed assignment in the form attached hereto, at the office or agency of the Company referred to in Section 7(e) below; provided, however, that any transfer or assignment shall be subject to the conditions set forth in Section 7(f). Notwithstanding the foregoing, this Warrant, the shares of Common Stock issuable upon exercise hereof, and the rights granted hereunder may not be transferred to a competitor of the Company or any Subsidiary or affiliate of the Company.

(b) Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Section 7(e) below, for new Warrants of like tenor representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by the holder hereof at the time of such surrender.

(c) Replacement of Warrant. Upon receipt of evidence of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this Warrant in connection with any transfer, exchange, or replacement as provided in this Section 7, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses (other than legal expenses, if any, incurred by the holder or transferees) and charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Section 7.

(e) Register. The Company shall maintain, at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

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(f) Exercise or Transfer Without Registration. If, at the time of the surrender of this Warrant in connection with any exercise, transfer, or exchange of this Warrant, this Warrant (or, in the case of any exercise, the Warrant Shares issuable hereunder), shall not be registered under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such exercise, transfer, or exchange, that the holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel to the effect that such exercise, transfer, or exchange may be made without registration under the Securities Act and under applicable state securities or blue sky laws; provided however, that no legal opinion shall be required in connection with a transfer pursuant to Rule 144 under the Securities Act unless in the opinion of counsel to the Company, such transfer does not comply with the provisions of Rule 144. Notwithstanding the foregoing, the initial holder of this Warrant, by taking and holding the same, represents to the Company that such holder is acquiring this Warrant for investment and not with a present view to the distribution thereof.

8. Notices. Any notice which is required or provided to be given under this Warrant shall be deemed to have been sufficiently given and received for all purposes when delivered by hand, telecopy (if a copy of such confirmed telecopy transmission shall be contemporaneously sent by first class mail), or nationally recognized overnight courier, or five days after being sent by certified or registered mail, postage and charges prepaid, return receipt requested, to the following addresses:

If to the Company:

Environmental Tectonics Corporation
125 James Way
Southampton, PA 18966
Attention: Chief Financial Officer
Facsimile: (215) 357-4000

With a copy to:

Klehr, Harrison, Harvey, Branzburg & Ellers LLP
260 S. Broad Street
Philadelphia, PA 19102
Attention: Michael C. Forman, Esquire
Facsimile: (215) 568-6603

If to a holder hereof, at the address shown for such holder on the books of the Company; or, with respect to any party hereto, at any other address designated in writing by such party in accordance with the provisions of this Section 8.

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9. Governing Law; Jurisdiction. This Warrant shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to agreements made and to be performed in the Commonwealth of Pennsylvania (without regard to principles of conflict of laws). The Company and the holder hereof consent to the jurisdiction of the United States federal courts and the state courts located in the Commonwealth of Pennsylvania with respect to any suit or proceeding based on or arising under this Warrant or the transactions contemplated hereby and agree that all claims in respect of such suit or proceeding may be determined in such courts. The Company and the holder hereof waive the defense of an inconvenient forum to the maintenance of such suit or proceeding and agree that service of process upon a party mailed by first class mail shall be deemed in every respect effective service of process upon the party in any such suit or proceeding. Nothing herein shall affect either party's right to serve process in any other manner permitted by law.

10. Miscellaneous.

(a) Amendments. This Warrant and any provision hereof may only be amended by an instrument in writing signed by the Company and a majority in interest of the outstanding Warrants.

(b) Descriptive Headings. The descriptive headings of the several paragraphs of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

ENVIRONMENTAL TECTONICS CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner

Title: C.F.O.

Dated as of February 18, 2003

FORM OF EXERCISE AGREEMENT

Dated: _____, 20__

To: [Company]
[Address]

The undersigned, pursuant to the provisions set forth in the Warrant attached hereto, hereby agrees to purchase _____ shares of Common Stock covered by such Warrant, and makes payment herewith in full therefor at the price per share provided by such Warrant in cash, by wire transfer or by certified or official bank check in the amount of \$_____. Please issue a certificate or certificates for such shares of Common Stock in the name of and pay any cash for any fractional share to:

Name: _____

Signature: _____

Address: _____

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

and, if said number of shares of Common Stock shall not be all the shares purchasable under the within Warrant, a new Warrant is to be issued in the name of said undersigned covering the balance of the shares purchasable thereunder less any fraction of a share paid in cash.

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers all the rights of the undersigned under the within Warrant, with respect to the number of shares of Common Stock covered thereby set forth hereinbelow, to:

Name of Assignee	Address	No. of Shares
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_____, and hereby irrevocably constitutes and appoints _____ as agent and attorney-in-fact to transfer said Warrant on the books of the within-named Company, with full power of substitution in the premises.

Dated: _____, 20

In the presence of:

Name: _____

Signature: _____

Title of Signing Officer or Agent (if any):

Address: _____

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

STOCKHOLDERS VOTING AGREEMENT

THIS STOCKHOLDERS VOTING AGREEMENT ("Agreement") is entered into as of February 18, 2003, by and among William F. Mitchell ("Mitchell"), Pete L. Stephens, M.D. ("Stephens"), Emerald Advisors, Inc. ("Emerald") and ETC Asset Management, LLC ("ETC," and together with Mitchell, Stephens and Emerald, collectively, the "Stockholders"), and H.F. Lenfest ("Lenfest").

BACKGROUND:

A. ENVIRONMENTAL TECTONICS CORPORATION, a Pennsylvania corporation (the "Corporation"), has conducted negotiations with PNC Bank, National Association ("PNC"), with respect to the Corporation's request that PNC establish a credit facility in the maximum, aggregate principal amount of \$19,800,000, including (i) a revolving credit facility in the maximum, aggregate principal amount of \$12,000,000 to be used for the Corporation's working capital purposes, repayment of debt of the Corporation existing on the date hereof and general corporate purposes directly related to the growth of the business, (ii) a cash collateralized line of credit facility in the aggregate amount of \$2,800,000 for the issuance of standby and trade letters of credit, and (iii) a standby letter of credit not to exceed \$5,100,000 to secure outstanding variable rate revenue bonds issued by the Corporation pursuant to a Trust Indenture, dated as of March 15, 2000 between the Corporation and Wachovia Bank, National Association, formerly known as First Union National Bank, as Trustee, all in accordance with the terms of a Credit Agreement to be entered into between the Corporation and PNC (the "Credit Agreement").

B. As a condition to closing the transaction contemplated by the Credit Agreement, PNC is requiring the Corporation to procure subordinated financing in an amount not less than \$10,000,000.

C. The Corporation has conducted negotiations with Lenfest with respect to the Corporation's request to establish subordinated financing in the principal amount of \$10,000,000 to be used for the Corporation's working capital purposes, repayment of debt of the Corporation existing on the date hereof and general corporate purposes directly related to the growth of the business (the "Subordinated Financing").

D. The terms and conditions of the Subordinated Financing have been agreed upon and incorporated in a draft of the proposed Convertible Note and Warrant Purchase Agreement to be entered into between the Corporation and Lenfest (the "Purchase Agreement"), including provision for the Corporation's tender of a 10% senior subordinated convertible note payable to Lenfest, in the principal amount of \$10,000,000, which is convertible into shares of the Corporation's common stock, par value \$.05 per share (the "Common Stock") representing in excess of 18% of the issued and outstanding shares of the Common Stock (the "Convertible Note").

E. In connection with the Subordinated Financing, the Corporation is issuing to Lenfest warrants (the "Warrants") to purchase up to 10% of the issued and outstanding shares of the Common Stock, on a fully-diluted basis, at an exercise price per share determined on the date of exercise (the Subordinated Financing, including the issuance of the Convertible Note and the Warrants in connection therewith, shall be referred to hereinafter as the "Transaction").

F. Pursuant to the rules of the American Stock Exchange, stockholders owning a majority of the issued and outstanding shares of voting stock of the Corporation must approve any transaction in which the Corporation issues shares of, or securities convertible or exercisable into shares of, Common Stock representing 20% or more of the presently issued and outstanding Common Stock for less than the greater of book or market value of the Common Stock.

G. As of the date hereof, each of the Stockholders is the record holder and beneficial owner (as defined in Rule 13d-3 under the Securities Act of 1934, as amended) and/or has voting power with respect to such number of shares of Common Stock indicated next to his or its signature on the final page of this Agreement (the "Shares").

H. In the aggregate, the Stockholders own or have voting power with respect to a majority of the issued and outstanding shares of Common Stock and have agreed to vote their Shares in favor of the consummation of the Transaction.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties, intending to be legally bound, hereby agree as follows:

1. AGREEMENT TO VOTE SHARES. From and after the date of this Agreement and ending on the Expiration Date (as defined in Section 5 c. below), each Stockholder agrees that, at any meeting of the stockholders of the Corporation, however called (the "Meeting"), he or it shall vote all of his or its respective Shares (a) in favor of the Transaction and (b) against any action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Corporation made in connection with the Transaction.

2. GRANT OF IRREVOCABLE PROXY. In order to ensure the voting of the Stockholders in accordance with Section 1 of this Agreement, upon execution of this Agreement by all parties, each Stockholder shall execute and deliver to Mitchell an irrevocable proxy, in the form of Exhibit A hereto, granting to Mitchell the right to vote in respect of all Shares now owned or hereafter registered in the name of such Stockholder. It is understood and agreed that such irrevocable proxy shall relate solely to voting in favor of the Transaction or against any action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Corporation made in connection with the Transaction and shall not constitute the grant of any rights to said proxy to vote as to any other matters.

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3. REPRESENTATIONS, WARRANTIES AND COVENANTS. Each of the Stockholders hereby represents, warrants and covenants to Lenfest that he or it: (a) has full power to enter into this Agreement, (b) has not, prior to the date of this Agreement, granted and is not a party to, any proxy, voting trust or other agreement which is inconsistent with or conflicts with the provisions of this Agreement, and such party shall not grant any proxy or become party to any voting trust or other agreement which is inconsistent with or conflicts with the provisions of this Agreement, (c) upon completion of the Transaction will own, directly or beneficially, at least the number of Shares set forth opposite such party's name on Exhibit B hereto, and (d) will not take any action inconsistent with the intent and provisions of this Agreement, including, without limitation, the transfer, sale or other disposition of any Shares prior to the Expiration Date, in each case, unless the proposed transferee agrees to execute a copy of this Agreement and become bound by the terms hereof, and any attempted transfer, sale or disposition without executing a copy of this Agreement shall be null and void; provided, however, that this Section 3(d) shall not apply to Emerald.

4. ENFORCEABILITY. Each Stockholder expressly agrees that this Agreement shall be specifically enforceable against him or it in any court of competent jurisdiction in accordance with its terms.

5. GENERAL PROVISIONS.

a. All of the covenants and agreements contained in this Agreement shall be binding upon, and enure to the benefit solely of, the parties and their respective successors, assigns, heirs, executors, administrators and other legal representatives, as the case may be, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other person or entity any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

b. This Agreement may be executed by facsimile transmission and in one or more counterparts, each of which will be deemed an original but all of which together shall constitute one and the same instrument.

c. The terms of Sections 1 and 3, and the proxies delivered pursuant to Section 2 of this Agreement shall remain in effect until the earlier of (i) June 18, 2003; and (ii) the day immediately following the date of the Meeting or the date the Transaction is otherwise approved by a majority of the stockholders of the Corporation (the "Expiration Date").

d. If any provision of this Agreement shall be declared void or unenforceable by any court or administrative board of competent jurisdiction, such provision shall be deemed to have been severed from the remainder of the Agreement and this Agreement shall continue in all respects to be valid and enforceable.

e. No waivers of any breach of this Agreement extended by any party hereto to any other party shall be construed as a waiver of any rights or remedies of any other party hereto or with respect to any subsequent breach.

f. Whenever the context of this Agreement shall so require, the use of the singular number shall include the plural and the use of any gender shall include all genders.

g. This Agreement may not be modified, amended, altered or supplemented without the written agreement of each of the parties hereto.

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h. From time to time, at the request of either Lenfest or the Corporation and without further consideration, the Stockholders shall execute and deliver such additional documents and take all such further action as may be reasonably necessary to consummate and make effective the transaction contemplated by this Agreement.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, each Stockholder has caused this Agreement to be duly executed as of the date first above written.

STOCKHOLDERS:

/s/ William F. Mitchell

William F. Mitchell

/s/ Pete L. Stephens, M.D.

Pete L. Stephens, M.D.

Emerald Advisors, Inc.

By: /s/ Kenneth Mertz

Name: Kenneth Mertz

Title:

ETC Asset Management, LLC

By: /s/ T. Todd Martin

Name: T. Todd Martin
Title: Manager

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IN WITNESS WHEREOF, Lenfest has caused this Agreement to be duly executed as of the date first above written.

/s/ H.F. Lenfest

H.F. Lenfest

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EXHIBIT A

IRREVOCABLE PROXY

The undersigned agrees to, and hereby grants William F. Mitchell ("Mitchell") an irrevocable proxy pursuant to the provisions of the Pennsylvania Business Corporation Law to vote, or to execute and deliver written consents or otherwise act with respect to, all shares of capital stock of Environmental Tectonics Corporation, a Pennsylvania corporation (the "Corporation"), now owned or hereafter acquired by the undersigned (collectively, the "Shares") as fully, to the same extent and with the same effect as the undersigned might or could do under any applicable laws or regulations governing the rights and powers of stockholders of a Pennsylvania corporation, as provided in Section 1 of that certain Stockholders Voting Agreement, dated as of February ___, 2003 (the "Stockholders Voting Agreement"), among Mitchell, Pete L. Stephens, M.D., Emerald Advisors, Inc., ETC Asset Management, LLC and H.F. Lenfest. The undersigned hereby affirms that this irrevocable proxy is given as a condition of the Stockholders Voting Agreement and, as such, is coupled with an interest and is irrevocable. It is further understood by the undersigned that this irrevocable proxy may be exercised by Mitchell for the period beginning the date hereof and ending on the earlier of (i) June 18, 2003; and (ii) the day immediately following the date of (A) any meeting of the stockholders of the Corporation at which the stockholders of the Corporation vote to approve the Transaction (as defined in the Stockholders Voting Agreement) or (B) the date on which the Transaction is otherwise approved by a majority of the stockholders of the Corporation.

THIS PROXY SHALL REMAIN IN FULL FORCE AND EFFECT AND BE ENFORCEABLE AGAINST ANY DONEE, TRANSFEREE OR ASSIGNEE OF THE SHARES.

Dated as of February ___, 2003

Stockholder

IRREVOCABLE PROXY

The undersigned agrees to, and hereby grants William F. Mitchell ("Mitchell") an irrevocable proxy pursuant to the provisions of the Pennsylvania Business Corporation Law to vote, or to execute and deliver written consents or otherwise act with respect to, all shares of capital stock of Environmental Tectonics Corporation, a Pennsylvania corporation (the "Corporation"), now owned or hereafter acquired by the undersigned (collectively, the "Shares") as fully, to the same extent and with the same effect as the undersigned might or could do under any applicable laws or regulations governing the rights and powers of stockholders of a Pennsylvania corporation, as provided in Section 1 of that certain Stockholders Voting Agreement, dated as of February 18, 2003 (the "Stockholders Voting Agreement"), among Mitchell, Pete L. Stephens, M.D., Emerald Advisors, Inc., ETC Asset Management, LLC and H.F. Lenfest. The

undersigned hereby affirms that this irrevocable proxy is given as a condition of the Stockholders Voting Agreement and, as such, is coupled with an interest and is irrevocable. It is further understood by the undersigned that this irrevocable proxy may be exercised by Mitchell for the period beginning the date hereof and ending on the earlier of: (i) June 18, 2003; and (ii) the day immediately following the date of (A) any meeting of the stockholders of the Corporation at which the stockholders of the Corporation vote to approve the Transaction (as described in the Stockholders Voting Agreement) or (B) the date on which the Transaction is otherwise approved by a majority of the stockholders of the Corporation.

THIS PROXY SHALL REMAIN IN FULL FORCE AND EFFECT AND BE ENFORCEABLE AGAINST ANY DONEE, TRANSFEREE OR ASSIGNEE OF THE SHARES.

Dated as of February 18, 2003

/s/ William F. Mitchell

William F. Mitchell

IRREVOCABLE PROXY

The undersigned agrees to, and hereby grants William F. Mitchell ("Mitchell") an irrevocable proxy pursuant to the provisions of the Pennsylvania Business Corporation Law to vote, or to execute and deliver written consents or otherwise act with respect to, all shares of capital stock of Environmental Tectonics Corporation, a Pennsylvania corporation (the "Corporation"), now owned or hereafter acquired by the undersigned (collectively, the "Shares") as fully, to the same extent and with the same effect as the undersigned might or could do under any applicable laws or regulations governing the rights and powers of stockholders of a Pennsylvania corporation, as provided in Section 1 of that certain Stockholders Voting Agreement, dated as of February 18, 2003 (the "Stockholders Voting Agreement"), among Mitchell, Pete L. Stephens, M.D., Emerald Advisors, Inc., ETC Asset Management, LLC and H.F. Lenfest. The undersigned hereby affirms that this irrevocable proxy is given as a condition of the Stockholders Voting Agreement and, as such, is coupled with an interest and is irrevocable. It is further understood by the undersigned that this irrevocable proxy may be exercised by Mitchell for the period beginning the date hereof and ending on the earlier of: (i) June 18, 2003; and (ii) the day immediately following the date of (A) any meeting of the stockholders of the Corporation at which the stockholders of the Corporation vote to approve the Transaction (as defined in the Stockholders Voting Agreement) or (B) the date on which the Transaction is otherwise approved by a majority of the stockholders of the Corporation.

THIS PROXY SHALL REMAIN IN FULL FORCE AND EFFECT AND BE ENFORCEABLE AGAINST ANY DONEE, TRANSFEREE OR ASSIGNEE OF THE SHARES.

Dated as of February 18, 2003

/s/ Pete L. Stephens, M.D.

Pete L. Stephens, M.D.

IRREVOCABLE PROXY

The undersigned agrees to, and hereby grants William F. Mitchell ("Mitchell") an irrevocable proxy pursuant to the provisions of the Pennsylvania Business Corporation Law to vote, or to execute and deliver written consents or otherwise act with respect to, all shares of capital stock of Environmental Tectonics Corporation, a Pennsylvania corporation (the "Corporation"), now owned or hereafter acquired by the undersigned (collectively, the "Shares") as fully, to the same extent and with the same effect as the undersigned might or could do under any applicable laws or regulations governing the rights and powers of stockholders of a Pennsylvania corporation, as provided in Section 1 of that certain Stockholders Voting Agreement, dated as of February 18, 2003 (the

"Stockholders Voting Agreement"), among Mitchell, Pete L. Stephens, M.D., Emerald Advisors, Inc., ETC Asset Management, LLC and H.F. Lenfest. The undersigned hereby affirms that this irrevocable proxy is given as a condition of the Stockholders Voting Agreement and, as such, is coupled with an interest and is irrevocable. It is further understood by the undersigned that this irrevocable proxy may be exercised by Mitchell for the period beginning the date hereof and ending on the earlier of: (i) June 18, 2003; and (ii) the day immediately following the date of (A) any meeting of the stockholders of the Corporation at which the stockholders of the Corporation vote to approve the Transaction (as defined in the Stockholders Voting Agreement) or (B) the date on which the Transaction is otherwise approved by a majority of the stockholders of the Corporation.

THIS PROXY SHALL REMAIN IN FULL FORCE AND EFFECT AND BE ENFORCEABLE AGAINST ANY DONEE, TRANSFEREE OR ASSIGNEE OF THE SHARES.

Dated as of February 18, 2003

Emerald Advisors, Inc.

By: /s/ Kenneth Mertz

Name: Kenneth Mertz
Title:

IRREVOCABLE PROXY

The undersigned agrees to, and hereby grants William F. Mitchell ("Mitchell") an irrevocable proxy pursuant to the provisions of the Pennsylvania Business Corporation Law to vote, or to execute and deliver written consents or otherwise act with respect to, all shares of capital stock of Environmental Tectonics Corporation, a Pennsylvania corporation (the "Corporation"), now owned or hereafter acquired by the undersigned (collectively, the "Shares") as fully, to the same extent and with the same effect as the undersigned might or could do under any applicable laws or regulations governing the rights and powers of stockholders of a Pennsylvania corporation, as provided in Section 1 of that certain Stockholders Voting Agreement, dated as of February 18, 2003 (the "Stockholders Voting Agreement"), among Mitchell, Pete L. Stephens, M.D., Emerald Advisors, Inc., ETC Asset Management, LLC and H.F. Lenfest. The undersigned hereby affirms that this irrevocable proxy is given as a condition of the Stockholders Voting Agreement and, as such, is coupled with an interest and is irrevocable. It is further understood by the undersigned that this irrevocable proxy may be exercised by Mitchell for the period beginning the date hereof and ending on the earlier of: (i) June 18, 2003; and (ii) the day immediately following the date of (A) any meeting of the stockholders of the Corporation at which the stockholders of the Corporation vote to approve the Transaction (as defined in the Stockholders Voting Agreement) or (B) the date on which the Transaction is otherwise approved by a majority of the stockholders of the Corporation.

THIS PROXY SHALL REMAIN IN FULL FORCE AND EFFECT AND BE ENFORCEABLE AGAINST ANY DONEE, TRANSFEREE OR ASSIGNEE OF THE SHARES.

Dated as of February 18, 2003

ETC Asset Management, LLC

By: /s/ T. Todd Martin

Name: T. Todd Martin
Title: Manager

EXHIBIT B

Stockholder

Shares

William F. Mitchell	1,624,398
Pete L. Stephens, M.D.	682,600
Emerald Advisors, Inc.	865,550
ETC Asset management, LLC	641,200

CREDIT AGREEMENT

dated as of

February 18, 2003

Between

ENVIRONMENTAL TECTONICS CORPORATION

and

PNC BANK, NATIONAL ASSOCIATION

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CREDIT AGREEMENT

CREDIT AGREEMENT, dated as of February 18, 2003, between ENVIRONMENTAL TECTONICS CORPORATION (the "Borrower"), and PNC BANK, NATIONAL ASSOCIATION (the "Bank").

W I T N E S S E T H:

WHEREAS, the Borrower has requested that the Bank make available to it (i) a secured revolving credit facility in the initial maximum aggregate principal amount of \$12,000,000 to be used for the working capital requirements and general purposes of the Borrower and providing sublimits for the issuance of standby and trade letters of credit, (ii) a cash collateralized line of credit in the aggregate amount of \$2,800,000 for the issuance of standby and trade letters of credit, and (iii) a standby letter of credit of up to \$5,025,410 to secure outstanding variable rate revenue bonds issued by the Borrower, and the Bank has agreed to do so, on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and other valuable consideration, the receipt and adequacy of which are hereby acknowledged, and with the intent to be legally bound hereby, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Additional Subordinated Debt/Equity": additional Subordinated Debt and/or preferred equity investment in the aggregate principal amount of \$10,000,000 incurred by the Borrower in favor of H.F. Lenfest on or before the date of this Agreement.

"Affiliate": as to any Person, any other Person which, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person and any member, partner, director, officer or employee of any such Person. For purposes of this definition, "control" shall mean the power, directly or indirectly, either to (a) vote 10% or more of the Capital Stock of such Person, (b) vote 10% or more of the securities having ordinary voting power for the election of directors of such Person or (c) direct or in effect cause the direction of the management and policies of such Person whether by contract or otherwise.

"Agreement": this Credit Agreement, as amended, supplemented or otherwise modified from time to time.

"Annual EBIDTA": as of the last day of any Fiscal Quarter, the Borrower's EBIDTA for the most recently completed four consecutive Fiscal Quarters, determined on a Consolidated basis in accordance with GAAP. For purposes of calculating Annual EBIDTA with respect to any Permitted Acquisition occurring after the Closing Date, it shall be assumed that such acquisition occurred on the first day of the period for which Annual EBIDTA is being calculated.

"Applicable Margin": on any date, for a Base Rate Loan .75%, or for a Eurodollar Loan 3.25%

"Application": as defined in subsection 2.3(b).

"Available Bond Letter of Credit Amount": at the time of determination, the \$5,025,410 (as such term is defined in the Bond Letter of Credit).

"Available Revolving Credit Commitment": at any particular time, an amount equal to the excess, if any, of the lesser of (a) Revolving Credit Commitment at such time and (b) the Borrowing Base at such time over the aggregate unpaid principal amount of the Revolving Credit Loans and the face amount of the Revolving Credit Letters of Credit outstanding at such time.

"Bank": PNC Bank, National Association and each bank or other financial institution which becomes a party hereto pursuant to Section 8.6, and their respective successors and assigns.

"Base Rate": for any day, a rate per annum equal to the Prime Rate in effect on such day. Any change in the Base Rate due to a change in the Prime Rate shall be effective on the effective date of such change in the Prime Rate.

"Base Rate Loan": any Loan bearing interest at a rate determined by reference to the Base Rate.

"Bond Letter of Credit": that certain Letter of Credit issued by the Bank pursuant to the Reimbursement Agreement to support the Bonds, as the same may be modified and amended from time to time.

"Bonds": the Borrower's \$5,470,000 Taxable Variable Rate Demand/Fixed Rate Revenue Bonds, Series of 2000.

"Borrower": as defined in the Preamble to this Agreement.

"Borrowing Base": the sum of (i) 80% of Eligible Receivables plus (ii) the lesser of (A) 50% of Eligible Inventory and (B) \$2,000,000, plus (iii) the lesser of (A) 50% of Eligible Costs and Earnings and (B) \$4,000,000, provided, however, that for purposes of determining the Borrowing Base, the Existing Centrifuge shall be included therein as Eligible Costs and Earnings at 50% of its actual cost plus profit if it is subject to a binding agreement of sale and is carried as "costs in excess of billings" on the books of the Borrower or, during the period commencing on the Closing Date and ending six months thereafter, (x) as Eligible Inventory at 25% of its actual cost if it is not subject to a binding agreement of sale or letter of intent for sale or (y) as Eligible Inventory at 50% of its actual cost if it is subject to a binding agreement of sale or letter of intent for sale and is carried as "inventory" on the books of the Borrower, less (iv) any Permitted Overadvance, all as set forth in the most recent Borrowing Base Certificate delivered to the Bank.

"Borrowing Base Certificate": as defined in subsection 5.2(c).

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"Borrowing Date": any Business Day on which a Loan is to be made or a Letter of Credit is to be issued at the request of the Borrower under this Agreement.

"Business Day": a day other than a Saturday, Sunday or other day on which commercial banks in Philadelphia, Pennsylvania are authorized or required by law to close; provided, however, that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London Interbank Market.

"Capital Expenditure": any expenditure which would be classified as a capital expenditure in accordance with GAAP.

"Capital Lease": a lease with respect to which the lessee is required to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Lease Obligations": at any time, the amount of the obligations of a Person under Capital Leases which would be shown at such time as a liability on a Consolidated balance sheet of such Person prepared in accordance with GAAP.

"Capital Stock": any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all partnerships interests in a partnership (general or limited), any and all equivalent ownership interests in a Person (other than a corporation or partnership) and any and all warrants or options to purchase any of the foregoing.

"Cash Collateral Account": a deposit account maintained by the Borrower with the Bank which shall be pledged to and under control of the Bank as security for the Obligations.

"Cash Collateralized Letters of Credit": as defined in subsection 2.1(e).

"Cash Collateralized Letters of Credit Commitment": the Commitment of the Bank to issue Cash Collateralized Letters of Credit for the account of the Borrower and on behalf of the Borrower or its Subsidiaries pursuant to subsection 2.1(e) in an aggregate Dollar amount not to exceed at any one time outstanding Two Million Eight Hundred Thousand Dollars (\$2,800,000).

"Cash Collateralized Letters of Credit Commitment Period": the period from and including the Closing Date to but not including the Cash Collateralized Letters of Credit Termination Date, or such earlier date on which the Cash Collateralized Letters of Credit Commitment shall terminate as provided herein.

"Cash Collateralized Letters of Credit Obligations": at any time, an amount equal to the sum of (a) 100% of the maximum amount available to be drawn under all Cash Collateralized Letters of Credit outstanding at such time (determined without regard to whether any conditions to drawing could be met at such time) and (b) the aggregate amount of drawings under Cash Collateralized Letters of Credit which have not then been reimbursed pursuant to subsection 2.1(e).

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"Cash Collateralized Letters of Credit Termination Date": the earlier of (a) February 19, 2004, or such later date to which the Borrower and the Bank have agreed in writing, and (b) the date the Cash Collateralized Letters of Credit Commitment is terminated as provided herein.

"Change of Control": an event or series of events by which (a) any "person" or "group" (as such terms are defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under such Exchange Act, except that a Person shall be deemed to have "beneficial ownership" of all shares that any such Person has the right to acquire without condition, other than passage of time, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 35% or, if such person is H.F. Lenfest, 40% of the total voting power of the then outstanding Voting Stock of the Borrower, or (b) from and after the date hereof, individuals who on the date hereof constitute the Board of Directors of the Borrower (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Borrower was approved by a vote of a majority of the directors then still in office who were either directors on the date hereof or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Borrower then in office.

"Closing Date": the first date on which all of the conditions precedent set forth in Section 4.1 have been satisfied or waived by the Bank and the

initial Loans are made and/or Letters of Credit issued.

"Code": the Internal Revenue Code of 1986, as amended from time to time.

"Collateral": collectively, all of the property (whether real, personal or mixed, and whether tangible or intangible), rights, titles and interests subject to the Security Interest in favor of the Bank pursuant to this Agreement or any of the Security Documents.

"Commitments": the collective reference to the Revolving Credit Commitment and the Cash Collateralized Letter of Credit Commitment.

"Commonly Controlled Entity": an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes the Borrower and which is treated as a single employer under Section 414(b), (c), (m) or (o) of the Code.

"Compliance Certificate": a certificate substantially in the form of Exhibit D hereto which has been executed by a Responsible Officer of the Borrower and delivered to the Bank.

"Consolidated" or "consolidated": with reference to any term defined herein, that term as applied to the accounts of the Borrower and its Subsidiaries, consolidated in accordance with GAAP.

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"Consolidated Tangible Net Worth": as of any date of determination, (a) the aggregate amount of all assets of the Borrower and its Subsidiaries on a consolidated basis at such date as may be properly classified as such in accordance with GAAP, excluding such other assets as are properly classified as intangible assets under GAAP, minus (b) the aggregate amount of all liabilities (including any portion of any Subordinated Debt constituting original issue discount in respect of the issuance by the Borrower of warrants) of the Borrower and its Subsidiaries and minority interests in the Borrower or any of its Subsidiaries on a consolidated basis at such date, as may be properly classified as such in accordance with GAAP.

"Contamination": the uncontained presence of Materials of Environmental Concern at any real property of the Borrower or any of its Subsidiaries, whether owned or leased, which may require clean-up or remediation under any Environmental Laws.

"Contingent Obligation": as to any Person, without duplication, any guarantee of payment or performance by such Person of any Indebtedness or other obligation of any other Person, or any agreement to provide financial assurance with respect to the financial condition, or the payment of the obligations of, such other Person (including, without limitation, purchase or repurchase agreements, reimbursement agreements with respect to letters of credit or acceptances, indemnity arrangements, grants of security interests to support the obligations of another Person, keep well agreements and take-or-pay or through-put arrangements) which has the effect of assuring or holding harmless any third Person against loss with respect to one or more obligations owed to such third Person; provided, however, the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Contingent Obligation of any Person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made and (b) the maximum amount for which such contingently liable Person may be liable pursuant to the terms of the instrument embodying such Contingent Obligation, unless such primary obligation and the maximum amount for which such contingently liable Person may be liable are not stated or determinable, in which case the amount of such Contingent Obligation shall be such contingently liable Person's maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith.

"Contractual Obligation": as to any Person, any provision of any security issued by or operating agreement or organizational or formation documents of such Person or any provision of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Debt Service": for any period, scheduled cash payments of principal and interest on the Borrower's Indebtedness (including Capital Leases), all determined on a Consolidated basis for such period.

"Default": any of the events specified in Section 7, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition precedent therein set forth, has been satisfied.

"Dollars" and "\$": dollars in lawful currency of the United States of America.

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"EBIDTA": as of the last day of any Fiscal Quarter, Net Income of the Borrower plus depreciation, amortization, other non-cash charges, in each case to the extent deducted from earnings in determining such Net Income plus Interest Expense and income tax expense, each to the extent deducted from earnings in determining such Net Income minus the amount of non-cash credits included in determining such Net Income, all of the above to be determined for such Fiscal Quarter in accordance with GAAP on a Consolidated basis; provided, however, that, in the above calculations there also shall be excluded from Net Income (a) any addition for non-operating gains during such period (including, without limitation, extraordinary or unusual gains, gains from discontinuance of operations or gains arising from the sale of capital assets) and (b) any subtraction for non-operating losses during such period (including, without limitation, extraordinary or unusual losses, losses from the discontinuance of operations or losses arising from the sale of capital assets).

"Eligible Costs and Earnings": all eligible costs and estimated earnings in excess of billings (net of any billings in excess of cost and estimated earnings) in respect of the Borrower's or any Guarantor's long-term contracts less any uncollectable or doubtful amounts for counterclaims, liquidated damages or other similar claims or offsets, all as determined by the Borrower in accordance with its usual and customary practices and set forth as such on its financial statements from time to time.

"Eligible Inventory": the sum of the lesser of cost or market value of all of the Borrower's inventory (as that term is defined in the UCC) (but excluding work- in-progress) except (1) inventory which is "slow- moving" or "obsolete" (being defined as not readily saleable in a bona fide arm's length transaction), (2) inventory, the title to which is not absolute or is subject to any existing assignment or encumbrance, (3) inventory located outside of the United States or on premises other than those owned or leased by the Borrower, (4) inventory located on leased premises, unless a landlord's waiver satisfactory in form and substance to the Bank shall have been delivered to the Bank for such premises and (5) those items of inventory which are, based on the results of a Bank audit, hereafter specified individually or categorically by the Bank as unacceptable in the Bank's reasonable judgment.

"Eligible Receivables": the sum of all of the Borrower's accounts (as that term is defined in the UCC) which are promptly invoiced upon shipment and which are outstanding from time to time, except those accounts which (1) are not fully paid as of a date more than 90 days past the date of invoice, (2) are due from an affiliate, subsidiary, officer or employee, (3) are due from the United States or any agency or department thereof unless the Borrower has assigned its right of payment of such account to the Bank pursuant to the applicable provisions of the Assignment of Claims Act of 1940, as amended, so that the Bank has a perfected security interest and right to receive such receivables under such Act, (4) are not assignable or in which a security interest may not be fully perfected by filing UCC financing statements against the Borrower except to the extent the Borrower has complied with the provisions of clause (3) above,

(5) are for merchandise not accepted by the account debtor or for sales not consummated with an account debtor or are (but only to the extent) for service charges for overdue payments, (6) are assigned by the account creditor a dating after the actual date of the account, (7) are due from foreign account debtors (other than those located in Canada) unless such account is backed by an irrevocable letter of credit or credit insurance acceptable to the Bank or guaranteed by the Export-Import Bank of the United States on terms and conditions acceptable to the Bank, (8) are

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subject to a prior assignment or encumbrance, (9) are (but only to the extent) subject to a claim of reduction, counterclaim, set-off, recoupment, chargeback or any claim for credits, deposits, retainage, allowances or adjustments by an account debtor (except for customary discounts allowed for prompt payment), (10) arise out of a contract with or order from an account debtor that by its terms forbids or makes the assignment of that account to the Bank void or unenforceable, (11) with respect to or in payment of such accounts, the Borrower has received a note, trade acceptance, draft or other instrument or chattel paper, unless the Borrower immediately notifies the Bank and endorses or assigns and delivers the same to the Bank, (12) are payable by an account debtor who has filed for or taken such action (or who has suffered such actions against it) for termination of existence, insolvency, the appointment of a receiver for any part of its property, an assignment for the benefit of creditors, the filing of a petition in bankruptcy or the commencement of any proceeding under any bankruptcy or insolvency laws, (13) have been partially paid by the account debtor; (14) are from any customer if fifty percent (50%) or more of the accounts from such customer are not deemed Eligible Receivables hereunder; or (15) are, based on the results of a Bank audit, hereafter specified individually or categorically by the Bank as unacceptable in the Bank's reasonable judgment.

"Environmental Claim": any claim, suit, notice, order, demand or other written communication made by any Person with respect to the Borrower or any of its properties, whether owned or leased, that: (a) asserts a violation of an Environmental Law; (b) asserts a liability under an Environmental Law; (c) orders an investigation, corrective action, remediation or other response under an Environmental Law; (d) demands information under an Environmental Law; (e) alleges personal injury or property damage resulting from Materials of Environmental Concern or (f) alleges that there is or may be Contamination.

"Environmental Laws": any and all foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees or binding requirements of any Governmental Authority, or binding Requirement of Law, regulating, relating to or imposing liability or standards of conduct concerning protection of the environment, as now or may at any time hereafter be in effect.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurocurrency Reserve Requirements": for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto) dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of such Board) maintained by a member bank of such System.

"Eurodollar Base Rate": with respect to any Eurodollar Loan for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100th of 1%) equal to the rate determined by the Bank in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the average of the London interbank offered rates of interest per annum for Dollars set forth on Telerate display page 3750 or such other display page on the Telerate System as may replace such page to

evidence the average of rates quoted by banks designated by the British Bankers' Association (or appropriate successor, or if the British Bankers' Association or its successor ceases to provide such quotes, a comparable replacement determined by the Bank) for an amount approximately equal in principal amount to the principal amount of such Eurodollar Loan for a maturity equal to the applicable Interest Period.

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"Eurodollar Loan": any Loan bearing interest at a rate determined by reference to the Eurodollar Rate.

"Eurodollar Rate": with respect to each day during each Interest Period pertaining to a Eurodollar Loan, a rate per annum determined for such day in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

Eurodollar Base Rate

1.00 - Eurocurrency Reserve Requirements

"Event of Default": any of the events specified in Section 7, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Existing Centrifuge": the existing centrifuge constructed at and located on the Borrower's real property located in Southampton, Pennsylvania.

"Existing Financing Agreements": that certain Revolving Credit Agreement dated as of March 27, 1999, between the Borrower and First Union National Bank (now known as Wachovia Bank, National Association) as heretofore amended, supplemented or otherwise modified.

"Facility Fee": that certain fee payable to the Bank as described in subsection 2.5(a).

"Federal Funds Effective Rate": for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Bank from three Federal funds brokers of recognized standing selected by it.

"Fees": those certain fees payable to the Bank as described in Section 2.5.

"Financial Projections": as defined in subsection 3.1(d).

"Fiscal Quarter": during each Fiscal Year of the Borrower, each approximately three-month fiscal period beginning respectively on the day immediately following the last day of the prior Fiscal Year and on the corresponding day of the third, sixth and ninth month thereafter and ending on the three-month anniversary of each such date, except in the case of the fourth Fiscal Quarter which ends on the last day of such Fiscal Year.

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"Fiscal Year": each annual fiscal period of the Borrower beginning on the day after the last Friday in February.

"Fixed Asset Availability": the sum of 80% of the orderly liquidation value of the Borrower's existing equipment plus 75% of the current fair market value of the property and plant of the Borrower each as established prior to the date hereof based on appraisals thereof prepared by one or more appraisers acceptable to the Bank.

"Fixed Charges": as of the last day of each Fiscal Quarter, the sum (without duplication) of the Borrower's (a) Debt Service (including payments under Capital Leases) for the immediately preceding period of four consecutive Fiscal Quarters, (b) income taxes paid in cash in the immediately preceding period of four consecutive Fiscal Quarters and (c) cash dividends paid on the immediately preceding period of four consecutive Fiscal Quarters, all determined on a Consolidated basis in accordance with GAAP.

"Foreign Lender": any lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"GAAP": at any time with respect to the determination of the character or amount of any asset or liability or item of income or expense, or any consolidation or other accounting computation, generally accepted accounting principles as in effect on the date of, or at the end of the period covered by, the financial statements from which such asset, liability, item of income, or item of expense, is derived, or, in the case of any such computation, as in effect on the date when such computation is required to be determined; provided, however, that in the event of any change in GAAP which would affect the calculation of the Borrower's compliance with any of the covenants contained in Section 6.1, either favorably or unfavorably, the Bank and the Borrower will make appropriate adjustments to such covenants.

"Governmental Approval": any filing, recording and registration by, and any order, consent, authorization, license, validation, approval and permit, including but not limited to any License, issued to or required to be obtained by, the Borrower in connection with the ownership, construction, erection, installation, operation and maintenance of the Borrower's properties, and the conduct of the present and proposed business of the Borrower.

"Governmental Act": any act or omission, whether rightful or wrongful, of any present or future Governmental Authority.

"Governmental Authority": any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guarantor": each of Entertainment Technology Corporation, a Pennsylvania corporation, ETC Delaware, Inc., a Delaware corporation, and any other Subsidiary of the Borrower which hereafter joins in the Guaranty, and their respective successors and permitted assigns.

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"Guaranty": that certain Guaranty from the Guarantors to the Bank, dated as of the date hereof, as the same may be amended, supplemented or modified from time to time.

"Indebtedness": of any Person at any date means (without duplication):

(a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices),

(b) any other indebtedness which is evidenced by a note, bond, debenture or similar instrument,

(c) all Capital Lease Obligations of such Person,

(d) all obligations of such Person in respect of outstanding letters of credit, acceptances and similar obligations created for the account of such Person,

(e) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof,

(f) all obligations of such Person with respect to Interest Hedge Agreements (calculated on a basis satisfactory to the Bank and in accordance with accepted practice), and

(g) withdrawal liabilities of such Person or any Commonly Controlled Entity under a Plan.

"Insolvency": with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent": pertaining to a condition of Insolvency.

"Intellectual Property": as defined in Section 3.16.

"Interest Expense": as of the last day of each Fiscal Quarter, the amount of cash interest expense incurred by the Borrower for the most recently completed four consecutive Fiscal Quarters determined on a Consolidated basis in accordance with GAAP.

"Interest Hedge Agreement": any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate insurance or any other similar agreement which is not speculative in nature with all extensions, renewals, amendments, substitutions and replacements to and any of the foregoing, documentation of all of which shall conform to International Swap Dealers Association Inc. standards.

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"Interest Payment Date": (a) as to any Base Rate Loan, the last day of each month while such Loan is outstanding, (b) as to any Eurodollar Loan having an Interest Period of three months or less, the last day of such Interest Period, and (c) as to any Eurodollar Loan having an Interest Period longer than three months, each day which is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Interest Period": with respect to any Eurodollar Loan:

(a) initially the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower in their Notice of Borrowing or notice of conversion, given with respect thereto; and

(b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower by irrevocable notice to the Bank not less than three Business Days prior to the last day of the then current Interest Period with respect thereto;

provided that, the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) with respect to Eurodollar Loans, an Interest Period that would extend beyond the Termination Date shall end on the Termination

Date; and

(iii) the Borrower shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Loan.

"Letter of Credit Coverage Requirement": with respect to each Letter of Credit at any time, 102% of the maximum amount available to be drawn thereunder at such time (determined without regard to whether any conditions to drawing could be met at such time).

"Letter of Credit Fees": as defined in subsection 2.5(d).

"Letters of Credit": the collective reference to Revolving Credit Letters of Credit and Cash Collateralized Letters of Credit.

"License": any license, permit, consent, certificate of need, authorization, certification, accreditation, franchise, approval, or grant of rights by, or any filing or registration with, any Governmental Authority or third Person necessary for the Borrower to own, build, maintain, or operate its business or Property.

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"Lien": any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Capital Lease having substantially the same economic effect as any of the foregoing).

"Liquidity": at a particular date shall mean an amount equal to the sum of the Borrower's unrestricted cash and the Available Revolving Credit Commitment.

"Loan Account": as defined in Section 2.18.

"Loan Documents": this Agreement, the Revolving Credit Note, the Guaranty, the Reimbursement Agreement, the Security Documents, any Letters of Credit, the Bond Letter of Credit and any Interest Hedge Agreement entered into with the Bank.

"Loans": the collective reference to the Revolving Credit Loans.

"Material Adverse Change": any set of circumstances or events which (a) has or could reasonably be expected to have any material adverse effect whatsoever upon the validity or enforceability of this Agreement or any other Loan Document, (b) is or could reasonably be expected to be material and adverse to the business, properties, assets, financial condition or results of operations of the Borrower and its Subsidiaries taken as a whole, (c) impairs materially or could reasonably be expected to impair materially the ability of the Borrower to duly and punctually pay or perform its obligations under the Loan Documents, or (d) impairs materially or could reasonably be expected to impair materially the ability of the Bank to enforce its legal remedies pursuant to this Agreement and the other Loan Documents.

"Material Adverse Effect": an effect that results in or causes or has a reasonable likelihood of resulting in or causing a Material Adverse Change.

"Materials of Environmental Concern": any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls, and ureaformaldehyde insulation.

"Moody's": Moody's Investors Services, Inc.

"Mortgage": the Open-End Mortgage and Security Agreement of even date herewith, encumbering and granting a mortgage lien in favor of the Bank on the Borrower's real property at 125 James Way, Southampton, Pennsylvania, as the same may be amended, supplemented or otherwise modified from time to time.

"Multiemployer Plan": a Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Income": for any fiscal period, the net income (or loss) after income taxes (if any) of the Borrower for such period determined on a Consolidated basis in accordance with GAAP.

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"Notice of Borrowing": with respect to a Loan of any Type or a Letter of Credit, a notice from the Borrower in respect of such Loan or Letter of Credit, containing the information in respect of such Loan or Letter of Credit and delivered to the Bank, in the manner and by the time specified pursuant to the terms hereof. A form of the Notice of Borrowing is attached hereto as Exhibit F.

"Obligations": collectively, (a) all unpaid principal of and accrued and unpaid interest (including, without limitation, any interest accruing subsequent to the commencement of a bankruptcy, insolvency or similar proceeding with respect to the Borrower, whether or not such interest constitutes an allowed claim in such proceeding) on the Loans, (b) all accrued and unpaid Fees, (c) any other amounts due hereunder or under any of the other Loan Documents, including all Reimbursement Obligations and reimbursement obligations in respect of the Bond Letter of Credit, indemnities, Fees, costs, expenses, prepayment premiums, break-funding costs and other obligations of the Borrower to the Bank or any indemnified party hereunder and thereunder, (d) any obligations owed by the Borrower to the Bank or to any Affiliate of the Bank pursuant to an Interest Hedge Agreement or any other financing arrangement provided by the Bank, and (e) all reasonable out-of-pocket costs and expenses incurred by the Bank in connection with this Agreement and the other Loan Documents, including but not limited to the reasonable fees and expenses of the Bank's counsel, which the Borrower is responsible to pay pursuant to the terms of this Agreement and the other Loan Documents.

"PBGC": the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Permitted Acquisition": as defined in Section 6.6.

"Permitted Indebtedness": as defined in Section 3.20.

"Permitted Investments":

(a) debt securities having a maturity of not more than one year issued or guaranteed by the United States government or by an agency or instrumentality thereof;

(b) commercial paper maturing in 270 days or less from the date of issuance which, at the time of acquisition by the Borrower either (i) is accorded a rating of A-2 or P-2 or better by S&P or Moody's respectively or (ii) is issued by a Qualified Lender;

(c) money market mutual funds made available by the Bank or its Affiliate; and

(d) Investments listed on Schedule 1.1-B hereof.

"Permitted Lien": any of the following:

(a) the Security Interests and any other Liens in favor of the Bank;

(b) Liens for taxes, assessments, governmental charges or levies on the Borrower's properties if such taxes, assessments, governmental charges or levies (i) are not at the time due and payable or if they can thereafter be paid without penalty or are being contested in good faith by appropriate proceedings diligently conducted and with respect to which the Borrower has created reserves in accordance with GAAP and (ii) are not pursuant to any Environmental Law;

(c) Pledges or deposits to secure payment of workers' compensation obligations, unemployment insurance, deposits or indemnities to secure public or statutory obligations or for similar purposes;

(d) Liens arising out of judgments or awards against the Borrower with respect to which enforcement has been stayed or bonded against to the satisfaction of the Bank and the Borrower at the time shall currently be prosecuting an appeal or proceeding for review in good faith by appropriate proceedings diligently conducted and with respect to which the Borrower has created reserves in accordance with GAAP or are fully covered by insurance (less any commercially reasonable deductible) and the applicable insurance carrier has acknowledged such full coverage in writing; provided, however, that at no time may the aggregate Dollar amount of such judgment liens for the Borrower exceed \$100,000;

(e) Mechanics', carriers, workmen's, repairmen's, landlord's and other similar statutory liens incurred in the ordinary course of the Borrower's business, so long as the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate actions or proceedings being diligently conducted and as to which the Borrower has created reserves in accordance with GAAP;

(f) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, performance bonds and other obligations of a like nature;

(g) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Borrower;

(h) Liens securing indebtedness incurred to finance the acquisition of fixed or capital assets, the principal amount of which shall not exceed \$250,000 in the aggregate;

(i) Liens for the benefit of the Export-Import Bank of the United States granted in connection with its guarantee of Borrower's accounts;

(j) minor liens which in the aggregate are not substantial in amount, do not materially detract from the value or transferability of the property or assets subject thereto or interfere with the present use thereof and have not arisen other than in the ordinary course of business; and

(k) Liens existing on the Closing Date and listed on Schedule 1.1-A. "Permitted Overadvance": the difference, if a positive number, between (a) the sum of the Available Bond Letter of Credit Amount plus the amount of any unreimbursed draws under the Bond Letter of Credit and (b) the Fixed Asset Availability.

"Person": an individual, partnership, corporation or a division thereof, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan": at a particular time, any employee benefit plan which is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Pledge Agreement": the Pledge Agreement or Pledge Agreements, each substantially in the form of Exhibit B hereto, pursuant to which the Bank is granted a Lien on the issued and outstanding shares of Capital Stock in the Guarantor, as the same may be amended, supplemented or otherwise modified from time to time.

"Prime Rate": the rate of interest per annum publicly announced from time to time by the Bank as its prime rate in effect at its principal office in Philadelphia, Pennsylvania; each change in the Prime Rate shall be effective on the date such change is publicly announced as effective. This rate of interest is determined from time to time by the Bank as a means of pricing some loans to its customers and is neither tied to any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by the Bank to any particular class or category of customers of the Bank.

"Properties": the collective reference to the facilities and properties owned, leased or operated by the Borrower.

"Qualified Lender": the Bank, or any other bank or trust company organized under the laws of the United States of America or any state thereof, having either (a) capital, surplus and undivided profits aggregating at least \$250,000,000 or (b) total assets in excess of \$500,000,000 and whose long-term certificates of deposit are rated "AA" or better by S&P or "Aa" or better by Moody's.

"Regulations T, U and X": Regulations T, U and X promulgated by the Board of Governors of the Federal Reserve System (12 C.F.R. part 220 et seq., 12 C.F.R. Part 221 et seq. and 12 C.F.R. Part 224 et seq., respectively), as such regulations are now in effect and as may hereafter be amended.

"Reimbursement Agreement": that certain Reimbursement and Security Agreement between the Bank and the Borrower pursuant to the terms of which the Bond Letter of Credit will be issued and secured.

"Reimbursement Obligation": the obligation of the Borrower to reimburse the Bank pursuant to subsections 2.1(d) and (e) for amounts drawn under Letters of Credit.

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"Reorganization": with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event": any of the events set forth in Section 4043(c)(1), (2), (4), (5), (6), (10) and (13) of ERISA.

"Requirement of Law": as to any Person, the Certificate of Incorporation, ByLaws, partnership agreement or other organizational or governing documents of such Person, and any law, statute, treaty, rule, regulation or ordinance or determination, order, writ, injunction, decree, judgment, guideline, directive or decision of an arbitrator or a court or other Governmental Authority, in each case binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer": with respect to any Person, the chief executive

officer, chief financial officer, President or general partner of such Person. Unless otherwise qualified, all references to a "Responsible Officer" in this Agreement shall refer to a Responsible Officer of the Borrower.

"Revolving Credit Commitment": the Commitment of the Bank to make Revolving Credit Loans to and/or issue Revolving Credit Letters of Credit on behalf of the Borrower pursuant to subsection 2.1(a) in an aggregate Dollar amount not to exceed at any one time outstanding Twelve Million Dollars (\$12,000,000), as such amount may be decreased from time to time in accordance with the provisions of this Agreement.

"Revolving Credit Commitment Fee": that certain fee payable to the Bank on the Available Revolving Credit Commitment as described in subsection 2.5(b).

"Revolving Credit Commitment Period": the period from and including the Closing Date to but not including the Revolving Credit Termination Date, or such earlier date on which the Revolving Credit Commitment shall terminate as provided herein.

"Revolving Credit Letters of Credit": as defined in subsection 2.1(d).

"Revolving Credit Loans": as defined in subsection 2.1(a).

"Revolving Credit Note": as defined in Section 2.2.

"Revolving Credit Termination Date": the earlier of (a) February 17, 2006 or such later date to which the Borrower and the Bank have agreed in writing and (b) the date the Revolving Credit Commitment is terminated as provided herein.

"S&P": Standard & Poor's Rating Group, a division of The McGraw-Hill Corporation.

"Security": "security" as defined in Section 2(1) of the Securities Act of 1933, as amended.

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"Security Agreement": the Security Agreement in the form of Exhibit C attached hereto, as the same may be amended, supplemented or otherwise modified from time to time.

"Security Documents": any and all of (a) the Security Agreement, (b) the Pledge Agreement, (c) the Mortgage, (d) the Guaranty and (e) all additional documents and instruments entered into from time to time for the purpose of securing the Obligations, as the foregoing may be amended, supplemented or otherwise modified from time to time.

"Security Interest": all Liens in favor of the Bank created hereunder or under any of the Loan Documents to secure the Obligations.

"Single Employer Plan": any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"Subordinated Debt": Indebtedness of the Borrower subordinated in right of payment to the Obligations, the terms of which Indebtedness (including the subordination provisions) are satisfactory to the Bank in its sole but reasonable discretion.

"Subsidiary": as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only be reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all

references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

"Taxes": as defined in Section 2.13.

"Total Funded Debt": as of the last day of a Fiscal Quarter, all of the Borrower's outstanding obligations for borrowed money at such date, including without limitation, the Obligations hereunder in respect of Loans and Revolving Credit Letters of Credit (but not in respect of the Bond Letter of Credit or Cash Collateralized Letters of Credit), the Bonds and all Subordinated Debt (including any portion of any Subordinated Debt constituting original issue discount in respect of the issuance by the Borrower of warrants), determined on a Consolidated basis in accordance with GAAP.

"Tranche": the collective reference to (a) Eurodollar Loans whose Interest Periods begin on the same date and end on the same later date (whether or not such Loans originally were made on the same day) and (b) Base Rate Loans.

"Type": when used in respect of any Loan, shall refer to the Rate by reference to which interest on such Loan is determined. For purposes hereof, "Rate" shall include the Eurodollar Rate and the Base Rate.

"UCC": as defined in the Security Agreement

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"Wholly-Owned Subsidiary": at any time, the Subsidiary one hundred percent (100%) of all of the equity Securities (except directors' qualifying shares) and voting Securities of which are owned by the Borrower at such time.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the same defined meanings when used in the Note, the other Loan Documents or any certificate or other document made or delivered pursuant hereto or thereto.

(b) As used herein and in the Note and the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, accounting terms relating to the Borrower not defined in Section 1.1 and accounting terms partly defined in Section 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP.

(c) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined in this Agreement shall be equally applicable to both the singular and plural forms of such terms.

SECTION 2. LOANS AND COMMITMENTS

2.1 Commitments. (a) Subject to the terms and conditions hereof, the Bank agrees to make revolving credit loans (the "Revolving Credit Loans") to the Borrower from time to time during the Revolving Credit Commitment Period in an aggregate principal amount at any one time outstanding not to exceed the Available Revolving Credit Commitment; provided that, no Revolving Credit Loan shall be made if, after giving effect to the making of such Loan and the simultaneous application of the proceeds thereof, the Borrower would not be in compliance with any of the applicable financial ratios set forth in Section 6.1. The Revolving Credit Commitment may be reduced or terminated from time to time pursuant to Section 2.9. Within the foregoing limits, the Borrower may during the Revolving Credit Commitment Period borrow, repay and reborrow under the Revolving Credit Commitment, subject to and in accordance with the terms and limitations hereof.

(b) The Revolving Credit Loans may from time to time be

(i) Eurodollar Loans, (ii) Base Rate Loans or (iii) a combination thereof, as determined by the Borrower and notified to the Bank in accordance with Sections 2.3 and 2.16; provided that, no Revolving Credit Loan shall be made as a Eurodollar Loan after the date that is one month prior to the Revolving Credit Termination Date or if a Default shall exist and be continuing at the time of the making of such Loan.

(c) Each Revolving Credit Loan shall be made in accordance with the procedures set forth in subsection 2.3.

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(d) Subject to the terms and conditions hereof, the Bank shall during the Revolving Credit Commitment Period issue or cause the issuance of letters of credit ("Revolving Credit Letters of Credit") on behalf of the Borrower; provided, however, that the Bank will not be required to issue or cause to be issued any Revolving Credit Letter of Credit which expires later than the Revolving Credit Termination Date or to the extent that the face amount of such Revolving Credit Letters of Credit would exceed the Available Revolving Credit Commitment; provided further, that the Bank shall not be required to issue any Revolving Credit Letter of Credit if, after giving effect to such issuance, the Borrower would not be in compliance with any of the applicable financial ratios set forth in Section 6.1. The maximum amount of outstanding Revolving Credit Letters of Credit shall not exceed \$7,500,000 at any time; the maximum amount of outstanding Revolving Credit Letters of Credit which are standby letters of credit shall not exceed \$5,000,000 at any time; and the maximum amount of outstanding Revolving Credit Letters of Credit which are trade letters of credit shall not exceed \$2,500,000 at any time. The Borrower shall be required to reimburse the Bank any amounts paid by the Bank pursuant to drawings on Revolving Credit Letters of Credit. All payments by the Bank of drawings on Revolving Credit Letters of Credit shall be deemed to be Revolving Credit Loans and shall bear interest at the applicable Base Rate until repaid in full.

(e) Subject to the terms and conditions hereof, the Bank shall during the Cash Collateralized Letter of Credit Commitment Period issue or cause the issuance of letters of credit which shall be fully collateralized by cash collateral deposited by the Borrower in the Cash Collateral Account prior to such issuance ("Cash Collateralized Letters of Credit") on behalf of the Borrower; provided, however, that the Bank will not be required to issue or cause to be issued any Cash Collateralized Letter of Credit which expires later than the Revolving Credit Termination Date or to the extent that, after giving effect to such issuance, the face amount of all outstanding Cash Collateralized Letter of Credit Obligations would exceed either (i) the Cash Collateralized Letters of Credit Commitment or (ii) the amount then held by the Bank in the Cash Collateral Account. The Borrower shall be required to reimburse the Bank any amounts paid by the Bank pursuant to drawings on Cash Collateralized Letters of Credit. If any such amount is not otherwise reimbursed by the Borrower on the date of such drawing, the Bank may debit a like amount from the Cash Collateral Account and apply it to such Reimbursement Obligation. The Borrower shall at all times maintain deposits in the Cash Collateral Account in an amount equal to or greater than the Cash Collateralized Letters of Credit Obligations. The Bank will invest such cash collateral (less applicable reserves) in such short-term money- market investments as to which the Bank and the Borrower mutually agree and the net return on such investments shall be credited to such account and constitute additional cash collateral. Following the occurrence of a Default or Event of Default the Borrower may not withdraw amounts credited to the Cash Collateral Account except upon payment and performance in full of all Obligations, expiration or surrender of all Letters of Credit and the Bond Letter of Credit and termination of this Agreement.

(f) Subject to the terms and conditions hereof and of the Reimbursement Agreement, the Bank shall issue the Bond Letter of Credit in an amount not to exceed \$5,025,410. The Borrower shall reimburse the Bank for any amounts paid by the Bank pursuant to drawings on the Bond Letter of Credit as provided in, and the Bond Letter of Credit shall otherwise be governed by and subject to, the Reimbursement Agreement.

2.2 Note The Revolving Credit Loans shall be evidenced by a promissory note of the Borrower, substantially in the form of Exhibit A hereto (the "Revolving Credit Note"). The Bank is hereby authorized to record the date, Type and amount of each Revolving Credit Loan, each continuation thereof, each conversion of all or a portion thereof to another Type, the date and amount of each payment or prepayment of principal thereof and, in the case of Eurodollar Loans, the length of each Interest Period with respect thereto, on the schedule annexed to and constituting a part of the Revolving Credit Note, provided that the failure of the Bank to make such recordation (or any error in such recordation) shall not affect the obligations of the Borrower hereunder or under the Revolving Credit Note.

2.3 Procedure for Revolving Credit Loans; Issuance of Letters of Credit. (a) The Borrower may borrow under the Revolving Credit Commitment during the Revolving Credit Commitment Period on any Business Day. The Borrower shall give the Bank irrevocable notice (which notice must be received by the Bank prior to 12:00 noon, Philadelphia time, three Business Days prior to the requested Borrowing Date, if all or any part of the requested Revolving Credit Loans are to be initially Eurodollar Loans, or prior to 10:00 a.m., Philadelphia time, on the requested Borrowing Date if all of the requested Revolving Credit Loans are to be initially Base Rate Loans), specifying in the Notice of Borrowing (a) the amount to be borrowed, (b) the requested Borrowing Date, (c) whether the borrowing is to be of Eurodollar Loans, Base Rate Loans or a combination thereof and (d) if the borrowing is to be entirely or partly of Eurodollar Loans, the amount and the length of the initial Interest Period(s) therefor. Each borrowing under the Revolving Credit Commitment shall be in an amount equal to \$100,000 or increments of \$100,000 in excess thereof (or, if the aggregate Available Revolving Credit Commitment at such time is less than \$100,000, such lesser amount).

(b) Borrower may request the Bank to issue or cause the issuance of a Letter of Credit under either of the Commitments by delivering to the Bank, a Letter of Credit Application (the "Application") in the form provided by the Bank and completed to its reasonable satisfaction; and, such other certificates, documents and other papers and information as the Bank may reasonably request. Each Letter of Credit shall, among other things, (i) provide for the payment of sight drafts when presented for honor thereunder in accordance with the terms thereof and when accompanied by the documents described therein and (ii) have an expiry date less than two years after such Letter of Credit's date of issuance and in no event later than the Revolving Credit Termination Date (except that a Letter of Credit may provide for automatic annual renewals in the absence of notice from the Bank that it will not be renewed). Each Letter of Credit shall be subject to the Uniform Customs and Practice for Documentary Credits, 1993 Revision, International Chamber of Commerce Publication No. 500 or International Standby Practices, International Chamber of Commerce Publication No. 590, or such other law as the Borrower and the Bank agree shall apply, and any amendments or revision thereof adhered to by the Bank and, to the extent not inconsistent therewith, the laws of the Commonwealth of Pennsylvania.

2.4 Requirements for Issuance of Letters of Credit. (a) In connection with the issuance of any Letter of Credit, Borrower shall indemnify, save and hold the Bank harmless from any loss, cost, expense or liability, including, without limitation, payments made by the Bank and expenses and reasonable attorneys' fees incurred by the Bank arising out of, or in connection with, any Letter of Credit to be issued or created for the Borrower. The Borrower shall be bound by the Bank's reasonable regulations and good faith interpretations of any Letter of Credit issued or created for the Borrower, although this interpretation may be different from its own; and, neither the Bank nor any of its correspondents shall be liable for any error, negligence, or mistakes, whether of omission or commission, in following the Borrower's instructions or those contained in any Letter of Credit or of any modifications, amendments or supplements thereto or in issuing or paying any Letter of Credit, except for the Bank's or any such correspondent's gross negligence, bad faith or willful misconduct.

(b) The Borrower shall authorize and direct the Bank to name the Borrower as the "Applicant" or "Account Party" of each Letter of Credit.

(c) In connection with all Letters of Credit issued or caused to be issued or created by the Bank under this Agreement, the Borrower hereby appoints the Bank, or its designee, as its attorney, with full power and authority (i) to sign and/or endorse the Borrower's name upon any warehouse or other receipts, letter of credit applications and acceptances; (ii) to sign the Borrower's name on bills of lading; (iii) to clear inventory through the United States of America Customs Department ("Customs") in the name of the Borrower or the Bank or its designee, and to sign and deliver to Customs officials powers of attorney in the name of the Borrower for such purpose; and (iv) to complete in the Borrower's name any order, sale or transaction, obtain the necessary documents in connection therewith, and collect the proceeds thereof. This power, being coupled with an interest, is irrevocable as long as any Letters of Credit remain outstanding.

(d) The Borrower and the Bank agree that the Bank shall not be responsible for, and the Borrower's Reimbursement Obligations shall be absolute, unconditional and irrevocable under all circumstances, and shall not be affected by, among other things (1) the form, validity, enforceability, sufficiency, accuracy, genuineness or legal effect of any Letter of Credit or any document submitted by any party in connection with any Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged (even if the Bank shall have been notified thereof), (2) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any such Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason, (3) any claim of the Borrower against any beneficiary of such Letter of Credit, or any such transferee, (4) any dispute between the Borrower and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred, (5) any claims whatsoever of the Borrower against any beneficiary of such Letter of Credit or any such transferee, (6) any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, (7) any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any such Letter of Credit or of the proceeds thereof, (8) errors in interpretation of technical terms, (9) the misapplication by the beneficiary of any such Letter of Credit of the proceeds of any drawing under such Letter of Credit, (10) any act or omission (including the honor of a presentation failing to comply with the terms of such Letter of Credit or the failure to honor a presentation complying with the terms of such Letter of Credit as a result of Governmental Acts or otherwise) by the Bank in connection with a Letter of Credit, (11) any consequences arising from causes beyond the control of the Bank, including any Governmental Acts, (12) the existence of any claim, set-off, defense or other right which the Borrower may have at any time against a beneficiary or any transferee of any Letter of Credit (or any Persons for whom any such transferee may be acting), the Bank or any other Person or, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction (including any underlying transaction between the Borrower and the beneficiary for which any Letter of Credit was procured), (13) any adverse change in the business, operations, properties, assets, condition (financial or otherwise) or prospects of the Borrower, (14) any breach of this Agreement or any other Loan Document by the Borrower, (15) the occurrence or continuance of an insolvency proceeding with respect to the Borrower, (16) the fact that the Revolving Credit Termination Date shall have passed or this Agreement or either of the Commitments hereunder shall have been terminated, and (17) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, and none of the above shall affect or impair, or prevent the vesting of, any of the Bank's rights or powers hereunder, provided, in each case, that a court of competent jurisdiction has not finally determined that the reliance by the Bank on any of such documents, instruments or acts, or any such action by or omission of the Bank, constituted gross negligence or willful misconduct of the Bank.

Without limiting the generality of the foregoing, the Bank (i) may rely on any oral or other communication believed in good faith by the Bank to have been authorized or given by or on behalf of the Borrower, (ii) may honor any presentation if the documents presented appear on their face substantially to comply with the terms and conditions of relevant Letter of Credit, (iii) shall not be liable to the Borrower for any consequential, punitive or special damages, or for any damages resulting from any change in the value of any property relating to a Letter of Credit, (iv) may honor a previously dishonored presentation under a Letter of Credit to settle or compromise any claim of wrongful dishonor and shall be entitled to reimbursement to the same extent as if such presentation had initially been honored, together with any interest paid by the Bank, (v) may honor any drawing that is payable upon presentation of a statement advising negotiation or payment, upon receipt of such statement (even if such statement indicates that a draft or other document is being separately delivered), and shall not be liable for any failure of any such draft or other document to arrive, or to conform in any way with the relevant Letter of Credit, and (vi) may pay any paying or negotiating bank claiming that it rightfully honored under the laws or practices of the place where such bank is located.

2.5 Fees. (a) The Borrower agrees to pay to the Bank on the Closing Date, as consideration for the Bank's commitment to make the Revolving Credit Loans and to issue Revolving Credit Letters of Credit and the Bond Letter of Credit, a nonrefundable facility fee (the "Facility Fee") equal to \$170,254.10 less any portion of the \$25,000 deposit fee previously paid to the Bank which has not been applied to pay the expenses of the Bank in connection herewith.

(b) The Borrower agrees to pay to the Bank, on the first day of each month during the Revolving Credit Commitment Period and on the date on which the Revolving Credit Commitment shall be permanently terminated as provided herein, a commitment fee (the "Revolving Credit Commitment Fee") at a rate per annum equal to 0.50% of the average daily amount of the Available Revolving Credit Commitment during the preceding month (or shorter period commencing with the date hereof or ending with the Revolving Credit Termination Date or the date on which the Revolving Credit Commitment shall be terminated). The Revolving Credit Commitment Fee shall be computed on the basis of the actual number of days elapsed in a year of 360 days. The Revolving Credit Commitment Fee shall commence to accrue on the date hereof and shall cease to accrue on the Revolving Credit Termination Date.

(c) The foregoing fees shall be paid on the dates due, in immediately available funds, to the Bank. Once paid, none of the foregoing fees shall be refundable under any circumstances.

(d) Borrower shall pay to the Bank, (x) fees for each Letter of Credit for the period from and excluding the date of issuance of same to and including the date of expiration or termination, equal to the average daily face amount of each outstanding Letter of Credit multiplied by 1.75% per annum, such fees to be calculated on the basis of a 360-day year for the actual number of days elapsed and to be payable quarterly in arrears on the first day of each Fiscal Quarter and on the Revolving Credit Termination Date and (y) any and all fees and expenses as agreed upon by the Bank and the Borrower in connection with any Letter of Credit, including, without limitation, in connection with the opening, amendment or renewal of any such Letter of Credit and any acceptances created thereunder (all of the foregoing fees, the "Letter of Credit Fees"). All such charges shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or proration upon the termination of this Agreement for any reason. Any such charge in effect at the time of a particular transaction shall be the charge for that transaction, notwithstanding any subsequent change in the Bank's prevailing charges for that type of transaction. All Letter of Credit Fees payable hereunder shall be deemed

earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or proration upon the termination of this Agreement for any reason.

2.6 Interest Rates and Payment Dates. (a) Subject to the provisions of subsection 2.7, each Base Rate Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) at a rate per annum equal to the Base Rate plus the Applicable Margin applicable to Base Rate Loans.

(b) Subject to the provisions of subsection 2.7, each Eurodollar Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Eurodollar Loan plus the Applicable Margin applicable to Eurodollar Loans.

(c) Interest on each Loan shall be payable in arrears on each Interest Payment Date applicable to such Loan; provided that, (i) interest accruing on overdue amounts shall be payable on demand as provided in subsection 2.7 and (ii) as set forth in subsection 2.9, accrued and unpaid interest on the Loans shall be payable on the Revolving Credit Termination Date.

(d) As soon as practicable the Bank shall notify the Borrower of (i) each determination of a Eurodollar Rate and (ii) the effective date and the amount of each change in the interest rate on a Eurodollar Loan or Base Rate Loan. Each determination of an interest rate by the Bank pursuant to any provision of this Agreement (including this subsection 2.6 and subsection 2.7) shall be conclusive and binding on the Borrower in the absence of manifest error. At the request of the Borrower, the Bank shall deliver to the Borrower a statement showing the quotations used by it in determining any interest rate pursuant to subsections 2.6(a) and (b).

2.7 Default Interest. Upon the occurrence of and during the continuance of an Event of Default, (i) the outstanding principal amount of all Obligations other than Eurodollar Loans shall bear interest from the date of such occurrence at a rate per annum which is equal to three percent (3%) in excess of the sum of the Base Rate plus the Applicable Margin in effect at such time for Base Rate Loans and (ii) Eurodollar Rate Loans shall bear interest at a rate per annum which is equal to three percent (3%) in excess of the Eurodollar Rate plus the Applicable Margin in effect at such time for Eurodollar Loans. The Borrower acknowledges that such increased interest rate reflects, among other things, the fact that such Loans, Letters of Credit or other amounts have become a substantially greater risk given their default status and that the Bank is entitled to additional compensation for such risk. Notwithstanding anything in this Agreement to the contrary, upon the occurrence and during the continuance of a Default or an Event of Default, all Eurodollar Loans shall be converted to Base Rate Loans upon the expiration of any Interest Period.

2.8 Inability to Determine Interest Rate. In the event, and on each occasion, that prior to the first day of the commencement of any Interest Period for a Eurodollar Loan, the Bank shall have determined (which determination shall be conclusive and binding upon the Borrower) that dollar deposits in the principal amount of such Eurodollar Loan are not generally available in the London Interbank Market, or that the rate at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the Bank of making or maintaining the principal amount of such Eurodollar Loan during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Bank shall, as soon as practicable thereafter, give written, telegraphic or telephonic notice of such determination to the Borrower. After such notice shall have been given and until the circumstances giving rise to such notice no longer exist, each request for a Eurodollar Loan or for conversion to or maintenance of a Eurodollar Loan pursuant to the terms of this Agreement shall be deemed to be a request for a Base Rate Loan. Each determination by the Bank hereunder shall be conclusive absent error in calculation.

2.9 Termination and Reduction of Commitments; Mandatory Prepayments.

(a) Termination at Maturity. The Revolving Credit Commitment shall be automatically terminated on the Revolving Credit Termination Date and the Cash Collateralized Letters of Credit Commitment shall be automatically terminated on the Cash Collateralized Letters of Credit Commitment Termination Date. The entire outstanding principal balance of the Revolving Credit Loans and all Reimbursement Obligations, plus all accrued and unpaid interest thereon, and any Fees or other amounts owed under the Loan Documents, shall be due and payable on the Revolving Credit Termination Date.

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(b) Voluntary Reductions of Commitments. Upon at least five Business Days' prior irrevocable written (including telecopy) notice to the Bank, the Borrower may from time to time voluntarily permanently reduce or terminate the Revolving Credit Commitment or the Cash Collateralized Letter of Credit Commitment, provided, however, in the event the Commitments are terminated in whole and the Obligations are prepaid in full prior to the last day of the Revolving Credit Termination Date (the date of such prepayment hereinafter referred to as the "Early Termination Date"), the Borrower shall pay to the Bank an early termination fee in an amount equal to (x) 2% of the sum of the aggregate amount of the Commitments and the Available Bond Letter of Credit Amount in effect prior such termination if the Early Termination Date occurs on or after the Closing Date to and including the date immediately preceding the first anniversary of the Closing Date, and (y) 1% of the sum of the aggregate amount of the Commitments and the Available Bond Letter of Credit Amount in effect prior such termination if the Early Termination Date occurs on or after the first anniversary of the Closing Date to and including the date immediately preceding the second anniversary of the Closing Date. Each voluntary reduction shall be in a minimum amount of \$500,000 or in integral multiples of \$100,000 in excess thereof.

(c) Effect of Reductions. The portion of the Commitments so terminated pursuant to subsection 2.9(b) shall no longer be available for borrowing or the issuance of Letters of Credit and, as of the effective date of any such reduction, any Revolving Credit Commitment Fee shall no longer be payable on the portion so terminated. Simultaneously with each voluntary permanent reduction of the Revolving Credit Commitment, the Borrower shall make a payment on the outstanding Revolving Credit Loans equal to the excess, if any, of the aggregate principal amount of the outstanding Revolving Credit Loans and the face amount of Revolving Credit Letters of Credit outstanding at such time over the Revolving Credit Commitment, as so reduced. Notice of a reduction, once given, shall be irrevocable. Except as otherwise provided in subsection 2.9(b), all such reductions shall be without penalty or premium (except for amounts owing pursuant to Section 2.14, if any).

(d) Mandatory Prepayments. If at any time the aggregate principal amount of the outstanding Revolving Credit Loans and the face amount of Revolving Credit Letters of Credit outstanding at such time exceeds the lesser of the Revolving Credit Commitment and the Borrowing Base at such time, the Borrower shall make a payment on the outstanding Revolving Credit Loans equal to the amount of such excess.

(e) Application of Reductions and Prepayments. All prepayments made pursuant to subsections 2.9(c) or (d) shall be applied to repay Base Rate Loans or Eurodollar Loans, at the Borrower's option, provided that the Borrower shall deliver written notice of such election prior to or simultaneously with such prepayment. If no election is made by the Borrower, then all such voluntary prepayments shall be applied by the Bank to first repay Base Rate Loans, and any excess shall be applied to repay Eurodollar Loans, with payments applied to Eurodollar Loans being applied in order of next maturing Interest Periods. All such mandatory and voluntary prepayments shall be accompanied by all accrued and unpaid interest thereon, all amounts due pursuant to subsection 2.9(b) or Section 2.14, if any, and, in the case of a permanent reduction of the Revolving Credit Commitment to zero, any accrued and unpaid Commitment Fees.

2.10 Optional Prepayment of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay the Loans, in whole or in part, without premium or penalty (but in any event subject to Section 2.14), upon prior written, telecopy or telephonic notice to the Bank given, in the case of Base Rate Loans, no later than 10:00 a.m., Philadelphia time, on the date of any proposed prepayment, and, in the case of Eurodollar Loans, no later than 10:00 a.m., Philadelphia time, three Business Days before any such proposed prepayment. In each case the notice shall specify the date and amount of each such prepayment, whether the prepayment is of Base Rate Loans, Eurodollar Loans, or a combination thereof, and, if a combination thereof, the amount allocable to each; provided, however, that each such partial prepayment shall be in the principal amount of at least \$100,000 or in multiples of \$100,000 in excess thereof.

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(b) Each notice of prepayment shall be irrevocable and shall commit the Borrower to prepay the amount specified in such notice.

2.11 Illegality. Notwithstanding any other provision herein, if any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for the Bank to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of the Bank hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert Base Rate Loans to Eurodollar Loans shall forthwith be cancelled and (b) the Loans then outstanding as Eurodollar Loans, if any, shall be converted automatically to Base Rate Loans on the respective last days of the then current Interest Periods with respect to such Loans or within such earlier period as required by law. If any such conversion of a Eurodollar Loan occurs on a day which is not the scheduled last day of the then current Interest Period with respect thereto, the Borrower shall pay to the Bank such amounts, if any, as may be required pursuant to subsection 2.14. The Bank shall endeavor to provide notice to the Borrower of such change in any Requirement of Law or interpretation or application when the Bank becomes aware of such change.

2.12 Requirements of Law. (a) In the event that any change in any Requirement of Law or in the interpretation or application thereof or compliance by the Bank with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject the Bank to any tax of any kind whatsoever with respect to this Agreement, the Revolving Credit Note, any Eurodollar Loan or any Letter of Credit, or change the basis of taxation of payments to the Bank in respect thereof (except for taxes covered by subsection 2.13 and changes in the rate of tax on the net income of the Bank);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans, letters of credit or other extensions of credit by, or any other acquisition of funds by, any office of the Bank which is not otherwise included in the determination of the interest rate or fees on such Eurodollar Loan or Letter of Credit, as the case may be, hereunder; or

(iii) shall impose on the Bank any other condition;

and the result of any of the foregoing is to increase the cost to the Bank, by an amount which the Bank deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or maintaining the Commitments hereunder or issuing or maintaining any Letter of Credit hereunder or to reduce any amount receivable hereunder in respect thereof then, in any such case, the Borrower shall as promptly as practicable pay the Bank, upon its demand, any additional amounts necessary to compensate the Bank for such increased cost or reduced amount receivable. If the Bank becomes entitled to claim any additional

amounts pursuant to this subsection, it shall as promptly as practicable notify the Borrower of the event by reason of which it has become so entitled. A certificate as to any additional amounts payable pursuant to this subsection submitted by the Bank to the Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Revolving Credit Note and all other amounts payable hereunder.

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(b) In the event that the Bank shall have determined that any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by the Bank or any corporation controlling the Bank with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof does or shall have the effect of reducing the rate of return on the Bank's or such corporation's capital as a consequence of its obligations hereunder to a level below that which the Bank or such corporation could have achieved but for such change or compliance (taking into consideration the Bank's or such corporation's policies with respect to capital adequacy) by an amount deemed by the Bank to be material, then from time to time, the Borrower shall pay the Bank, upon its demand, such additional amount or amounts as will compensate the Bank for such reduction. If the Bank becomes entitled to claim any additional amounts pursuant to this subsection, it shall as promptly as practicable notify the Borrower of the event by reason of which it has become so entitled. A certificate as to any additional amounts payable pursuant to this subsection setting forth the calculation of such amounts in reasonable detail submitted by the Bank to the Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Revolving Credit Note and all other amounts payable hereunder.

(c) The Bank agrees that it will use reasonable efforts in order to avoid or to minimize, as the case may be, the payment by the Borrower of any additional amount under subsections 2.12(a) or (b); provided, however, that the Bank shall not be obligated to incur any expense, cost or other amount in connection with utilizing such reasonable efforts.

2.13 Taxes. (a) All payments made by the Borrower under this Agreement and any Note shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority excluding (i) net income taxes and franchise or gross receipts taxes imposed on the Bank as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and the Bank (excluding a connection arising solely from the Bank having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or the Revolving Credit Note (ii) any taxes which would not be imposed but for the failure of the Bank or a participant to provide properly completed and executed documentation reasonably requested by the Borrower, as would permit the Borrower to make payments without withholding or at a reduced rate, provided that the foregoing shall not apply if the Bank or participant is not legally able or entitled to deliver such documentation, and (iii) with respect to any Foreign Lender that is an assignee pursuant to Section 8.6, any withholding tax that is in effect and would apply to amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement except to the extent the assignor with respect to such Foreign Lender would have been entitled at the time of assignment to receive additional amounts from the Borrower with respect to such withholding tax pursuant to this Section 2.13 (all such non-excluded taxes, levies, imposts, duties, charges, fees, deductions and withholdings being hereinafter called "Taxes"). If any Taxes are required to be withheld from any amounts payable to the Bank hereunder or under any Note, the amounts so payable to the Bank shall be increased to the extent necessary to yield to the Bank (after payment of all Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Revolving Credit Note. If the Borrower fails to pay any Taxes

when due to the appropriate taxing authority or fails to remit to the Bank the required receipts or other required documentary evidence, the Borrower shall indemnify the Bank for any incremental taxes, interest or penalties that may become payable by the Bank as a result of any such failure. The agreements in this subsection shall survive the termination of this Agreement and the payment of the Revolving Credit Note and all other amounts payable hereunder.

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(b) In the event of an assignment pursuant to Section 8.6, any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower, at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payment to be made without withholding or at a reduced rate. The Bank and participant shall provide to the Borrower such properly completed and signed United States federal income tax in the form of Internal Revenue Form W-9 (or applicable successor form) in the case of a person that is a "United States person" within the meaning of Section 7701(a)(3) of the Code or an Internal Revenue Service Form W-8BEN, W-8ECI or W-8IMY (or applicable successor form) in the case of a person that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code) as may be reasonably requested by the Borrower, so that the Borrower may make payments of principal and interest on any Loan without United States federal back-up withholding.

(c) If the Bank determines, in its sole discretion, that it has received a refund of other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.13, it shall pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid by the Borrower under this Section 2.13 with respect to the Taxes giving rise so such refund), net of all out-of-pocket expenses of the Lender and without interest (other than any interest paid by the relevant governmental authority with respect to such refund); provided, that the Borrower, upon the request of the Bank, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant governmental authority) to the Bank in the event the Lender is required to repay such refund to such governmental authority. This Section shall not be construed to require the Bank to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person.

2.14 Indemnity. (a) The Borrower agrees to indemnify the Bank and to hold the Bank harmless from any loss or expense which the Bank may sustain or incur as a consequence of (i) default by the Borrower in payment when due of the principal amount of or interest on any Eurodollar Loan, (ii) default by the Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (iii) default by the Borrower in making any prepayment after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (iv) the making of a prepayment (whether voluntary, mandatory, as a result of acceleration or otherwise) of Eurodollar Loans on a day which is not the last day of an Interest Period with respect thereto, including, without limitation, in each case, any such loss or expense arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained. A certificate as to any amounts that the Bank is entitled to receive under this Section 2.14 submitted by the Bank to the Borrower shall be conclusive in the absence of clearly demonstrable error and all such amounts shall be paid by the Borrower promptly upon demand by the Bank. This covenant shall survive the termination of this Agreement and the payment of the Revolving Credit Note and all other amounts payable hereunder.

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(b) For the purpose of calculation of all amounts payable to the Bank under this Section, the Bank shall be deemed to have actually funded its relevant Eurodollar Loan through the purchase of a deposit bearing interest at the Eurodollar Rate in an amount equal to the amount of such relevant Eurodollar Loan and having a maturity comparable to the relevant Interest Period; provided, however, that the Bank may fund each of its Eurodollar Loans in any manner it sees fit, and the foregoing assumption shall be utilized only for the calculation of amounts payable under this Section. This covenant shall survive the termination of this Agreement and the payment of the Revolving Credit Note and all other amounts payable hereunder.

2.15 Payments. (a) The Borrower shall make each payment (including principal of or interest on any borrowing or any fees or other amounts) hereunder not later than 12:00 (noon), Philadelphia time, on the date when due in Dollars to the Bank at its office set forth in Section 8.2, in immediately available funds. Such payments shall be made without set off or counterclaim of any kind.

(b) Whenever any payment (including principal of or interest on any borrowing or any Fees or other amounts) hereunder (other than payments on Eurodollar Loans) shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day.

(c) In the event that any payment of principal, interest, Fees, expenses or other amounts due to the Bank under any of the Loan Documents is not paid when due, the Bank is hereby authorized to effect such payment by debiting any demand deposit account of the Borrower now or in the future maintained with the Bank. This right of debiting accounts of the Borrower is in addition to any right of setoff accorded the Bank hereunder or by operation of law.

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2.16 Conversion and Continuation Options. The Borrower shall have the right at any time upon prior irrevocable notice to the Bank (i) not later than 12:00 noon, Philadelphia time, three Business Days prior to conversion, to convert any Eurodollar Loan to a Base Rate Loan, (ii) not later than 12:00 noon, Philadelphia time, three Business Days prior to conversion or continuation, to convert any Base Rate Loan into a Eurodollar Loan or to continue any Eurodollar Loan as a Eurodollar Loan for any additional Interest Period and (iii) not later than 12:00 noon, Philadelphia time, three Business Days prior to conversion, to convert the Interest Period with respect to any Eurodollar Loan to another permissible Interest Period, subject in each case to the following:

(a) a Eurodollar Loan may not be converted at a time other than the last day of the Interest Period applicable thereto;

(b) any portion of a Loan maturing or required to be repaid in less than one month may not be converted into or continued as a Eurodollar Loan;

(c) no Eurodollar Loan may be continued as such and no Base Rate Loan may be converted to a Eurodollar Loan when any Default has occurred and is continuing;

(d) any portion of a Eurodollar Loan that cannot be converted into or continued as a Eurodollar Loan by reason of subsections 2.16(b) or 2.16(c) automatically shall be converted at the end of the Interest Period in effect for such Loan to a Base Rate Loan; and

(e) if the Borrower has failed to give notice of conversion or continuation within the time periods set forth in this subsection or if such conversion or continuation is not permitted pursuant to this Section 2.16, such Loans shall be converted to Base Rate Loans on the last day of such then expiring Interest Period.

Each request by the Borrower to convert or continue a Loan shall constitute a

representation and warranty that no Default shall have occurred and be continuing. Accrued interest on a Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion.

2.17 Minimum Amounts of Tranches; Maximum Number of Tranches. (a) All borrowings, conversions and continuations of Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections that, after giving effect thereto, the aggregate principal amount of the Loans comprising each Tranche of Eurodollar Loans shall be equal to \$500,000 or in increments of \$100,000 in excess thereof.

(b) The Borrower shall not have outstanding at any one time more than four Tranches in the aggregate including the Base Rate Tranche (to the extent any Base Rate Loans are then outstanding).

2.18 Loan Account. The Bank shall open and maintain on its books a loan account (the "Loan Account") in the Borrower's name with respect to loans made, Letters of Credit issued and drawings thereunder, repayments, prepayments, the computation and payment of interest, Fees and other amounts due and sums paid to the Bank hereunder and under the Loan Documents. Except in the case of manifest error in computation, such records and any information recorded by the Bank on the Revolving Credit Note shall constitute prima facie evidence of the accuracy of the information so recorded; provided that, the failure of the Bank to make an entry in the Loan Account or on the Revolving Credit Note (or any error in such recordation) shall not affect the obligations of the Borrower hereunder or under the Revolving Credit Note.

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2.19 Use of Proceeds. The proceeds of the Loans shall be used by the Borrower (a) for the Borrower's ongoing capital expenditures, working capital and general purposes in the ordinary course of business, (b) to repay all outstanding Indebtedness under the Existing Financing Agreements and (c) to pay transaction costs in connection with the Loan Documents. The Borrower may not transfer the proceeds of any Loans to, or otherwise directly or indirectly use such funds or the proceeds thereof for the benefit of, any Subsidiary which is not a Guarantor other than the payment of invoices in the ordinary course of business for services rendered or goods sold by such Subsidiary.

SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Bank to enter into this Agreement and to make the Loans and to issue Letters of Credit, the Borrower hereby represents and warrants to the Bank that:

3.1 Financial Condition. (a) Audited Financials. The consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at February 22, 2002 and the related consolidated statements of income and of cash flows for the fiscal year ended on such date, present fairly the consolidated financial condition of the Borrower and its consolidated Subsidiaries as at such date, and the consolidated results of their operations and their consolidated cash flows for the Fiscal Year then ended. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved. Neither the Borrower nor any of its consolidated Subsidiaries had, as of February 22, 2002, any material Contingent Obligation, liability for taxes, or any long-term lease or unusual forward or long-term commitment, including, without limitation, any Interest Hedge Agreement, which is not reflected in the foregoing statements or the notes thereto.

(b) Unaudited Financials. The unaudited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at November 22, 2002 and the related unaudited consolidated statements of income and of cash flows for the twenty-six (26) week period ended on such date, certified by a Responsible Officer, copies of which have heretofore been furnished to the Bank, are complete and correct and present fairly the consolidated financial condition of the Borrower and its consolidated Subsidiaries at such date, and the

consolidated results of their operations and their consolidated cash flows for the twenty-six (26) week period then ended (subject to normal year-end audit adjustments). All such financial statements have been prepared in accordance with GAAP applied consistently throughout the periods involved (except (i) as approved by such Responsible Officer and as disclosed therein and (ii) for the exclusion of footnotes required by GAAP). Neither the Borrower nor any of its consolidated Subsidiaries had, as of November 22, 2002, any material Contingent Obligation, or material liability for taxes, or any long-term lease or unusual forward or long-term commitment, including, without limitation, any Interest Hedge Agreement, which has not been disclosed to the Bank in writing by the Borrower.

(c) No Sales or Acquisitions. During the period from February 22, 2002, to and including the date hereof there has been no sale or other disposition by the Borrower or any of its Subsidiaries of any material part of its business or property and no purchase or other acquisition of any business or property (including any Capital Stock of any other Person) material in relation to the financial condition of the Borrower at February 22, 2002.

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(d) Financial Projections. The Borrower has delivered to the Bank financial projections of the income statements of the Borrower for each fiscal quarter through February 28, 2004 (the "Financial Projections"). The Financial Projections represent a reasonable range of possible results in light of the history of the business, present and foreseeable conditions and the intentions of the Borrower's management as of the Closing Date.

3.2 No Change. Except as set forth on Schedule 3.2, since February 22, 2002, there has been no Material Adverse Change and there has been no development or event nor any prospective development or event which has had or could reasonably be expected individually or in the aggregate to have a Material Adverse Effect.

3.3 Existence; Compliance with Law. Each of the Borrower and each Guarantor (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has the power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, except where such non-qualification would not have a Material Adverse Effect, and (d) is in material compliance with all Requirements of Law.

3.4 Power; Authorization; Enforceable Obligations. Each of the Borrower and each Guarantor has the power, authority, and legal right, to make, deliver and perform this Agreement, each Application and each other Loan Document to which it is a party (including, with respect to the Borrower, to borrow hereunder). The Borrower has taken all necessary action to authorize the borrowings on the terms and conditions of this Agreement, each Application and each other Loan Document to which it is a party. No consent or approval or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other Person (including shareholders and creditors of the Borrower and each Guarantor) is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement, the Revolving Credit Note, each Application or any other Loan Document. This Agreement has been and each Application and other Loan Document to which it is a party will be, duly executed and delivered on behalf of the Borrower. The Guaranty has been duly executed and delivered on behalf of each Guarantor. This Agreement constitutes and each Application and other Loan Document when executed and delivered will constitute, a legal, valid and binding obligation of the Borrower, and in the case of the Guaranty, each Guarantor, enforceable against the Borrower and each Guarantor, as the case may be, in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws

affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law). No recording, filing, registration, notice or other similar action is required in order to insure the legality, validity, binding effect or enforceability of this Agreement or the Note or the other documents and instruments executed hereunder as against all persons, other than such filings as may be required under the UCC or in connection with the recording of mortgages in favor of the Bank encumbering real property owned by the Borrower

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3.5 No Legal Bar. The execution, delivery and performance of this Agreement, the Revolving Credit Note, each Application and the other Loan Documents by the Borrower and each Guarantor, the borrowings hereunder, the use of the proceeds thereof and the consummation of the transactions herein or therein contemplated (a) will not violate or materially conflict with any Requirement of Law or Contractual Obligation (including any Licenses) of the Borrower or any Guarantor and (b) will not result in, or require, the creation or imposition of any Lien on any properties or revenues of the Borrower or any Guarantor pursuant to any such Requirement of Law or Contractual Obligation.

3.6 No Material Litigation. No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened against the Borrower or any Guarantor against any of their respective businesses, operations, properties, prospects or financial condition (a) with respect to this Agreement, the Revolving Credit Note, the other Loan Documents or any of the transactions contemplated hereby, or (b) as to which there is a reasonable likelihood of an adverse determination and which, if adversely determined, could have a Material Adverse Effect. All pending and, to the Borrower's knowledge, threatened material actions, suits, proceedings and investigations affecting the Borrower or any Guarantor in existence on the Closing Date are set forth on Schedule 3.6.

3.7 No Default. Except as set forth on Schedule 3.7, neither the Borrower nor any Guarantor is in default under or with respect to any of its Contractual Obligations in any respect which could reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

3.8 Taxes. Each of the Borrower and each Guarantor has filed or caused to be filed all tax returns which are required to be filed and have paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves, if any, in conformity with GAAP have been provided on the books of the Borrower); no tax Lien has been filed against the Borrower or any Guarantor, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charges.

3.9 Federal Regulations. No part of the proceeds of any Loans will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U or for any purpose which violates the provisions of Regulation U or any other Regulations of the Board of Governors of the Federal Reserve System. If requested by the Bank, the Borrower will furnish to the Bank a statement to the foregoing effect in conformity with the requirements of FR Form U- 1 referred to in said Regulation U. No part of the proceeds of the Loans hereunder will be used for any purpose which violates, or which is inconsistent with, the provisions of either of Regulations T and X.

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3.10 ERISA. Each Plan (such representations in respect of any Multiemployer Plan being made to the best knowledge of the Borrower) has complied in all material respects with the applicable provisions of ERISA and

the Code. No "prohibited transaction" or "accumulated funding deficiency" (each as defined in subsection 7.1(j)) or Reportable Event has occurred with respect to any Single Employer Plan. The present value of all accrued benefits under each Single Employer Plan of which the Borrower or a Commonly Controlled Entity is a sponsor (based on those assumptions used to fund the Plans), as calculated by the Borrower's actuaries, did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of the Plans allocable to such benefits. Neither the Borrower nor any Commonly Controlled Entity has had a complete or partial withdrawal from any Multiemployer Plan and neither the Borrower nor any Commonly Controlled Entity would become subject under ERISA to any liability if the Borrower or any such Commonly Controlled Entity were to withdraw completely from any Multiemployer Plan as of the valuation date most closely preceding the date this representation is made or deemed made. Such Multiemployer Plans are neither in Reorganization as defined in Section 4241 of ERISA nor Insolvent as defined in Section 4245 of ERISA. The present value (determined using actuarial and other assumptions which are reasonable in respect of the benefits provided and the employees participating) of the liability of the Borrower and each Commonly Controlled Entity for post-retirement benefits to be provided to their current and former employees under Plans which are welfare benefit plans (as defined in Section 3(1) of ERISA) does not, in the aggregate, exceed the assets under all such Plans allocable to such benefits. Neither the Borrower nor any Commonly Controlled Entity has any or has received notice of any liability under the Coal Industry Retiree Health Benefit Act of 1992. Neither a Reportable Event nor an "accumulated funding deficiency" (as defined in Subsection 7.1(j)) has occurred during the five-year period to the date on which this representation is made or deemed made with respect to any Single Employer Plan or Multiemployer Plan. No termination of a Single Employer Plan has occurred, and no Lien on assets of the Borrower or any Commonly Controlled Entity in favor of the PBGC or a Plan has arisen during such five- year period.

3.11 Investment Company Act; Public Utility Holding Company Act; Regulation O.

(a) Neither the Borrower nor any Guarantor is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

(b) Neither the Borrower nor any Guarantor is subject to regulation as a "holding company", subject to regulation as an "affiliate" of a company", or subject to regulation as a "subsidiary company" of a "holding company", in each case under the Public Utility Holding Company Act of 1935, as amended.

(c) To the knowledge of the Borrower, no executive officer or principal shareholder of the Borrower is a director, executive officer or principal shareholder of the Bank and no director of any Bank is in control of the Borrower. For the purposes of this Section, the terms "director" (when used with reference to the Bank), "executive officer", "principal shareholder" and "control" of the Bank have the respective meanings assigned thereto in Regulation O issued by the Board of Governors of the Federal Reserve System.

3.12 Purpose of Loans. The proceeds of the Loans shall be used by the Borrower only for the purposes permitted under Section 2.19.

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3.13 Environmental Matters. Except as set forth on Schedule 3.13:

(a) To the best of Borrower's knowledge, the Properties do not contain, in, on, or under, including, without limitation, the soil and groundwater thereunder, any Materials of Environmental Concern in amounts or concentrations that constitute a violation of, or reasonably could give rise to liability under Environmental Laws.

(b) The Properties and all operations and facilities at the Properties are in compliance, and have in the last five years been in compliance with all Environmental Laws, and to the best of Borrower's knowledge, there is

no contamination at, under or about the Properties or violation of any Environmental Law with respect to the Properties or the business operated by the Borrower and its Subsidiaries which could interfere with the continued operation of any of the Properties or impair the fair saleable value of any thereof. The Borrower has not assumed any liability of any Person under any Environmental Law.

(c) The Borrower has not received written notice and is not aware of any claim, violation, alleged violation, non-compliance, investigation or potential liability regarding environmental matters or compliance with Environmental Law with regard to the Properties which has not been satisfactorily resolved, nor is the Borrower aware or does it have reason to believe that any such action is being contemplated, considered or threatened.

(d) Materials of Environmental Concern have not been generated, treated, stored, transported, disposed of, at, on, from or under any of the Properties, nor have any Materials of Environmental Concern been transferred from the Properties to any other location except in either case in compliance with all applicable Environmental Laws and such that it could not reasonably be expected to give rise to liability of Borrower or its subsidiaries under any applicable Environmental Law.

(e) There are no governmental, administrative actions or judicial proceedings pending or, to the best of Borrower's knowledge, contemplated or threatened under any Environmental Laws to which the Borrower is or will be named as a party with respect to the Properties, nor to the best of Borrower's knowledge are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial enforcement requirements outstanding under any Environmental Law with respect to any of the Properties.

(f) To the best of Borrower's knowledge, there has been no release or threat of release of Matters of Environmental Concern at or from the Properties, or arising from or related to the operations of the Borrower in connection with the Properties or otherwise in connection with the business operated by the Borrower and its Subsidiaries in violation of or in amounts or in a manner that could reasonably be expected to give rise to liability of the Borrower or its subsidiaries under any Environmental Law.

(g) Each of the representations and warranties set forth in paragraphs 3.13(a) through 3.13(f) is true and correct with respect to each Property.

3.14 No Material Misstatements. No financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Bank in connection with the negotiation of this Agreement, the Revolving Credit Note, any Application or any other Loan Document contains any misstatement of fact, or omitted or omits to state any fact necessary to make the statements therein not misleading under the circumstances under which they were made or given, where such misstatement or omission would be material with respect to the performance of the Borrower of its obligations hereunder or thereunder. Prior to the date hereof, the Borrower has disclosed to the Bank in writing any and all facts which materially and adversely affect (to the extent the Borrower can as of the date hereof reasonably foresee), the business, operations or financial condition of the Borrower and its Subsidiaries taken as a whole, and the ability of the Borrower to perform its obligations under this Agreement, the Note, each Application and the other Loan Documents.

3.15 Condition of and Title to Properties. The real property owned or leased by the Borrower and any Guarantor in the United States as of the Closing Date is described on Schedule 3.15 hereto. Each of the Borrower and each Guarantor has good title to or valid leasehold interest in all properties, assets and other rights which it purports to own or lease or which are reflected as owned or leased on its books and records, free and clear of all Liens and encumbrances except Permitted Liens, and subject to the terms and conditions of

the applicable leases. Except as described on Schedule 3.15, all leases of property are in full force and effect. No consent under any lease is required in connection with the consummation of the transactions contemplated hereby. Except for financing statements evidencing Permitted Liens, no effective financing statement under the Uniform Commercial Code is in effect in any jurisdiction and no other filing which names the Borrower or any Guarantor as debtor or which covers or purports to cover any of the assets of the Borrower or any Guarantor is currently effective and on file in any state or other jurisdiction, and neither the Borrower nor any Guarantor has signed any such financing statement or filing or any security agreement authorizing any secured party thereunder to file any such financing statement or filing. All of the assets and properties of the Borrower and each Guarantor that are necessary for the operation of their respective businesses are in good working condition and are able to serve the functions for which they are currently being used, except for ordinary wear and tear.

3.16 Intellectual Property. Each of the Borrower and its Subsidiaries owns, or is licensed to use, all material trademarks, tradenames, copyrights, technology, know-how and processes necessary for the conduct of its business as currently conducted (the "Intellectual Property"). Except as set forth on Schedule 3.16, no claim has been asserted and is pending by any Person challenging or questioning the use of any such Intellectual Property, nor does the Borrower know of any valid basis for any such claim. The use of such Intellectual Property by the Borrower and its Subsidiaries does not infringe the rights of any Person, except for such claims and infringements that, in the aggregate, do not have a Material Adverse Effect. To the best knowledge of the Borrower, except as set forth on Schedule 3.16, no slogan or other advertising, device, product, process, method, substance, part or component or other material now employed, or now contemplated to be employed, by any of the Borrower and its Subsidiaries infringes upon or conflicts with any rights owned by any other Person, and no claim or litigation regarding any of the foregoing is pending or, to the knowledge of the Borrower, threatened. No patent, invention, device, application, and no statute, law, rule, regulation, standard or code involving the Borrower's intellectual property is pending or, to the knowledge of the Borrower, proposed, except where the consequences in the aggregate could not reasonably be expected to have a Material Adverse Effect.

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3.17 No Burdensome Restrictions. No Requirement of Law or Contractual Obligation of the Borrower or any Guarantor could reasonably be expected to have a Material Adverse Effect.

3.18 Security Interests. (a) At all times after execution and delivery of a Pledge Agreement by the pledgor thereunder and the delivery of the certificates (if any) pledged thereunder, the security interests created for the benefit of the Bank under such Pledge Agreement will constitute valid, perfected security interests in the Capital Stock pledged thereunder, subject to no other Liens.

(b) At all times after execution and delivery of the Security Documents (other than the Pledge Agreements) by the party or parties thereto and completion of the filings and recordings listed on Schedule 3.18, the security interests created for the benefit of the Bank pursuant to the Security Documents (other than the Pledge Agreements) will constitute valid, perfected security interests in the collateral subject thereto, subject to no other Liens whatsoever, except Permitted Liens.

3.19 Solvency. The Borrower is, and after giving effect to the receipt and application of the initial Loans hereunder will be, solvent such that: (a) the fair value of its assets (including without limitation the fair salable value of the goodwill and other intangible property of the Borrower) is greater than the total amount of its liabilities, including without limitation, Contingent Obligations, (b) the present fair salable value of its assets (including without limitation the fair salable value of the goodwill and other intangible property of the Borrower) is not less than the amount that will be required to pay the probable liability on its debts as they become absolute and

matured, and (c) it is able to realize upon its assets and pay its debts and other liabilities and commitments (including Contingent Obligations) as they mature in the normal course of business. The Borrower (a) does not intend to, nor does it believe that it will, incur debts or liabilities beyond its ability to pay as such debts and liabilities mature, and (b) is not engaged in a business or transaction, or about to engage in a business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice and industry in which it is engaged.

3.20 No Other Indebtedness. The Borrower does not have any outstanding Indebtedness to any person or entity other than to the Bank hereunder, except for such Indebtedness as is set forth on Schedule 3.20 hereto ("Permitted Indebtedness").

3.21 Insurance. The Borrower currently maintains insurance which meets or exceeds the requirements of subsection 5.5 and the applicable insurance requirements set forth in the other Loan Documents. Schedule 3.21 hereto lists, as of the Closing Date, all insurance policies and other bonds to which the Borrower is a party, all of which are valid and in full force and effect. No written notice has been given or claim made and the Borrower has no knowledge that any grounds exist to cancel or avoid any of such policies or bonds or to reduce the coverage provided thereby or any replacements thereof. Such policies and bonds or any replacements thereof provide adequate coverage from reputable and financially sound insurers in amounts sufficient to insure the assets and risks of the Borrower in accordance with prudent business practice in the industry of the Borrower.

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3.22 Subsidiaries. As of the Closing Date, the Borrower has no Subsidiaries except for those set forth on Schedule 3.22, each of which was duly formed and is existing under the law of the jurisdiction set forth opposite their names. All of the issued and outstanding shares of Capital Stock of the Subsidiaries are duly and validly authorized and issued and fully paid and nonassessable and are owned by the Borrower, (except for directors qualifying shares). As of the Closing Date, there are no options, warrants or other rights outstanding to purchase any Capital Stock of any of the Subsidiaries, nor are any securities of any of the Subsidiaries convertible into or exchangeable for Capital Stock of the Subsidiaries except as referred to on Schedule 3.22.

3.23 Business; Fictitious Names. The Borrower is engaged only in the businesses described on Schedule 3.23. Neither the Borrower nor any Guarantor operates or does business under any assumed, trade or fictitious names, except as shown on Schedule 3.23.

3.24 Compliance with Laws. Each of the Borrower and each Guarantor has duly complied with, and its properties, business operations and leaseholds are in compliance in all material respects with, all Requirements of Law applicable to the Borrower and each Guarantor, its properties and the conduct of its businesses. Neither the Borrower nor any Guarantor has received any notice, not heretofore complied with, from any federal, state or local authority or any insurance or inspection body to the effect that any of its properties, facilities, equipment or business procedures or practices fail to comply with any applicable law, ordinances, regulation, building or zoning law, or any other requirement of any such authority or body.

3.25 Labor Matters; Payment of Wages. Neither the Borrower nor any Guarantor is a party to any collective bargaining agreement, and there are no strikes, work stoppages, material grievances, disputes or controversies with any union or any other organization of the Borrower's or any Guarantor's employees, or threats of strikes, work stoppages or any asserted pending demands for collective bargaining by any union or organization, except to the extent that such strikes, work stoppages, material grievances, disputes or controversies could not reasonably be expected to cause a Material Adverse Change. Neither the Borrower nor any Guarantor has, within the two- year period preceding the Closing Date, taken any action which would have constituted or resulted in a "plant closing" or "mass layoff" within the meaning of the Federal Worker

Adjustment and Retraining Notification Act of 1988 or any similar Requirement of Law. The procedures by which each of the Borrower and each Guarantor has hired or will hire its employees comply and will comply in all material respects with each collective bargaining agreement to which the Borrower or the Guarantor is a party and any applicable Requirement of Law. Each of the Borrower or the Guarantor is in compliance with the Fair Labor Standards Act, as amended, and has paid all minimum and overtime wages required by law to be paid to its respective employees, except for violations which could not have a Material Adverse Effect.

3.26 Fiscal Year. The Fiscal Year of the Borrower ends on the last Friday in February.

3.27 Authorizations. (a) Except as set forth on Schedule 3.27(a), each of the Borrower and each Guarantor possesses all material Governmental Approvals necessary for the operations of its business and is not in material violation thereof. All such Governmental Approvals are in full force and effect, and no event has occurred that permits, or after notice or lapse of time could permit, the revocation, termination or material and adverse modification of any such Governmental Approval.

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(b) Except as set forth on Schedule 3.27(b), neither the Borrower nor any Guarantor has knowledge of any investigation, notice of apparent liability, violation, forfeiture or other order or complaint issued by or before any Governmental Authority, or of any other proceedings of or before any Governmental Authority, which could reasonably be expected to have a Material Adverse Effect.

All of the foregoing representations and warranties shall survive the execution and delivery of the Note and the making by the Bank of the Loans hereunder and shall continue in full force and effect so long as any indebtedness or obligation of the Borrower to the Bank hereunder or otherwise is outstanding or unperformed or this Agreement remains in effect.

SECTION 4. CONDITIONS PRECEDENT

4.1 Conditions to Initial Extension of Credit. The agreement of the Bank to make the initial Loans and to cause the issuance of Letters of Credit as requested by the Borrower is subject to the satisfaction on the Closing Date of the following conditions precedent:

(a) Credit Agreement and Note. The Bank shall have received (i) this Agreement, executed and delivered by a duly authorized officer of the Borrower and (ii) the Revolving Credit Note conforming to the requirements hereof and executed by a duly authorized officer of the Borrower.

(b) Other Loan Documents. (i) The Bank shall have received the following agreements duly executed and delivered by each party (other than the Bank) thereto: (A) the Pledge Agreement(s), together with stock certificates (if any) evidencing all of the Capital Stock pledged thereunder and, if applicable, appropriate instruments of transfer, executed in blank, (B) the other Security Documents and (C) the Guaranty.

(ii) Any document (including without limitation financing statements) required to be filed, registered or recorded in order to create, for benefit of the Bank, a perfected, first priority Lien, shall have been properly prepared for filing, registration or recording in each office in each jurisdiction in which such filings, registration and recordation are required to perfect such first priority security interests created by the Security Documents, and the Bank shall be satisfied that all necessary filing, recording and other fees and all taxes and expenses related to such filings, registrations and recordings will be paid in full by the Borrower.

(c) Proceedings; No Default. The Bank shall have received a certificate of the Secretary or Assistant Secretary of the Borrower and of each

Guarantor, as the case may be, certifying (A) that attached thereto is a true and complete copy of the resolutions or consents, in form and substance satisfactory to the Bank, authorizing (i) the execution, delivery and performance of this Agreement, the Revolving Credit Note and the Applications and other Loan Documents to which it is a party, and (ii) the borrowings contemplated hereunder, and that such resolutions or consents attached thereto have not been amended, modified, revoked or rescinded, and (B) as to the incumbency and specimen signature of each officer or member of the Borrower and each Guarantor executing any Loan Document or Application on behalf of the Borrower or such Guarantor; and such certificate and attachments thereto shall be in form and substance satisfactory to the Bank.

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(d) Organizational Documents. The Bank shall have received true and complete copies of the certificate or articles of incorporation and by-laws or other organizational or governing documents of the Borrower and of each Guarantor certified by the Secretary or an Assistant Secretary of the Borrower or such Guarantor, as the case may be, as complete and correct copies as of the Closing Date.

(e) Fees. The Bank shall have received payment in full of the unpaid portion of the Facility Fee.

(f) Legal Opinions. The Bank shall have received the executed legal opinion of Klehr, Harrison, Harvey, Branzburg & Ellers LLP, counsel to the Borrower and each Guarantor, in form and substance satisfactory to the Bank and its counsel.

(g) UCC Filing and Other Searches. The Bank shall have received the results of (i) Uniform Commercial Code searches made with respect to the Borrower in such jurisdictions as the Bank deems necessary, including without limitation, the states in which filings are required to be made pursuant to subsection 4.1(b)(ii), together with copies of financing statements disclosed by such searches and (ii) such tax and judgment lien searches as the Bank shall reasonably request, and each of the foregoing searches shall disclose no Liens, except for Permitted Liens or, if unpermitted Liens are disclosed, the Bank shall have received satisfactory evidence of the release of such Liens.

(h) Termination of Existing Financing Agreements and Release of Liens. The Existing Financing Agreements shall have been terminated, all outstanding principal, interest, fees and other amounts due thereunder shall have been paid in full with the first Loan made hereunder, all Liens under the Existing Financing Agreements with respect to property of the Borrower and all credit support therefor shall have been released and satisfactory evidence of the foregoing shall have been delivered to the Bank.

(i) Insurance. The Bank shall have received Certificates of Insurance with respect to the Borrower's fire, casualty, liability and other insurance covering property and business in accordance with Section 5.5, including lender loss payee endorsements in favor of the Bank as to all Collateral.

(j) Title Insurance. Receipt by the Bank of a commitment to issue a title insurance policy insuring the priority of the lien of the Mortgage on the property covered thereby issued by a title insurance company acceptable to the Bank and containing only such exceptions as are acceptable to the Bank and including such endorsements as the Bank may require.

(k) Key-man Insurance. The Bank shall have received evidence of satisfactory to it \$2,500,000 full amount of "key-man" life insurance on the life of William F. Mitchell which has been duly assigned to the Bank by the Borrower and, acknowledged by the issuer of such policy of life insurance.

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(l) Good Standing. The Bank shall have received certificates of good standing, subsistence and/or status dated a recent date from the Secretary of State or appropriate taxing or other authorities in the respective jurisdiction of organization of the Borrower and each Guarantor and in each jurisdiction where its ownership, lease, or operation of property or the conduct of its business requires it to be qualified except where the failure to be so qualified would not have a Material Adverse Effect.

(m) Governmental Approvals. Receipt by the Bank of evidence that any necessary authorizations for the consummation of the transactions contemplated hereby have been obtained.

(n) Proceeds of Settlement. The Borrower shall have provided the Bank with such evidence as it reasonably requires of the receipt by the Borrower of at least \$6,900,000 in proceeds from the settlement of its contract dispute with the United States Navy.

(o) Closing Certificate. Receipt by the Bank of a certificate, dated as of the Closing Date and executed by the Borrower, stating that, as of the Closing Date and after giving effect to the Loans made and Letters of Credit issued on such date (i) all of the representations and warranties made by the Borrower herein and in the other Loan Documents are true and correct, (ii) no Default or Event of Default exists; no Material Adverse Change has occurred and no circumstances exist which could reasonably be expected to cause a Material Adverse Effect and (iii) on a pro forma basis as set forth on the Compliance Certificate dated as of the Closing Date, all of the financial covenants set forth in Section 6.1 are met, and the Bank's satisfaction with the accuracy and completeness of all of the foregoing.

(p) Request for Initial Loans and Letters of Credit. Receipt by the Bank of a Notice of Borrowing with respect to the Loans to be made and Letters of Credit to be issued on the Closing Date, with written instructions as to the disbursement of such Loans.

(q) Bond Letter of Credit. All of the conditions precedent in the Reimbursement Agreement shall have been satisfied prior to the Bank's obligation to execute and deliver the Bond Letter of Credit.

(r) Initial Borrowing Base Certificate; Liquidity. The Borrower shall have delivered at least three (3) Business Days prior to the Closing Date, and provided the Bank a reasonable opportunity to audit a completed Borrowing Base Certificate as of the end of the immediately preceding month evidencing a Borrowing Base sufficient such, that after giving effect to the initial Loans to be made and the Letters of Credit to be issued on the Closing Date, the Borrower has Liquidity of at least \$4,000,000.

(s) Additional Subordinated Debt. The Bank shall have received evidence satisfactory to it of the issuance by the Borrower of the Additional Subordinated Debt and the receipt by the Borrower of the proceeds thereof together with such subordination agreement in respect thereof as the Bank may have required in connection with the approval of such Additional Subordinated Debt.

4.2 Conditions to Each Loan. The agreement of the Bank to make any Loan or cause any Letter of Credit to be issued as requested by the Borrower on any date (including, without limitation, the initial Loans and Letters of Credit) is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and warranties made by the Borrower herein or under the other Loan Documents or which are contained in any certificate, document or financial or other statement furnished at any time under or in connection herewith or therewith, shall be true and correct in all material respects on and as of such date as if made on and as of such date.

(b) No Default. The Borrower shall have performed and complied with all agreements and conditions herein required to be performed or complied with by it prior to any Loan being made or Letter of Credit being issued. At the time such Loan is made or as a result of making such Loan or issuing such Letter of Credit, no Default or Event of Default has occurred and is continuing or will be caused by the making of such Loan or issuing such Letter of Credit.

(c) Additional Matters. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement and the other Loan Documents shall be satisfactory in form and substance to the Bank, and the Bank shall have received such other documents and legal opinions in respect of any aspect or consequence of the transactions contemplated hereby or thereby as it shall reasonably request.

Each request by the Borrower for a Loan or Letter of Credit hereunder shall constitute a representation and warranty by the Borrower as of the date of such Loan or Letter of Credit that the conditions contained in this Section 4.2 have been satisfied.

SECTION 5. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, any Note or Letter of Credit remains outstanding and unpaid, or any other amount is owing to the Bank hereunder or under any other Loan Document, such Borrower shall, and shall cause each Guarantor to:

5.1 Financial Statements. Furnish to the Bank:

(a) as soon as available, but in any event not later than 90 days after the close of each Fiscal Year of the Borrower, a copy of the annual audit report for such year for the Borrower and its consolidated Subsidiaries, including therein a consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such Fiscal Year, and related consolidated statements of income and retained earnings and changes in cash flows of the Borrower and its consolidated Subsidiaries for such Fiscal Year, all in reasonable detail, prepared in accordance with GAAP applied on a basis consistently maintained throughout the period involved and with the prior year with such changes thereon as shall be approved by the Borrower's independent certified public accountants, such financial statements to be certified by recognized independent certified public accountants selected by the Borrower and reasonably acceptable to the Bank, without a "going concern" or like qualification or exception or qualification arising out of the scope of the audit; and

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(b) as soon as available, but in any event not later than 60 days after the end of each of the first three Fiscal Quarters of each Fiscal Year of the Borrower, the unaudited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such Fiscal Quarter, and the related unaudited consolidated statements of income and retained earnings and cash flows of the Borrower and its consolidated Subsidiaries all for the period from the beginning of such Fiscal Quarter to the end of such Fiscal Quarter and the portion of the Fiscal Year through the end of such Fiscal Quarter, setting forth in each case in comparative form the corresponding figures for the like period of the preceding Fiscal Year; all in reasonable detail, prepared in accordance with GAAP (except for the absence of notes thereto) applied on a basis consistently maintained throughout the period involved and with prior periods and accompanied by a certificate of a Responsible Officer stating that the financial statements fairly present the consolidated financial condition of the Borrower and its consolidated Subsidiaries as of the date and for the periods covered thereby (subject to normal year-end audit adjustments).

5.2 Certificates; Other Information. Furnish to the Bank:

(a) concurrently with the delivery of the financial statements referred to in subsection 5.1(a), a certificate of the Borrower's independent certified public accountants reporting on such financial statements and stating that in making the examination necessary for certifying such financial statements no knowledge was obtained of any Default or Event of Default, except as specifically indicated;

(b) concurrently with the delivery of the financial statements referred to in subsections 5.1(a) and (b), a Compliance Certificate executed by a Responsible Officer showing, among other things, in detail the calculations demonstrating compliance with the financial covenants set forth in Section 6.1;

(c) within twenty days after the end of each month a duly completed certificate in substantially the form of Exhibit E attached hereto (each, a "Borrowing Base Certificate" for the prior month prepared in accordance with GAAP, accompanied by an aging of the Borrower's accounts receivable and a report on the Borrower's contracts in progress.

(d) within five days after the same are sent, copies of all financial statements and reports which the Borrower sends to any of its shareholders and within five days after the same are filed, copies of all financial statements and reports which the Borrower may make to, or file with, the Securities Exchange Commission or any successor or analogous Governmental Authority;

(e) within the time limits set forth in Section 6.19, written notice of any amendment to the organizational documents of the Borrower or any Guarantor;

(f) promptly upon their becoming available to the Borrower any reports including management letters submitted to the Borrower by independent accountants in connection with any annual, interim or special audit;

(g) within forty- five days after the end of each Fiscal Year of the Borrower, updated Financial Projections for the current Fiscal Year; and

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(h) promptly, such additional financial statements, reports, financial projections and other information as the Bank may from time to time reasonably request.

5.3 Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its obligations of whatever nature (including but not limited to all taxes, assessments and governmental charges and levies upon them or upon any of their respective income profits or property prior to the date on which penalties attach thereto), except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower; provided that, the foregoing exception shall not apply to, and the Borrower shall pay, any contested liability on or prior to ten (10) days after the commencement of proceedings to foreclose any Lien which may have attached as security therefor.

5.4 Conduct of Business and Maintenance of Existence. Continue to engage in the businesses described in Schedule 3.23 and businesses directly related thereto and, preserve, renew and keep in full force and effect its existence except as expressly permitted by subsection 6.6(b), and take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business; comply with all material Contractual Obligations and material Requirements of Law. The Borrower shall maintain in full force and effect all Governmental Approvals and other material agreements which are necessary for its operation as now conducted and in compliance in all material respects with all applicable Requirements of Law.

5.5 Maintenance of Insurance; Property. (a) (i) Maintain insurance

including, but not limited to, business interruption coverage and public liability coverage insurance, with responsible insurance companies reasonably satisfactory to the Bank, in such amounts and against such risks to the Borrower as is prudent for similarly situated companies engaged in similar businesses and as is reasonably satisfactory to the Bank;

(ii) Keep its assets insured by insurers on terms and in a manner reasonably acceptable to the Bank against loss or damage by fire, theft, burglary, loss in transit, explosions and other hazards insured against by extended coverage, in amounts which are prudent for the business which it is in and reasonably satisfactory to the Bank, all premiums thereon to be paid by the Borrower; and

(iii) Require that each insurance policy provide for at least thirty (30) days' prior written notice to the Bank of any termination of or proposed cancellation or nonrenewal of such policy, and name the Bank as additional insured and loss payee, to the extent of the Obligations.

(b) Maintain in good repair, working order and condition (ordinary wear and tear excepted) in accordance with the general practice of other businesses of similar character and size, all of those properties useful or necessary to its business, and from time to time, the Borrower will make or cause to be made all appropriate repairs, renewals or replacements thereof.

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5.6 Inspection of Property; Books and Records; Discussions. Keep proper books of records and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities; and upon reasonable notice permit representatives of the Bank to visit and inspect and audit any of its properties and examine, audit and make abstracts from any of its books and records and such reports and returns as the Borrower may file with any Governmental Authority during normal business hours and as often as may reasonably be desired and to discuss the business, operations, properties and financial and other condition of the Borrower with the executive officers of the Borrower, and with their independent certified public accountants provide that any such audits by the Bank at the Borrower's expense shall not, prior to the occurrence of an Event of Default, exceed two in any twelve month period.

5.7 Notices. Promptly give notice to the Bank of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any Contractual Obligation of the Borrower or (ii) litigation, investigation or proceeding which may exist at any time between the Borrower and any Governmental Authority, which in either case, if not cured or if adversely determined, as the case may be, could not be reasonably expected to have a Material Adverse Effect;

(c) any litigation or proceeding affecting the Borrower or any Guarantor in which the amount involved is \$150,000 or more and not covered by insurance as reasonably determined by the Borrower's counsel or in which injunctive or similar relief is sought;

(d) the following events, as soon as possible and in any event within 15 days after the Borrower knows thereof: (i) the occurrence or expected occurrence of any Reportable Event with respect to any Plan, a failure to make any required contribution to a Plan, any Lien in favor of PBGC or a Plan or any withdrawal from, or the termination, Reorganization or Insolvency of any Multiemployer Plan, or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the terminating, Reorganization or Insolvency of, any Plan, or (iii) assessment of liability under the Coal Industry Retiree Health Benefit Act of 1992;

(e) the occurrence or existence of a material default by any party,

including the Borrower or any Guarantor, to any material contract to which the Borrower or any Guarantor is a party with an annual payment in excess of \$250,000, or the actual or threatened (in writing) termination, revocation or non-renewal of any such material contract;

(f) (i) any correspondence or notices from any Governmental Authority that regulates the operations of the Borrower or any Guarantor relating to an actual or threatened change or development that could have a Material Adverse Effect on such Borrower, and (ii) any notice of revocation or non-renewal of a License;

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(g) entry of any order, judgment, decree or decision issued by any court, arbitrator or Governmental Authority in any proceeding to which the Borrower or any Guarantor is a party which could not be reasonably expected to have a Material Adverse Effect;

(h) any Environmental Claim that could result in liability to the Borrower or any Guarantor in an amount exceeding \$100,000;

(i) any notice from a Governmental Authority received by the Borrower or any Guarantor of such Governmental Authority's intention to audit any Federal, state, local or foreign tax return (except for notices of sales, excise, use and property tax audits, which the Borrower shall provide to the Bank upon request) of the Borrower, together with a copy of any such notice as well as any subsequent notice with respect thereto from any such Governmental Authority;

(j) any lapse, termination, non-renewal or reduction in coverage of any insurance coverage required to be maintained by the Borrower pursuant to any Loan Document;

(k) any information with respect to and copies of any notices received from any Governmental Authority relating to any order, ruling, law, information or policy that relates to a material breach of or noncompliance with any Requirement of Law, or might result in the payment of money by the Borrower or any Guarantor in an amount of \$100,000 or more in the aggregate, or otherwise have a Material Adverse Effect, or result in the loss or suspension of any material License or any material contract; and

(l) any other event which the Borrower reasonably believes could have a Material Adverse Effect.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Borrower proposes to take with respect thereto. Upon the request of the Bank, the Borrower shall send (or cause to be sent) to the Bank copies of all Federal, state, local and foreign tax returns and reports filed by the Borrower in respect of taxes measured by income.

5.8 Environmental Laws. (a) Comply in all material respects with, and require compliance in all material respects by all tenants and all subtenants, if any, with, all Environmental Laws and obtain and comply in all material respects with and maintain, and require that all tenants and subtenants obtain and comply in all material respects with and maintain, any and all licenses, approvals, registrations or permits required by Environmental Laws.

(b) Comply with all lawful and binding orders and directives of all Governmental Authorities respecting Environmental Laws.

(c) As often as deemed appropriate by the Borrower, inspect all property owned or leased by them and audit operations thereon to maintain material compliance with all Environmental Laws.

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(d) Employ appropriate technology in order to maintain material compliance with all applicable Environmental Laws, including without limitation the replacement or updating, if required, of above-ground or underground storage tanks owned by the Borrower.

(e) Investigate and remediate any material Contamination, using a reputable environmental remediation firm, and, upon the request of the Bank, inform the Bank in writing from time to time as to the status of any such remediation.

(f) Defend, indemnify and hold harmless the Bank and its employees, agents, officers, directors, successors and assigns from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to any violation of or noncompliance with or liability under any Environmental Laws, or any orders, requirements or demands of Governmental Authorities related thereto which in each case relate to or arise in connection with the Borrower, any Guarantor, any Property or any activities relating to any other property or business of the Borrower or any Guarantor or the enforcement of any rights provided herein or in the other Loan Documents, including, without limitation, attorneys' and consultants' fees, response costs, investigation and laboratory fees, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the gross negligence or willful misconduct of any of the foregoing enumerated parties. This indemnity shall continue in full force and effect regardless of the termination of this Agreement and the payment of the Revolving Credit Note.

5.9 Management Changes. Notify the Bank in writing within fifteen (15) days after any change of any of the following officers of the Borrower: chief executive officer, chief financial officer, or president or other similar executive position with similar responsibilities.

5.10 Maintenance of Intellectual Property, Permits, Etc. Except where the failure to do so could not reasonably be expected to have a Material Adverse Effect, maintain in full force and effect all Intellectual Property and all licenses, franchises, permits and other authorizations necessary for the ownership and operation of their respective properties and business.

5.11 Plans and Benefit Arrangements. Comply and cause each Commonly Controlled Entity to comply, with ERISA, the Code and all other applicable Requirements of Law which are applicable to Plans, except where the failure to do so, alone or in conjunction with any other failure, could not reasonably be expected to have a Material Adverse Effect.

5.12 Further Assurances; Power of Attorney. (a) At any time and from time to time, upon the Bank's reasonable request, make, execute and deliver, and use its best efforts to cause any other Person to make, execute and deliver, to the Bank, and where appropriate cause to be recorded or filed, and from time to time thereafter to be re-recorded and refiled at such time and in such offices and places as shall be deemed desirable by the Bank any and all such further Security Documents, certificates and other documents and instruments as the Bank may reasonably consider necessary or desirable in order to effectuate, complete, perfect, continue or preserve the Obligations and the Liens created to secure the Obligations. The Borrower hereby appoints the Bank, and any of its officers, directors, employees and authorized agents, with full power of substitution, upon any failure by the Borrower, to take or cause to be taken any action described in the preceding sentence and to make, execute, record, file, re-record or refile any and each such Security Document, instrument, certificate and document for and in the name of the Borrower. The power of attorney granted pursuant to this subsection is coupled with an interest and shall be irrevocable until the Revolving Credit Note is paid in full, no other amount is owed to the Bank hereunder or under the other Loan Documents and the Commitment is terminated.

(b) Without limiting the above, from time to time, at its expense, faithfully preserve and protect the Bank's Lien on and security interest in the Collateral as continuing first priority perfected Liens, subject only to Permitted Liens, and shall do such other acts and things as the Bank in its sole discretion may deem necessary or advisable from time to time in order to preserve, perfect and protect the Liens granted under the Security Documents and to exercise and enforce its rights and remedies thereunder with respect to the Collateral.

5.13 Pledge of Property. At any time and from time to time at the written request of the Bank, execute, deliver and, if requested, record and/or file such security agreements, pledge agreements and/or related or similar documents as the Bank shall reasonably request and take such further action as the Bank shall reasonably request, in each case, in order to grant to the Bank a Lien on all real or personal property or leasehold interests owned by the Borrower.

5.14 Covenants Regarding Formation of Subsidiaries and Acquisitions. At the time of (a) any Permitted Acquisition of a domestic Subsidiary or (b) the formation of any new domestic Subsidiary of the Borrower which is permitted under this Agreement (i) provide to the Bank an executed joinder agreement, in form and substance acceptable to the Bank, pursuant to which such domestic Subsidiary shall become a Guarantor under the Guaranty and a Security Agreement and appropriate financing statements so that all of the assets of such domestic Subsidiary shall be pledged to the Bank, (ii) pledge to the Bank all of the stock, partnership interests or other ownership interests of such domestic Subsidiary or Person which is acquired or formed which are beneficially owned by the Borrower as additional Collateral for the Obligations, to be held by the Bank in accordance with the terms of a Pledge Agreement, and execute and deliver to the Bank all such documentation for such pledge as, in the reasonable opinion of the Bank, is appropriate, (iii) provide a statement of a Responsible Officer that no Default or Event of Default exists or would be caused by the Permitted Acquisition or formation; and (iv) provide all other documentation, including one or more opinions of counsel, reasonably satisfactory to the Bank, which in its reasonable opinion is appropriate with respect to such Permitted Acquisition or the formation of such domestic Subsidiary. Any document, agreement or instrument executed or issued pursuant to this subsection 5.14 shall be a "Loan Document" for purposes of this Agreement.

5.15 Bank Accounts. Establish and maintain at the Bank the Borrower's primary depository accounts.

5.16 Foreign Subsidiaries. Within sixty (60) days following the Closing Date execute and deliver such pledge agreement or similar documents as the Bank shall reasonably request in order to grant to the Bank a Lien on 65% of the outstanding shares of Capital Stock of each of the Subsidiaries of the Borrower which are not formed under the laws of the United States or any state therein; provided, however that neither the Borrower nor the Guarantor shall be required to take any action otherwise required to comply with the requirements of this Section 5.16 that is in violation of the laws of the jurisdiction under which such Subsidiary was formed.

SECTION 6. NEGATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, the Revolving Credit Note remains outstanding and unpaid, or any other amount is owing to the Bank hereunder or under any other Loan Document, Borrower shall not, and shall not permit any Guarantor to, directly or indirectly:

6.1 Financial Condition Covenants.

(a) Leverage Ratio. As of the last day of each Fiscal Quarter during the periods set forth below, permit the ratio of Total Funded Debt to Annual EBIDTA to exceed the ratio set forth below opposite such period as of the

last day of each such Fiscal Quarter:

Last Day of Fiscal Quarter During Period	Ratio of Total Indebtedness to Annual EBIDTA Not to Exceed:
Closing Date through February 28, 2003	4.5 : 1.00
March 1, 2003 through February 29, 2004	4.0 : 1.00
March 1, 2004 and thereafter	3.5 : 1.00

(b) Fixed Charge Coverage Ratio. For each Fiscal Quarter, permit the ratio of (i) the sum of Annual EBIDTA minus Capital Expenditures minus capitalized software development costs to (ii) Fixed Charges to be less than 1.25 to 1.00, as of the last day of each such Fiscal Quarter.

(c) Maintenance of Tangible Net Worth. Permit Consolidated Tangible Net Worth on any day to be less than (i) \$17,500,000 plus (ii) an amount equal to 75% of the consolidated net income (if positive) of the Borrower and its Subsidiaries for each Fiscal Quarter commencing with the Fiscal Quarter ending August 23, 2003, calculated on a cumulative basis plus (iii) 100% of the net proceeds from the issuance after the date hereof of Capital Stock of the Borrower or any Subsidiary thereof, other than to the Borrower or any Subsidiary thereof.

(d) Net Losses. Incur any net operating losses determined in accordance with GAAP on a Consolidated basis for any Fiscal Year.

6.2 Limitation on Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, except for Permitted Liens.

6.3 Limitation on Indebtedness. Create, incur, assume or suffer or permit to exist any Indebtedness except:

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(a) Indebtedness in respect of the Loans, the Letters of Credit, the Revolving Credit Note and the other Obligations;

(b) the Additional Subordinated Debt;

(c) Indebtedness between the Borrower and any Guarantor or between Guarantors incurred in the ordinary course of business other than for money borrowed; and

(d) Indebtedness secured by mortgages, pledges, liens, security interests or other encumbrances permitted by Section 6.2 hereof

(e) Permitted Indebtedness shown on Schedule 3.20; and

(f) Current trade accounts payable and other liabilities and accruals incurred in the ordinary course of business.

6.4 Subsidiaries, Partnerships and Joint Ventures. Own or create directly or indirectly any Subsidiaries, or become or agree to become a general or limited partner in any other general or limited partnership or a joint venturer in any joint venture unless (a) such entity is a Wholly-Owned Subsidiary that promptly upon its formation or acquisition becomes a Guarantor, (b) the provisions of subsection 5.14 are complied with, (c) no Default or Event of Default exists at the time of or would be caused by such formation or acquisition.

6.5 Dividends and Distributions. Except as is specifically authorized in any Subordination Agreement, declare or pay any dividends or return any capital to any of its stockholders or authorize or make any distribution, payment or delivery of property or cash to its stockholders (other than compensation for services rendered), or redeem, retire, purchase or otherwise acquire, directly or indirectly, for a consideration, any shares of any class of its stock now or hereafter outstanding or set aside any funds for any of the foregoing purposes, except that (i) any Subsidiary may declare and pay dividends to the Borrower, and (ii) Subsidiaries not formed under the laws of the United States or any State may declare and pay dividends to their shareholders other than the Borrower and any other Subsidiaries, in an aggregate amount not exceeding \$25,000 per year.

6.6 Liquidations, Mergers, Consolidations, Acquisitions, Etc. Dissolve, liquidate or wind up its affairs, or become a party to any merger or consolidation, or acquire by purchase, lease or otherwise all or substantially all of the assets, or any Capital Stock or other equity or ownership interest of, any other Person, except that

(a) the Borrower may acquire by purchase, lease or otherwise all or substantially all of the assets of, or all of the Capital Stock or other equity or ownership interests of, any other Person; provided that (i) such acquisition must be related to the Borrower's existing business, and (ii) the Bank shall have consented to the consummation of such transaction in writing, which consent shall not be unreasonably withheld or delayed. Each acquisition permitted pursuant to this clause (a) shall be deemed to be a "Permitted Acquisition"; and

(b) the Borrower may merge with any Subsidiary provided that the Borrower is the survivor of any such merger.

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6.7 Dispositions of Assets. Sell, convey, assign, lease, abandon or otherwise transfer or dispose of, voluntarily or involuntarily, any of its Properties or assets, whether tangible or intangible, except for the following:

(a) any sale, transfer or lease in the ordinary course of business of assets which are no longer necessary or required in the conduct of the Borrower's or any Guarantor's business;

(b) any sale, transfer or lease of assets in the ordinary course of business which are replaced by substitute assets acquired or leased by the Borrower or any Guarantor, which substitute assets are acquired within one year before or after such sale and are pledged to the Bank on terms reasonably acceptable to the Bank;

(c) any sale or transfer of Intellectual Property between or among the Borrower and the Guarantors;

(d) sales of inventory in the ordinary course of business; and

(e) other sales of assets by the Borrower or any Guarantor in any one Fiscal Year, the aggregate net proceeds of which are not more than \$250,000.

6.8 Loans and Other Advances. Make loans, payments or other advances of funds to any Person, except for (a) extensions of trade credit in the ordinary course of business to customers, (b) dividends permitted pursuant to Section 6.5, (c) advances for expenses made to the Borrower's or any Guarantor's employees in reasonable amounts and in the ordinary course of business, and (d) loans, payments or other advances between any Guarantor and the Borrower or between Guarantors incurred in the ordinary course of business.

6.9 Investments. Purchase, acquire or own any stock, bonds, notes, or securities of, or any partnership interest (whether general or limited) in, or any other interest in, or make any capital contribution to, any other Person, or become a joint venture partner in any joint venture, or repurchase any of its Capital Stock, or agree, become or remain liable to do any of the foregoing,

except for:

(a) investments in Subsidiaries as of the date hereof;

(b) investments in Subsidiaries in an amount not to exceed an amount equal to the amount of equity contributed to the capital of the Borrower after the Closing Date; and

(c) Permitted Investments.

6.10 Use of Proceeds. Use proceeds of the Loans for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any margin stock which would cause the outstanding Loans to be in violation of Regulations T, U or X. The Borrower shall not request or accept any Loan in violation of Regulations T, U or X. The Borrower shall not use proceeds of the Loans in a manner which violates any term or condition of any Loan Document or which violates any applicable law.

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6.11 Change of Business. Engage in any business other than that described in Schedule 3.23 and businesses directly related thereto. The Borrower shall not permit any material change in such businesses.

6.12 Transactions with Affiliates. Except as expressly permitted in this Agreement or set forth on Schedule 6.12 hereto, directly or indirectly enter into any transaction or arrangement whatsoever (including without limitation, any purchase, sale, lease or exchange of property or the rendering of any service) or make any payment to or otherwise deal with any Affiliate, except (a) as to all of the foregoing in the ordinary course of and pursuant to the reasonable requirements of the Borrower's business and upon fair and reasonable terms no less favorable to the Borrower than would be obtained in a comparable arm's length transaction with a Person not an Affiliate, (b) such transaction is not prohibited by the terms of this Agreement or any other Loan Documents and (c) such transaction is in accordance with all Requirements of Law.

6.13 Sale and Leaseback. Enter into any arrangement with any Person providing for the leasing by the Borrower of real or personal property which has been or is to be sold or transferred by the Borrower to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such property or rental obligations thereof.

6.14 Limitation on Contingent Obligations. Create, incur, assume or suffer to exist any Contingent Obligation other than guarantees by the Borrower of Indebtedness of a Subsidiary, but only to the extent such Indebtedness is permitted hereunder.

6.15 Limitation on Optional Payments and Modifications of Subordinated Debt. Make any optional payment or prepayment on or redemption, defeasance or purchase of any Indebtedness (other than Indebtedness under this Agreement), including, without limitation, any Subordinated Debt, or amend, modify or change, or consent or agree to any amendment, modification or change to or waiver of any of the terms (a) of the Subordinated Debt other than any amendment, modification, waiver, or change which does not increase the rate of interest, shorten the maturity date, make more restrictive any covenant therein or increase the principal amount of such Subordinated Debt or grant any Lien or security interest in any of the Borrowers assets in favor of the holder of any of the Subordinated Debt or (b) relating to the payment or prepayment of principal of or interest on, any Indebtedness (other than Indebtedness under this Agreement), other than any amendment, modification or change which would extend the maturity or reduce the amount of any payment of principal thereof or which would reduce the rate or extend the date for payment of interest thereon.

6.16 Limitation on Negative Pledge Clauses. Enter into any agreement with any Person other than the Bank which prohibits or limits the ability of the Borrower to create, incur, assume or suffer to exist any Lien upon any of its

properties, assets or revenues, whether now owned or hereafter acquired.

6.17 Fiscal Year. Permit the Fiscal Year of the Borrower to end on a day other than the last Friday in February.

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6.18 Changes in Organizational Documents. Amend in any respect its certificate of incorporation (including any provisions or resolutions relating to Capital Stock), by-laws or other organizational documents without prior written approval by the Bank or providing at least thirty (30) calendar days' prior written notice to the Bank.

SECTION 7. EVENTS OF DEFAULT

7.1 Events of Default. If any of the following events shall occur and be continuing:

(a) The Borrower shall fail to pay when due any principal of, or any interest on the Note, or any other amount payable hereunder; or

(b) Any representation or warranty made or deemed made by the Borrower or any Guarantor herein or in any other Loan Document or which is contained in any certificate or financial statement furnished at any time under or in connection with this Agreement shall prove to have been incorrect or misleading in any material respect on or as of the date made or deemed made; or

(c) The Borrower shall default in the observance or performance of any agreement contained in Section 6 of this Agreement; or

(d) An Event of Default (as defined in the Mortgage); or

(e) The Borrower or any Guarantor shall default in the observance or performance of any other agreement contained in this Agreement (other than as provided in subsections (a) through (c) above) or any other Loan Document other than the Mortgage, and such default shall continue unremedied for a period of 30 days after written notice from the Bank to the Borrower; or

(f) The Borrower or any Guarantor shall (i) default in the payment of any principal of or interest on or any other amount payable on any Indebtedness (other than the Revolving Credit Note) or in the payment of any Contingent Obligation, beyond the period of grace (not to exceed 30 days), if any, provided in the instrument or agreement under which such Indebtedness or Contingent Obligation was created and the aggregate amount of such Indebtedness and/or Contingent Obligations in respect of which such default or defaults shall have occurred is at least \$250,000; or (ii) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or Contingent Obligation or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Contingent Obligation to cause, with the giving of notice if required, such Indebtedness to become due and payable prior to its stated maturity or such Contingent Obligation to become payable; or

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(g) (i) The Borrower or any Guarantor shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official

for it or for all or any substantial part of its assets, or the Borrower or any Guarantor shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower or any Guarantor any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismitted, undischarged or unbonded for a period of 60 days; or (iii) there shall be commenced against the Borrower or any Guarantor any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief or any such adjudication or appointment or which shall not have been vacated, discharged, satisfied, or stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) the Borrower or any Guarantor shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) the Borrower or any Guarantor shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they generally become due; or

(h) One or more judgments or decrees shall be entered against the Borrower or any Guarantor involving in the aggregate a liability (excluding any such judgments or orders which are fully covered by insurance and under which the applicable insurance carrier has acknowledged such full coverage in writing) of \$250,000 or more and all such judgments or decrees shall not have been vacated, discharged, settled, satisfied or paid, or stayed or bonded pending appeal, within 30 days from the entry thereof; or

(i) Any Change of Control shall occur; or

(j) Any Loan Document shall, at any time, cease to be in full force and effect (unless released by the Bank) or shall be declared null and void, or the validity or enforceability thereof shall be contested by the Borrower or any Guarantor or the Bank shall not have or shall cease to have valid, perfected security interests in the collateral subject to any Security Document, subject to no other Liens whatsoever, except Permitted Liens;

(k) (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or institution of proceedings is, in the reasonable opinion of the Bank, likely to result in the termination by action of the PBGC or any court of such Plan for purposes of Title IV of ERISA, or (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA; and in each case in clauses (i) through (iv) above, such event or condition, together with all other such events or conditions, if any would have a Material Adverse Effect; or

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(l) The Borrower or any Guarantor (except as otherwise provided herein) shall terminate its existence, cease to exist, permanently cease operations or abandon the operation of any material portion of its business; or

(m) The loss, revocation or failure to file for renewal of any material License; the commencement of proceedings to suspend, revoke, terminate or substantially and adversely modify any material License, which proceedings are not dismissed or discharged within sixty (60) days; or the designation of an application for renewal of any such License for an evidentiary hearing, which License is now held or hereafter acquired by the Borrower and is necessary for the continued operating of the Borrower's business in the same manner as is being conducted at the time of such loss, revocation, failure to renew, commencement of proceedings or scheduling of a hearing; or

(n) any of the following shall have occurred: (i) a final

non-appealable order is issued by any Governmental Authority, including, requiring the Borrower or any Guarantor to divest a substantial portion of its assets pursuant to any antitrust, restraint of trade, unfair competition, industry regulation, or similar Requirement of Law, or (ii) any Governmental Authority shall condemn, seize or otherwise appropriate, or take custody or control of all or any substantial portion of the assets of the Borrower or any Guarantor;

then, and in any such event, (A) if such event is an Event of Default specified in clause (i) or (ii) of paragraph (f) above with respect to any of the Borrower, automatically the Commitments shall immediately terminate and the Revolving Credit Loans and Reimbursement Obligations (each with accrued interest thereon) and all other amounts owing under this Agreement, the Revolving Credit Note and the other Loan Documents shall automatically and immediately become due and payable, and (B) if such event is any other Event of Default, the Bank may (i) by notice to the Borrower declare the Commitments to be terminated forthwith, whereupon such Commitments and the obligations of the Bank to make Loans and to issue Letters of Credit shall immediately terminate; (ii) by notice of default to the Borrower, declare the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement, the Notes and the other Loan Documents to be due and payable forthwith, whereupon the same shall immediately become due and payable (including, without limitation, all Obligations in respect of Letters of Credit, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder); and/or (iii) by notice to the Borrower require the Borrower to, and the Borrower shall thereupon, deposit in the Cash Collateral Account, as cash collateral for its Obligations under this Agreement, the Notes and the Letters of Credit, an amount equal to the aggregate Letter of Credit Coverage Requirement, and the Borrower hereby pledges to the Bank, and grants to the Bank a security interest in, all such cash as security for such Obligations. Amounts held in such Cash Collateral Account shall be applied by the Bank to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other Obligations of the Borrower hereunder and under the Note. After all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Borrower hereunder and under the Note shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Borrower. The Borrower shall execute and deliver to the Bank, such further documents and instruments as the Bank may request to evidence the creation and perfection of the within security interest in such Cash Collateral Account. Except as expressly provided above in this Section, presentment, demand, protest and all other notices of any kind are hereby expressly waived.

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SECTION 8. MISCELLANEOUS

8.1 Amendments and Waivers. No modification, amendment or change to or waiver of any provision of this Agreement or any other Loan Document or any of the rights of the Bank or the Borrower hereunder or thereunder shall be effective unless set forth in a written agreement duly executed by the Bank and the Borrower.

8.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy, telegraph or telex confirmed in writing), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or the next Business Day if sent by reputable overnight courier, postage prepaid, for delivery on the next Business Day, or, in the case of telecopy notice, when received during normal business hours, or, in the case of telegraphic notice, when delivered to the telegraph company, or, in the case of telex notice, when sent, answerback received, addressed as follows:

The Borrower:

Environmental Tectonics Corporation

125 James Way
Southampton, PA 18966
Attention: Duane Deaner
Telecopy: (215) 357-4000

With a copy to: Klehr, Harrison, Harvey, Branzburg & Ellers LLP
260 South Broad Street
Philadelphia, PA 19102
Attention: Jeffrey Greenfield
Telecopy: (215) 568-6603

The Bank: PNC Bank, National Association
1600 Market Street, 21st Floor
Philadelphia, PA 19103
Attention: John G. Siegrist
Telecopy: (215) 585-4144

provided that, any notice, request or demand to or upon the Bank pursuant to Sections 2.3, 2.9, 2.10 and 2.16 shall not be effective until received; and provided, further, that failure to provide a copy of any notice, request or demand to or upon the Borrower to its counsel shall not render ineffective or otherwise limit any such notice, request or demand given to the Borrower in accordance with this Section.

8.3 No Waiver, Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Bank, any right, remedy, power or privilege hereunder or under the other Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein and therein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

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8.4 Survival of Representations and Warranties. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement, the Revolving Credit Note and the other Loan Documents.

8.5 Payment of Expenses and Taxes. The Borrower agrees (a) to pay or reimburse the Bank for all of its out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of this Agreement, the Revolving Credit Note, the other Loan Documents and any other documents executed and delivered in connection herewith or therewith, and the consummation of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of counsel to the Bank, (b) to pay or reimburse the Bank for all of its out-of-pocket costs and expenses incurred in connection with the administration and interpretation of, or any amendment, supplement or modification to, this Agreement, the Revolving Credit Note and the other Loan Documents and any other documents executed and delivered in connection herewith or therewith, including without limitation, the reasonable fees and disbursements of counsel, (c) to pay or reimburse the Bank for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the Revolving Credit Note, the other Loan Documents and any such other documents, including, without limitation, reasonable fees and disbursements of counsel to the Bank, (d) to pay, indemnify, and hold the Bank harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of, or consummation of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the Revolving Credit Note, the other Loan Documents and any such other documents, and (e) to pay, indemnify, and hold the Bank harmless from and

against any and all other liabilities, obligations, losses, damages, penalties, actions (whether sounding in contract, in tort or on any other ground), judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of or in any other way arising out of or relating to the Borrower's obligations under the Existing Financing Agreements, this Agreement, the Revolving Credit Note, the other Loan Documents, or any such other documents contemplated by or referred to herein or therein or any action taken by the Bank with respect to the foregoing (all the foregoing, collectively, the "indemnified liabilities"), provided, that the Borrower shall have no obligation hereunder to the Bank with respect to indemnified liabilities arising from the gross negligence or willful misconduct of the Bank. The agreements in this subsection shall survive repayment of the Revolving Credit Note and all other amounts payable hereunder.

8.6 Assignments; Participations. Notwithstanding any other provision of this Agreement, the Borrower understands and agrees that the Bank may at any time enter into participation or assignment agreements with one or more banks or other financial institutions whereby the Bank will allocate certain percentages of the Loans and/or Letters of Credit to them; provided that, the prior written consent (which consent shall not be unreasonably withheld or delayed) of the Borrower shall be required for any assignment (provided that no such consent shall be required if an Event of Default shall exist). Any assignment shall be in a minimum amount of \$2,500,000, unless an Event of Default shall occur in which case there shall be no minimum amount. In connection with any participation, the Bank shall retain the sole right to approve, without the consent of a participant, any amendment, modification or waiver of any provision of this Agreement or any other Loan Document, other than any such amendment, modification or waiver with respect to any Loan, Letter of Credit or Commitment in which such participant has an interest that forgives principal, interest or fees or reduces the interest rate or fees payable with respect to any such Loan, Letter of Credit or Commitment, postpones any date fixed for any regularly scheduled payment of principal of, or interest or fees on, any such Loan or Letter of Credit, releases any guarantor of such Loan or releases any Collateral. The Borrower acknowledges that, for the convenience of all parties, this Agreement is being entered into with the Bank only and that its obligations under this Agreement are undertaken for the benefit of, and as an inducement to, any such assignee or participating bank or other financial institution as well as the Bank, and the Borrower hereby grants to each assignee or participating bank, to the extent of its assignment/participation in the Loans and Letters of Credit, the right to set off deposit accounts maintained by the Borrower with such bank or other financial institution and otherwise to enjoy the benefits, rights and privileges granted to the Bank in this Agreement, the Revolving Credit Note and the other Loan Documents. All of the rights granted to the Bank pursuant to this Agreement shall be for the benefit of the Bank for itself and for any other lending institutions who are assignees or participants under this Agreement and all grants, security interests, liens, rights of set off and other rights incident to this Agreement shall be held by the Bank as agent for any such other lending institutions. If the Bank shall assign all or a portion of the Commitment or the Loans or Letters of Credit hereunder, the Borrower shall execute such documents and instruments as the Bank shall reasonably request to effectuate the purposes of this paragraph.

8.7 Set-off. In addition to any rights and remedies of the Bank provided by law, upon the occurrence and during the continuance of an Event of Default, the Bank shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder or under the Revolving Credit Note (whether at the stated maturity, by acceleration or otherwise) to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by the Bank to or for the credit or the account of the Borrower. The Bank agrees promptly to notify the Borrower

after any such set-off and application made by the Bank, provided that the failure to give such notice shall not affect the validity of such set-off and application.

8.8 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Bank.

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8.9 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8.10 Integration. This Agreement and the other Loan Documents represent the agreement of the parties hereto with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Bank relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

8.11 GOVERNING LAW. THIS AGREEMENT AND THE NOTES AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE SUBSTANTIVE LAW OF THE COMMONWEALTH OF PENNSYLVANIA.

8.12 Submission To Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement or the Revolving Credit Note, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the Commonwealth of Pennsylvania, the courts of the United States of America for the Eastern District of Pennsylvania, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) waives and hereby acknowledges that it is estopped from raising any objection based on forum non conveniens, any claim that any of the above-referenced courts lack proper venue or any objection that any of such courts lack personal jurisdiction over it so as to prohibit such courts from adjudicating any issues raised in a complaint filed with such courts against the Borrower concerning this Agreement or the other Loan Documents;

(d) acknowledges and agrees that the choice of forum contained in this subsection 8.12 shall not be deemed to preclude the enforcement of any judgment obtained in any forum or the taking of any action under the Loan Documents to enforce the same in any appropriate jurisdiction;

(e) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at its address set forth in subsection 8.2 or at such other address of which the Bank shall have been notified pursuant thereto;

(f) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(g) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this subsection any special, exemplary or punitive or consequential damages.

8.13 Acknowledgments. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement, the Revolving Credit Note and the other Loan Documents;

(b) the Bank does not have any fiduciary relationship to the Borrower or any other party to the Loan Documents (or any of them) and the relationship hereunder between the Bank, on the one hand, and the Borrower, on the other hand, is solely that of debtor and creditor; and

(c) no joint venture exists between the Borrower and the Bank.

8.14 WAIVERS OF JURY TRIAL. THE BORROWER AND THE BANK EACH HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT, THE NOTES OR ANY OTHER LOAN DOCUMENT AND FOR ANY MANDATORY COUNTERCLAIM THEREIN.

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Agreement as of the day and year first above written.

ENVIRONMENTAL TECTONICS CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner
Title: C.F.O.

PNC BANK, NATIONAL ASSOCIATION

By: /s/ John G. Siegrist

Name: John G. Siegrist
Title: Vice President

REVOLVING CREDIT NOTE

\$12,000,000

February 18, 2002
Philadelphia, PA

FOR VALUE RECEIVED, ENVIRONMENTAL TECTONICS CORPORATION (the "Borrower"), hereby unconditionally promises to pay to the order of PNC BANK, NATIONAL ASSOCIATION (the "Bank"), at the office of the Bank located at 1600 Market Street, Philadelphia, Pennsylvania, 19103, on the Revolving Credit Termination Date (as such term is defined in the Credit Agreement hereinafter referred to) in lawful money of the United States of America and in immediately available funds, the principal sum of (a) TWELVE MILLION DOLLARS (\$12,000,000), or, if less, (b) the aggregate unpaid principal amount of all Revolving Credit Loans made by the Bank to the Borrower pursuant to the Credit Agreement. The Borrower further unconditionally agrees to pay interest accrued on the unpaid principal amount outstanding hereunder from time to time from the date hereof in like money at such office at the rates and on the dates specified in the Credit Agreement together with all other costs, fees and expenses as provided in the Credit Agreement.

The holder of this Note is authorized to endorse on Schedule 1 annexed hereto and made a part hereof or on a continuation thereof which shall be attached hereto and made a part hereof the respective date, Type, and amount of each Revolving Credit Loan made by the Bank to the Borrower, each continuation thereof, each conversion of all or a portion thereof to another Type, the date and amount of each payment or prepayment of principal thereof and, in the case of Eurodollar Loans, the length of each Interest Period with respect thereto, which endorsement shall constitute prima facie evidence of the accuracy of the information endorsed absent manifest error; provided, however, that the failure to make any such endorsement (or any error in such recordation) shall not affect the obligations of the Borrower to make payments of principal, interest and other amounts outstanding in accordance with the terms of this Note and the Credit Agreement.

This Note is the Revolving Credit Note referred to in, evidences indebtedness incurred under, and is entitled to the benefits of, the Credit Agreement, dated as of the date hereof (as it may be amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), between the Borrower and the Bank. The Credit Agreement, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional or mandatory prepayments of the principal hereof prior to the maturity thereof, for a higher rate of interest upon the occurrence of an Event of Default and for certain security interests granted by the Borrower and certain related entities. Reference is made to the Credit Agreement and the other Loan Documents for a statement of the terms and conditions under which the Revolving Credit Loans evidenced hereby have been secured.

Upon the occurrence of any one or more of the Events of Default specified in the Credit Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable, all as provided therein.

All parties now and hereafter liable with respect to this Note, whether maker, principal, surety, guarantor, endorser or otherwise, hereby waive presentment, demand, protest and notice (except as required under the Credit Agreement) of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

Capitalized terms not otherwise defined herein shall have the

SECURITY AGREEMENT

This SECURITY AGREEMENT is made and entered into as of February 18, 2003, by and between ENVIRONMENTAL TECTONICS CORPORATION (the "Borrower"), ENTERTAINMENT TECHNOLOGY CORPORATION and ETC DELAWARE, INC. (the latter two, the "Guarantors" and, together with the Borrower, the "Debtors"), PNC BANK, NATIONAL ASSOCIATION (the "Bank").

W I T N E S S E T H :

WHEREAS, the Borrower and the Bank are parties to a Credit Agreement dated as of the date hereof (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement");

WHEREAS, each Guarantor has delivered to the Bank a Guaranty, dated as of the date hereof, in respect of the obligations of the Borrower under Credit Agreement;

WHEREAS, pursuant to the provisions of the Credit Agreement and upon the terms and subject to the conditions set forth therein, the Bank has agreed to extend certain credit facilities including loans and letters of credit (the "Credit Facilities") to the Borrower to be evidenced in part by the note issued by the Borrower thereunder (the "Note"); and

WHEREAS, it is a condition precedent to the obligation of the Bank to extend the Credit Facilities to the Borrower under the Credit Agreement, that the Debtors shall have executed and delivered this Security Agreement to the Bank.

NOW, THEREFORE, in consideration of the premises and to induce the Bank to enter into the Credit Agreement and to induce the Bank to extend the Credit Facilities to the Borrower under the Credit Agreement, the Debtors hereby agree with the Bank, as follows:

1. Defined Terms. Unless otherwise defined herein, terms which are defined in the Credit Agreement and used herein are so used as so defined; the following terms which are defined in the Code are used herein as so defined: Accounts (including Health-Care-Insurance Receivables), Chattel Paper (including Electronic Chattel Paper and Tangible Chattel Paper), Commercial Tort Claims, Deposit Accounts, Documents, Equipment, Farm Products, Financial Assets, General Intangibles, Instruments, Inventory, Investment Property (including Securities Entitlements, Securities Accounts, Commodity Accounts, and Commodity Contracts), Letter-of-Credit Rights, Payment Intangibles, Software, Supporting Obligations and Proceeds; and the following terms shall have the following meanings:

"Code" shall mean the Uniform Commercial Code as from time to time in effect in the Commonwealth of Pennsylvania.

"Collateral" shall have the meaning assigned to it in Section 2 of this Security Agreement.

"Contracts" shall mean all contracts and other agreements between the Debtors and any other Person, as the same may from time to time be amended,

supplemented or otherwise modified, including, without limitation, (a) all rights of each Debtor to receive moneys due and to become due to it thereunder or in connection therewith, (b) all rights of each Debtor to damages arising out of, or for, breach or default in respect thereof and (c) all rights of each Debtor to perform and to exercise all remedies thereunder.

"Copyrights" shall mean (a) all copyrights, registrations and applications for registration, issued or filed, including any reissues, extensions or renewals thereof, by or with the United States Copyright

Office or any similar office or agency of the United States, any State thereof, or any other country or political subdivision thereof, or otherwise, including, all rights in and to the material constituting the subject matter thereof, including, without limitation, any referred to in Schedule I hereto, and (b) any rights in any material which is copyrightable or which is protected by common law, United States copyright laws or similar laws or any law of any State, including, without limitation, any thereof referred to in Schedule I hereof.

"Copyright License" shall mean any agreement, written or oral, providing for a grant by any of the Debtors of any right in any Copyright, including, without limitation, any thereof referred to in Schedule I hereof.

"Obligations" shall mean the unpaid principal amount of, and interest on (including, without limitation, interest accruing after the maturity of the Credit Facilities and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to any of the Debtors, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the Note and all other obligations and liabilities of the Debtors to the Bank, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, the Note, this Security Agreement, the Guaranty, the other Loan Documents, and any other document made, delivered or given in connection therewith or herewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including, without limitation, all fees and disbursements of counsel to the Bank that are required to be paid by the Debtors pursuant to the terms of the Credit Agreement or any other Loan Document) or otherwise.

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"Patents" shall mean (a) all letters patent of the United States or any other country or any political subdivision thereof, and all reissues and extensions thereof, including, without limitation, any thereof referred to in Schedule II hereto, and (b) all applications for letters patent of the United States and all divisions, continuations and continuations-in-part thereof or any other country or any political subdivision, including, without limitation, any thereof referred to in Schedule II hereto.

"Patent License" shall mean all agreements, whether written or oral, providing for the grant by any of the Debtors of any right to manufacture, use or sell any invention covered by a Patent, including, without limitation, any thereof referred to in Schedule II hereto.

"Security Agreement" shall mean this Security Agreement, as amended, supplemented or otherwise modified from time to time.

"Trademarks" shall mean (a) all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos and other source or business identifiers, and the goodwill associated therewith, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, whether in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, or otherwise, including, without limitation, any thereof referred to in Schedule III hereto, and (b) all reissues, extensions or renewals thereof.

"Trademark License" shall mean any agreement, written or oral,

providing for the grant by any of the Debtors of any right to use any Trademark, including, without limitation, any thereof referred to in Schedule III hereto.

2. Grant of Security Interest. As collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations, each of the Debtors hereby grants to the Bank a security interest in all of the following property now owned or at any time hereafter acquired by such Debtor or in which such Debtor now has or at any time in the future may acquire any right, title or interest (collectively, the "Collateral"):

(i) all Accounts (including Health-Care-Insurance Receivables);

(ii) all Chattel Paper (including Electronic Chattel Paper and Tangible Chattel Paper);

(iii) all Contracts;

(iv) all Copyrights and Copyright Licenses;

(v) all Deposit Accounts;

(vi) all Documents;

(vii) all Equipment;

(viii) all General Intangibles and Commercial Tort Claims;

(ix) all Instruments;

(x) all Inventory;

(xi) all Investment Property, (including Securities Entitlements, Securities Accounts, Commodity Accounts, and Commodity Contracts);

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(xii) all Letter-of-Credit Rights;

(xiii) all Patents and Patent Licenses;

(xiv) all Payment Intangibles;

(xv) all Software (in whatever form);

(xvi) Supporting Obligations;

(xvii) Trademarks and Trademark Licenses; and

(xviii) to the extent not otherwise included, all Proceeds and products of any and all of the foregoing.

3. Rights of Bank; Limitations on Bank's Obligations.

(a) Debtors Remain Liable under Accounts and Contracts. Anything herein to the contrary notwithstanding, the Debtors shall remain liable under each of the Accounts and Contracts to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any agreement giving rise to each such Account and in accordance with and pursuant to the terms and provisions of each such Contract. The Bank shall have no obligation or liability under any Account (or any agreement giving rise thereto) or under any Contract by reason of or arising out of this Security Agreement or the receipt by the Bank of any payment relating to such Account or Contract pursuant hereto, nor shall the Bank be obligated in any

manner to perform any of the obligations of the Debtors under or pursuant to any Account (or any agreement giving rise thereto) or under or pursuant to any Contract, to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party under any Account (or any agreement giving rise thereto) or under any Contract, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

(b) Notice to Account Debtors and Contracting Parties. Upon the request of the Bank at any time after the occurrence and during the continuance of an Event of Default, the Debtors shall notify account debtors on the Accounts and parties to the Contracts that the Accounts and the Contracts have been assigned to the Bank and shall indicate on all billings that payments in respect thereof shall be made directly to the Bank. The Bank may in the name of the Debtors or in the name of others communicate with account debtors on the Accounts and parties to the Contracts to verify with them to its satisfaction the existence, amount and terms of any Accounts or Contracts.

(c) Analysis of Accounts. The Bank shall have the right to make test verifications of the Accounts through standard bank confirmations and periodic site visits as provided in Section 5.6 of the Credit Agreement, and the Debtors shall furnish all such assistance and information as the Bank may reasonably require in connection therewith. At any time and from time to time, but in no event more than twice in any given twelve-month period, upon the Bank's request and at the expense of the Debtors, the Debtors shall cause independent public accountants or others satisfactory to the Bank to furnish to the Bank reports showing reconciliations, aging and test verifications of, and trial balances for, the Accounts.

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(d) Collections on Accounts. Subject to the further provisions of this Section 3(d), the Bank hereby authorizes the Debtors to collect the Accounts from the account debtors. Prior to the occurrence of an Event of Default, the Proceeds of Accounts so collected by the Debtors shall be received and held by the Debtors in trust for the Bank but may be applied by the Debtors in their discretion towards payment of the Obligations or other corporate purposes. Upon the occurrence of an Event of Default which has not been waived by or cured to the satisfaction of the Bank and subject to the direction of the Bank, (i) the authority hereby given to the Debtors to collect the Proceeds of Accounts may be terminated by the Bank at any time and after being notified of such termination, the Debtors shall deliver to the Bank on the date of receipt thereof by the Debtors all Proceeds in the form of cash, checks, drafts, notes and other remittances received in payment of or on account of the Debtors' Accounts; (ii) following receipt by the Bank any such Proceeds shall be deposited in a special bank account (the "Cash Collateral Account") of the Debtors maintained with the Bank over which the Bank alone shall have power of withdrawal; (iii) all Proceeds other than cash shall be deposited in precisely the form in which received, except for the addition thereto of the endorsement of the Debtors when necessary to permit collection of the items, which endorsement the Debtors agree to make; and (iv) the Debtors will not commingle any such Proceeds with any of the Debtors' other funds or property but will hold them separate and apart from any other funds or property and upon an express trust for the Bank until deposit thereof is made in the Cash Collateral Account.

4. Representations and Warranties. The Debtors hereby represent and warrant that:

(a) Title; No Other Liens. Except for the Lien granted to the Bank pursuant to this Security Agreement and any other Liens permitted to exist on the Collateral pursuant to the Credit Agreement, one or more of the Debtors own each item of the Collateral free and clear of any and all Liens or claims of others. No security agreement, financing statement or other public notice with respect to all or any part of the Collateral is on file or of record in any public office, except such as may have been filed in favor of the Bank, pursuant to this Security Agreement or as may be permitted pursuant to the Credit

Agreement.

(b) Perfected First Priority Liens. Upon the Bank taking all action necessary under the UCC to perfect its security interest in and to the Collateral, the Liens granted pursuant to this Security Agreement constitute perfected Liens on the Collateral in favor of the Bank, which are prior to all other Liens on the Collateral in existence on the date hereof (other than Permitted Liens) and are enforceable as such against all creditors of and purchasers from the Debtors and against any owner or purchaser of the real property where any of the Equipment is located and any present or future creditor obtaining a Lien on such real property.

(c) Accounts. The amount represented by the Debtors to the Bank in any accounts receivable aging and in other reports requested by or furnished to the Bank as owing by each account debtor or by all account debtors in respect of the Accounts will at such time be the correct amount actually owing by such account debtor or debtors thereunder except for normal cash discounts and allowances where applicable. No amount payable to the Debtors under or in connection with any Account is evidenced by any Instrument or Chattel Paper which has not been delivered to the Bank. The Debtors keep their records concerning the Accounts at the location or locations set forth in Schedule IV.

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(d) Contracts. No consent of any party (other than the Debtors) to any material Contract is required, or purports to be required, in connection with the execution, delivery and performance of this Security Agreement. Each material Contract is in full force and effect and constitutes a valid and legally enforceable obligation of the parties thereto, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditor's rights generally. No consent or authorization of, filing with or other act by or in respect of any Governmental Authority is required in connection with the execution, delivery, performance, validity or enforceability of any of the Contracts by any party thereto other than those which have been duly obtained, made or performed, are in full force and effect and do not subject the scope of any such Contract to any material adverse limitation, either specific or general in nature. Neither the Debtors nor (to the best of the Debtors' knowledge) any other party to any Contract are in default of any material provision thereof or are likely to become in default in the performance or observance of any of the material provisions thereof. The Debtors have fully performed all their material obligations under each Contract. The right, title and interest of the Debtors in, to and under each Contract are not subject to any defense, offset, counterclaim or claim which would materially adversely affect the value of such Contract as Collateral, nor have any of the foregoing been asserted or alleged against the Debtors as to any Contract. No amount payable to the Debtors under or in connection with any Contract is evidenced by any Instrument or Chattel Paper which has not been delivered to the Bank.

(e) Inventory. The types, amounts and valuations of the Inventory or any other information regarding the same represented by the Debtors in any reports requested by or furnished to the Bank, or any other holders of the Obligations will at such time be accurate to the best of the Debtors' knowledge. The Debtors keep records concerning the Inventory at the location or locations listed on Schedule V. Except for Inventory in transit, work in progress at other locations and consigned Inventory, the Inventory is kept at the locations listed on Schedule VI hereto.

(f) Equipment. The Equipment is kept at the locations listed on Schedule VII hereto.

(g) Chief Executive Office; Place of Organization. The locations of each Debtor's chief executive office, chief place of business, form of and place of organization are set forth on Schedule VIII.

(h) Farm Products. None of the Collateral constitutes, or is the Proceeds of, Farm Products.

(i) Patents, Trademarks and Copyrights. Schedule I hereto includes all Copyrights and Copyright Licenses (except licenses to use off-the-shelf software in the ordinary course of business) owned by the Debtors in its own name as of the date hereof. Schedule II hereto includes all Patents and Patent Licenses owned by each of the Debtors in its own name as of the date hereof. Schedule III hereto includes all Trademarks and Trademark Licenses owned by each of the Debtors in its own name as of the date hereof. To the best of the Debtors' knowledge, each Copyright, Patent and Trademark is valid, subsisting, unexpired, enforceable and has not been abandoned. Except as set forth in any such Schedule, none of such Copyrights, Patents or Trademarks is the subject of any licensing or franchise agreement. No holding, decision or judgment has been rendered by any Governmental Authority which would limit, cancel or question the validity of any Copyright, Patent or Trademark. Except as set forth in any such Schedule, no action or proceeding is pending (i) seeking to limit, cancel or question the validity of any Copyright, Patent or Trademark, or (ii) which, if adversely determined, would have a material adverse effect on the value of any Copyright, Patent or Trademark.

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(j) Power and Authority; Authorization. The Debtors have the corporate or other power and authority and the legal right to execute and deliver, to perform their obligations under, and to grant the Lien on the Collateral pursuant to, this Security Agreement and have taken all necessary corporate or other action to authorize its execution, delivery and performance of, and grant of the Lien on the Collateral pursuant to, this Security Agreement.

(k) Enforceability. This Security Agreement constitutes a legal, valid and binding obligation of each of the Debtors enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally.

(l) No Conflict. The execution, delivery and performance of this Security Agreement will not violate any provision of any Requirement of Law or Contractual Obligation of any of the Debtors and will not result in the creation or imposition of any Lien on any of the properties or revenues of any of the Debtors pursuant to any Requirement of Law or Contractual Obligation of any of the Debtors, except as contemplated hereby.

(m) No Consents, etc. No consent or authorization of, filing with, or other act by or in respect of, any arbitrator or Governmental Authority and no consent of any other Person (including, without limitation, any stockholder or creditor of any of the Debtors), is required in connection with the execution, delivery, performance, validity or enforceability of this Security Agreement (except for the filing of the UCC financing statements).

(n) No Litigation. No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Debtors, threatened by or against any of the Debtors or against any of its properties or revenues with respect to this Security Agreement or any of the transactions contemplated hereby.

5. Covenants. Each of the Debtors covenants and agrees with the Bank that, from and after the date of this Security Agreement until the Obligations are paid in full, and the Revolving Credit Commitments are terminated it will:

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(a) Notices; Further Documentation; Authorization to File Financing Statements. Notify the Bank in writing at any time that it opens, acquires, obtains, or becomes the beneficiary of any type of Collateral (or rights therein) to the extent the Bank will not at that time have, and continuously thereafter (subject to the filing of continuation statements, if necessary) maintain, a perfected first priority security interest in (subject to Permitted

Liens) such Collateral, including but not limited to: all Deposit Accounts, Securities Accounts and Commodity Accounts and other Investment Property; all Commercial Tort Claims; all Instruments, Documents, Tangible Chattel Paper and Electronic Chattel Paper; all other Collateral in the possession of a third party; and all Letter-of-Credit Rights and other Supporting Obligations. At any time and from time to time, upon the written request of the Bank, and at the sole expense of the Debtors, promptly (i) deliver to the Bank all letters of credit and other Supporting Obligations, Instruments, Chattel Paper, Documents and Investment Property (including any necessary endorsements) that at any time is part of the Collateral or becomes Proceeds of any Collateral unless in possession of a lien holder with a prior Permitted Lien, and (ii) execute and deliver such further instruments, agreements and documents and take such further action as the Bank may reasonably request for the purpose of obtaining, preserving, and enforcing the full benefits of this Security Agreement and of the rights and powers herein granted, including, without limitation, executing and delivering and using commercially reasonable efforts to cause third parties to execute and deliver to the Bank security agreements, pledge agreements, control agreements, bailee acknowledgments, assignments and waivers, all in form and substance satisfactory to the Bank. The Debtors will mark all Chattel Paper with a legend indicating that the Bank has a security interest in the Chattel Paper.

The Debtors also hereby authorize the Bank to file any Uniform Commercial Code financing or continuation statement without the signature of the Debtors to the extent permitted by applicable law. The Debtors hereby ratify any filing by the Bank of financing statements prior to the date hereof with respect to the Collateral. A carbon, photographic, facsimile or other reproduction of this Security Agreement shall be sufficient as a financing statement for filing in any jurisdiction.

(b) Indemnification. Pay, and save the Bank and any other holders of the Obligations harmless from, any and all liabilities, reasonable costs and expenses (including, without limitation, reasonable legal fees and expenses) (i) with respect to, or resulting from, any delay in paying any and all excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral, (ii) with respect to, or resulting from, any delay in complying with any Requirement of Law applicable to any of the Collateral or (iii) in connection with protecting, storing, warehousing, appraising, insuring, handling, maintaining and shipping the Collateral, all reasonable costs, fees and expenses of creating, perfecting, maintaining and enforcing the security interests created by this Security Agreement, and any and all excise, property, sales and use taxes imposed by any federal, state, local or foreign authority on any of the Collateral, or with respect to periodic appraisals and inspections of the Collateral, or with respect to the sale or other disposition thereof. In any suit, proceeding or action brought by the Bank under any Account or Contract for any sum owing thereunder, or to enforce any provisions of any Account or Contract, the Debtors will save, indemnify and keep the Bank harmless from and against all expense, loss or damage suffered by reason of any defense, setoff, counterclaim, recoupment or reduction of liability whatsoever of the account debtor or obligor thereunder, arising out of a breach by the Debtors of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing to or in favor of such account debtor or obligor or its successors from the Debtors, provided however that such expense, loss or damage does not arise from the gross negligence or willful misconduct of the Bank.

(c) Maintenance of Records. Keep and maintain at its own cost and expense true, correct and complete records of the Collateral, including, without limitation, a record of all payments received and all credits granted with respect to the Accounts. For the Bank's further security, the Bank shall have a security interest in the Debtors' books and records pertaining to the Collateral, and the Debtors shall turn over copies of any such books and records to the Bank or to its representatives during normal business hours at the request of the Bank.

(d) Right of Inspection and Audit. Give to the Bank at all times upon reasonable prior notice full and free access during normal business hours (or following the occurrence of an Event of Default, at any time) to all of its books, correspondence and records and the Bank and its respective representatives may examine, inspect or audit the same, take extracts therefrom and make photocopies thereof, and the Debtors agree to render to the Bank, at the Debtors' cost and expense, such clerical and other assistance as may be reasonably requested with regard thereto. The Bank and its respective representatives shall at all times during normal business hours (or following the occurrence of an Event of Default, at any time) also have the right without breach of the peace to enter into and upon any premises where any of the Inventory or Equipment is located for the purpose of examining, inspecting or auditing the same, observing its use or otherwise protecting their interests therein.

(e) Compliance with Laws, etc. Comply in all material respects with all Requirements of Law applicable to the Collateral or any part thereof or to the operation of its business; provided, however, that the Debtors may contest any Requirement of Law in any reasonable manner which shall not, in the sole opinion of the Bank, adversely affect the Bank's rights or the priority of their Liens on the Collateral.

(f) Compliance with Terms of Contracts, etc. Perform and comply in all material respects with all its material obligations under the Contracts and all its other Contractual Obligations relating to the Collateral.

(g) Payment of Obligations. Pay promptly when due all taxes, assessments and governmental charges or levies imposed upon the Collateral or in respect of its income or profits therefrom, as well as all claims of any kind (including, without limitation, claims for labor, materials and supplies) against or with respect to the Collateral, except that no such charge need be paid if (i) the validity thereof is being contested in good faith by appropriate proceedings, (ii) such proceedings do not involve any material danger of the sale, forfeiture or loss of any of the Collateral or any interest therein and (iii) such charge is adequately reserved against on the Debtors' books in accordance with GAAP.

(h) Limitation on Liens on Collateral. Not create, incur or permit to exist, will defend the Collateral against, and take such other action as is necessary to remove, any Lien or claim on or to the Collateral, other than the Permitted Liens, and will defend the right, title and interest of the Bank in and to any of the Collateral against the claims and demands of all Persons whomsoever.

(i) Limitations on Dispositions of Collateral. Not sell, transfer, lease or otherwise dispose of any of the Collateral, or attempt, offer or contract to do so except as expressly permitted pursuant to the Credit Agreement or otherwise agreed to in writing by the Bank.

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(j) Limitations on Discounts, Compromises, Extensions of Accounts. Not adjust, settle or compromise the amount or payment of any Account, or release wholly or partly any customer or obligor thereof, or allow any credit or discount thereon (other than adjustments, settlements, compromises, releases, credits and discounts in the ordinary course of business and in amounts which are not material to the Debtors) without the prior consent of Bank.

(k) Further Identification of Collateral. Furnish to the Bank from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Bank may reasonably request, all in reasonable detail.

(l) Notices. Advise the Bank promptly, in reasonable detail, at its address set forth in the Credit Agreement, (i) of any Lien (other than Permitted Liens) on, or claim asserted against, any of the Collateral and (ii) of the occurrence of any other event which could reasonably be expected to have a

material adverse effect on the aggregate value of the Collateral or on the Liens created hereunder.

(m) Changes in Locations, Name, Place of Organization, etc. Unless it shall have given the Bank at least 30 days prior written notice thereof none of the Debtors will (i) change the location of its chief executive office or chief place of business from that specified in Schedule VIII attached hereto or remove its books and records from the location specified in Section 4(g), (ii) permit any of the Inventory or Equipment to be kept at a location other than those listed on Schedules VI and VII hereto, (iii) change its name, identity or corporate structure to such an extent that any financing statement filed by the Bank in connection with this Security Agreement would become seriously misleading or (iv) change the state of its organization.

(n) Patents, Trademarks and Copyrights.

(i) Unless any of the Debtors deems it appropriate in the exercise of its reasonable business judgment to do otherwise and, if after the occurrence of an Event of Default which has not been waived or cured to the satisfaction of Bank with the prior written consent of the Bank, (i) continue to use each Trademark on each and every trademark class of goods applicable to its current line as reflected in its current catalogs, brochures and price lists in order to maintain such Trademark in full force free from any claim of abandonment for non-use, (ii) maintain as in the past the quality of products and services offered under such Trademark, (iii) employ such Trademark or Copyright with the appropriate notice of registration, (iv) not adopt or use any mark which is confusingly similar or a colorable imitation of such Trademark unless the Bank, for the ratable benefit of the holders of the Obligations, shall obtain a perfected security interest in such mark pursuant to this Security Agreement, and (v) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any Trademark or Copyright may become invalidated.

(ii) Not, unless any of the Debtors deems it appropriate in the exercise of its reasonable business judgment to do otherwise and, if after the occurrence of an Event of Default which has not been waived by or cured to the satisfaction of the Bank with the prior written consent of the Bank, do any act, or omit to do any act, whereby any Patent may become abandoned or dedicated.

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(iii) Notify the Bank immediately if it knows, or has reason to know, that any application or registration relating to any Patent, Trademark or Copyright may become abandoned or dedicated, or of any adverse determination or development (including, without limitation, the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, the United States Copyright Office or any court or tribunal in any country) regarding its ownership of any Patent, Trademark or Copyright or its right to register the same or to keep and maintain the same.

(iv) Whenever any of the Debtors, either by itself or through any agent, employee, licensee or designee, shall file an application for the registration of any Patent, Trademark or Copyright with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency in any other country or any political subdivision thereof, report such filing to the Bank within five Business Days after the last day of the fiscal quarter in which such filing occurs. Upon request of the Bank, the Debtors shall execute and deliver any and all agreements, instruments, documents, and papers as the Bank may request to evidence the Bank's security interest in any Patent, Trademark or Copyright and the goodwill and general intangibles of the Debtors relating thereto or represented thereby, and the Debtors hereby constitute the Bank, its attorney-in-fact to execute and file all such writings for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; such power being coupled with an interest is irrevocable until the Obligations are paid in full and the Revolving Credit Commitments are terminated.

(v) Take all reasonable and necessary steps, including, without limitation, in any proceeding before the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency in any other country or any political subdivision thereof, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the Patents, Trademarks and Copyrights, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.

(vi) In the event that any Patent, Trademark or Copyright included in the Collateral is materially infringed, misappropriated or diluted by a third party, promptly notify the Bank after it learns thereof and shall, unless it shall reasonably determine that such Patent, Trademark or Copyright is of negligible economic value to it, which determination it shall promptly report to the Bank, promptly sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution, or take such other actions as it shall reasonably deem appropriate under the circumstances to protect such Patent, Trademark or Copyright.

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6. Bank's Appointment as Attorney-in-Fact.

(a) Powers. The Debtors hereby irrevocably constitute and appoint the Bank and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Debtors and in the name of the Debtors or in its own name, from time to time in the Bank's discretion, for the purpose of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Security Agreement, and, without limiting the generality of the foregoing, the Debtors hereby give the Bank the power and right, on behalf of the Debtors, without notice to or assent by the Debtors, to do the following:

(i) in the case of any Account, at any time when the authority of the Debtors to collect the Accounts has been curtailed or terminated pursuant to Section 3(d) hereof, or in the case of any other Collateral, at any time when any Event of Default shall have occurred and is continuing, in the name of the Debtors or its own name, or otherwise, to take possession of and indorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any Account, Instrument, General Intangible or Contract or with respect to any other Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Bank for the purpose of collecting any and all such moneys due under any Account, Instrument, General Intangible or Contract or with respect to any other Collateral whenever payable;

(ii) to pay or discharge taxes and Liens levied or placed on or threatened against the Collateral (other than Permitted Liens), to effect any repairs or procure any insurance called for by the terms of this Security Agreement and to pay all or any part of the premiums therefor and the costs thereof;

(iii) upon the occurrence and during the continuance of any Event of Default, (A) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to the Bank or as the Bank shall direct; (B) to ask or demand for, collect, receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral; (C) to sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices and other documents in connection with any of the Collateral;

(D) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any proceeds thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against the Debtors or any of them with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described in clause (E) above and, in connection therewith, to give such discharges or releases as the Bank may deem appropriate; (G) to assign any Patent or Trademark (along with the goodwill of the business to which any such Trademark pertains), throughout the world for such term or terms, on such conditions, and in such manner, as the Bank shall in its sole discretion determine; and (H) subject to the terms of Section 19, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Bank were the absolute owner thereof for all purposes, and to do, at the Bank's option and the Debtors' expense, at any time, or from time to time, all acts and things which the Bank deems necessary to protect, preserve or realize upon the Collateral and the Bank's Liens thereon and to effect the intent of this Security Agreement, all as fully and effectively as the Debtors might do; and

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(iv) execute in its own name or on behalf of the Debtors such UCC financing Statements forms and similar instruments as the Bank may from time to time deem reasonably necessary or desirable to protect the security interests of the Bank and any other holders of the Obligations.

The Debtors hereby ratify all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

(b) Other Powers. The Debtors also authorize the Bank, and any other holders of the Obligations, at any time and from time to time, to execute, in connection with the sale provided for in Section 8 hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

(c) No Duty on Bank or Holders' Part. The powers conferred on the Bank hereunder are solely to protect the Bank's interests in the Collateral and shall not impose any duty upon the Bank to exercise any such powers. The Bank shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and neither they nor any of their officers, directors, employees or agents shall be responsible to the Debtors for any act or failure to act hereunder, except for their own gross negligence or willful misconduct.

7. Performance by Bank of Debtors' Obligations. If any of the Debtors fails to perform or comply with any of its agreements contained herein and the Bank, as provided for by the terms of this Security Agreement, shall itself perform or comply, or otherwise cause performance or compliance, with such agreement, the expenses of the Bank incurred in connection with such performance or compliance shall be payable by the Debtors to the Bank on demand and shall constitute Obligations secured hereby, and if not promptly repaid to the Bank shall bear interest thereon at a rate per annum equal to the Default Rate.

8. Remedies.

(a) If an Event of Default shall occur and be continuing and all applicable notice and cure periods shall have expired, the Bank may exercise, in addition to all other rights and remedies granted to it in this Security Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, all rights and remedies of a secured party under the Code. Without limiting the generality of the foregoing, the Bank, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or

upon the Debtors or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of the Bank or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Bank shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Debtors, which right or equity

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is hereby waived or released. The Debtors further agree, at the Bank's request, to assemble the Collateral and make it available to the Bank at places which the Bank shall reasonably select, whether at the Debtors' premises or elsewhere. The Bank shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of the Bank hereunder, including, without limitation, reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Obligations, in such order as the Bank may elect, and only after such application and after the payment by the Bank of any other amount required by any provision of law, including, without limitation, Section 9615 of the Code, need the Bank account for the surplus, if any, to the Debtors. To the extent permitted by applicable law, each of the Debtors waives all claims, damages and demands it may acquire against the Bank arising out of the exercise by it of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition. The Debtors shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Obligations and the fees and disbursements of any attorneys employed by the Bank to collect such deficiency.

(b) The Debtors agree, upon the occurrence and during the continuation of an Event of Default, to take any actions that the Bank may request in order to enable the Bank to obtain and enjoy the full rights and benefits granted to the Bank under this Agreement and any other Loan Documents. Without limiting the generality of the foregoing, the Debtors shall upon the occurrence and during the continuation of an Event of Default, at the Debtors' sole cost and expense, assist in obtaining all approvals which are then required by law for or in connection with any action or transaction contemplated by this Agreement or Article 9 of the Uniform Commercial Code as in effect in any applicable jurisdiction.

9. Limitation on Duties Regarding Preservation of Collateral. The Bank's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9207 of the Code or otherwise, shall be to deal with it in the same manner as the Bank deals with similar property for its own account. No holder of any Obligation, nor any of their respective directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Debtors or otherwise.

10. Powers Coupled with an Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

11. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without

invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

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12. Paragraph Headings. The paragraph headings used in this Security Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

13. No Waiver; Cumulative Remedies. No holder of any Obligation shall by any act (except by a written instrument pursuant to Section 14 hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of the any holder of the Obligations, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by any holder of any Obligations of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which such holder would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

14. Waivers and Amendments; Parties Bound; Governing Law. None of the terms or provisions of this Security Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Debtors and the Bank, provided that any provision of this Security Agreement may be waived by the Bank in a written letter or agreement executed by the Bank or by telex or facsimile transmission from the Bank. This Security Agreement shall be the joint and several obligation of the Debtors; each of the Debtors shall have made all of the representations, warranties, covenants and agreements contained herein. This Security Agreement shall be binding upon the respective successors and permitted assigns of the Debtors and shall inure to the benefit of the Bank and the Bank and its successors and assigns. THIS SECURITY AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE SUBSTANTIVE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA.

15. Notices. All notices hereunder to the Debtors or the Bank to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered or sent in the manner and to the respective addresses as provided in subsection 8.2 of the Credit Agreement.

16. Submission to Jurisdiction; Waivers.

(a) Each of the Debtors hereby irrevocably and unconditionally:

(i) submits for itself and its property in any legal action or proceeding relating to this Security Agreement, or for recognition and enforcement of any judgment in respect thereof to the non-exclusive general jurisdiction of the courts of the Commonwealth of Pennsylvania, the courts of the United States of America for the Eastern District of Pennsylvania, and appellate courts from any thereof;

(ii) consents that any such action or proceeding may be brought in such courts, and waives (to the extent permitted by applicable law) any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

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(iii) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the address set forth in the Credit Agreement or at such other address of which the Bank shall have been notified;

(iv) waives and hereby acknowledges that it is estopped from raising any objections based on forum non conveniens, any claim that any of the above-referenced courts lack proper venue or any objection that any of such courts lack personal jurisdiction over it so as to prohibit such courts from adjudicating any issues raised in a complaint filed with such courts against it concerning this Security Agreement;

(v) acknowledges and agrees that the choice of forum contained in this paragraph shall not be deemed to preclude the enforcement of any judgement contained in any forum or the taking of any action under this Security Agreement to enforce the same in any appropriate jurisdiction;

(vi) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this subsection any special, exemplary or punitive or consequential damages; and

(vii) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

(b) Each of the Debtors hereby unconditionally waives trial by jury in any legal action or proceeding referred to in paragraph (a) above.

17. Counterparts. This Security Agreement may be executed by one or more of the parties to this Security Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Security Agreement signed by all the parties shall be lodged with the Debtors and the Bank.

18. Further Assurances. The parties acknowledge their intent that, upon the occurrence and during the continuation of an Event of Default, the Bank shall receive, to the fullest extent permitted by all Requirements of Law and governmental policy, all rights necessary or desirable to obtain, use or sell the Collateral, and to exercise all remedies available to it under this Agreement, the Uniform Commercial Code as in effect in any applicable jurisdiction, or other applicable law. The parties further acknowledge and agree that, in the event of any change in law or governmental policy occurring subsequent to the date hereof that affects in any manner the Bank's rights of access to, or use or sale of, the Collateral, or the procedures necessary to enable the Bank to obtain such rights of access, use or sale, the Bank and the Debtors shall amend this Agreement in such manner as the Bank shall request, in order to provide to the Bank such rights to the greatest extent possible consistent with all Requirements of Law and governmental policy.

19. Release. This Security Agreement and related instruments delivered to the Bank hereunder shall be released by the Bank upon the date on which the Obligations are paid in full and the Revolving Credit Commitments are terminated. This Security Agreement shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Obligations is rescinded or must otherwise be restored or returned by the Bank or any holder of the Obligations upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of any of the Debtors or upon or as a result of the appointment of a receiver, intervenor or conservator of, or

trustee or similar officer for any of the Debtors or any substantial part of its property, or otherwise, all as though such payments had not been made.

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IN WITNESS WHEREOF, the Debtors and the Bank have caused this Security Agreement to be duly executed and delivered as of the date first above written.

ENVIRONMENTAL TECTONICS
CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner
Title: C.F.O.

ENTERTAINMENT TECHNOLOGY
CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner
Title: Secretary

ETC DELAWARE, INC.

By: /s/ Duane Deaner

Name: Duane Deaner
Title: Treasurer

PNC BANK, NATIONAL ASSOCIATION

By: /s/ John G. Siegrist

Name: John G. Siegrist
Title: Vice President

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SCHEDULE I TO
Security Agreement

COPYRIGHTS AND COPYRIGHT LICENSES

SCHEDULE II TO
Security Agreement

PATENTS AND PATENT LICENSES

SCHEDULE III TO
Security Agreement

TRADEMARKS AND TRADEMARK LICENSES

SCHEDULE IV TO
Security Agreement

LOCATIONS OF ACCOUNT RECORDS

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SCHEDULE V TO
Security Agreement

LOCATIONS OF INVENTORY RECORDS

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SCHEDULE VI TO
Security Agreement

LOCATIONS OF INVENTORY

SCHEDULE VII TO
Security Agreement

LOCATIONS OF EQUIPMENT

SCHEDULE VIII TO
Security Agreement

LOCATIONS OF CHIEF EXECUTIVE OFFICE, STATE OF ORGANIZATION

Chief Executive Office:

Chief Place of Business:

Form of and Place of Organization:

PLEDGE AGREEMENT

Pledge Agreement, dated as of February 18, 2003, made by ENVIRONMENTAL TECTONICS CORPORATION, a Pennsylvania corporation (the "Pledgor"), in favor of PNC BANK, NATIONAL ASSOCIATION (the "Bank").

W I T N E S S E T H :

WHEREAS, the Pledgor and the Bank have entered into a Credit Agreement, dated as of the date hereof (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement");

WHEREAS, pursuant to the provisions of the Credit Agreement and upon the terms and subject to the conditions set forth therein, the Bank has agreed to make certain loans to, and to issue letters of credit for the account of, the Pledgor;

WHEREAS, the Pledgor is the legal and beneficial owner of the shares of Pledged Stock (as hereinafter defined) of the entities listed on Schedule I hereto (individually, an "Issuer," and collectively, the "Issuers"); and

WHEREAS, it is a condition precedent to the obligation of the Bank to make its loans to, and to issue letters of credit for the account of, the Borrower under the Credit Agreement that the Pledgor shall have executed and delivered this Pledge Agreement to the Bank.

NOW, THEREFORE, in consideration of the premises and to induce the Bank to enter into the Credit Agreement and make its loans to, and to issue letters of credit for the account of, the Pledgor thereunder, the Pledgor hereby agrees with the Bank, as follows:

1. Defined Terms. Unless otherwise defined herein, terms which are defined in the Credit Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Code" means the Uniform Commercial Code from time to time in effect in the Commonwealth of Pennsylvania.

"Collateral" means the Pledged Stock and all Proceeds.

"Obligations " shall mean the unpaid principal amount of, and interest on (including, without limitation, interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the Revolving Credit Note and all other obligations and liabilities of the Borrower to the Bank, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, the Revolving Credit Note, the Letters of Credit, this Pledge Agreement, the other Loan Documents, any Interest Hedge Agreement with the Bank and any other document made, delivered or given in connection therewith or herewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including, without limitation, all fees and disbursements of counsel to the Bank that are required to be paid by the Borrower pursuant to the terms of the Credit Agreement) or otherwise.

"Pledge Agreement" means this Pledge Agreement, as amended, supplemented or otherwise modified from time to time.

"Pledged Stock" means the shares of capital stock of the Issuers listed on Schedule I hereto, together with all stock certificates, options or rights of any nature whatsoever that may be issued or granted by any Issuer to the Pledgor while this Pledge Agreement is in effect.

"Proceeds" means all "proceeds" as such term is defined in Section 9102(a) of the Code and, in any event, shall include, without limitation, all dividends or other income from the Pledged Stock, collections thereon or distributions with respect thereto.

2. Pledge; Grant of Security Interest. The Pledgor hereby agrees on the date hereof to deliver to the Bank, the Pledged Stock and hereby grants to the Bank a first priority security interest in the Collateral, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations.

3. Stock Powers. Concurrently with the delivery to the Bank of each certificate representing one or more shares of Pledged Stock, the Pledgor shall deliver an undated stock power covering such certificate, duly executed in blank by the Pledgor with, if the Bank so requests, signature guaranteed.

4. Representations and Warranties. The Pledgor represents and warrants that:

(a) the Pledgor is the owner of the shares of capital stock of each Issuer listed on Schedule I and the shares of Pledged Stock listed on Schedule I constitute all of such issued and outstanding shares except in the case of any Issuer which is a controlled foreign corporation (as defined in Section 957(a) or a successor provision of the Internal Revenue Code), in which case it constitutes no more than 65% of the issued and outstanding vesting shares of such Issuer;

(b) all the shares of the Pledged Stock have been duly and validly issued and are fully paid and nonassessable;

(c) the Pledgor is the record and beneficial owner of, and has good and marketable title to, the Pledged Stock listed on Schedule I, free of any and all Liens or options in favor of, or claims of, any other Person, except the Lien created by this Pledge Agreement; and

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(d) upon delivery to the Bank of the stock certificates representing the Pledged Stock, the Lien granted pursuant to this Pledge Agreement will constitute a valid, perfected first priority Lien on the Collateral, enforceable as such (i) in the United States against all creditors of the Pledgor and any Persons purporting to purchase any Collateral from the Pledgor and (ii) in any other jurisdiction, to the furthest extent permitted by applicable law.

5. Covenants. The Pledgor covenants and agrees with the Bank that from and after the date of this Pledge Agreement until the Obligations are paid in full and the Commitments are terminated and no Letter of Credit or Bond Letter of Credit remains outstanding:

(a) If the Pledgor shall, as a result of its ownership of the Pledged Stock, become entitled to receive or shall receive any stock certificate (including, without limitation, any certificate representing a stock dividend or a distribution in connection with any reclassification, increase or reduction of capital or any certificate issued in connection with any reorganization), option or rights, whether in addition to, in substitution of, as a conversion of, or in exchange for any shares of the Pledged Stock, or otherwise in respect

thereof, the Pledgor shall accept the same as the agent of the Bank, hold the same in trust for the Bank and deliver the same to the Bank in the exact form received, duly indorsed by the Pledgor to the Bank, if required, together with an undated stock power covering such certificate duly executed in blank by the Pledgor and with, if the Bank so requests, signature guaranteed, to be held by the Bank, subject to the terms hereof, as additional collateral security for the Obligations. Any sums paid upon or in respect of the Pledged Stock upon the liquidation or dissolution of any Issuer shall be paid over to the Bank to be held by it hereunder as additional collateral security for the Obligations, and in case any distribution of capital shall be made on or in respect of the Pledged Stock or any property shall be distributed upon or with respect to the Pledged Stock pursuant to the recapitalization or reclassification of the capital of such Issuer or pursuant to the reorganization thereof, the property so distributed shall be delivered to the Bank to be held by it hereunder as additional collateral security for the Obligations. If any sums of money or property so paid or distributed in respect of the Pledged Stock shall be received by the Pledgor, the Pledgor shall, until such money or property is paid or delivered to the Bank, hold such money or property in trust for the Bank, segregated from other funds of the Pledgor, as additional collateral security for the Obligations.

(b) Without the prior written consent of the Bank, the Pledgor will not (i) vote to enable, or take any other action to permit, any Issuer to issue any stock or other equity securities of any nature or to issue any other securities convertible into or granting the right to purchase or exchange for any stock or other equity securities of any nature of such Issuer, (ii) sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Collateral, and (iii) create, incur or permit to exist any Lien or option in favor of, or any claim of any Person with respect to, any of the Collateral, or any interest therein, except for the Lien provided for by this Pledge Agreement. The Pledgor will defend the right, title and interest of the Bank in and to the Collateral against the claims and demands of all Persons whomsoever.

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(c) At any time and from time to time, upon the written request of the Bank, and at the sole expense of the Pledgor, the Pledgor will promptly and duly execute and deliver such further instruments and documents and take such further actions as the Bank may reasonably request for the purposes of obtaining or preserving the full benefits of this Pledge Agreement and of the rights and powers herein granted. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note, other instrument or chattel paper, such note, instrument or chattel paper shall be immediately delivered to the Bank, duly endorsed in a manner satisfactory to the Bank, to be held as Collateral pursuant to this Pledge Agreement.

(d) The Pledgor agrees to pay, and to save the Bank harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all stamp, excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral or in connection with this Pledge Agreement or the granting of security hereunder or the exercising of any rights or remedies hereunder.

6. Cash Dividends; Voting Rights. Unless an Event of Default shall have occurred and be continuing and the Bank shall have given notice to the Pledgor of the Bank's intent to exercise its rights pursuant to paragraph 7 below, the Pledgor shall be permitted to receive all dividends (other than dividends paid in additional capital stock of any Issuer) paid in the normal course of business of each Issuer and consistent with past practice, to the extent permitted in the Credit Agreement, in respect of the Pledged Stock and to

exercise all voting and corporate rights with respect to the Pledged Stock, provided, however, that no vote shall be cast or corporate right exercised or other action taken which, in the Bank's reasonable judgment, would impair the Collateral or which would be inconsistent with or result in any violation of any provision of the Credit Agreement, the Revolving Credit Note or any of the other Loan Documents.

7. Rights of the Bank.

(a) If an Event of Default shall occur and be continuing (i) the Bank shall have the right to receive any and all cash dividends paid in respect of the Pledged Stock and make application thereof to the Obligations in such order as the Bank may determine, and (ii) all shares of the Pledged Stock shall be registered in the name of the Bank or its nominee, and the Bank, or its nominee, after providing Pledgor with prior written notice, may thereafter exercise (A) all voting, corporate and other rights pertaining to such shares of Pledged Stock at any meeting of shareholders of any Issuer or otherwise and (B) any and all rights of conversion, exchange, subscription and any other rights, privileges or options pertaining to such shares of the Pledged Stock as if it were the absolute owner thereof (including, without limitation, the right to exchange at its discretion any and all of the Pledged Stock upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate structure of any Issuer, or upon the exercise by the Pledgor or the Bank of any right, privilege or option pertaining to such shares of the Pledged Stock, and in connection therewith, the right to deposit and deliver any and all of the Pledged Stock with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as it may determine), all without liability except to account for property actually received by it and except for its gross negligence or willful misconduct, but the Bank shall have no duty to the Pledgor to exercise any such right, privilege or option and shall not be responsible for any failure to do so or delay in so doing.

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(b) The rights of the Bank hereunder shall not be conditioned or contingent upon the pursuit by the Bank of any right or remedy against any other Person which may be or become liable in respect of all or any part of the Obligations or against any collateral security therefor, guarantee therefor or right of offset with respect thereto. The Bank shall not be liable for any failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so, nor shall the Bank be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Pledgor or any other Person or to take any other action whatsoever with regard to the Collateral or any part thereof.

8. Remedies. If an Event of Default shall have occurred and be continuing, the Bank may exercise, in addition to all other rights and remedies granted to it in this Pledge Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, all rights and remedies of a secured party under the Code. Without limiting the generality of the foregoing, the Bank, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below or otherwise specifically required hereunder) to or upon the Pledgor, any Issuer or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, assign or give option or options to purchase or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, in the over-the-counter market, at any exchange, broker's board or office of the Bank or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery. The Bank shall have the right upon

any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Pledgor, which right or equity is hereby waived or released. The Bank shall apply any Proceeds from time to time held by it and the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred in respect thereof or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of the Bank hereunder, including, without limitation, reasonable attorneys' fees and disbursements of counsel to the Bank, to the payment in whole or in part of the Obligations, in such order as the Bank may elect, and only after such application and after the payment by the Bank of any other amount required by any provision of law, including, without limitation, Section 9-615(f) of the Code, need the Bank account for the surplus, if any, to the Pledgor. To the extent permitted by applicable law, the Pledgor waives all claims, damages and demands it may acquire against the Bank arising out of the lawful exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 Business Days before such sale or other disposition. The Pledgor shall remain liable for any deficiency if the proceeds of any sale or other disposition of Collateral are insufficient to pay the Obligations and the fees and disbursements of any attorneys employed by the Bank to collect such deficiency.

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9. Registration Rights; Private Sales.

(a) The Pledgor recognizes that the Bank may be unable to effect a public sale of any or all the Pledged Stock, by reason of certain prohibitions contained in the Securities Act of 1933, as amended (the "Securities Act") and applicable state securities laws or otherwise, and may resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. The Pledgor acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. The Bank shall be under no obligation to delay a sale of any of the Pledged Stock for the period of time necessary to permit any Issuer to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if such Issuer would agree to do so.

(b) The Pledgor further agrees to use its best efforts to do or cause to be done all such other acts as may be necessary to make such sale or sales of all or any portion of the Pledged Stock pursuant to this paragraph 9 valid and binding and in compliance with any and all other applicable Requirements of Law. The Pledgor further agrees that a breach of any of the covenants contained in this paragraph 9 will cause irreparable injury to the Bank, that the Bank has no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this paragraph 9 shall be specifically enforceable against the Pledgor, and the Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants.

10. Limitation on Duties Regarding Collateral. The Bank's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the Code or otherwise, shall be to deal with it in the same manner as the Bank deals with similar securities and property for its own account. Neither the Bank nor any of its directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon any of the Collateral or for any delay in doing so or

shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Pledgor or otherwise.

11. Powers Coupled with an Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

12. Severability. Any provision of this Pledge Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provisions in any other jurisdiction.

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13. Paragraph Headings. The paragraph headings used in this Pledge Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

14. No Waiver; Cumulative Remedies. The Bank shall not by any act (except by a written instrument pursuant to paragraph 15 hereof) be deemed to have waived any right or remedy hereunder or to have acquiesced in any default of any obligation under any Loan Document or in any breach of any of the terms and conditions hereof or thereof. No failure to exercise, nor any delay in exercising, on the part of the Bank of any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Bank of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

15. Waivers and Amendments; Successors and Assigns; Governing Law. None of the terms or provisions of this Pledge Agreement may be amended, supplemented or otherwise modified except by a written instrument executed by the Pledgor and the Bank, provided that any provision of this Pledge Agreement may be waived by the Bank in a letter or agreement executed by the Bank or by telex or facsimile transmission from the Bank. This Pledge Agreement shall be binding upon the successors and assigns of the Pledgor and shall inure to the benefit of the Bank and its successors and assigns. THIS PLEDGE AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE SUBSTANTIVE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA.

16. Notices. All notices hereunder to the Bank, the Pledgor or any Issuer to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein, shall be deemed to have been duly given when delivered or sent in the manner and to the respective addresses as provided in Subsection 8.2 of the Credit Agreement or in the case of each Issuer at its address set forth on Schedule II hereto.

17. Irrevocable Authorization and Instruction to Issuers. The Pledgor hereby authorizes and instructs each Issuer to comply with any instruction received by it from the Bank in writing that (a) states that an Event of Default has occurred and is continuing and (b) is otherwise in accordance with the terms of this Pledge Agreement, without any other or further instructions from the Pledgor, and the Pledgor agrees that each Issuer shall be fully protected in so complying.

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18. Submission to Jurisdiction; Waivers.

(a) The Pledgor hereby irrevocably and unconditionally:

(i) submits for itself and its property in any legal action or proceeding relating to this Pledge Agreement, or for recognition and enforcement of any judgment in respect thereof to the non-exclusive general jurisdiction of the courts of the Commonwealth of Pennsylvania, the courts of the United States of America for the Eastern District of Pennsylvania, and appellate courts from any thereof;

(ii) consents that any such action or proceeding may be brought in such courts, and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(iii) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such Pledgor at its address set forth in the Credit Agreement or at such other address of which the Bank shall have been notified; and

(iv) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

(b) The Pledgor hereby unconditionally waives trial by jury in any legal action or proceeding referred to in paragraph (a) above.

19. Counterparts. This Pledge Agreement may be executed by one or more of the parties to this Pledge Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned has caused this Pledge Agreement to be duly executed and delivered as of the date first above written.

ATTEST:

ENVIRONMENTAL TECTONICS
CORPORATION

/s/ Ann M. Allen

By: /s/ Duane Deaner

Name: Duane Deaner

Title: C.F.O.

[seal]

ACKNOWLEDGMENT AND CONSENT

Each Issuer referred to in the foregoing Pledge Agreement hereby acknowledges receipt of a copy thereof and agrees to be bound thereby and comply with the terms thereof insofar as such terms are applicable to it. Each Issuer agrees to notify the Bank promptly in writing of the occurrence of any of the events described in paragraph 5(a) of the Pledge Agreement. Each Issuer further agrees that the terms of paragraph 9(b) of the Pledge Agreement shall apply to it, mutatis mutandis, with respect to all actions that may be required of it under or pursuant to or arising out of paragraph 9 of the Pledge Agreement.

ENTERTAINMENT TECHNOLOGY
CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner

Secretary

ETC DELAWARE, INC.

By: /s/ Duane Deaner

Name: Duane Deaner

Title: Treasurer

SCHEDULE I

To Pledge Agreement

DESCRIPTION OF PLEDGED STOCK

Issuer	Class of Stock*	Stock Certificate No.	No. of Shares	Percentage of Issued Shares
ETC Delaware		1	100	100%

SCHEDULE II

To Pledge Agreement

Addresses of Issuers

Pledge Agreement
(Bank Deposits)

[PNCBANK LOGO]

THIS PLEDGE AGREEMENT, dated as of this 18th day of February, 2003, is made by ENVIRONMENTAL TECTONICS CORPORATION (the "Pledgor"), with an address at 125 James Way, Southhampton, Pennsylvania 18966, in favor of PNC BANK, NATIONAL ASSOCIATION (the "Secured Party"), with an address at 1600 Market Street, Philadelphia, Pennsylvania 19103.

1. Pledge. In order to induce the Secured Party to extend the Obligations (as defined below), the Pledgor hereby grants a security interest in and pledges to the Secured Party, and to all other direct or indirect subsidiaries of The PNC Financial Services Group, Inc., all of the Pledgor's right, title and interest in and to the accounts, deposits, deposit accounts, and certificates of deposit, whether negotiable or nonnegotiable, and all security entitlements of the Pledgor with respect thereto, whether now owned or hereafter acquired, including those entries on the records of the issuing or depository institution, and any and all renewals, substitutions, replacements and proceeds thereof and all income, interest and other distributions thereon maintained in the name of the Pledgor by the issuing institution (collectively, the "Collateral"), as more fully described on Exhibit A attached hereto and made a part hereof.

The Pledgor agrees that (i) the Secured Party shall have the sole and exclusive right of withdrawal of the Collateral, (ii) the Pledgor shall have no right of withdrawal of the Collateral, and (iii) the Secured Party may make appropriate notations in its books and records (electronic or otherwise) to effectuate the foregoing.

2. Obligations Secured. The Collateral secures payment of all loans, advances, debts, liabilities, obligations, covenants and duties owing from the Pledgor to the Secured Party or to any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Pledgor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, whether or not (i) evidenced by any note, guaranty or other instrument, (ii) arising under any agreement, instrument or document, (iii) for the payment of money, (iv) arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, (v) under any interest or currency swap, future, option or other interest rate protection or similar agreement, (vi) under or by reason of any foreign currency transaction, forward, option or other similar transaction providing for the purchase of one currency in exchange for the sale of another currency, or in any other manner, or (vii) arising out of overdrafts on deposit or other accounts or out of electronic funds transfers (whether by wire transfer or through automated clearing houses or otherwise) or out of the return unpaid of, or other failure of the Secured Party to receive final payment for, any check, item, instrument, payment order or other deposit or credit to a deposit or other account, or out of the Secured Party's non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository or other similar arrangements; and any amendments, extensions, renewals and increases of or to any of the foregoing, and all costs and expenses of the Secured Party incurred in the documentation, negotiation, modification, enforcement, collection and otherwise in connection with any of the foregoing, including reasonable attorneys' fees and expenses (hereinafter referred to collectively as the "Obligations").

3. Representations and Warranties. The Pledgor represents and warrants

to the Secured Party that (a) no prior lien or encumbrance exists on the Collateral, and the Pledgor will not grant or suffer to exist any such lien or encumbrance in the future, other than in favor of the Secured Party, and (b) the Pledgor is the legal owner of the Collateral and has the right to pledge and grant a security interest in the Collateral without the consent of any other party other than the issuing institution, which the Pledgor has caused or will cause to execute the Acknowledgment in substantially the form attached hereto.

4. Default.

4.1 If any of the following occur (each an "Event of Default"): (i) any Event of Default (as defined in any of the Obligations), (ii) any default under any of the Obligations that does not have a defined set of "Events of Default" and the lapse of any notice or cure period provided in such Obligations with respect to such default, (iii) demand by the Secured Party under any of the Obligations that have a demand feature, (iv) the failure by the Pledgor to perform any of its obligations hereunder, (v) the falsity, inaccuracy or material breach by the Pledgor of any written warranty, representation or statement made or furnished to the Secured Party by or on behalf of the Pledgor, or (vi) the failure of the Secured Party to have a perfected first priority security interest in the Collateral, (vii) any restriction is imposed on the pledge or transfer of any of the Collateral after the date of this Agreement without the Secured Party's prior written consent, then the Secured Party is authorized in its discretion to declare any or all of the Obligations to be immediately due and payable without demand or notice, which are expressly waived, and may exercise any one or more of the rights and remedies granted pursuant to this Pledge Agreement or given to a secured party under the Uniform Commercial Code of the applicable state, as it may be amended from time to time, or otherwise at law or in equity, including without limitation the right to sell or otherwise dispose of any or all of the Collateral at public or private sale, with or without advertisement thereof, upon such terms and conditions as it may deem advisable and at such prices as it may deem best.

4.2 The Secured Party is authorized to draw the funds represented by the Collateral, in whole or in part, and to do all acts necessary to draw such funds, to apply to all Obligations secured hereby, whether declared immediately due and payable or otherwise, and the officers of the issuing institution are authorized and directed to pay the same to the Secured Party on demand.

4.3 The net proceeds arising from the disposition of the Collateral after deducting expenses incurred by the Secured Party will be applied to the Obligations in the order determined by the Secured Party. If any excess remains after the discharge of all of the Obligations, the same will be paid to the Pledgor. If after exhausting all of the Collateral there is a deficiency, the Pledgor or, if the Pledgor is not borrowing from the Secured Party or providing a guaranty of the Borrower's Obligations, the Borrower will be liable therefor to the Secured Party; provided, however, that nothing contained herein will obligate the Secured Party to proceed against the Pledgor, the Borrower or any other party obligated under the Obligations or against any other collateral for the Obligations prior to proceeding against the Collateral.

4.4 If any demand is made at any time upon the Secured Party for the repayment or recovery of any amount received by it in payment or on account of any of the Obligations and if the Secured Party repays all or any part of such amount by reason of any judgment, decree or order of any court or administrative body or by reason of any settlement or compromise of any such demand, the Pledgor will be and remain liable for the amounts so repaid or recovered to the same extent as if such amount had never been originally received by the Secured Party. The provisions of this section will be and remain effective notwithstanding the release of any of the Collateral by the Secured Party in reliance upon such payment (in which case the Pledgor's liability will be limited to an amount equal to the fair market value of the Collateral determined as of the date such Collateral was released) and any such release will be without prejudice to the Secured Party's rights hereunder and will be deemed to have been conditioned upon such payment having become final and irrevocable. This Section shall survive the termination of this Pledge Agreement.

5. Interest and Premiums. All interest and premiums declared or paid on the Collateral shall be the property of the Pledgor but shall remain as Collateral, subject to the restrictions contained in this Agreement, unless released by the Secured Party, in its discretion, following a request from Pledgor. At any time after the occurrence of an Event of Default, the Secured Party shall be entitled to apply all interest and premiums declared or paid on the Collateral in accordance with the provisions of Section 4 above.

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6. Further Assurances. By its signature hereon, the Pledgor hereby irrevocably authorizes the Secured Party, at any time and from time to time, to execute (on behalf of the Pledgor), file and record against the Pledgor any notice, financing statement, continuation statement, amendment statement, instrument, document or agreement under the Uniform Commercial Code that the Secured Party may consider necessary or desirable to create, preserve, continue, perfect or validate any security interest granted hereunder or to enable the Secured Party to exercise or enforce its rights hereunder with respect to such security interest. Without limiting the generality of the foregoing, the Pledgor hereby irrevocably appoints the Secured Party as the Pledgor's attorney-in-fact to do all acts and things in the Pledgor's name that the Secured Party may deem necessary or desirable. This power of attorney is coupled with an interest with full power of substitution and is irrevocable. The Pledgor hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof.

7. Notices. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ("Notices") must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party's address as set forth above or to such other address as either the Pledgor or the Secured Party may give to the other for such purpose in accordance with this section.

8. Preservation of Rights. (a) No delay or omission on the Secured Party's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Secured Party's action or inaction impair any such right or power. The Secured Party's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Secured Party may have under other agreements, at law or in equity.

(b) The Secured Party may, at any time and from time to time, without notice to or the consent of the Pledgor unless otherwise expressly required pursuant to the terms of the Obligations, and without impairing or releasing, discharging or modifying the Pledgor's liabilities hereunder, (i) change the manner, place, time or terms of payment or performance of or interest rates on, or other terms relating to, any of the Obligations; (ii) renew, substitute, modify, amend or alter, or grant consents or waivers relating to any of the Obligations, any other pledge or security agreements, or any security for any Obligations; (iii) apply any and all payments by whomever paid or however realized including any proceeds of any collateral, to any Obligations of the Pledgor or the Borrower in such order, manner and amount as the Secured Party may determine in its sole discretion; (iv) deal with any other person with respect to any Obligations in such manner as the Secured Party deems appropriate in its sole discretion; (v) substitute, exchange or release any security or guaranty; or (vi) take such actions and exercise such remedies hereunder as provided herein. The Pledgor hereby waives (a) presentment, demand, protest, notice of dishonor and notice of non-payment and all other notices to which the Pledgor might otherwise be entitled, and (b) all defenses based on suretyship or impairment of collateral.

9. Illegality. In case any one or more of the provisions contained in this Pledge Agreement should be invalid, illegal or unenforceable in any

respect, it shall not affect or impair the validity, legality and enforceability of the remaining provisions in this Pledge Agreement.

10. Changes in Writing. No modification, amendment or waiver of, or consent to any departure by the Pledgor from, any provision of this Pledge Agreement will be effective unless made in a writing signed by the Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Pledgor in any case will entitle the Pledgor to any other or further notice or demand in the same, similar or other circumstance.

11. Entire Agreement. This Pledge Agreement (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the Pledgor and the Secured Party with respect to the subject matter hereof.

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12. Successors and Assigns. This Pledge Agreement will be binding upon and inure to the benefit of the Pledgor and the Secured Party and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Pledgor may not assign this Pledge Agreement in whole or in part without the Secured Party's prior written consent and the Secured Party at any time may assign this Pledge Agreement in whole or in part.

13. Interpretation. In this Pledge Agreement, unless the Secured Party and the Pledgor otherwise agree in writing, the singular includes the plural and the plural the singular; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; and references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent such amendments and other modifications are not prohibited by the terms of this Pledge Agreement. Section headings in this Pledge Agreement are included for convenience of reference only and shall not constitute a part of this Pledge Agreement for any other purpose. If this Pledge Agreement is executed by more than one party as Pledgor, the obligations of such persons or entities will be joint and several.

14. Indemnity. The Pledgor agrees to indemnify each of the Secured Party, each legal entity, if any, who controls, is controlled by or is under common control with the Secured Party, and each of their respective directors, officers and employees (the "Indemnified Parties"), and to hold each Indemnified Party harmless from and against, any and all claims, damages, losses, liabilities and expenses (including all fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of litigation or preparation therefor) which any Indemnified Party may incur, or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Pledgor), in connection with or arising out of or relating to the matters referred to in this Pledge Agreement or under any Control Agreement, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Pledgor, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority; provided, however, that the foregoing indemnity agreement shall not apply to claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Pledge Agreement. The Pledgor may participate at its expense in the defense of any such action or claim.

15. Governing Law and Jurisdiction. This Pledge Agreement has been delivered to and accepted by the Secured Party and will be deemed to be made in

the State where the Secured Party's office indicated above is located. THIS PLEDGE AGREEMENT WILL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE PLEDGOR AND THE SECURED PARTY DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE WHERE THE SECURED PARTY'S OFFICE INDICATED ABOVE IS LOCATED, EXCLUDING ITS CONFLICT OF LAWS RULES. The Pledgor hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the county or judicial district where the Secured Party's office indicated above is located; provided that nothing contained in this Pledge Agreement will prevent the Secured Party from bringing any action, enforcing any award or judgment or exercising any rights against the Pledgor individually, against any security or against any property of the Pledgor within any other county, state or other foreign or domestic jurisdiction. The Pledgor acknowledges and agrees that the venue provided above is the most convenient forum for both the Secured Party and the Pledgor. The Pledgor waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Pledge Agreement.

16. Authorization to Obtain Credit Reports. By signing below, each Pledgor who is an individual provides written authorization to the Secured Party or its designee (and any assignee or potential assignee hereof) to obtain the Pledgor's personal credit profile from one or more national credit bureaus. Such authorization shall extend to obtaining a credit profile in considering this Pledge Agreement and subsequently for the purposes of update, renewal or extension of such credit or additional credit and for reviewing or collecting the resulting account.

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17. WAIVER OF JURY TRIAL. THE PLEDGOR IRREVOCABLY WAIVES ANY AND ALL RIGHT THE PLEDGOR MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS PLEDGE AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS PLEDGE AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE PLEDGOR ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

The Pledgor acknowledges that it has read and understood all the provisions of this Pledge Agreement, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.

WITNESS the due execution hereof as a document under seal, as of the date first written above.

ATTEST:

ENVIRONMENTAL TECTONICS
CORPORATION

/s/ Ann M. Allen

By: /s/ Duane Deaner

(SEAL)

Print Name: Ann M. Allen

Print Name: Duane Deaner

Title: Corporate Secretary

Title: C.F.O.

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EXHIBIT A
TO PLEDGE AGREEMENT

Depository Institution

Account and Number

PNC Bank, National Association

Checking/8606082879

PNC Bank, National Association

Money Market/8606082887

GUARANTY

THIS GUARANTY (this "Guaranty"), dated as of February 18, 2003, is made by ENTERTAINMENT TECHNOLOGY CORPORATION, a Pennsylvania corporation and ETC Delaware, Inc. (collectively, the "Guarantors"), in favor of PNC BANK, NATIONAL ASSOCIATION (the "Bank").

W I T N E S S E T H :

WHEREAS, Environmental Tectonics Corporation (the "Borrower") and the Bank are parties to a Credit Agreement, dated as of the date hereof (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement");

WHEREAS, the Credit Agreement provides that, as a condition precedent to the making of the initial Loans thereunder, the Guarantors must execute a guaranty in favor of the Bank; and

WHEREAS, the Guarantors will derive substantial benefits from the Credit Agreement and the Loans made and the letters of credit issued thereunder.

NOW, THEREFORE, in consideration of the premises and to induce the Bank to continue to extend credit under the Credit Agreement, the Guarantors, intending to be legally bound, hereby agree with the Bank as follows:

1. Defined Terms. Unless otherwise defined herein, terms, which are defined in the Credit Agreement and used herein, are so used as so defined. As used herein, "Obligations" shall mean the unpaid principal of and interest on (including, without limitation, interest accruing after the maturity of the Loans and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the Loans, and all other obligations and liabilities of the Borrower to the Bank whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, the Revolving Credit Note, the Letters of Credit, the Bond Letter of Credit, any Interest Hedge Agreement, the other Loan Documents and any other document made, delivered or given in connection therewith or herewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including, without limitation, all fees and disbursements of counsel to the Bank that are required to be paid by the Borrower pursuant to the terms of the Credit Agreement or any other Loan Document) or otherwise.

2. Guaranty. The Guarantors hereby unconditionally and irrevocably guaranties to the Bank, the prompt and complete payment and performance by the Borrower when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations. The Guarantors further agree to pay any and all reasonable expenses (including, without limitation, all reasonable fees and disbursements of counsel), which may be paid or incurred by the Bank in enforcing, or obtaining advice of counsel in respect of, any of its rights under this Guaranty. This Guaranty shall remain in full force and effect until the Obligations are paid in full, the Commitments are terminated and neither any Letter of Credit nor the Bond Letter of Credit is outstanding, notwithstanding that from time to time prior thereto the Borrower may be free from any Obligations.

The Guarantors agree that whenever, at any time or from time to time, it shall make any payment to the Bank on account of its liability hereunder, it will notify the Bank in writing that such payment is made under this Guaranty for such purpose. No payment or payments made by the Borrower or any other Person or received or collected by the Bank from the Borrower or any other

Person by virtue of any action or proceeding or any set-off or appropriation or application, at any time or from time to time, in reduction of or in payment of the Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of the Guarantors hereunder which liability shall, notwithstanding any such payment or payments, remain in full force and effect until the Obligations are paid in full, the Commitments are terminated and no Letter of Credit is outstanding.

3. Right of Set-off. Upon the occurrence and during the continuance of any Event of Default, the Bank is hereby irrevocably authorized at any time and from time to time, without notice to the Guarantors, any such notice being hereby waived by the Guarantors, to set off and appropriate and apply any and all deposits (general or special, time or demand, provisional or final), and any other credits, indebtedness or claims, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by the Bank to or for the credit or the account of the Guarantors, in such amounts as the Bank may elect, on account of the liabilities of the Guarantors hereunder and claims of every nature and description of the Bank against the Guarantors, whether arising hereunder, under the Credit Agreement, the Revolving Credit Note, any Letter of Credit, the Bond Letter of Credit or otherwise, as the Bank may elect, whether or not the Bank has made any demand for payment and although such liabilities and claims may be contingent or unmatured. The Bank shall notify the Guarantors promptly of any such set-off made by it and the application made by it of the proceeds thereof, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Bank under this paragraph are in addition to other rights and remedies (including, without limitation, other rights of set-off), which the Bank may have.

4. No Subrogation. Notwithstanding any payment or payments made by the Guarantors hereunder, or any set-off or application of funds of the Guarantors by the Bank, the Guarantors shall not be entitled to be subrogated to any of the rights of the Bank against the Borrower or against any collateral security or guaranty or right of offset held by the Bank for the payment of the Obligations, nor shall the Guarantors seek any reimbursement or indemnification from the Borrower in respect of payments made by the Guarantors hereunder, until all amounts owing to the Bank by the Borrower on account of the Obligations are paid in full, the Commitments are terminated and no Letter of Credit is outstanding. If any amount shall be paid to the Guarantors on account of such subrogation or other rights at any time when all of the Obligations shall not have been paid in full, such amount shall be held by the Guarantors in trust for the Bank segregated from other assets of the Guarantors, and shall forthwith upon receipt by the Guarantors, be turned over to the Bank in the exact form received by the Guarantors (duly indorsed by the Guarantors to the Bank, if required), to be applied against the Obligations, whether matured or unmatured, in such order as the Bank may determine.

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5. Waivers; Amendments, etc. with respect to the Obligations. Each Guarantor shall remain obligated hereunder notwithstanding that, without any reservation of rights against each Guarantor, and without notice to or further assent by each Guarantor, any demand for payment of any of the Obligations made by the Bank may be rescinded by the Bank, and any of the Obligations continued, and the Obligations, or the liability of any other party upon or for any part thereof, or any collateral security or guaranty therefor or right of offset with respect thereto may from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by the Bank, and the Credit Agreement, the Revolving Credit Note, the other Loan Documents and any other documents executed and delivered in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Bank may deem advisable from time to time, and any collateral security, guaranty or right of offset at any time held by the Bank for the payment of the Obligations may, be sold, exchanged, waived, surrendered or released. The Bank shall not have any obligation to protect, secure, perfect or insure any lien at any time held by it as security for the Obligations or for this Guaranty or any property subject thereto.

6. Guaranty Absolute and Unconditional. Each Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Obligations and notice of or proof of reliance by the Bank upon this Guaranty or acceptance of this Guaranty; the Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Guaranty; and all dealings between the Borrower or the Guarantor, on the one hand, and the Bank, on the other, shall likewise be conclusively presumed to have been had or consummated in reliance upon this Guaranty. Each Guarantor waives notice of acceptance of this Guaranty, notice of extensions of credit to the Borrower from time to time, notice of default, diligence, presentment, notice of dishonor, protest and demand for payment. This Guaranty shall be construed as a continuing, absolute and unconditional Guaranty of payment without regard to (a) the validity or enforceability of the Credit Agreement, the Revolving Credit Note, any of the other Loan Documents, any of the Obligations or any collateral security therefor or guaranty or right of offset with respect thereto at any time or from time to time held by or for the benefit of the Bank, (b) any defense, set-off or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by the Borrower against the Bank, or (c) any other circumstance whatsoever (with or without notice to or knowledge of the Borrower or the Guarantors) which constitutes, or might be construed to constitute, an equitable or legal discharge of the Borrower for the Obligations, or of the Guarantors under this Guaranty, in bankruptcy or in any other instance. When the Bank is pursuing its rights and remedies hereunder against the Guarantors, the Bank may, but shall be under no obligation to, pursue such rights and remedies as it may have against the Borrower or any other Person or against any collateral security or guaranty for the Obligations or any right of offset with respect thereto, and any failure by the Bank to pursue such other rights or remedies or to collect any payments from the Borrower or any such other Person or to realize upon such collateral security or guaranty or to exercise any such right of offset, or any release of the Borrower or any such other Person or of any such collateral security, Guaranty or right of offset, shall not relieve the Guarantors of any joint and several liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Bank against the Guarantors.

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7. Reinstatement. This Guaranty shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Obligations is rescinded or must otherwise be restored or returned by the Bank upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for the Borrower or any substantial part of its property, or otherwise, all as though such payments had not been made.

8. Payments. Each Guarantor hereby agrees that the Obligations will be paid to the order of the Bank without set-off or counterclaim in Dollars in immediately available funds at the office of the Bank set forth in Section 14 hereof.

9. Power to Confess Judgment. Each Guarantor hereby empowers any attorney of any court of record, after the occurrence of any Event of Default hereunder, to appear for each Guarantor and, with or without complaint filed, confess judgment, or a series of judgments, against each Guarantor in favor of the Bank for the amount of the Obligations and an attorney's commission of the greater of three percent (3%) of such principal and interest or \$5,000 added as a reasonable attorneys' fee (but in no event shall such attorney's fee exceed those fees actually and reasonably incurred notwithstanding the amount confessed) and for doing so this Guaranty or a copy verified by affidavit shall be a sufficient warrant. Each Guarantor hereby forever waives and releases all procedural errors in said proceedings and all rights of appeal and all relief from any and all appraisal, stay or exemption laws of any state now in force or hereafter enacted with respect to such judgment or judgments.

No single exercise of the foregoing power to confess judgment, or a series of judgments, shall be deemed to exhaust the power, whether or not any such exercise shall be held by any court to be invalid, voidable, or void, but the power shall continue undiminished and it may be exercised from time to time as often as the Bank shall elect until such time as the Bank shall have received payment in full of the Obligations and costs.

10. Severability. Any provision of this Guaranty which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11. Paragraph Headings. The paragraph headings used in this Guaranty are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

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12. No Waiver; Cumulative Remedies. The Bank shall not by any act (except by a written instrument pursuant to paragraph 13 hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of the Bank, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Bank of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Bank would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

13. Waivers and Amendments; Successors and Assigns; Additional Guarantors; Governing Law. None of the terms or provisions of this Guaranty may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Guarantors and the Bank. This Guaranty shall be binding upon the successors and assigns of the Guarantors and shall inure to the benefit of the Bank and its successors and assigns. If at any time subsequent to the date hereof any new Subsidiary of the Borrower becomes a party to this Guaranty (an "Additional Guarantor") as provided in Section 5.14 of the Credit Agreement by executing a joinder hereto, the obligations of such Additional Guarantor and any other Guarantor hereunder shall be joint and several and all references herein to the Guarantor shall include such Additional Guarantor. THIS GUARANTY SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE SUBSTANTIVE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA.

14. Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by facsimile), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or, in the case of facsimile notice, when sent during normal business hours with electronic confirmation or otherwise when received, addressed as set forth below for the Bank and as set forth on the signature page hereto for each Guarantor:

Bank: PNC Bank, National Association
1600 Market Street
Philadelphia, PA 19103
Attention: John G. Siegrist
Telecopy: (215) 585-5355

15. Submission to Jurisdiction; Waivers.

(a) Each Guarantor hereby irrevocably and unconditionally:

(i) submits for itself and its property in any legal action or proceeding relating to this Guaranty or the other Loan Documents, or for recognition and enforcement of any judgment in respect thereof to the non-exclusive general jurisdiction of the courts of the Commonwealth of Pennsylvania, the courts of the United States of America for the Eastern District of Pennsylvania, and appellate courts from any thereof;

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(ii) consents that any such action or proceeding may be brought in such courts, and waives to the extent permitted by applicable law any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(iii) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to it at its address set forth on the signature page hereto or at such other address of which the Bank shall have been notified;

(iv) waives and hereby acknowledges that it is estopped from raising any objection based on forum non conveniens, any claim that any of the above-referenced courts lack proper venue or any objection that any of such courts lack personal jurisdiction over it so as to prohibit such courts from adjudicating any issues raised in a complaint filed with such courts against such Guarantor concerning this Guaranty or the other Loan Documents;

(v) acknowledges and agrees that the choice of forum contained in this paragraph 15 shall not be deemed to preclude the enforcement of any judgment obtained in any forum or the taking of any action under this Guaranty or any other Loan Documents to enforce the same in any appropriate jurisdiction;

(vi) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this subsection any special, exemplary, punitive or consequential damages; and

(vii) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

(b) Each Guarantor hereby unconditionally waives trial by jury in any legal action or proceeding relating to this Guaranty or any other Loan Document and for any mandatory counterclaim therein, including without limitation any action or proceeding referred to in paragraph (a) above.

Each Guarantor acknowledges that it has read and understood all the provisions of this Guaranty, including the waiver of jury trial and confession of judgment, and has been advised by counsel as necessary or appropriate.

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IN WITNESS WHEREOF, the undersigned has caused this Guaranty to be duly executed and delivered as of the date first above written.

ENTERTAINMENT TECHNOLOGY
CORPORATION

By: /s/ Duane Deaner

Title: Secretary

Address: 125 James Way

Southampton, PA 18966

ETC DELAWARE, INC.

By: /s/ Duane Deaner

Title: Treasurer

Address: 125 James Way

Southampton, PA 18966

OPEN-END MORTGAGE AND SECURITY AGREEMENT

ENVIRONMENTAL TECTONICS CORPORATION

Mortgagor

AND

PNC BANK, NATIONAL ASSOCIATION,

Mortgagee

Return to:

PNC Bank, National Association
1600 Market Street
Philadelphia, Pennsylvania 19103
Attention: John Siegrist

OPEN-END MORTGAGE AND SECURITY AGREEMENT
(This Mortgage Secures Future Advances)

THIS OPEN-END MORTGAGE AND SECURITY AGREEMENT (this "Mortgage") is made as of the 18th day of February, 2003, by ENVIRONMENTAL TECTONICS CORPORATION, a Pennsylvania corporation (the "Mortgagor"), with an address at 125 James Way, Southampton, Pennsylvania 18966 in favor of PNC BANK, NATIONAL ASSOCIATION (the "Mortgagee"), with an address at 1600 Market Street, Philadelphia, PA 19103.

WHEREAS, the Mortgagor is the owner of a certain tract or parcel of land described in Exhibit A attached hereto and made a part hereof, together with the improvements now or hereafter erected thereon; and

WHEREAS, pursuant to the terms of that certain Credit Agreement, dated as of the date hereof (the "Credit Agreement"), between the Mortgagor and the Mortgagee, the Mortgagor is executing and delivering this Mortgage as collateral security for a borrowing from the Mortgagee, in an aggregate amount not to exceed Nineteen Million Eight Hundred Thousand Dollars (\$19,800,000) (collectively, the "Loan"), which Loan is evidenced in part by one or more promissory notes in favor of the Mortgagee (the "Note");

NOW, THEREFORE, for the purpose of securing the payment and performance of the following obligations (collectively called the "Obligations"):

(A) the Loan, the Note and all other loans, advances, debts, liabilities, obligations, covenants and duties owing by the Mortgagor to the Mortgagee or to any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in

bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Mortgagor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether or not evidenced by any note, guaranty or other instrument, whether arising under any agreement, instrument or document, whether or not for the payment of money, whether arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, under any interest or currency swap, future, option or other interest rate protection or similar agreement, or in any other manner, whether arising out of overdrafts on deposit or other accounts or electronic funds transfers (whether through automated clearing houses or otherwise) or out of the Mortgagee's non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository transfer check or other similar arrangements, whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, and any amendments, extensions, renewals or increases and all reasonable costs and expenses of the Mortgagee incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including reasonable attorneys' fees and expenses.

(B) Any sums advanced by the Mortgagee or which may otherwise become due pursuant to the provisions of the Credit Agreement, the Note or this Mortgage or pursuant to any other document or instrument at any time delivered to the Mortgagee to evidence or secure any of the Obligations or which otherwise relate to any of the Obligations (as the same may be amended, supplemented or replaced from time to time, the "Loan Documents").

The Mortgagor, for good and valuable consideration, receipt of which is hereby acknowledged, and intending to be legally bound hereby, does hereby give, grant, bargain, sell, convey, assign, transfer, mortgage, hypothecate, pledge, set over and confirm unto the Mortgagee and does agree that the Mortgagee shall have a security interest in the following described property, all accessions and additions thereto, all substitutions therefor and replacements and proceeds thereof, and all reversions and remainders of such property now owned or held or hereafter acquired (the "Property"), to wit:

(a) All of the Mortgagor's estate in the premises described in Exhibit A, together with all of the easements, rights of way, privileges, liberties, hereditaments, gores, streets, alleys, passages, ways, waters, watercourses, rights and appurtenances thereunto belonging or appertaining, and all of the Mortgagor's estate, right, title, interest, claim and demand therein and in the public streets and ways adjacent thereto, either in law or in equity (the "Land");

(b) All the buildings, structures and improvements of every kind and description now or hereafter erected or placed on the Land, and all facilities, fixtures, machinery, apparatus, appliances, installations, machinery and equipment, including all building materials to be incorporated into such buildings, all electrical equipment necessary for the operation of such buildings and heating, air conditioning and plumbing equipment now or hereafter attached to, located in or used in connection with those buildings, structures or other improvements (the "Improvements");

(c) All rents, issues and profits arising or issuing from the Land and the Improvements (the "Rents") including the Rents arising or issuing from all leases and subleases now or hereafter entered into covering all or any part of the Land and Improvements (the "Leases"), all of which Leases and Rents are hereby assigned to the Mortgagee by the Mortgagor. The foregoing assignment shall include all cash or securities deposited under Leases to secure performance of lessees of their obligations thereunder, whether such cash or securities are to be held until the expiration of the terms of such leases or applied to one or more installments of rent coming due prior to the expiration of such terms. The foregoing assignment extends to Rents arising both before and after the commencement by or against the Mortgagor of any case or proceeding under any Federal or State bankruptcy, insolvency or similar law, and is

intended as an absolute assignment and not merely the granting of a security interest. The Mortgagor, however, shall have a license to collect retain and use the Rents so long as no Event of Default shall have occurred and be continuing or shall exist. The Mortgagor will execute and deliver to the Mortgagee, on demand, such additional assignments and instruments as the Mortgagee may require to implement, confirm, maintain and continue the assignment of Rents hereunder;

(d) All proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims;

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(e) And without limiting any of the other provisions of this Mortgage, the Mortgagor, as debtor, expressly grants unto the Mortgagee, as secured party, a security interest in all those portions of the Property which may be subject to the Uniform Commercial Code provisions applicable to secured transactions under the laws of the state in which the Property is located (the "UCC"), and the Mortgagor will execute and deliver to the Mortgagee on demand such financing statements and other instruments as the Mortgagee may require in order to perfect and maintain such security interest under the UCC on the aforesaid collateral.

To have and to hold the same unto the Mortgagee, its successors and assigns, forever.

Provided, however, that if the Mortgagor shall pay to the Mortgagee the Obligations, and if the Mortgagor shall keep and perform each of its other covenants, conditions and agreements set forth herein and in the other Loan Documents, then, upon the termination of all obligations, duties and commitments of the Mortgagor under the Obligations and this Mortgage, and subject to the provisions of the paragraph entitled "Survival; Successors and Assigns", the estate hereby granted and conveyed shall become null and void.

This Mortgage is an "Open-End Mortgage" as set forth in 42 Pa. C.S.A. ss. 8143 and secures obligations up to a maximum principal amount of indebtedness outstanding at any time equal to double the face amount of the Note, plus accrued and unpaid interest, including advances for the payment of taxes and municipal assessments, maintenance charges, insurance premiums, costs incurred for the protection of the Property or the lien of this Mortgage, expenses incurred by the Mortgagee by reason of default by the Mortgagor under this Mortgage and advances for construction, alteration or renovation on the Property or for any other purpose, together with all other sums due hereunder or secured hereby. All notices to be given to the Mortgagee pursuant to 42 Pa. C.S.A. ss. 8143 shall be given as set forth in Section 18.

1. Representations and Warranties. The Mortgagor represents and warrants to the Mortgagee that the Mortgagor has good and marketable title to an estate in fee simple absolute in the Land and Improvements and has all right, title and interest in all other property constituting a part of the Property, in each case free and clear of all liens and encumbrances, except as may otherwise be set forth on an Exhibit B hereto. This Mortgage is a valid and enforceable first lien on the Property (except as set forth on Exhibit B). The Mortgagor shall preserve such title as it warrants herein and the validity and priority of the lien hereof and shall forever warrant and defend the same to the Mortgagee against the claims of all persons claiming by, through or under Mortgagor.

2. Affirmative Covenants. Until all of the Obligations shall have been fully paid, satisfied and discharged the Mortgagor shall:

(a) Payment and Performance of Obligations. Pay or cause to be paid and perform all Obligations when due as provided in the Loan Documents.

(b) Legal Requirements. Promptly comply with and conform in all material respects to all present and future laws, statutes, codes, ordinances, orders and regulations and all covenants, restrictions and conditions which may be applicable to the Mortgagor or to any of the Property (the "Legal Requirements").

(c) Impositions. Before interest or penalties are due thereon and otherwise when due, the Mortgagor shall pay all taxes of every kind and nature, all charges for any easement or agreement maintained for the benefit of any of the Property, all general and special assessments (including any condominium or planned unit development assessments, if any), levies, permits, inspection and license fees, all water and sewer rents and charges, and all other charges and liens, whether of a like or different nature, imposed upon or assessed against the Mortgagor or any of the Property (the "Impositions") unless the amount thereof is being contested in good faith by the Mortgagor by appropriate proceedings with adequate reserves made for the payment thereof. Within thirty (30) days after the payment of any Imposition if requested by Mortgagee, the Mortgagor shall deliver to the Mortgagee evidence acceptable to the Mortgagee of such payment. The Mortgagor's obligations to pay the Impositions shall survive the Mortgagee's taking title to the Property through foreclosure, deed-in-lieu or otherwise.

(d) Maintenance of Security. Use, and permit others to use, the Property only for its present use or such other uses as permitted by applicable Legal Requirements and approved in writing by the Mortgagee. The Mortgagor shall keep the Property in good condition and order and in a rentable and tenantable state of repair and will make or cause to be made, as and when necessary, all repairs, renewals, and replacements, structural and nonstructural, exterior and interior, foreseen and unforeseen, ordinary and extraordinary, provided, however, that no structural repairs, renewals or replacements in excess of \$100,000 shall be made without the Mortgagee's prior written consent. The Mortgagor shall not remove, demolish or alter any material portion of the Property or any of the Property in a manner that materially adversely affects the same, nor commit or suffer waste with respect thereto, nor permit the Property to become deserted or abandoned. The Mortgagor covenants and agrees not to take or permit any action with respect to the Property which will in any manner impair the security of this Mortgage.

3. Leases. Except as permitted by the Loan Documents, the Mortgagor shall not (a) execute an assignment or pledge of the Rents or the Leases other than in favor of the Mortgagee; (b) accept any prepayment of an installment of any Rents more than 30 days prior to the due date of such installment; or (c) enter into or amend any of the terms of any of the Leases without the Mortgagee's prior written consent. Any or all leases or subleases of all or any part of the Property shall be subject in all respects to the Mortgagee's prior written consent, shall be subordinated to this Mortgage and to the Mortgagee's rights and, together with any and all rents, issues or profits relating thereto, shall be assigned at the time of execution to the Mortgagee as additional collateral security for the Obligations, all in such form, substance and detail as is satisfactory to the Mortgagee in its sole discretion.

4. Due on Sale Clause. The Mortgagor shall not sell, convey or otherwise transfer any interest in the Property (whether voluntarily or by operation of law), or agree to do so, without the Mortgagee's prior written consent, including (a) any sale, conveyance, assignment, or other transfer of (including installment land sale contracts), or the grant of a security interest in, all or any part of the legal or equitable title to the Property, except as otherwise permitted hereunder; (b) any lease of all or any portion of the Property; or (c) any sale, conveyance, assignment, or other transfer of, or the grant of a security interest in, any share of stock of the Mortgagor, except as otherwise permitted by the Loan Documents. Any default under this Section shall cause an immediate acceleration of the Obligations without any demand by the Mortgagee.

5. Insurance. The Mortgagor shall keep the Improvements continuously insured, in an amount not less than the cost to replace the Improvements or an amount not less than eighty percent (80%) of the full insurable value of the

Property, whichever is greater, against loss or damage by fire, with extended coverage and against other hazards as the Mortgagee may from time to time require. With respect to any property under construction or reconstruction, the Mortgagor shall maintain builder's risk insurance. The Mortgagor shall also maintain comprehensive general public liability insurance, in an amount of not less than One Million Dollars (\$1,000,000) per occurrence and Two Million Dollars (\$2,000,000) general aggregate per location, which includes contractual liability insurance for the Mortgagor's obligations under the Leases, and worker's compensation insurance. All property and builder's risk insurance shall include protection for continuation of income for a period of twelve (12) months, in the event of any damage caused by the perils referred to above. All policies, including policies for any amounts carried in excess of the required minimum and policies not specifically required by the Mortgagee, shall be with an insurance company or companies satisfactory to the Mortgagee, shall be in form satisfactory to the Mortgagee, shall meet all coinsurance requirements of the Mortgagee, shall be maintained in full force and effect, with premiums satisfied as collateral security for payment of the Obligations, shall be endorsed with a standard mortgagee clause in favor of the Mortgagee and shall provide for at least thirty (30) days notice of cancellation to the Mortgagee. Such insurance shall also name the Mortgagee as an additional insured under the comprehensive general public liability policy and the Mortgagor shall also deliver to the Mortgagee a copy of the replacement cost coverage endorsement. If the Property is located in an area which has been identified by any governmental agency, authority or body as a flood hazard area or the like, then the Mortgagor shall maintain a flood insurance policy covering the Improvements in an amount not less than the appraised value of the Property or the maximum limit of coverage available under the federal program, whichever amount is less.

6. Rights of Mortgagee to Insurance Proceeds. In the event of loss, the Mortgagee shall have the exclusive right to adjust, collect and compromise all Material Insurance Claims (as defined below), and the Mortgagor shall not adjust, collect or compromise any Material Insurance Claims under said policies without the Mortgagee's prior written consent. Each insurer is hereby authorized and directed to make payment under said policies, including return of unearned premiums, directly to the Mortgagee instead of to the Mortgagor and the Mortgagee jointly, and the Mortgagor appoints the Mortgagee as the Mortgagor's attorney-in-fact to endorse any draft therefor. All Material Insurance Claims proceeds may, at the Mortgagee's sole option, be applied to all or any part of the Obligations and in any order (notwithstanding that such Obligations may not then otherwise be due and payable) or to the repair and restoration of any of the Property under such terms and conditions as the Mortgagee may impose. All other insurance claim proceeds must be applied to the repair and restoration of the Property under terms and conditions satisfactory to the Mortgagee. For purposes of this paragraph 6, the term "Material Insurance Claim" means any insurance claim in excess of \$500,000.

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7. Installments for Insurance, Taxes and Other Charges. Upon the Mortgagee's request at any time following the occurrence of an Event of Default, the Mortgagor shall pay to the Mortgagee monthly, an amount equal to one-twelfth (1/12) of the annual premiums for the insurance policies referred to hereinabove and the annual Impositions and any other item which at any time may be or become a lien upon the Property (the "Escrow Charges"). The amounts so paid shall be used in payment of the Escrow Charges so long as no Event of Default shall have occurred. No amount so paid to the Mortgagee shall be deemed to be trust funds, nor shall any sums paid bear interest. The Mortgagee shall have no obligation to pay any insurance premium or Imposition if at any time the funds being held by the Mortgagee for such premium or Imposition are insufficient to make such payments. If, at any time, the funds being held by the Mortgagee for any insurance premium or Imposition are exhausted, or if the Mortgagee determines, in its sole discretion, that such funds will be insufficient to pay in full any insurance premium or Imposition when due, the Mortgagor shall promptly pay to the Mortgagee, upon demand, an amount which the Mortgagee shall estimate as sufficient to make up the deficiency. Upon the occurrence of an Event of Default, the Mortgagee shall have the right, at its election, to apply any amount so held against the Obligations due and payable in such order as the

Mortgagee may deem fit, and the Mortgagor hereby grants to the Mortgagee a lien upon and security interest in such amounts for such purpose.

8. Condemnation. The Mortgagor, immediately upon obtaining knowledge of the institution of any proceedings for the condemnation or taking by eminent domain of any of the Property, shall notify the Mortgagee of the pendency of such proceedings. The Mortgagee may participate in any such proceedings and the Mortgagor shall deliver to the Mortgagee all instruments requested by it to permit such participation. Any award or compensation for property taken or for damage to property not taken in excess of \$500,000, whether as a result of such proceedings or in lieu thereof, is hereby assigned to and shall be received and collected directly by the Mortgagee, and any award or compensation shall be applied, at the Mortgagee's option, to any part of the Obligations and in any order (notwithstanding that any of such Obligations may not then be due and payable) or to the repair and restoration of any of the Property under such terms and conditions as the Mortgagee may impose.

9. Environmental Matters. (a) For purposes of this Section 9, the term "Environmental Laws" shall mean all federal, state and local laws, regulations and orders, whether now or in the future enacted or issued, pertaining to the protection of land, water, air, health, safety or the environment. The term "Regulated Substances" shall mean all substances regulated by Environmental Laws, or which are known or considered to be harmful to the health or safety of persons, or the presence of which may require investigation, notification or remediation under the Environmental Laws. The term "Contamination" shall mean the discharge, release, emission, disposal or escape of any Regulated Substances into the environment other than as permitted under applicable Environmental Laws.

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(b) The Mortgagor represents and warrants (i) that no Contamination is present at, on or under the Property and that no Contamination is being or, to the best of the Mortgagor's knowledge, has been emitted onto any surrounding property other than as permitted under applicable Environmental Laws; (ii) all operations and activities on the Property have been and are being conducted in accordance with all Environmental Laws, and the Mortgagor has all permits and licenses required under the Environmental Laws; (iii) no underground or aboveground storage tanks are or have been located on or under the Property; and (iv) no legal or administrative proceeding is pending or, to the best of the Mortgagor's knowledge, threatened relating to any environmental condition, operation or activity on the Property regulated under any applicable Environmental Laws, or any violation or alleged violation of Environmental Laws. These representations and warranties shall be true as of the date hereof, and shall be deemed to be continuing representations and warranties which must remain true, correct and accurate during the entire duration of the term of this Mortgage.

(c) The Mortgagor shall ensure, at its sole cost and expense, that the Property and the conduct of all operations and activities thereon comply and continue to comply with all Environmental Laws. The Mortgagor shall notify the Mortgagee promptly and in reasonable detail in the event that the Mortgagor becomes aware of any violation of any Environmental Laws, the presence or release of any Contamination with respect to the Property, or any governmental or third party claims under applicable Environmental Laws relating to the environmental condition of the Property or the conduct of operations or activities thereon. The Mortgagor also agrees not to permit or allow the presence of Regulated Substances on any part of the Property, except (i) to the extent such Regulated Substances are used without violating any Environmental Laws; and (ii) those Regulated Substances which are naturally occurring on the Property. The Mortgagor agrees not to cause, allow or permit the presence of any Contamination on the Property except to the extent such Contamination is in compliance with all applicable Environmental Laws.

(d) The Mortgagee shall not be liable for, and the Mortgagor shall indemnify, defend and hold the Mortgagee and all of its officers, directors, employees and agents, and all of their respective successors and assigns

harmless from and against all losses, costs, liabilities, damages, fines, claims, penalties and expenses (including reasonable attorneys', consultants' and contractors' fees, costs incurred in the investigation, defense and settlement of claims, as well as costs incurred in connection with the investigation, remediation or monitoring of any Regulated Substances or Contamination) that the Mortgagee may suffer or incur (including as holder of the Mortgage, as mortgagee in possession or as successor in interest to the Mortgagor as owner of the Property by virtue of a foreclosure or acceptance of a deed in lieu of foreclosure) as a result of or in connection with (i) any Environmental Laws (including the assertion that any lien existing or arising pursuant to any Environmental Laws takes priority over the lien of the Mortgage); (ii) the breach of any representation, warranty, covenant or undertaking by the Mortgagor in this Section 9; (iii) the presence on or the migration of any Contamination or Regulated Substances on, under or through the Property; or (iv) any litigation or claim by the government or by any third party in connection with the environmental condition of the Property or the presence or migration of any Regulated Substances or Contamination on, under, to or from the Property.

(e) Upon the Mortgagee's request, the Mortgagor shall execute and deliver an Environmental Indemnity Agreement satisfactory in form and substance to the Mortgagee, to more fully reflect the Mortgagor's representations, warranties, covenants and indemnities with respect to the Environmental Laws.

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10. Inspection of Property. The Mortgagee shall have the right to enter the Property at any reasonable hour for the purpose of inspecting the order, condition and repair of the buildings and improvements erected thereon, as well as the conduct of operations and activities on the Property. The Mortgagee may enter the Property (and cause the Mortgagee's employees, agents and consultants to enter the Property), upon reasonable prior written notice to the Mortgagor, to conduct any and all environmental testing deemed appropriate by the Mortgagee in its sole but reasonable discretion. The environmental testing shall be accomplished by whatever means the Mortgagee may deem appropriate, including the taking of soil samples and the installation of ground water monitoring wells or other intrusive environmental tests. The Mortgagor shall provide the Mortgagee (and the Mortgagee's employees, agents and consultants) reasonable rights of access to the Property as well as such information about the Property and the past or present conduct of operations and activities thereon as the Mortgagee shall reasonably request.

11. Events of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default" hereunder: (a) any Event of Default (as defined in the Credit Agreement); (b) the failure by the Mortgagor to perform its obligations set forth in Section 2(a) hereof; (c) the failure by the Mortgagor to perform any of its other obligations under this Mortgage or under any Environmental Indemnity Agreement executed and delivered pursuant to Section 9(e) for a period of fifteen (15) days or more; (d) falsity, inaccuracy or material breach by the Mortgagor of any written warranty, representation or statement made herein by the Mortgagor; (e) an uninsured material loss, theft, damage, or destruction to any of the Property, or any lien against or the making of any levy, seizure or attachment of or on the Property; (f) the failure of the Mortgagee to have a mortgage lien on the Property with the priority required under Section 1; (g) any indication or evidence received by the Mortgagee that the Mortgagor may have directly or indirectly been engaged in any type of activity which, in the Mortgagee's discretion, might result in the forfeiture of any property of the Mortgagor to any governmental entity, federal, state or local; (h) foreclosure proceedings are instituted against the Property upon any other lien or claim, whether alleged to be superior or junior to the lien of this Mortgage; (i) the failure by the Mortgagor to pay any Impositions as required under Section 2(c), or to maintain in full force and effect any insurance required under Section 5; or (j) the Mortgagor or any other obligor or guarantor of any of the Obligations, shall at any time deliver or cause to be delivered to the Mortgagee a notice pursuant to 42 Pa. C.S.A. ss. 8143 electing to limit the indebtedness secured by this Mortgage.

12. Rights and Remedies of Mortgagee. If an Event of Default occurs, the Mortgagee may, at its option and without demand, notice or delay, do one or more of the following:

(a) The Mortgagee may declare the entire unpaid principal balance of the Obligations, together with all interest thereon, to be due and payable immediately.

(b) The Mortgagee may (i) institute and maintain an action of mortgage foreclosure against the Property and the interests of the Mortgagor therein, (ii) institute and maintain an action on any instruments evidencing the Obligations or any portion thereof, and (iii) take such other action at law or in equity for the enforcement of any of the Loan Documents as the law may allow, and in each such action the Mortgagee shall be entitled to all costs of suit and attorneys fees.

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(c) The Mortgagee may, in its sole and absolute discretion: (i) collect any or all of the Rents, including any Rents past due and unpaid, (ii) perform any obligation or exercise any right or remedy of the Mortgagor under any Lease, or (iii) enforce any obligation of any tenant of any of the Property. The Mortgagee may exercise any right under this subsection (c), whether or not the Mortgagee shall have entered into possession of any of the Property, and nothing herein contained shall be construed as constituting the Mortgagee a "mortgagee in possession", unless the Mortgagee shall have entered into and shall continue to be in actual possession of the Property. The Mortgagor hereby authorizes and directs each and every present and future tenant of any of the Property to pay all Rents directly to the Mortgagee and to perform all other obligations of that tenant for the direct benefit of the Mortgagee, as if the Mortgagee were the landlord under the Lease with that tenant, immediately upon receipt of a demand by the Mortgagee to make such payment or perform such obligations. The Mortgagor hereby waives any right, claim or demand it may now or hereafter have against any such tenant by reason of such payment of Rents or performance of obligations to the Mortgagee, and any such payment or performance to the Mortgagee shall discharge the obligations of the tenant to make such payment or performance to the Mortgagor.

(d) The Mortgagee shall have the right, in connection with the exercise of its remedies hereunder, to the appointment of a receiver to take possession and control of the Property or to collect the Rents, without notice and without regard to the adequacy of the Property to secure the Obligations. A receiver while in possession of the Property shall have the right to make repairs and to make improvements necessary or advisable in its or his opinion to preserve the Property, or to make and keep it rentable to the best advantage, and the Mortgagee may advance moneys to a receiver for such purposes. Any moneys so expended or advanced by the Mortgagee or by a receiver shall be added to and become a part of the Obligations secured by this Mortgage.

13. Application of Proceeds. The Mortgagee shall apply the proceeds of any foreclosure sale of, or other disposition or realization upon, or Rents or profits from, the Property to satisfy the Obligations in such order of application as the Mortgagee shall determine in its exclusive discretion.

14. Confession of Judgment in Ejectment. At any time after the occurrence and during the continuance of an Event of Default, without further notice, regardless of whether the Mortgagee has asserted any other right or exercised any other remedy under this Mortgage or any of the other Loan Documents, it shall be lawful for any attorney of any court of record as attorney for the Mortgagor to confess judgment in ejectment against the Mortgagor and all persons claiming under the Mortgagor for the recovery by the Mortgagee of possession of all or any part of the Property, for which this Mortgage shall be sufficient warrant. If for any reason after such action shall have commenced the same shall be discontinued and the possession of the Property shall remain in or be restored to the Mortgagor, the Mortgagee shall have the right upon any subsequent default or defaults to bring one or more amicable

action or actions as hereinbefore set forth to recover possession of all or any part of the Property.

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15. Mortgagee's Right to Protect Security. The Mortgagee is hereby authorized to do any one or more of the following, irrespective of whether an Event of Default has occurred: (a) appear in and defend any action or proceeding purporting to affect the security hereof or the Mortgagee's rights or powers hereunder if the Mortgagor fails to so defend such action or proceeding to the satisfaction of the Mortgagee; (b) purchase such insurance policies covering the Property as it may elect if the Mortgagor fails to maintain the insurance coverage required hereunder; and (c) take such action as the Mortgagee may determine to pay, perform or comply with any Impositions or Legal Requirements, to cure any Events of Default and to protect its security in the Property.

16. Appointment of Mortgagee as Attorney-in-Fact. The Mortgagee, or any of its officers, is hereby irrevocably appointed attorney-in-fact for the Mortgagor (without requiring any of them to act as such), such appointment being coupled with an interest, to do any or all of the following: (a) collect the Rents after the occurrence of an Event of Default; (b) settle for, collect and receive any awards payable under Section 8 from the authorities making the same; and (c) execute, deliver and file such financing statements and other instruments as the Mortgagee may require in order to perfect and maintain its security interest under the Uniform Commercial Code on any portion of the Property.

17. Certain Waivers. The Mortgagor hereby waives and releases all benefit that might accrue to the Mortgagor by virtue of any present or future law exempting the Property, or any part of the proceeds arising from any sale thereof, from attachment, levy or sale on execution, or providing for any stay of execution, exemption from civil process or extension of time for payment or any rights of marshalling in the event of any sale hereunder of the Property, and, unless specifically required herein, all notices of the Mortgagor's default or of the Mortgagee's election to exercise, or the Mortgagee's actual exercise of any option under this Mortgage or any other Loan Document.

18. Notices. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder must be in writing and will be effective upon receipt by the Mortgagor or the Mortgagee. Such notices and other communications may be hand-delivered, sent by facsimile transmission with confirmation of delivery and a copy sent by first-class mail, or sent by nationally recognized overnight courier service, to a party's address set forth above or to such other address as the Mortgagor or the Mortgagee may give to the other in writing for such purpose.

19. Further Acts. The Mortgagor will, at the cost of the Mortgagor, and without expense to the Mortgagee, do, execute, acknowledge and deliver all further acts, deeds, conveyances, mortgages, assignments, notices of assignment, transfers and assurances as the Mortgagee shall, from time to time, reasonably require for the better assuring, conveying, assigning, transferring or confirming unto the Mortgagee the property and rights hereby mortgaged, or which Mortgagor may be or may hereafter become bound to convey or assign to the Mortgagee, or for carrying out the intent of or facilitating the performance of the terms of this Mortgage or for filing, registering or recording this Mortgage. The Mortgagor grants to the Mortgagee an irrevocable power of attorney coupled with an interest for the purpose of exercising and perfecting any and all rights and remedies available to the Mortgagee under the Note, this Mortgage, the other Loan Documents, at law or in equity, including, without limitation, the rights and remedies described in this paragraph.

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20. Changes in the Laws Regarding Taxation. If any law is enacted or adopted or amended after the date of this Mortgage which deducts the Obligations from the value of the Property for the purpose of taxation or which imposes a

tax, either directly or indirectly, on the Mortgagor or the Mortgagee's interest in the Property, the Mortgagor will pay such tax, with interest and penalties thereon, if any. If the Mortgagee determines that the payment of such tax or interest and penalties by the Mortgagor would be unlawful or taxable to the Mortgagee or unenforceable or provide the basis for a defense of usury, then the Mortgagee shall have the option, by written notice of not less than ninety (90) days, to declare the entire Obligations immediately due and payable.

21. Documentary Stamps. If at any time the United States of America, any State thereof or any subdivision of any such State shall require revenue or other stamps to be affixed to the Note or this Mortgage, or impose any other tax or charge on the same, the Mortgagor will pay for the same, with interest and penalties thereon, if any.

22. Preservation of Rights. No delay or omission on the Mortgagee's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Mortgagee's action or inaction impair any such right or power. The Mortgagee's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Mortgagee may have under other agreements, at law or in equity. The Mortgagee may exercise any one or more of its rights and remedies without regard to the adequacy of its security.

23. Illegality. In case any one or more of the provisions contained in this Mortgage should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

24. Changes in Writing. No modification, amendment or waiver of any provision of this Mortgage nor consent to any departure by the Mortgagor therefrom will be effective unless made in a writing signed by the Mortgagee, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Mortgagor in any case will entitle the Mortgagor to any other or further notice or demand in the same, similar or other circumstance.

25. Entire Agreement. This Mortgage (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the Mortgagor and the Mortgagee with respect to the subject matter hereof.

26. Survival; Successors and Assigns. This Mortgage will be binding upon and inure to the benefit of the Mortgagor and the Mortgagee and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Mortgagor may not assign this Mortgage in whole or in part without the Mortgagee's prior written consent and the Mortgagee at any time may assign this Mortgage in whole or in part; and provided, further, that the rights and benefits under the Paragraphs entitled "Environmental Matters", "Inspection of Property" and "Indemnity" shall also inure to the benefit of any persons or entities who acquire title or ownership of the Property from or through the Mortgagee or through action of the Mortgagee (including a foreclosure, sheriff's or judicial sale). The provisions of Paragraphs entitled "Environmental Matters", "Inspection of Property" and "Indemnity" shall survive the termination, satisfaction or release of this Mortgage, the foreclosure of this Mortgage or the delivery of a deed in lieu of foreclosure.

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27. Interpretation. In this Mortgage, the singular includes the plural and the plural the singular; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation" and references to sections or exhibits are to those of this Mortgage unless otherwise indicated. Section headings in this Mortgage are included for convenience of reference only and shall not constitute a part of this Mortgage for any other purpose. If this Mortgage is executed by

more than one party as Mortgagor, the obligations of such persons or entities will be joint and several.

28. Indemnity. The Mortgagor agrees to indemnify each of the Mortgagee, its directors, officers and employees and the Mortgagee's holding company, if any, (the "Indemnified Parties") and to hold each Indemnified Party harmless from and against any and all claims, damages, losses, liabilities and expenses (including all reasonable fees and charges of internal or external counsel with whom any Indemnified Party may consult and all reasonable expenses of litigation or preparation therefor) which any Indemnified Party may incur or which may be asserted against any Indemnified Party in connection with or arising out of the matters referred to in this Mortgage or in the other Loan Documents by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Mortgagor), whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Mortgagor, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority, which arises out of or relates to this Mortgage, any other Loan Document, or the use of the proceeds of the Loan; provided, however, that the foregoing indemnity agreement shall not apply to claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Mortgage, payment of any Loan and assignment of any rights hereunder. The Mortgagor may participate at its expense in the defense of any such action or claim.

29. Governing Law and Jurisdiction. This Mortgage has been delivered to and accepted by the Mortgagee and will be deemed to be made in the State where the Mortgagee's office indicated above is located. THIS MORTGAGE WILL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE MORTGAGOR AND THE MORTGAGEE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE WHERE THE MORTGAGEE'S OFFICE INDICATED ABOVE IS LOCATED, EXCEPT THAT THE LAWS OF THE STATE WHERE THE PROPERTY IS LOCATED (IF DIFFERENT FROM THE STATE WHERE SUCH OFFICE OF THE MORTGAGEE IS LOCATED) SHALL GOVERN THE CREATION, PERFECTION AND FORECLOSURE OF THE LIENS CREATED HEREUNDER ON THE PROPERTY OR ANY INTEREST THEREIN. The Mortgagor hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the county or judicial district where the Mortgagee's office indicated above is located; provided that nothing contained in this Mortgage will prevent the Mortgagee from bringing any action, enforcing any award or judgment or exercising any rights against the Mortgagor individually, against any security or against any property of the Mortgagor within any other county, state or other foreign or domestic jurisdiction. The Mortgagor acknowledges and agrees that the venue provided above is the most convenient forum for both the Mortgagee and the Mortgagor. The Mortgagor waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Mortgage.

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30. WAIVER OF JURY TRIAL. THE MORTGAGOR IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS MORTGAGE, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS MORTGAGE OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE MORTGAGOR ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

The Mortgagor acknowledges that it has read and understood all the provisions of this Mortgage, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.

WITNESS the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

ENVIRONMENTAL TECTONICS
CORPORATION

ATTEST: /s/ Ann M. Allen

By: /s/ Duane Deaner

(SEAL)

Print Name: Ann M. Allen

Print Name: Duane Deaner

Title: Corporate Secretary

Title: C.F.O.

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CERTIFICATE OF RESIDENCE

The undersigned certifies that the residence of the Mortgagee is 1600 Market Street, Philadelphia, PA 19103.

/s/ John G. Siegrist

On behalf of the Mortgagee

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COMMONWEALTH OF PENNSYLVANIA)
) ss:
COUNTY OF PHILADELPHIA)

On this, the 18th day of February, 2003, before me, a Notary Public, the undersigned officer, personally appeared Duane Deaner, who acknowledged himself/herself to be the Chief Financial Officer of Environmental Tectonics Corporation, a Pennsylvania corporation, and that he/she, in such capacity, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing on behalf of said corporation.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

/s/ Ann M. Allen

Notary Public

My commission expires:

| NOTARIAL SEAL |
| ANN M. ALLEN, Notary Public |
| Upper Southampton Twp., Bucks County |
| My Commission Expires Sept. 26, 2004 |

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EXHIBITS

- A. Legal Description
- B. Permitted Encumbrances

CONVERTIBLE NOTE AND WARRANT PURCHASE AGREEMENT

by and between

ENVIRONMENTAL TECTONICS CORPORATION

and

H.F. LENFEST

Dated as of

February 18, 2003

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CONVERTIBLE NOTE AND WARRANT PURCHASE AGREEMENT

\$10,000,000

Senior Subordinated Convertible Note of Borrower

Due February 18, 2009

Warrants to Purchase

Shares of Common Stock of Borrower

THIS CONVERTIBLE NOTE AND WARRANT PURCHASE AGREEMENT (this "Agreement"), dated as of February 18, 2003, is made by and between Environmental Tectonics Corporation, a Pennsylvania corporation (the "Borrower"), and H.F. Lenfest (the "Purchaser"). Capitalized terms used and not defined elsewhere in this Agreement are defined in Article 1 hereof.

RECITALS

WHEREAS, contemporaneously herewith, Borrower is entering into the Senior Credit Agreement pursuant to which Senior Lender will make available credit facilities for the Borrower to repay certain of its outstanding debt obligations and for Borrower's working capital requirements;

WHEREAS, the Senior Credit Agreement requires that the Borrower obtain subordinated financing in an amount not less than \$10,000,000 as a condition to closing of the Senior Financing;

WHEREAS, to satisfy the closing condition under the Senior Credit Agreement, the Borrower has requested that the Purchaser make available to the Borrower a secured credit facility in the principal amount of \$10,000,000 to be used for working capital purposes and, repayment of debt of Borrower existing on the date hereof and general corporate purposes directly related to the growth of the business of the Borrower; and the Purchaser has agreed to do so, on the terms and conditions set forth herein.

NOW, THEREFORE, the parties hereto, in consideration of the foregoing premises and their mutual covenants and agreements herein set forth and intending to be legally bound hereby, covenant and agree as follows:

ARTICLE I

DEFINITIONS

1.1 Certain Definitions. In addition to other words and terms defined elsewhere in this Agreement, the following words and terms shall have the meanings set forth below (and such meanings shall be equally applicable to both the singular and plural form of the terms defined, as the context may require):

"Acquisition" shall mean the acquisition by purchase, lease or otherwise of all or substantially all of the assets of, or all of the capital stock or other equity or ownership interests of, any other Person.

"Affiliate" shall mean with respect to any Person, any other Person that is directly or indirectly controlling, controlled by or under common control with such Person or entity or any of its Subsidiaries, and the term "control" (including the terms "controlled by" and "under common control with") means having, directly or indirectly, the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities or by contract or otherwise. Without limiting the foregoing, the ownership of ten percent (10%) or more of the voting securities of a Person shall be deemed to constitute control and notwithstanding anything to the contrary herein, neither Purchaser nor any of his respective Affiliates shall be deemed to be Affiliates of the Borrower by virtue of the transactions contemplated in this Agreement.

"Agreement" shall mean this Convertible Note and Warrant Purchase Agreement, as the same may be amended, restated, supplemented or otherwise modified from time to time.

"Annual EBITDA" shall mean as of the last day of any Fiscal Quarter, the Borrower's EBITDA for the most recently completed four consecutive Fiscal Quarters, determined on a consolidated basis in accordance with GAAP. For purposes of calculating EBITDA with respect to any Permitted Acquisition occurring after the Closing Date, it shall be assumed that such acquisition occurred on the first day of the period for which Annual EBITDA is being calculated.

"Bonds" shall mean the Borrower's \$5,470,000 Taxable Variable Rate Demand/Fixed Rate Revenue Bonds, Series of 2000.

"Borrower" shall have the meaning assigned to such term in the preamble hereto.

"Business" shall mean the principal business of the Borrower as set forth in Section 5.1(d) herein and as such shall continue to be conducted following the purchase and sale of the Securities.

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which banking institutions in the Commonwealth of Pennsylvania are authorized or required by law to close.

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"Bylaws" shall mean the bylaws of the Borrower and each Guarantor, including all amendments and supplements thereto.

"Capital Expenditures" shall mean any expenditure which would be classified as a capital expenditure in accordance with GAAP.

"Capital Lease" shall mean a lease with respect to which lessee is required to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Lease Obligation" shall mean at any time, the amount of the obligations of a Person under Capital Leases which would be shown at such time as a liability on a Consolidated balance sheet of such Person prepared in accordance with GAAP.

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. ss. 9601, et seq.), as amended, and all rules, regulations, standards guidelines and publications issued thereunder.

"Change of Control" shall mean an event or series of events by which (a) any "person" or "group" (as such terms are defined in Sections 13(d) and

14(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under such Exchange Act, except that a Person shall be deemed to have "beneficial ownership" of all shares that any such Person has the right to acquire without condition, other than passage of time, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 35% of the total voting power of the then outstanding Voting Stock of the Borrower, or (b) from and after the date hereof, individuals who on the date hereof constitute the Board of Directors of the Borrower (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Borrower was approved by a vote of a majority of the directors then still in office who were either directors on the date hereof or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Borrower then in office.

"Charter Documents" shall mean the Articles of Incorporation of the Borrower and the Articles of Incorporation or Certificate of Incorporation, as the case may be, of each Guarantor, including all amendments and supplements thereto.

"Closing" shall mean the closing of the purchase and sale of the Securities pursuant to this Agreement.

"Closing Date" shall mean the date and time for delivery of the Note as finally determined pursuant to Section 2.5 hereof.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Common Stock" shall mean shares of common stock, par value \$0.05 per share, of the Borrower.

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"Compliance Certificate" shall have the meaning set forth in Section 7.1(f)(ii).

"Condition" shall mean any condition that results in or otherwise relates to any Environmental Liabilities.

"Consolidated" or "consolidated" shall mean with reference to any term defined herein, that term as applied to the accounts of the Borrower and its Subsidiaries, consolidated in accordance with GAAP.

"Consolidated Tangible Net Worth" shall mean as of any date of determination, (a) the aggregate amount of all assets of the Borrower and its Subsidiaries on a consolidated basis at such date as may be properly classified as such in accordance with GAAP, excluding such other assets as are properly classified as intangible assets under GAAP, minus (b) the aggregate amount of all liabilities of the Borrower and its Subsidiaries on a consolidated basis at such date, as may be properly classified as such in accordance with GAAP.

"Contingent Obligation" shall mean as to any Person, without duplication, any guarantee of payment or performance by such Person of any Indebtedness or other obligation of any other Person, or any agreement to provide financial assurance with respect to the financial condition, or the payment of the obligations of, such other Person (including, without limitation, purchase or repurchase agreements, reimbursement agreements with respect to letters of credit or acceptances, indemnity arrangements, grants of security interests to support the obligations of another Person, keep well agreements and take-or-pay or through-put arrangements) which has the effect of assuring or holding harmless any third Person against loss with respect to one or more obligations owed to such third Person; provided, however, the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Contingent Obligation of any Person shall be deemed to be the lower of (a) an amount equal

to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made and (b) the maximum amount for which such contingently liable Person may be liable pursuant to the terms of the instrument embodying such Contingent Obligation, unless such primary obligation and the maximum amount for which such contingently liable Person may be liable are not stated or determinable, in which case the amount of such Contingent Obligation shall be such contingently liable Person's maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith.

"Contractual Obligation" shall mean as to any Person, any provision of any security issued by or operating agreement or organizational or formation documents of such Person or any provision of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Default" shall mean any event or condition that, but for the giving of notice or the lapse of time, or both, would constitute an Event of Default.

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"EBITDA" shall mean as of the last day of any Fiscal Quarter of the Borrower, Net Income of the Borrower plus depreciation, amortization, other non-cash charges, in each case to the extent deducted from earnings in determining such Net Income, plus Interest Expense and income tax expense, each to the extent deducted from earnings in determining such Net Income, minus the amount of non-cash credits included in determining such Net Income, all of the above to be determined for such Fiscal Quarter in accordance with GAAP on a Consolidated basis; provided, however, that, in the above calculations there also shall be excluded from Net Income (a) any addition for non-operating gains during such period (including, without limitation, extraordinary or unusual gains, gains from discontinuance of operations or gains arising from a sale of capital assets) and (b) any subtraction for non-operating losses during such period (including, without limitation, extraordinary or unusual losses, losses from the discontinuance of operations or losses arising from the sale of capital assets).

"Environmental Laws" shall mean any Laws that address, are related to or otherwise are concerned with environmental, health or safety issues, including, without limitation, any Laws relating to any emissions, releases or discharges of Pollutants into ambient air, surface water, ground water or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, handling, clean-up or control of Pollutants or any exposure or impact on worker health and safety.

"Environmental Liabilities" shall mean any obligations or liabilities (including, without limitation, any claims, suits or other assertions of obligations or liabilities) that are:

(a) related to environmental, health or safety issues (including, without limitation, on-site or off-site contamination by Pollutants of surface or subsurface soil or water, and occupational safety and health); and

(b) based upon or related to (i) any provision of past, present or future United States or foreign Environmental Law (including, without limitation, CERCLA and RCRA) or common law, or (ii) any judgment, order, writ, decree, permit or injunction imposed by any court, administrative agency, tribunal or otherwise.

The term "Environmental Liabilities" includes among other things, all: (i) fines, penalties, judgments, awards, settlements, losses, damages, costs, fees (including, without limitation, attorneys' and consultants' fees), expenses and disbursements; (ii) defense and other responses to any administrative or judicial action (including, without limitation, claims, notice letters, complaints, and other assertions of liability); and (iii) financial

responsibility for (1) cleanup costs and injunctive relief, including any Removal, Remedial or other Response actions, and natural resource damages, and (2) any other compliance or remedial measures.

"EPA" shall mean the United States Environmental Protection Agency and any governmental body or agency succeeding to the functions thereof.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may from time to time be amended, and the rules and regulations of any governmental agency or authority, as from time to time may be in effect, promulgated thereunder.

"Event of Default" shall mean any of the events of default described in Section 8.1 hereof.

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"Executive Officer" shall mean the chief executive officer, the president, the chief financial officer, and the chief operating officer of the Borrower and each Guarantor, as applicable.

"Financing Statements" shall have the meaning assigned to such term in Section 4.1(c)(i) hereof.

"Fiscal Quarter" or "fiscal quarter" shall mean during each Fiscal Year of the Borrower, each three-month fiscal period beginning respectively on the day immediately following the last day of the prior Fiscal Year and on the corresponding day of the third, sixth and ninth month thereafter and ending on the three-month anniversary of each such date, except in the case of the fourth Fiscal Quarter which ends on the last day of such Fiscal Year.

"Fiscal Year" or "fiscal year" shall mean each twelve-month period ending on the last Friday in February.

"Fixed Charges" shall mean as of the last day of each Fiscal Quarter, the sum (without duplication) of the Borrower's (a) Debt Service (including payments under Capitalized Leases) for the immediately preceding period of four consecutive Fiscal Quarters, (b) income taxes paid in cash in the immediately preceding period of four consecutive Fiscal Quarters and (c) cash dividends paid on the immediately preceding period of four consecutive Fiscal Quarters, all determined on a consolidated basis in accordance with GAAP.

"Fixed Charge Coverage Ratio" shall mean, for any period, the ratio of EBITDA, minus Capital Expenditures minus capitalized software development costs during such period to the Fixed Charges during such period.

"GAAP" shall have the meaning assigned to such term in Section 1.2 hereof.

"Government Approval" shall have the meaning set forth in Section 5.1(aa).

"Governmental Authorities" shall mean any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guarantor" shall mean each of Entertainment Technology Corporation, a Pennsylvania corporation, ETC Delaware, Inc., a Delaware corporation, and each other Subsidiary of the Borrower hereafter formed, created or acquired, and their respective successors and permitted assigns.

"Guaranty" shall mean any guaranty of the payment or performance of any Indebtedness or other obligation and any other arrangement whereby credit is extended to one obligor on the basis of any promise of another Person, whether that promise is expressed in terms of an obligation to pay the Indebtedness of

such obligor, or to purchase an obligation owed by such obligor, or to purchase goods and services from such obligor pursuant to a take-or-pay contract, or to maintain the capital, working capital, solvency or general financial condition of such obligor, whether or not any such arrangement is reflected on the balance sheet of such other Person, firm or corporation, or referred to in a footnote thereto, but shall not include endorsements of items for collection in the ordinary course of business. For the purpose of all computations made under this Agreement, the amount of a Guaranty in respect of any obligation shall be deemed to be equal to the maximum aggregate amount of such obligation or, if the Guaranty is limited to less than the full amount of such obligation, the maximum aggregate potential liability under the terms of the Guaranty.

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"Guaranty Agreement" shall mean the Guaranty Agreement of even date herewith executed and delivered by the Guarantors to Purchasers, as the same may be amended, modified, supplemented or restated from time to time hereafter.

"Indebtedness" shall mean

(a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices),

(b) any other indebtedness which is evidenced by a note, bond, debenture or similar instrument,

(c) all Capital Lease Obligations of such Person,

(d) all obligations of such Person in respect of outstanding letters of credit, acceptances and similar obligations created for the account of such Person,

(e) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof,

(f) all obligations of such Person with respect to Interest Rate Protection Agreements (calculated on a basis satisfactory to the Bank and in accordance with accepted practice), and

(g) withdrawal liabilities of such Person or any Affiliate under a Plan.

"Interest Expense" shall mean as of the last day of each Fiscal Quarter, the amount of cash interest expense incurred by the Borrower for the most recently completed four consecutive Fiscal Quarters determined on a consolidated basis in accordance with GAAP.

"Interest Hedge Agreement" shall mean any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate insurance or any other similar agreement which is not speculative in nature with all extensions, renewals, amendments, substitutions and replacements to and any of the foregoing, documentation of all of which shall conform to International Swap Dealers Association Inc. standards.

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"Investment" as applied to any Person shall mean the amount paid or agreed to be paid or loaned, advanced or contributed to other Persons, and in any event shall include, without limitation, (i) any direct or indirect purchase or other acquisition of any notes, obligations, instruments, stock, securities or ownership interest (including, without limitation, partnership interests and

joint venture interests) and (ii) any capital contribution to any other Person.

"IRS" shall mean the Internal Revenue Service and any governmental body or agency succeeding to the functions thereof.

"Laws" shall mean all U.S. and foreign federal, state or local statutes, laws, rules, regulations, ordinances, codes, decrees, binding agreements, rules of common law, and the like, now or hereafter in effect, including, any judicial or administrative interpretations thereof, and any judicial or administrative orders, consents, decrees, judgments or rulings.

"Lien" shall mean any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Capital Lease having substantially the same economic effect as any of the foregoing).

"Loan" shall mean the loan in the original principal amount of \$10,000,000.00 made to the Borrower by the Purchaser hereunder and any additions thereto.

"Material Adverse Change" shall mean any set of circumstances or events which (a) has or could reasonably be expected to have any material adverse effect whatsoever upon the validity or enforceability of this Agreement or any other Transaction Document, (b) is or could reasonably be expected to be material and adverse to the business, properties, assets, financial condition or results of operations of the Borrower and its Subsidiaries taken as a whole, (c) impairs materially or could reasonably be expected to impair materially the ability of the Borrower to duly and punctually pay or perform its obligations under the Transaction Documents, or (d) impairs materially or could reasonably be expected to impair materially the ability of the Purchaser to enforce its legal remedies pursuant to this Agreement and the other Transaction Documents.

"Material Adverse Effect" shall mean an effect that results in or causes or has a reasonable likelihood of resulting in or causing a Material Adverse Change.

"Maturity Date" shall mean February 18, 2009, or any other date on which all outstanding principal, together with accrued and unpaid interest, on the Notes shall be due and payable in full.

"Mortgage" shall mean the Open-End Mortgage and Security Agreement, in the form attached hereto as Exhibit F, encumbering and granting a second mortgage lien in favor of the Purchaser on the Borrower's real property at 125 James Way, Southampton, Pennsylvania, as the same may be amended, supplemented or otherwise modified from time to time.

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"Multiemployer Plan" shall mean a multiemployer plan (within the meaning of Section 3(37) of ERISA) that is maintained for the benefit of the employees of the Borrower.

"Net Income" shall mean, for any fiscal period, the net income (or loss) after income taxes (if any) of the Borrower for such period, determined a Consolidated basis in accordance with GAAP.

"Note" shall have the meaning assigned to such term in Section 2.1.

"Operating Lease" shall mean any lease that, under GAAP, is not required to be capitalized.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA, or any other governmental agency,

department or instrumentality succeeding to the functions thereof.

"Permitted Acquisition" shall mean an Acquisition that is permitted by the Senior Credit Agreement or as to which the consent or waiver of the Senior Lender under the Senior Credit Agreement has been obtained.

"Permitted Indebtedness" shall have the meaning assigned to such term in Section 5.1(c) hereof.

"Permitted Liens" shall have the meaning assigned to such term in Section 7.2(b) hereof.

"Person" shall mean any individual, partnership, limited partnership, corporation, limited liability company, association, joint stock company, trust, joint venture, unincorporated organization or governmental entity or department, agency or political subdivision thereof.

"Plan" shall mean any employee benefit plan (within the meaning of Section 3(3) of ERISA), other than a Multiemployer Plan, established or maintained by the Borrower.

"Pollutant" shall include any "hazardous substance" and any "pollutant or contaminant" as those terms are defined in CERCLA; any "hazardous waste" as that term is defined in RCRA; and any "hazardous material" as that term is defined in the Hazardous Materials Transportation Act (49 U.S.C. ss. 1801 et seq.), as amended (including as those terms are further defined, construed, or otherwise used in rules and regulations issued pursuant to, or otherwise in implementation of, said Environmental Laws); and including, without limitation, any petroleum product or byproduct, solvent, flammable or explosive material, radioactive material, asbestos, polychlorinated biphenyls (PCBs), dioxins, dibenzofurans, heavy metals, and radon gas; and including any other substance or material that is reasonably determined by any Governmental Authority or pursuant to any Law to present a threat, hazard or risk to human health or the environment.

"Preferred Stock" shall mean shares of preferred stock, par value \$0.05 per share, of the Borrower.

"Properties and Facilities" shall have the meaning assigned to such term in Section 5.1(q).

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"Proprietary Rights" shall mean all patents, patents pending, trademarks, trade names, service marks, copyrights, inventions, production methods, licenses, formulas, technology, know-how, processes and trade secrets, regardless of whether such are registered with any Governmental Authorities, including applications therefor.

"Purchaser" shall have the meaning assigned to such term in the preamble hereto and in Section 6.2 hereof.

"RCRA" shall mean the Resource Conservation and Recovery Act (42 U.S.C. ss. 6901 et seq.), as amended, and all rules and regulations issued thereunder.

"Registration Rights Agreement" shall have the meaning set forth in Section 4.1(c)(ii).

"Removal," "Remedial" and "Response" actions shall include the types of activities covered by CERCLA, RCRA, and other comparable Environmental Laws, and whether the activities are those which might be taken by a government entity or those which a government entity or any other person might seek to require of waste generators, handlers, distributors, processors, users, storers, treaters, owners, operators, transporters, recyclers, reusers, disposers, or other persons under "removal," "remedial," or other "response" actions.

"Reportable Event" shall mean any of the events which are reportable under Section 4043 of ERISA and the regulations promulgated thereunder, other than an occurrence for which the thirty (30) day notice contained in 29 C.F.R. ss. 2615.3(a) is waived.

"SEC" shall mean the Securities and Exchange Commission and any governmental body or agency succeeding to the functions thereof.

"Securities" shall mean the Note, the Warrants and the shares of Common Stock issuable upon conversion of the Note and exercise of the Warrants.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Security Agreement" shall have the meaning assigned to such term in Section 4.1(c)(i) hereof.

"Security Documents" shall mean the Security Agreement, the Mortgage, the Guaranty, the Financing Statements, and all other documents, instruments and other materials necessary to create or perfect the security interests created pursuant to the Security Agreement.

"Senior Credit Agreement" shall mean that certain Credit Agreement by and between the Borrower and PNC Bank, National Association, dated February 18, 2003, as the same may be amended, modified, supplemented or restated from time to time and any replacement agreement with another Senior Lender as permitted hereunder.

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"Senior Debt" shall mean the outstanding obligations of the Borrower under the Senior Financing and any other obligation that by its terms ranks senior to the Indebtedness contemplated under this Agreement.

"Senior Financing" shall mean all obligations, liabilities and indebtedness of the Borrower to a Senior Lender hereafter existing, whether principal, interest, fees, expenses, indemnification or otherwise under or in respect of a Senior Credit Agreement (including all interest, charges, expenses, fees and other sums accruing after commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower).

"Senior Lender" shall collectively mean the bank(s) party to a Senior Credit Agreement.

"Stockholders Voting Agreement" shall have the meaning set forth under Section 4.1(c)(v).

"Subordination Agreement" means the subordination and intercreditor agreement of even date herewith among the Purchaser, the Senior Lender and the Borrower.

"Subsidiary" shall mean as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only be reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

"Total Debt" shall mean as of the last day of a Fiscal Quarter, all of

the Borrower's outstanding obligations for borrowed money at such date, including without limitation, Indebtedness of the Borrower evidenced by the Note, the Bonds and all obligations under the Senior Credit Agreement in respect of loans and letters of credit (but not in respect of any letter of credit securing the Bonds or any cash collateralized letters of credit), determined on a Consolidated basis in accordance with GAAP.

"Transaction Documents" shall mean this Agreement, the Note, the Warrants the Registration Rights Agreement, the Security Documents and all other agreements, instruments and documents delivered in connection therewith as any or all of the foregoing may be supplemented, amended or restated from time to time

"Transactions" shall mean the incurrence of debt and the issuance of securities, as contemplated by this Agreement, the Note, the Warrants, the other Transaction Documents and all other agreements contemplated hereby and/or thereby.

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"UST" shall mean an underground storage tank, including as that term is defined, construed and otherwise used in RCRA and in rules and regulations issued pursuant to RCRA and comparable state and local laws.

"Warrants" shall have the meaning assigned to such term in Section 2.2.

1.2 Accounting Principles. The character or amount of any asset, liability, capital account or reserve and of any item of income or expense to be determined, and any consolidation or other accounting computation to be made, and the construction of any definition containing a financial term, pursuant to this Agreement shall be determined or made in accordance with generally accepted accounting principles in the United States of America consistently applied ("GAAP"), unless such principles are inconsistent with the express requirements of this Agreement.

1.3 Other Definitional Provisions; Construction. Whenever the context so requires, neuter gender includes the masculine and feminine, the singular number includes the plural and vice versa. The words "hereof" "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not in any particular provision of this agreement, and references to section, article, annex, schedule, exhibit and like references are references to this Agreement unless otherwise specified. A Default or Event of Default shall "continue" or be "continuing" until such Default or Event of Default has been cured, or waived by Purchaser. References in this Agreement to any Persons shall include such Persons, successors and permitted assigns. Other terms contained in this Agreement (which are not otherwise specifically defined herein) shall have meanings provided in Article 9 of the Pennsylvania Uniform Commercial Code on the date hereof to the extent the same are used or defined therein.

ARTICLE II

ISSUE AND SALE OF SECURITIES

2.1 Authorization and Issuance of the Note. The Borrower has duly authorized the issuance and sale on the Closing Date to the Purchaser of Borrower's 10.0% Senior Subordinated Convertible Note Due February 18, 2009 in the original principal balance of \$10,000,000 (the "Note") to be substantially in the form attached hereto as Exhibit A.

2.2 Authorization and Issuance of the Warrants. In connection with the issuance of the Note, the Borrower has duly authorized the issuance and sale on the Closing Date to the Purchaser of detachable common stock purchase warrants substantially in the form attached hereto as Exhibit B evidencing the Purchaser's right to acquire 803,048 shares of Common Stock (the "Warrants").

2.3 Sale and Purchase. Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, on the Closing Date (i) the Borrower shall sell to Purchaser, and Purchaser shall purchase from the Borrower, the Note and Warrants at the purchase price equal to 100% of the principal amount of the Note. (The Notes and the Warrants are sometimes referred to herein collectively as the "Securities.")

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2.4 Issue Price. The Borrower and the Purchaser agree for U.S. federal income tax purposes (a) that the present value as of the Closing Date of all payments under the Note and Warrants shall be such value; and (b) that (x) the aggregate "issue price" under ss.1273(b) of the Code of the Note to be issued hereunder, and (y) that the aggregate purchase price under ss.1273(b) of the Code of all of the Warrants to be issued hereunder, shall be such value and purchase prices, respectively, as determined by the Borrower and accepted and agreed to by Grant Thornton, the Borrower's outside auditors.

2.5 The Closing. Delivery of and payment for the Securities (the "Closing") shall be made at the offices of Ballard, Spahr, Andrews & Ingersoll, LLP, 1735 Market Street, 51st Floor, Philadelphia, Pennsylvania 19103-7599 commencing at 10:00 a.m., local time, on February 18, 2003 or at such place or on such other date on or before such date as may be mutually agreeable to the Borrower and the Purchaser. The date and time of the Closing as finally determined pursuant to this Section 2.5 are referred to herein as the "Closing Date."

ARTICLE III

REPAYMENT OF THE NOTES

3.1 Interest.

(a) Interest Rates and Interest Payments; Deferral Option. Interest on the Note shall be due and payable in arrears (i) quarterly on the last Business Day of each calendar quarter commencing on May 31, 2003 and (ii) on the Maturity Date (each, a "Payment Date"). The Note will bear interest on the outstanding principal amount thereof at a rate per annum equal to 10%. Interest on the Note will be computed on the basis of a year of 365 days, for the number of actual days elapsed during which principal is outstanding.

(b) Deferral Option. During the term of the Note, the Borrower may elect to defer the payment of all or a portion of the interest due and payable on a Payment Date (other than the Maturity Date) and instead may, at the election of the Borrower, accrue and add such interest to the outstanding principal balance of the Note, to bear interest and become due and payable on the Maturity Date.

3.2 Repayment of the Note. The Borrower covenants and agrees to repay to the Purchaser on February 18, 2009, the unpaid principal balance of, together with all accrued and unpaid interest, fees and other amounts due on this Note.

3.3 Optional Prepayment of the Note. The Borrower may, at its option, upon notice as provided in section 3.4, prepay at any time or from time to time all or any part (in an integral multiple of \$100,000) of the principal amount of the Note. Any such prepayment shall be accompanied by a certificate of an Executive Officer certifying that the prepayment does not result in an Event of Default under this Agreement.

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3.4 Notice of Optional Prepayment. If the Borrower elects to prepay the Note pursuant to Section 3.3 hereof, the Borrower shall give notice

of such prepayment to the Purchaser to be prepaid not less than ten (10) days or more than sixty (60) days prior to the date fixed for prepayment, specifying (i) the date on which such prepayment is to be made, and (ii) the principal amount of the Note to be prepaid on such date. Notice of prepayment having been so given, the aggregate principal amount of the Notes specified in such notice, together with accrued interest thereon shall become due and payable on the prepayment date set forth in such notice.

3.5 Maturity; Surrender, etc. In the case of a prepayment, the principal amount to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date. Upon payment of the amount due and owing under the Note, the Note shall be surrendered to the Borrower and canceled and shall not be reissued.

3.6 Conversion of Note. At any time, or from time to time, the Purchaser may convert all or a portion of the then outstanding principal balance of, and accrued and unpaid interest on, the Note into shares of Common Stock in accordance with the terms of the Note.

3.7 Maximum Lawful Rate. This Agreement, the Note and the other Transaction Documents are hereby limited by this Section 3.7. In no event, whether by reason of acceleration of the maturity of the amounts due hereunder or otherwise, shall interest and fees contracted for, charged, received, paid or agreed to be paid to the Purchaser exceed the maximum amount permissible under such applicable law. If, from any circumstance whatsoever, interest and fees would otherwise be payable to the Purchaser in excess of the maximum amount permissible under applicable law, the interest and fees shall be reduced to the maximum amount permitted under applicable law. If from any circumstance, the Purchaser shall have received anything of value deemed interest by applicable law in excess of the maximum lawful amount, an amount equal to any excess interest shall be applied to the reduction of the principal amount of the Note, in such manner as may be determined by the Purchaser, and not to the payment of fees or interest, or if such excessive interest exceeds the unpaid balance of the principal amount of the Note, such excess shall be refunded to the Borrower; provided, however, that in such event the Conversion Price (as defined in the Note) of the Note shall be adjusted to preserve the economic effects of the transactions contemplated by this Agreement.

ARTICLE IV

CONDITIONS

4.1 Conditions to the Purchase of Securities. The obligation of the Purchaser to make the Loan is subject to the satisfaction, prior to or at the Closing, of the following conditions:

(a) Representations and Warranties True. The representations and warranties contained in Article 5 hereof shall be true and correct in all material respects at and as of the Closing Date as though then made.

(b) Material Adverse Change. There will have been no Material Adverse Change since February 22, 2002.

(c) Certain Agreements.

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(i) Security Agreement. The Borrower, each Guarantor and the Purchaser shall have entered into a security agreement, in form and substance as set forth in Exhibit C attached hereto (as the same may be amended, modified, supplemented or restated from time to time in accordance with the terms thereof, the "Security Agreement"). The Borrower shall have authorized the Purchaser to file, or shall have delivered to the Purchaser, such financing statements and

other instruments (collectively, "Financing Statements") as the Purchaser shall require in order to perfect and maintain the continued perfection of the security interest created by the Security Agreement. The Purchaser shall have received reports of filings with appropriate government agencies showing that there are no Liens on the assets of the Borrower other than Permitted Liens.

(ii) Registration Rights Agreement. The Borrower shall have executed and delivered to the Purchaser the Registration Rights Agreement, substantially in the form of Exhibit D (the "Registration Rights Agreement").

(iii) Guaranty Agreement. Each Guarantor shall have executed and delivered to the Purchaser the Guaranty Agreement, substantially in the form of Exhibit E, unconditionally and irrevocably guaranteeing to the Purchaser the full and prompt payment and performance of the Borrower's obligations under the Note.

(iv) Mortgage. The Borrower shall have executed and delivered to the Purchaser the Mortgage.

(v) Stockholders Voting Agreement. William F. Mitchell, Pete L. Stephens, M.D., Emerald Advisors, Inc. and ETC Asset Management, LLC shall have executed and delivered a stockholders voting agreement, substantially in the form of Exhibit G (the "Stockholders Voting Agreement").

(vi) Agreements with Senior Lender.

(A) Senior Credit Agreement. The Senior Credit Agreement shall have been executed and delivered by the Borrower and Senior Lender, and shall be reasonably satisfactory in form and substance to the Purchaser. The Purchaser shall have received a copy of the Senior Credit Agreement, certified as a true and complete copy thereof by an Executive Officer of the Borrower.

(B) Subordination Agreement. Senior Lender and Borrower shall have executed and delivered to the Purchaser the Subordination Agreement, substantially in the form of Exhibit H.

(d) Closing Documents. The Borrower will have delivered or caused to be delivered to the Purchaser all of the following documents in form and substance satisfactory to Purchaser:

(i) the Note, duly completed and executed by the Borrower;

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(ii) the Warrants evidencing the right to acquire the number of shares of Common Stock set forth in Section 2.2;

(iii) certificates of good standing dated not more than 10 business days prior to the Closing Date for the Borrower and each Guarantor certified by its jurisdiction of organization;

(iv) a copy of the Charter Documents of the Borrower and each Guarantor, certified by the appropriate governmental official of the jurisdiction of its incorporation as of a date not more than 10 Business Days prior to the Closing Date;

(v) a copy of the Bylaws of the Borrower and each Guarantor, certified as of the Closing Date by the secretary or assistant secretary of the Borrower and each Guarantor;

(vi) a certificate of the secretary or assistant

secretary of the Borrower and each Guarantor, certifying as to the names and true signatures of the Executive Officers of the Borrower and each Guarantor authorized to sign this Agreement and the other Transaction Documents to which it is a party;

(vii) copies of the resolutions duly adopted by the Borrower's and each Guarantor's board of directors, authorizing the execution, delivery and performance by the Borrower and each such Guarantor of this Agreement and each of the other Transaction Documents to which it is a party, such other instruments and documents contemplated hereby to which the Borrower or any Guarantor is a party, and the consummation of all of the other Transactions, certified as of the Closing Date by an Executive Officer of the Borrower or such Guarantor;

(viii) a certificate dated as of the Closing Date from an Executive Officer of the Borrower stating that the conditions specified in this Section 4.1 have been fully satisfied by the Borrower or waived by the Purchaser;

(ix) the opinion of Klehr, Harrison, Harvey, Branzburg & Ellers LLP, counsel for the Borrower and Guarantors, substantially in the form set forth in Exhibit I, addressed to the Purchaser, dated the date of the Closing.

(x) certificates of insurance evidencing the existence of all insurance required to be maintained by the Borrower pursuant to Section 7.1(c), together with loss payable endorsements, all satisfactory in the type and extent of such coverage to Purchaser; and

(xi) such other documents relating to the Transactions contemplated by this Agreement as the Purchaser may reasonably request.

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(e) Consents, Agreements. The Borrower shall have obtained all consents and waivers, under any term of any agreement or instrument to which it is a party or by which it or any of its properties is bound, or any term of any applicable Law of any Governmental Authority, or any term of any applicable order, judgment or decree of any court, arbitrator or governmental authority, necessary or appropriate in connection with the transactions contemplated by this Agreement, and such consents and waivers shall be in full force and effect on the Closing Date.

(f) Compliance with Securities Laws. The offering and sale of the Note and Warrants to the Purchaser shall have complied with all applicable requirements of federal and state securities laws.

(g) No Adverse U.S. Legislation, Action or Decision, etc. No legislation shall have been enacted by Congress, no other formal action shall have been taken by any Governmental Authority, whether by order, regulation, rule, ruling or otherwise, and no decision shall have been rendered by any court of competent jurisdiction, which would materially and adversely affect the Note or the Warrants being purchased by the Purchaser hereunder.

(h) No Actions Pending. There shall be no suit, action, investigation, inquiry or other proceeding by any Governmental Authority or any other Person or any other legal or administrative proceeding pending or, to the Borrower's knowledge, threatened which questions the validity or legality of the Transactions or injunctive or other equitable relief in connection therewith.

4.2 Waiver. Any condition specified in Section 4.1 hereof may be waived by the Purchaser on or prior to the Closing Date.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE BORROWER

5.1 Representations and Warranties of the Borrower. As a material inducement to the Purchaser to enter into this Agreement and purchase the Note and the Warrants, the Borrower hereby represents and warrants to the Purchaser as follows:

(a) Organization, Qualification and Power. Each of the Borrower and each Guarantor is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation. The Company and each Guarantor is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of the business conducted by it makes such qualification necessary and where the failure so to qualify would have a Material Adverse Effect. Each of the Borrower and each Guarantor has all requisite corporate or other organizational power and authority and all material licenses, permits, approvals and authorizations necessary to own and operate their properties, to carry on their businesses as now conducted and presently proposed to be conducted and to enter into each Transaction Document to which it is a party, to carry out the terms of each such Transaction Document, and the case of Borrower to issue and sell the Note and the Warrants.

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(b) Power; Authorization; Enforceable Obligations. This Agreement, the Note, Warrants and the other Transaction Documents have been duly authorized by all necessary corporate action on the part of the Borrower and each Guarantor, as applicable, except for stockholder approval of the transactions contemplated by this Agreement as required under Section 713 of the Listing Standards, Policies and Requirements of the American Stock Exchange. This Agreement, the Note, the Warrants and the other Transaction Documents have been duly executed and delivered by the Borrower and each Guarantor, as applicable, and constitute legal, valid and binding obligations of the Borrower, and each Guarantor, as applicable, enforceable against it in accordance with their respective terms, except (i) that such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and transfer and similar laws of general application relating to or affecting the rights and remedies of creditors, and (ii) that acceleration of the Note may affect the collectibility of that portion of the stated principal amount thereof which might be determined to constitute unearned interest thereon.

(c) No Other Indebtedness. Neither the Borrower nor any Guarantor has any outstanding Indebtedness to any person or entity other than the Bonds, the Senior Debt, the Indebtedness contemplated by this Agreement and the Indebtedness set forth on Schedule 5.1(c) hereto ("Permitted Indebtedness").

(d) Business. The Borrower and the Guarantors are primarily engaged in the business of designing, manufacturing and selling software products used to (i) create and monitor the physiological effects of motion on humans and equipment; (ii) control, modify, simulate and measure environmental conditions; and (iii) other activities incidental to the business (the "Business").

(e) Financial Statements. The Borrower has delivered to the Purchaser complete and correct copies of (i) its annual report to stockholders for the fiscal year ended February 22, 2002 (the "Annual Report") and its annual report on Form 10-K for such fiscal year as filed with the Securities and Exchange Commission (the "Form 10-K"), and (ii) its quarterly report on Form 10-Q for the Fiscal Quarter ended November 22, 2002 as filed with the Securities and Exchange Commission (the "Form 10-Q"). The Annual Report and the Form 10-K correctly describe, in all material respects, as of their respective dates, the business then conducted and proposed to be conducted by the Borrower. There are included in the Form 10-K financial statements of the

Borrower for the fiscal year ended February 22, 2002, accompanied by the opinion thereon of Grant Thornton LLP, independent public accountants, and in the Form 10-Q financial statements of the Borrower for the Fiscal Quarter ended November 22, 2002. All financial statements included in the foregoing materials delivered to the Purchaser (except as otherwise specified therein) have been prepared in accordance with GAAP applied on a consistent basis throughout the periods specified and present fairly the financial position of the Borrower and its Subsidiaries as of the respective dates specified and the results of their operations and cash flows for the respective periods specified (with normal year-end adjustments, which in the aggregate would not have a Material Adverse Effect on the Company).

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(f) Capitalization and Related Matters. As of the Closing Date, the authorized capital stock of the Borrower will consist of 20,000,000 shares of Common Stock and 1,000,000 shares of Preferred Stock, par value \$0.05 per share. On the Closing Date, 7,157,239 shares of the Common Stock and no shares of such Preferred Stock are issued and outstanding. The shares of Common Stock issuable upon conversion of the Note and exercise of the Warrants have been duly authorized and validly reserved for issuance upon such conversion and exercise and, when so issued in accordance with their terms, will be validly issued, fully paid and non-assessable. Except as set forth on Schedule 5.1(f), as of the Closing Date, the Borrower will not have outstanding securities convertible into or exchangeable for any shares of its capital stock, nor will it have outstanding any rights to subscribe for or to purchase, or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, any shares of its capital stock or any securities convertible into or exchangeable for any shares of its capital stock.

(g) No Breach. Except as specifically provided by the Transaction Documents, the execution and delivery by the Borrower and each Guarantor of the Transaction Documents, as applicable, and the consummation of the Transactions do not and will not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default under, (iii) except as created pursuant to the Security Documents, result in the creation of any Lien upon the Borrower's or any Guarantor's capital stock or assets pursuant to, (iv) give any third party the right to accelerate any obligation under, (v) result in a violation of, or (vi) require any authorization, consent, approval, exemption or other action by or notice to any Governmental Authority pursuant to, the Charter Documents or the Bylaws of the Borrower or any Guarantor, or any Law to which the Borrower or any Guarantor is subject, or any agreement, statute, rule or regulation, instrument, order, judgment or decree to which the Borrower or any Guarantor is a party or to which they or their assets are subject.

(h) Governmental Approvals. Except as specifically provided by the Transaction Documents, no registration with or consent or approval of, or other action by, any Governmental Authority or any other Person is or will be required in connection with the consummation of the Transactions by the Borrower or Guarantors and the performance of their obligations thereunder.

(i) No Material Adverse Change. Since February 22, 2002, there has been no event or occurrence that is likely to have a Material Adverse Effect.

(j) Litigation. Except as set forth on Schedule 5.1(j) hereto, there are no actions, suits or proceedings at law or in equity or by or before any arbitrator or any Governmental Authority now pending or, to the knowledge of the Borrower's management after due inquiry, threatened against or filed by or affecting the Borrower or any Guarantor or their directors or officers or the businesses, assets or rights of the Borrower or any Guarantor.

(k) Compliance with Laws. Neither the Borrower nor any

Guarantor is in violation of any applicable Law, the affect of which violation could have a Material Adverse Effect. Neither the Borrower nor any Guarantor is in default with respect to any judgment, order, writ, injunction, decree, rule or regulation of any Governmental Authority. Neither the Borrower nor the Guarantor is in, and the consummation of the Transactions will not cause any, default concerning any judgment, order, writ, injunction or decree of any Governmental Authority, and there is no investigation, enforcement action or regulatory action pending or threatened against or affecting the Borrower or any Guarantor by any Governmental Authority, except as set forth on Schedule 5.1(k). Except as set forth on Schedule 5.1(k), there is no remedial or other corrective action that the Borrower or any Guarantor is required to take to remain in compliance with any judgment, order, writ, injunction or decree of any Governmental Authority or to maintain any material permits, approvals or licenses granted by any Governmental Authority in full force and effect.

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(l) Environmental Protection. Except as set forth on Schedule 5.1(l) and after giving effect to the Transactions: (i) the Business of the Borrower and each Guarantor, the methods and means employed by the Borrower and each Guarantor in the operation thereof (including all operations and conditions at or in the properties of the Borrower and each Guarantor), and the assets owned, leased, managed, used, controlled, held or operated by the Borrower and each Guarantor, comply in all material respects with all applicable Environmental Laws; (ii) with respect to the Properties and Facilities, and except as disclosed on Schedule 5.1(l), the Borrower and each Guarantor have obtained, possess, and are in full compliance with all permits, licenses, reviews, certifications, approvals, registrations, consents, and any other authorizations required for material compliance with any Environmental Laws; (iii) neither the Borrower nor either Guarantor has received (x) any claim or notice of violation, lien, complaint, suit, order or other claim or notice to the effect that the Borrower or either Guarantor is or may be liable to any Person as a result of (A) the environmental condition of any of its Properties and Facilities or any other property, or (B) the release or threatened release of any Pollutant, or (y) any letter or request for information under Section 104 of the CERCLA, or comparable Laws, and to the best of the Borrower's knowledge, none of the operations of the Borrower and each Guarantor are the subject of any investigation by a Governmental Authority evaluating whether any remedial action is needed to respond to a release or threatened release of any Pollutant at the Properties and Facilities or at any other location, including any location to which the Borrower or either Guarantor has transported, or arranged for the transportation of, any Pollutants; (iv) except as disclosed on Schedule 5.1(l), neither the Borrower or either Guarantor nor any prior owner or operator has incurred in the past, or is now subject to, any material Environmental Liabilities; (v) except as disclosed on Schedule 5.1(l), there are no Liens, covenants, deed restrictions, notice or registration requirements, or other limitations applicable to the Properties and Facilities, based upon any Environmental Laws; (vi) there are no USTs located in, at, on, or under the Properties and Facilities other than the USTs identified on Schedule 5.1(l) as USTs; and each of those USTs is in material compliance with all Environmental Laws and other legal obligations; and (vii) except as disclosed on Schedule 5.1(l), to Borrower's knowledge, there are no PCBs, lead paint, asbestos (of any type or form), or materials, articles or products containing PCBs, lead paint or asbestos, located in, at, on, under, a part of, or otherwise related to the Properties and Facilities (including, without limitation, any building, structure, or other improvement that is a part of the Properties and Facilities), and all of the PCBs, lead paint, asbestos, and materials, articles and products containing PCBs, lead paint or asbestos identified in the Environmental Schedule are in full compliance with all Environmental Laws and other legal obligations. To the knowledge of the Borrower, the Borrower is not subject to liability under any Environmental Laws that would result in a Material Adverse Effect.

(m) Use of Proceeds; Legal Investments.

(i) The Borrower will apply any proceeds of the sale of the Note and Warrants, together with the proceeds of borrowings under the Senior Credit Agreement, simultaneously with the Closing, (a) to the repayment of the existing debt of the Borrower in an aggregate amount of approximately \$9,800,000, (b) to the payment of fees and expenses incurred in connection with the offering and sale of the Note and Warrants and the concurrent execution and delivery of the Credit Agreement, in an aggregate amount of approximately \$402,000 and (c) to working capital needs.

(ii) Neither the Borrower nor any Guarantor is engaged in the business of extending credit for the purpose of purchasing or carrying any "margin stock" or "margin security" (within the meaning of Regulations T, U or X issued by the Board of Governors of the Federal Reserve System), and no proceeds of the sale of the Note and Warrants will be used to purchase or carry any margin stock or margin security or to extend credit to others for the purpose of purchasing or carrying any margin stock or margin security.

(n) Taxes. Each of the Borrower and each Guarantor has filed or caused to be filed all tax returns which are required to be filed and have paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves, if any, in conformity with GAAP have been provided on the books of the Borrower); no tax Lien has been filed against the Borrower or any Guarantor, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charges.

(o) ERISA; Labor and Employment.

(i) The Borrower is and each of its Plans are in compliance in all material respects with those provisions of ERISA, the Code, the Age Discrimination in Employment Act, and the regulations and published interpretations thereunder which are applicable to the Borrower or any such Plan. As of the date hereof, no Reportable Event has occurred with respect to any Plan as to which the Borrower is or was required to file a report with the PBGC. No Plan has any material amount of unfunded benefit liabilities (within the meaning of Section 4001(a)(18) of ERISA) or any accumulated funding deficiency (within the meaning of Section 302(a)(2) of ERISA), whether or not waived, and the Borrower has not incurred nor reasonably expects to incur any material withdrawal liability under Subtitle E of Title IV of ERISA to a Multiemployer Plan. The Borrower is in compliance in all material respects with all labor and employment laws, rules, regulations and requirements of all applicable domestic and foreign jurisdictions. There are no pending or threatened labor disputes, work stoppages or strikes.

(ii) The Borrower is not a party to any collective bargaining agreement, and there are no strikes, work stoppages, material grievances, disputes or controversies with any union or any other organization of the Borrower's employees, or threats of strikes, work stoppages or any asserted pending demands for collective bargaining by any union or organization, except to the extent that such strikes, work stoppages, material grievances, disputes or controversies could not reasonably be expected to have a Material Adverse Effect. The Borrower has not, within the two-year period preceding the Closing Date, taken any action which would have

constituted or resulted in a "plant closing" or "mass layoff" within the meaning of the Federal Worker Adjustment and Retraining Notification Act of 1988 or any similar Law. The procedures by which each of the Borrower has hired or will hire its employees comply and will comply in all material respects with each collective bargaining agreement to which the Borrower is a party and any applicable Law. The Borrower is in compliance with the Fair Labor Standards Act, as amended, and has paid all minimum and overtime wages required by law to be paid to its respective employees, except for violations which could not have a Material Adverse Effect.

(p) Investment Company Act; Public Utility Holding Company Act. The Borrower is not (i) an "investment company" or "controlled" by an investment company within the meaning of the Investment Company Act of 1940, as amended, or (ii) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(q) Condition of and Title to Properties. The real property owned or leased by the Borrower and any Guarantor in the United States as of the Closing Date is described on Schedule 5.1(q) hereto. Each of the Borrower and each Guarantor has good title to or valid leasehold interest in all properties, assets and other rights which it purports to own or lease or which are reflected as owned or leased on its books and records (the "Properties and Facilities"), free and clear of all Liens and encumbrances except Permitted Liens, and subject to the terms and conditions of the applicable leases. Except as described on Schedule 5.1(q), all leases of property are in full force and effect. No consent under any lease is required in connection with the consummation of the transactions contemplated hereby. Except for financing statements evidencing Permitted Liens, no effective financing statement under the Uniform Commercial Code is in effect in any jurisdiction and no other filing which names the Borrower or any Guarantor as debtor or which covers or purports to cover any of the assets of the Borrower or any Guarantor is currently effective and on file in any state or other jurisdiction, and neither the Borrower nor any Guarantor has signed any such financing statement or filing or any security agreement authorizing any secured party thereunder to file any such financing statement or filing. All of the assets and properties of the Borrower and each Guarantor that are necessary for the operation of their respective businesses are in good working condition and are able to serve the functions for which they are currently being used, except for ordinary wear and tear.

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(r) Proprietary Rights. Each of the Borrower and each Guarantor owns, or is licensed to use its Proprietary Rights necessary for the conduct of its business as currently conducted. Except as set forth on Schedule 5.1(r), no claim has been asserted and is pending by any Person challenging or questioning the use of any such Proprietary Rights, nor does the Borrower know of any valid basis for any such claim. The use of such Proprietary Rights by the Borrower and each Guarantor does not infringe the rights of any Person, except for such claims and infringements that, in the aggregate, do not have a Material Adverse Effect. To the best knowledge of the Borrower, except as set forth on Schedule 5.1(r), no slogan or other advertising, device, product, process, method, substance, part or component or other material now employed, or now contemplated to be employed, by any of the Borrower and each Guarantor infringes upon or conflicts with any rights owned by any other Person, and no claim or litigation regarding any of the foregoing is pending or, to the knowledge of the Borrower, threatened. No patent, invention, device, application, and no statute, law, rule, regulation, standard or code involving the Borrower's or any Guarantor's Proprietary Rights is pending or, to the knowledge of the Borrower, proposed, except where the consequences in the aggregate could not reasonably be expected to have a Material Adverse Effect.

(s) Solvency. After giving effect to the Transactions, (i) the fair value of the assets of the Borrower and each Guarantor, at a fair

valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise, (ii) the present fair saleable value of the property of the Borrower and each Guarantor will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured, (iii) the Borrower and each Guarantor will be able to pay their respective debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured, and (iv) the Borrower will not have unreasonably small capital with which to conduct the Business.

(t) Subsidiaries. As of the Closing Date, the Borrower has no Subsidiaries except for those set forth on Schedule 5.1(t), each of which was duly formed and is existing under the law of the jurisdiction set forth opposite their names. All of the issued and outstanding shares of capital stock of the Subsidiaries are duly and validly authorized and issued and fully paid and nonassessable and are owned by the Borrower, (except for directors' qualifying shares). There are no options, warrants or other rights outstanding to purchase any capital stock of any of the Subsidiaries, nor are any securities of any of the Subsidiaries convertible into or exchangeable for capital stock of the Subsidiaries except as described on Schedule 5.1(t).

(u) Broker's or Finder's Commissions. Except as set forth on Schedule 5.1(u), no broker's or finder's or placement fee or commission will be payable to any broker or agent engaged by the Borrower or any of its officers, directors or agents with respect to the issuance and sale of the Note, the Warrants or the Transactions. The Borrower agrees to indemnify the Purchaser and hold Purchaser harmless from and against any claim, demand or liability for broker's or finder's or placement fees or similar commissions, alleged to have been incurred in connection with such transactions, other than any broker's or finder's fees payable to Persons engaged by the Purchaser.

(v) Absence of Undisclosed Liabilities. Except as set forth on Schedule 5.1(v), the Borrower has no liabilities or obligations, either accrued, absolute, contingent or otherwise, except:

(i) those liabilities or obligations set forth on the Financial Statements and not heretofore paid or discharged,

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(ii) liabilities arising in the ordinary course of business under any agreement, contract, commitment, lease or plan specifically disclosed on the schedules or not required to be disclosed because of the term or amount involved or otherwise, and

(iii) those liabilities or obligations incurred, consistently with past business practice, in or as a result of the normal and ordinary course of business.

(w) Federal Regulations. No part of the proceeds of the Loan will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U or for any purpose which violates the provisions of Regulation U or any other Regulations of the Board of Governors of the Federal Reserve System. If requested by the Purchaser, the Borrower will furnish to the Purchaser a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in said Regulation U. No part of the proceeds of the Loan hereunder will be used for any purpose which violates, or which is inconsistent with, the provisions of either of Regulations T and X.

(x) Complete Disclosure. All statements and material furnished by or on behalf of the Borrower to the Purchaser for purposes of or in connection with this Agreement or the Transactions is, and all other statements and material hereafter furnished by or on behalf of the Borrower will be, true and accurate in all material respects on the date as of which such information is furnished and not incomplete or misleading by omitting to state any fact

necessary to make such information not misleading at such time in light of the circumstances under which such information was provided.

(y) Security Interests. At all times after execution and delivery of the Security Documents by the party or parties thereto and completion of the filings and recordings listed on Schedule 5.1(y), the security interests created for the benefit of the Purchaser pursuant to the Security Documents will constitute valid, perfected security interests in the collateral subject thereto, subject to no other Liens whatsoever, except Permitted Liens.

(z) Insurance. The Borrower currently maintains insurance which meets or exceeds the requirements of Section 7.1(c) and the applicable insurance requirements set forth in the other Transaction Documents. Schedule 5.1(z) hereto lists, as of the Closing Date, all insurance policies and other bonds to which the Borrower is a party, all of which are valid and in full force and effect. No written notice has been given or claim made and the Borrower has no knowledge that any grounds exist to cancel or avoid any of such policies or bonds or to reduce the coverage provided thereby or any replacements thereof. Such policies and bonds or any replacements thereof provide adequate coverage from reputable and financially sound insurers in amounts sufficient to insure the assets and risks of the Borrower in accordance with prudent business practice in the industry of the Borrower.

(aa) Authorizations.

(i) Except as set forth on Schedule 5.1(aa), each of the Borrower and each Guarantor possesses all material approvals of each Governmental Authority (the "Governmental Approvals") necessary for the operations of its business and is not in material violation thereof. All such Governmental Approvals are in full force and effect, and no event has occurred that permits, or after notice or lapse of time could permit, the revocation, termination or material and adverse modification of any such Governmental Approval.

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(ii) Except as set forth on Schedule 5.1(aa), neither the Borrower nor any Guarantor has knowledge of any investigation, notice of apparent liability, violation, forfeiture or other order or complaint issued by or before any Governmental Authority, or of any other proceedings of or before any Governmental Authority, which could reasonably be expected to have a Material Adverse Effect.

(bb) No Consents. Except as set forth in Section 5.1(b), no consent, approval or authorization of any Person is required for the valid execution and delivery of this Agreement or the valid offer, issue, sale and delivery of the Note and Warrants pursuant to this Agreement.

(cc) Stockholders Voting Agreement. Pursuant to the terms of the Stockholders Voting Agreement, the stockholders of the Borrower owning, or controlling the voting power of, greater than 50% of the issued and outstanding shares of Common Stock have agreed to vote the shares of Common Stock owned by them in favor of the transactions contemplated by this Agreement.

(dd) Foreign Corrupt Practices. Neither the Borrower, nor any of its Subsidiaries, nor any director, officer, agent, employee or other person acting on behalf of the Borrower or any Subsidiary has, in the course of his actions for, or on behalf of, the Borrower, used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977; or made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

(ee) No Defaults. Except as set forth on Schedule 5.1(ee), neither the Borrower nor any Guarantor is in default under or with respect to any of its Contractual Obligations in any respect which could reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

All of the foregoing representations and warranties shall survive the execution and delivery of the Note and the making by the Purchaser of the Loan hereunder and shall continue in full force and effect so long as any indebtedness or obligation of the Borrower to the Purchaser hereunder or otherwise is outstanding or unperformed or this Agreement remains in effect.

ARTICLE VI

RESTRICTED SECURITIES

6.1 Restricted Securities. The Purchaser acknowledges that the Securities have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, and, except as provided in the Registration Rights Agreement, that the Borrower is not required to register any of the Securities.

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6.2 Legends; Purchaser's Representations. The Purchaser hereby represents and warrants to the Borrower that it is an "accredited investor" within the meaning of Rule 501(a) under the Securities Act and is acquiring the Securities for investment for the Purchaser's own account, with no present intention of dividing its participation with others (except for a potential transfer or transfers of the Securities to an affiliate or affiliates of the Purchaser) or reselling or otherwise distributing the same in violation of the Securities Act or any applicable state securities laws. The Borrower may place an appropriate legend on the Securities owned by the Purchaser concerning the restrictions set forth in this Article 6. Upon the assignment or transfer by the Purchaser or any of its successors or assignees of all or any part of the Securities, the term "Purchaser" as used herein shall thereafter mean, to the extent thereof, the then holder or holders of such Securities, or portion thereof.

6.3 Prohibition on Short Sales. The Purchaser will not engage in any short sale of any shares of Common Stock or have in effect a short position with respect thereto (whether such short sale or position is against the box and regardless of when such position was entered into).

6.4 Transfer of Notes. Subject to Section 6.2 hereof, a holder of a Note may transfer such Note to a new holder, or may exchange such Note for Notes of different denominations (but in no event of denominations of less than \$500,000 or increments of \$100,000 in excess thereof in original principal amount), by surrendering such Note to the Borrower duly endorsed for transfer or accompanied by a duly executed instrument of transfer naming the new holder (or the current holder if submitted for exchange only), together with written instructions for the issuance of one or more new Notes specifying the respective principal amounts of each new Note and the name of each new holder and each address therefor. The Borrower shall simultaneously deliver to such holder or its designee such new Notes, shall mark the surrendered Notes as canceled. The Borrower shall not be required to recognize any subsequent holder of a Note unless and until the Borrower have received reasonable assurance that all applicable transfer taxes have been paid. Notwithstanding the foregoing, a holder of a Note may not transfer such Note or shares of Common Stock issuable upon conversion of such Note to a competitor of the Borrower or any Subsidiary or affiliate of the Borrower.

6.5 Replacement of Lost Securities. Upon receipt of evidence reasonably satisfactory to the Borrower of the mutilation, destruction, loss or

theft of any Securities and the ownership thereof, the Borrower shall, upon the written request of the holder of such Securities, execute and deliver in replacement thereof new Securities in the same form, in the same original principal amount and dated the same date as the Securities so mutilated, destroyed, lost or stolen; and such Securities so mutilated, destroyed, lost or stolen shall then be deemed no longer outstanding hereunder. If the Securities being replaced have been mutilated, they shall be surrendered to the Borrower; and if such replaced Securities have been destroyed, lost or stolen, such holder thereof shall furnish the Borrower with a written indemnity, in form satisfactory to the Borrower, to save it harmless in respect of such replaced Security.

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ARTICLE VII

COVENANTS

7.1 Affirmative Covenants. The Borrower covenants that, so long as all or any of the principal amount of the Note or any interest thereon shall remain outstanding, the Borrower shall and cause each Guarantor to:

(a) Existence. Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence.

(b) Businesses and Properties; Compliance with Laws. At all times (i) do or cause to be done all things necessary to preserve, renew and keep in full force and effect the rights, licenses, registrations, permits, certifications, approvals, consents, franchises, Proprietary Rights which may be material to the conduct of the Business; (ii) comply in all material respects with all Laws applicable to the operation of such business, including but not limited to, all Environmental Laws, whether now in effect or hereafter enacted and with all other applicable Laws, (iii) take all action which may be required to obtain, preserve, renew and extend all rights, Proprietary Rights, franchises, registrations, certifications, approvals, consents, licenses, permits and any other authorizations which may be material to the operation of such business, (iv) maintain, preserve and protect all property material to the conduct of such business, and (v) except for obsolete or worn out equipment, keep their property in good repair, working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times.

(c) Insurance. Maintain insurance required by the Transaction Documents and any and all contracts entered into by the Borrower under policies issued by financially sound and reputable insurers in such amounts as are customary with companies similarly situated and in the same or similar business. The Borrower shall pay all insurance premiums payable by it and shall deliver the policy or policies of such insurance (or certificates of insurance with copies of such policies) to the Purchaser. All insurance policies of the Borrower shall contain endorsements, in form and substance reasonably satisfactory to the Purchaser, providing that the insurance shall not be cancelable except upon thirty (30) days' prior written notice to Purchaser. The Purchaser shall be shown as a loss payee and an additional named insured party under all such insurance policies.

(d) Obligations and Taxes. Pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon them or upon their income or profits or in respect of their properties before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise, which, if unpaid, might give rise to Liens or charges upon such properties or any part thereof; provided, however, that neither the Borrower nor any Guarantor shall be required to pay and discharge or to cause to be paid and discharged any such tax, assessment,

charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and the Borrower or such Guarantor shall have set aside on their books adequate reserves with respect thereto.

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(e) Financial Statements; Reports. Furnish to the Purchaser:

(i) not later than the ninetieth day after the end of each fiscal year of the Borrower, Consolidated balance sheets of the Borrower and its Subsidiaries as at the end of such year and the related Consolidated statements of income, stockholders' equity and cash flows of the Borrower and its Subsidiaries for such fiscal year, setting forth in each case in comparative form (x) the Consolidated figures for the previous fiscal year and (y) the figures set forth in the budget for such period, all in reasonable detail and accompanied by a report thereon of Grant Thornton LLP or other reputable firm of independent public accountants, which report shall state that such consolidated financial statements present fairly the financial position of the Borrower and its Subsidiaries as at the dates indicated and the results of their operations and their cash flows for the periods indicated in conformity with GAAP applied on a basis consistent with prior years (except as otherwise specified in such report) and that the audit by such accountants in connection with such Consolidated financial statements has been made in accordance with GAAP; provided that so long as the Borrower is subject to the reporting provisions of the Exchange Act, timely delivery of copies of the Borrower's annual report on Form 10-K for such period will satisfy the requirements of this paragraph (i) (except for the requirement included in clause (y) above);

(ii) not later than the sixtieth day after the end of each of the first three quarterly fiscal periods in each fiscal year of the Borrower, Consolidated balance sheets of the Borrower and its Subsidiaries as at the end of such period and the related Consolidated statements of income, stockholders' equity and cash flows of the Borrower and its Subsidiaries for such period and (in the case of the second and third quarterly periods) for the period from the beginning of the current fiscal year to the end of such quarterly period, setting forth in each case in comparative form (x) the consolidated figures for the corresponding periods of the previous fiscal year and (y) the figures set forth in the budget for such period, all in reasonable detail and certified by a principal financial officer of the Borrower as presenting fairly, in accordance with GAAP (except for the absence of notes thereto) applied (except as specifically set forth therein) on a basis consistent with such prior fiscal periods, the information contained therein, subject to changes resulting from normal year-end audit adjustments; provided that so long as the Borrower is subject to the reporting provisions of the Exchange Act, timely delivery of copies of the Borrower's quarterly report on Form 10-Q for such period will satisfy the requirements of this paragraph (ii) (except for the requirement included in clause (y) above);

(f) Certificates; Other Information. Furnish to the Purchaser:

(i) concurrently with the delivery of the financial statements referred to in subsection 7.1(e)(i), a certificate of the Borrower's independent certified public accountants reporting on such financial statements and stating that in making the examination necessary for certifying such financial statements no knowledge was obtained of any Default or Event of Default, except as specifically indicated;

(ii) concurrently with the delivery of the financial statements referred to in subsections 7.1(e)(i) and (ii), a compliance certificate, in substantially the form attached as Exhibit J (the "Compliance Certificate"), executed by an Executive Officer showing, among other things, in detail the calculations demonstrating compliance with the financial covenants set forth in Section 7.3;

(iii) within five days after the same are sent, copies of all financial statements and reports which the Borrower sends to any of its shareholders and within five days after the same are filed, copies of all financial statements and reports which the Borrower may make to, or file with, the Securities Exchange Commission or any successor or analogous Governmental Authority;

(iv) promptly upon their becoming available to the Borrower any reports including management letters submitted to the Borrower by independent accountants in connection with any annual, interim or special audit;

(g) Litigation and Other Notices. Give the Purchaser prompt written notice of the following:

(i) Orders; Injunctions. The issuance by any Governmental Authority of any injunction, order, decision or other restraint prohibiting, or having the effect of prohibiting, the making of any loan or the initiation of any litigation or similar proceeding seeking any such injunction, order or other restraint.

(ii) Litigation. The notice, filing or commencement of any action, suit or proceeding against the Borrower or any Guarantor whether at law or in equity or by or before any court or any Federal, state, municipal or other governmental agency or authority and that, if adversely determined against the Borrower or any Guarantor, could result in uninsured liability in excess of \$150,000 in the aggregate.

(iii) Environmental Matters. (A) Any release or threatened release of any Pollutant required to be reported to any Governmental Authority under any applicable Environmental Laws, (B) any Removal, Remedial or Response action taken by the Borrower or any other person in response to any Pollutant in, at, on or under, a part of or about the Borrower's or either Guarantor's Properties and Facilities, or any other property for which the Borrower or either Guarantor is responsible, (C) any violation by the Borrower or any Guarantor of any Environmental Law, in each case, that could result in a Material Adverse Effect, or (D) any notice, claim or other information that the Borrower or any Guarantor might be subject to an Environmental Liability.

(iv) Default. Any Default or Event of Default, specifying the nature and extent thereof and the action (if any) that is proposed to be taken with respect thereto.

(v) Material Adverse Effect. Any development in the Business or in the affairs of the Borrower or any Guarantor that could have a Material Adverse Effect.

(h) ERISA. Comply in all material respects with the applicable provisions of ERISA and the provisions of the Code relating thereto

and furnish to the Purchaser (i) as soon as possible, and in any event within thirty (30) days after the Borrower knows thereof, notice of (A) the establishment by the Borrower of any Plan, (B) the commencement by the Borrower of contributions to a Multiemployer Plan, (C) any failure by the Borrower or any of its Affiliates to make contributions required by Section 302 of ERISA (whether or not such requirement is waived pursuant to Section 303 of ERISA), or (D) the occurrence of any Reportable Event with respect to any Plan or Multiemployer Plan for which the reporting requirement is not waived, together with a statement of an officer setting forth details as to such Reportable Event and the action which the Borrower proposes to take with respect thereto, together with a copy of the notice of such Reportable Event given to the PBGC if any such notice was provided by the Borrower, and (ii) promptly after receipt thereof, a copy of any notice the Borrowers may receive from the PBGC relating to the intention of the PBGC to terminate any Plan or Multiemployer Plan, or to appoint a trustee to administer any Plan or Multiemployer Plan, and (iii) promptly after receipt thereof, a copy of any notice of withdrawal liability from any Multiemployer Plan.

(i) Maintaining Records; Access to Premises and Inspections. Maintain financial records in accordance with generally accepted practices and, on no more than two occasions during any twelve (12) month period, during business hours and after reasonable notice has been provided, permit an authorized representative of the Purchaser to visit and inspect the properties and financial records of the Borrower and to make extracts from such financial records, all at the Borrower's reasonable expense, and permit any authorized representative to discuss the affairs, finances and conditions of the Borrower with the Borrower's Executive Officers, and the Borrower's independent public accountants.

(j) Covenants Regarding Formation of Subsidiaries and Acquisitions. At the time of (a) any Permitted Acquisition of domestic Subsidiary or (b) the formation of any new domestic Subsidiary of the Borrower which is permitted under this Agreement (i) provide the Purchaser an executed joinder agreement, in form and substance acceptable to the Purchaser, pursuant to which such domestic Subsidiary shall become a Guarantor under the Guaranty and a Security Agreement and appropriate financing statements so that all of the assets of such domestic Subsidiary shall be pledged to the Purchaser, (ii) provide a statement of an Executive Officer that no Default or Event of Default exists or would be caused by the Permitted Acquisition or formation; and (iii) provide all other documentation, including one or more opinions of counsel, reasonably satisfactory to the Purchaser, which in its reasonable opinion is appropriate with respect to such Permitted Acquisition or the formation of such domestic Subsidiary. Any document, agreement or instrument executed or issued pursuant to this subsection 7.1(j) shall be a "Transaction Document" for purposes of this Agreement.

(k) Board of Directors. So long as the Purchaser or any of its Affiliates beneficially own five (5%) percent of the outstanding shares of Common Stock, calculated on a fully-diluted basis, the Borrower will nominate for election to its Board of Directors the Purchaser or the designee of Purchaser (who shall be reasonably acceptable to the Borrower) to serve in such capacity, promptly after the Closing and in connection with each subsequent election of Directors thereafter, and will use its best efforts to procure the election and reelection of such person.

(l) Stockholder Approval. Borrower shall, as soon as practicable, but in no event later than June 18, 2003, hold a meeting of its stockholders (the "Meeting") for the purpose of approving the transactions contemplated by this Agreement, including, without limitation, approving, as required by Section 713 of the Listing, Standards, Policies and Requirements of the American Stock Exchange, the right of the Purchaser to, at any time (i) convert the Note and (ii) exercise the Warrants into shares of Common Stock representing in the aggregate in excess of 19.99% of the issued and outstanding Common Stock; and Borrower shall use its best efforts to obtain such approval.

In connection therewith, Borrower shall use its best efforts to set the record date for determination of shareholders of Borrower entitled to vote at the Meeting on March 20, 2003.

(m) Grant of Warrants upon Additional Issuances.

(i) Upon each conversion of the Note, Borrower shall issue a warrant (each an "Additional Warrant"), entitling the Purchaser to purchase shares of Common Stock equal to ten percent (10%) of the shares of Common Stock issued upon such conversion.

(ii) In connection with the grant by the Borrower of each of the 568,386 available but unissued stock options under the Borrower's option plan, the Borrower shall issue an Additional Warrant entitling the Purchaser to purchase shares of Common Stock equal to ten percent (10%) of the shares of Common Stock issuable upon exercise of such option.

(iii) The Exercise Price and other terms and conditions of each Additional Warrant shall be the same as may then apply to the Warrant, including all adjustments, as if each such Additional Warrant had been issued on the date hereof. For all purposes each Additional Warrant shall be deemed to be a Warrant.

(iv) The covenants of the Borrower contained in this Section 7.1(m) shall survive exercise of the Warrants, the conversion of the Note and any termination of this Agreement.

7.2 Negative Covenants. The Borrower covenants that, so long as all or any part of the principal amount of the Note or any interest thereon shall remain outstanding:

(a) Indebtedness. The Borrower and each Guarantor shall not create, incur, assume, guarantee or be or remain liable for, contingently or otherwise, or suffer to exist any Indebtedness, except:

(i) Indebtedness under this Agreement;

(ii) Indebtedness under the Senior Financing, to which payment under the Notes will be subordinated on terms reasonably acceptable to Purchaser;

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(iii) Indebtedness incurred in the ordinary course of business with respect to customer deposits, trade payables and other unsecured current liabilities not the result of borrowing and not evidenced by any note or other evidence of indebtedness; and

(iv) Permitted Indebtedness; and

(v) Extensions, renewals, and replacements of any Permitted Indebtedness.

(b) Negative Pledge; Liens. The Borrower and each Guarantor shall not create, incur, assume or suffer to exist any Lien of any kind on any of its properties or assets of any kind, except the following (collectively, "Permitted Liens"):

(i) Liens now existing or hereafter created in connection with the Senior Financing, to which Liens the Purchaser will subordinate its Liens to on the terms set forth in the Subordination Agreement;

(ii) Liens for or priority claims imposed by law that are incidental to the conduct of business or the ownership of

properties and assets (including mechanic's, warehousemen's, attorneys' and statutory landlords' liens) and deposits, pledges or liens to secure statutory obligations, surety or appeal bonds or other liens of like general nature incurred in the ordinary course of business and not in connection with the borrowing of money; provided, however, that in each case, the obligation secured thereby shall not be overdue, or, if overdue, is being contested in good faith and adequate reserves have been set up by the Borrower;

(iii) Liens securing the payments of taxes, assessments and governmental charges or levies incurred in the ordinary course of business that either (a) are not delinquent, or (b) are being contested in good faith by appropriate legal or administrative proceedings and as to which adequate reserves have been set aside on their books, and so long as during the period of any such contest, the Borrower shall suffer no loss of any privilege of doing business or any other right, power or privilege necessary or material to the operation of the Business;

(iv) Liens listed on Schedule 7.2(b) hereto; and

(v) Extensions, renewals and replacements of Liens referred to in clauses (i) through (iv) of this Section 7.2(b); provided, however, that any such extension, renewal or replacement Lien shall be limited to the property or assets covered by the Lien extended, renewed or replaced and that the obligations secured by any such extension, renewal or replacement Lien shall be in an amount not greater than the amount of the obligations secured by the Lien extended, renewed or replaced.

(c) Contingent Obligations. Neither the Borrower nor any Guarantor shall create, incur, assume or suffer to exist any Contingent Obligation other than guarantees by the Borrower of Indebtedness of a Subsidiary, but only to the extent such Indebtedness is permitted hereunder.

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(d) Mergers, etc. Except for Permitted Acquisitions, the Borrower shall not merge into or consolidate or combine with any other Person, or purchase, lease or otherwise acquire (in one transaction or a series of related transactions) all or any part of the property or assets of any Person other than purchases or other acquisitions of inventory, materials, leases, property and equipment in the ordinary course of business. Except as expressly permitted by the Security Documents, the Borrower shall not sell, transfer or otherwise dispose of, lease or let others manage any of its assets, including the collateral under the respective Security Documents.

(e) Affiliate Transactions. Except as set forth on Schedule 7.2(e), neither the Borrower nor any Guarantor shall make any loan or advance to any director, officer or employee of any Borrower or any Affiliate, or enter into or be a party to any transaction or arrangement with any Affiliate of the Borrower or such Guarantor, including, without limitation, the purchase from, sale to or exchange of property with, any merger or consolidation with or into, or the rendering of any service by or for, any Affiliate, except pursuant to the reasonable requirements of the Business and upon fair and reasonable terms no less favorable to Borrower or such Guarantor than would be obtained in a comparable arm's-length transaction with a Person other than an Affiliate.

(f) Dividends and Common Stock Purchases. Neither the Borrower nor any Guarantor will declare or pay any dividend, or make any distribution on its outstanding capital stock or any other payment of any kind to any of its stockholders or its or their Affiliates. provided that Subsidiaries not formed under the laws of the United States of America or any U.S. state may declare and pay dividends to their shareholders other than the Borrower and any other Subsidiaries, in an aggregate amount not exceeding \$25,000 per year.

(g) Advances, Investments and Loans. Neither the Borrower nor any Guarantor shall purchase, or hold beneficially any stock, other securities or evidences of Indebtedness of, or make or permit to exist any loan, Guaranty or advance to, or make any investment or acquire any interest whatsoever in, any other Person (including, but not limited to, the formation or acquisition of any Subsidiaries), except:

(i) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof having maturities of not more than six (6) months from the date of acquisition;

(ii) United States dollar-denominated time deposits, certificates of deposit and bankers acceptances of any bank or any bank whose short-term debt rating from Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P"), is at least A-1 or the equivalent or from Moody's Investors Service, Inc. ("Moody's") is at least P-1 or the equivalent with maturities of not more than six (6) months from the date of acquisition;

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(iii) commercial paper with a rating of at least A-1 or the equivalent by S&P or at least P-1 or the equivalent by Moody's maturing within six (6) months after the date of acquisition;

(iv) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within six (6) months from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either S&P or Moody's;

(v) Investments in money market funds substantially all the assets of which are comprised of securities of the types described in clauses (i) through (iv) above;

(vi) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of suppliers and customers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;

(vii) receivables owing to the Borrower created or acquired in the ordinary course of business and payable on customary trade terms of the Borrower;

(viii) deposits made in the ordinary course of business consistent with past practices to secure the performance of leases or in connection with bidding on government contracts; and

(ix) advances to employees in the ordinary course of business for business expenses; provided, however, that the aggregate amount of such advances at any time outstanding shall not exceed \$100,000.

(h) Use of Proceeds. The Borrower shall not use any proceeds from the sale of the Note hereunder, directly or indirectly, for the purposes of purchasing or carrying any "margin securities" within the meaning of Regulations T, U or X promulgated by the Board of Governors of the Federal Reserve Board or for the purpose of arranging for the extension of credit secured, directly or indirectly, in whole or in part by collateral that includes any "margin securities."

(i) Amendment of Charter Documents. Neither the Borrower

nor any Guarantor shall amend, terminate, modify or waive or agree to the amendment, modification or waiver of any material term or provision of its Charter Documents or Bylaws. The Borrower shall not, without the prior written consent of the Purchaser, issue any shares of its Preferred Stock.

(j) Business. Neither the Borrower nor any Guarantor shall engage, directly or indirectly, in any business other than the Business.

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(k) Fiscal Year; Accounting. The Borrower shall not change its Fiscal Year from ending on the last Friday of each February or method of accounting (other than immaterial changes in methods), except as required by GAAP.

(l) Establishment of New or Changed Business Locations. The Borrower shall not relocate its principal executive offices or other facilities or establish new business locations or store any inventory or other assets at a location not identified to the Purchaser on or before the date hereof, without providing not less than thirty (30) days advance written notice to the Purchaser.

(m) Changed or Additional Business Names. Neither the Borrower nor any Guarantor shall change its corporate name or establish new or additional trade names without providing not less than thirty (30) days advance written notice to the Purchaser.

7.3 Financial Covenants. The Borrower covenants that, so long as all or any part of the principal amount of the Note or any interest thereon shall remain outstanding:

(a) Minimum Tangible Net Worth. The Borrower will not on any day permit Consolidated Tangible Net Worth to be less than (i) \$14,875,000 plus (ii) an amount equal to 63.75% of the consolidated Net Income (if positive) of the Borrower and its Subsidiaries for each Fiscal Quarter ending after May 31, 2003, calculated on a cumulative basis plus (iii) 85% of the net proceeds from the issuance after the date hereof of any and all shares, interests, participations or other equivalents (however designated) of capital stock of the Borrower, including any and all warrants or options to purchase such shares, interests, participations or other such equivalents, other than to the Borrower or any of its Subsidiaries (excluding proceeds from the issuance of shares of Common Stock issuable upon Conversion of the Note and exercise of the Warrant.

(b) Minimum Fixed Charge Coverage. As of the last day of each Fiscal Quarter, the Borrower will not permit the ratio of (i) the sum of EBITDA, minus Capital Expenditures minus capitalized software development costs to (ii) Fixed Charges to be less than 1.06 : 1.00.

(c) Total Debt to Annual EBITDA. The Borrower will not, as of the last day of each Fiscal Quarter during the periods set forth in the table below, permit the ratio of (i) Total Debt to (ii) Annual EBITDA for the period ending on such date, to be greater than the ratio set forth opposite such date in the table below:

Period End Date -----	Ratio -----
Closing Date through February 28, 2003	5.18:1.00
March 1, 2003 through February 29, 2004	4.60:1.00
March 1, 2004 and thereafter	4.03:1.00

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EVENTS OF DEFAULT

8.1 Events of Default. An Event of Default shall mean the occurrence of one or more of the following described events:

(a) the Borrower shall default in the payment of (i) interest on the Note within five (5) days after its due date (subject to Section 3.1(b)) or (ii) principal of the Note when due, whether at maturity, by acceleration or otherwise;

(b) the Borrower shall default in the payment of (i) interest on any Senior Debt on its due date or (ii) principal on any Senior Debt, whether at maturity, upon any scheduled payment date or by acceleration or otherwise;

(c) the Borrower shall default under any agreement related to the Senior Financing or under any agreement under which any Indebtedness in an aggregate principal amount of \$300,000 or more is created in a manner entitling the holder of such Indebtedness to accelerate the maturity of such Indebtedness;

(d) any representation or warranty herein made by the Borrower, or any certificate or financial statement furnished pursuant to the provisions hereof, shall prove to have been false or misleading in any material respect as of the time made or furnished or deemed made or furnished;

(e) the Borrower or any Guarantor shall default in the performance of any other covenant, condition or provision of this Agreement, the Note or the other Transaction Documents, and such default shall not be remedied for a period of thirty (30) days after the earlier of (i) written notice from the Purchaser of such default or (ii) actual knowledge by the Borrower of such default;

(f) a proceeding shall have been instituted in a court having jurisdiction in the premises seeking a decree or order for relief in respect of the Borrower in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Borrower or for any substantial part of its property, or for the winding-up or liquidation of their affairs, and such proceeding shall remain undismissed or unstayed and in effect for a period of sixty (60) days;

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(g) the Borrower shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Borrower or for any substantial part of its property, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay their debts as they become due, or shall take any action in furtherance of any of the foregoing;

(h) both the following events shall occur: (i) a Reportable Event, the occurrence of which would have a Material Adverse Effect which could cause the imposition of a Lien under Section 4068 of ERISA, shall have occurred with respect to any Plan or Plans; and (ii) the aggregate amount of the then "current liability" (as defined in Section 412(l)(7) of the Internal Revenue Code of 1986, as amended) of all accrued benefits under such Plan or Plans exceeds the then current value of the assets allocable to such benefits by more than \$1,000,000 at such time;

(i) a final judgment which, with other undischarged final

judgments against the Borrower, exceeds an aggregate of \$300,000 (excluding judgments to the extent any Borrower are fully insured or the deductible or retention limit does not exceed \$300,000 and with respect to which the insurer has assumed responsibility in writing), shall have been entered against the Borrower if, within thirty (30) days after the entry thereof, such judgment shall not have been discharged or execution thereof stayed pending appeal, or if, within thirty (30) days after the expiration of any such stay, such judgment shall not have been discharged;

(j) any Transaction Document or Security Document shall at any time after the Closing Date cease for any reason to be in full force and effect or shall cease to create perfected security interests in favor of the Purchaser in the collateral subject or purported to be subject thereto, subject to no other Liens other than Permitted Liens, or such collateral shall have been transferred to any Person without the prior written consent of the Purchaser;

(k) the Borrower or any Guarantor (except as otherwise provided herein) shall terminate its existence, cease to exist, permanently cease operations or abandon the operation of any material portion of its business; or

(l) any of the following shall have occurred: (1) a final non-appealable order is issued by any Governmental Authority, including, requiring the Borrower or any Guarantor to divest a substantial portion of its assets pursuant to any antitrust, restraint of trade, unfair competition, industry regulation, or similar requirement of Law, or (ii) any Governmental Authority shall condemn, seize or otherwise appropriate, or take custody or control of all or any substantial portion of the assets of the Borrower or any Guarantor.

8.2 Consequences of Event of Default.

(a) Bankruptcy. If an Event of Default specified in paragraphs (f) or (g) of Section 8.1 hereof shall occur, the unpaid balance of the Note and interest accrued thereon and all other liabilities of the Borrower to Purchaser hereunder and thereunder shall be immediately due and payable, without presentment, demand, protest or (except as expressly required hereby) notice of any kind, all of which are hereby expressly waived.

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(b) Other Defaults. If any other Event of Default shall occur, the Purchaser may at his option, by written notice to the Borrower, declare the entire unpaid balance of the Note, and interest accrued thereon and all other liabilities of the Borrower hereunder and thereunder to be forthwith due and payable, and the same shall thereupon become immediately due and payable, without presentment, demand, protest or (except as expressly required hereby) notice of any kind, all of which are hereby expressly waived.

(c) Penalty Interest. Following the occurrence and during the continuance of any Event of Default, the Purchaser shall be entitled to receive, to the extent permitted by applicable law, interest on the outstanding principal of, and premium and overdue interest, if any, on, the Note at a rate per annum equal to the interest rate thereon (determined as provided in Section 3.5) plus three percent (3%).

8.3 Security. Payments of principal of, and interest on, the Note and all other obligations of the Borrower under this Agreement or the Note are secured pursuant to the terms of the Security Documents.

ARTICLE IX

MISCELLANEOUS

9.1 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors

and assigns, except that (i) the Borrower may not assign or transfer its rights or obligations hereunder or any interest herein or delegate their duties hereunder and (ii) the Purchaser shall have the right to assign his rights hereunder and under the Securities in accordance with Article 6.

9.2 Modifications and Amendments. The provisions of this Agreement may be modified, waived or amended, but only by a written instrument signed by the Borrower and the Purchaser.

9.3 No Implied Waivers; Cumulative Remedies; Writing Required. No delay or failure in exercising any right, power or remedy hereunder shall affect or operate as a waiver thereof; nor shall any single or partial exercise thereof or any abandonment or discontinuance of steps to enforce such a right, power or remedy preclude any further exercise thereof or of any other right, power or remedy. The rights and remedies hereunder are cumulative and not exclusive of any rights or remedies that the Purchaser would otherwise have. Any waiver, permit, consent or approval of any kind or character of any breach or default under this Agreement or any such waiver of any provision or condition of this Agreement must be in writing and shall be effective only to the extent in such writing specifically set forth.

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9.4 Reimbursement of Expenses. Each party hereto shall pay its own fees and expenses incurred by it (including, without limitation, all attorneys' fees and expenses), from time to time (i) arising in connection with the negotiation, preparation and execution of this Agreement, the Note, the other Transaction Documents and all other instruments and documents to be delivered hereunder or thereunder or arising in connection with the transactions contemplated hereunder or thereunder, (ii) relating to any amendments, waivers or consents pursuant to the provisions hereof or thereof, and (iii) arising in connection with the enforcement of this Agreement or collection of the Notes.

9.5 Holidays. Whenever any payment or action to be made or taken hereunder or under the Note shall be stated to be due on a day which is not a Business Day, such payment or action shall be made or taken on the next following Business Day, and such extension of time shall be included in computing interest or fees, if any, in connection with such payment or action.

9.6 Notices. All notices and other communications given to or made upon any party hereto in connection with this Agreement shall, except as otherwise expressly herein provided, be in writing (including telecopy, but in such case, a confirming copy will be sent by another permitted means) and mailed via certified mail, telecopied or delivered by guaranteed overnight parcel express service or courier to the respective parties, as follows:

to the Borrower:

Environmental Tectonics Corporation
County Line Industrial Park
125 James Way
Southampton, PA 18966-3877
Attn: Chief Financial Officer
Telecopier: (215) 357-4000

with a copy to:

Klehr, Harrison, Harvey, Branzburg & Ellers LLP
260 S. Broad Street
Philadelphia, PA 19102
Attn: Michael C. Forman, Esquire
Telecopier: (215) 568-6603

to the Purchaser:

c/o The Lenfest Group

1332 Enterprise Drive
West Chester, PA 19380
Attn: H.F. Lenfest
Thomas K. Pasch, Esquire
Telecopier: (610) 918-8442

or in accordance with any subsequent written direction from the recipient party to the sending party. All such notices and other communications shall, except as otherwise expressly herein provided, be effective upon delivery if delivered by courier or overnight parcel express service; in the case of certified mail, three (3) Business Days after the date sent; or in the case of telecopy, when received.

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9.7 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.

9.8 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law in any jurisdiction, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating any other provision of this Agreement.

9.9 Headings. Article, section and subsection headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

9.10 Counterparts. This Agreement may be executed in any number of counterparts and by either party hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute one and the same instrument.

9.11 Integration. This Agreement and the other Transaction Documents set forth the entire understanding of the parties hereto with respect to all matters contemplated hereby and supersede all previous agreements and understandings among them concerning such matters. No statements or agreements, oral or written, made prior to or at the signing hereof, shall vary, waive or modify the written terms hereof.

9.12 Subordination. The obligations evidenced hereby are subordinate in the manner and to the extent set forth in the Subordination Agreement, to the indebtedness and other liabilities owed by the Borrower under and pursuant to the Senior Credit Agreement and each related "Loan Document" (as defined therein), and the Purchaser, by its acceptance of the Note, acknowledges and agrees to be bound by the provisions of the Subordination Agreement.

* * *

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SIGNATURE PAGE TO NOTE AND WARRANT PURCHASE AGREEMENT

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

BORROWER:

ENVIRONMENTAL TECTONICS CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner
Title: C.F.O.

PURCHASER:

/s/ H.F. Lenfest

H.F. Lenfest

Witness

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ANNEXES

SCHEDULES

Permitted Indebtedness	(Schedule 5.1(c))
Capitalization	(Schedule 5.1(f))
Litigation	(Schedule 5.1(j))
Compliance with Laws	(Schedule 5.1(k))
Environmental	(Schedule 5.1(l))
Properties	(Schedule 5.1(q))
Intellectual Property	(Schedule 5.1(r))
Subsidiaries	(Schedule 5.1(t))
Broker's or Finder's Commission	(Schedule 5.1(u))
Absence of Undisclosed Liabilities	(Schedule 5.1(v))
Security Documents	(Schedule 5.1(y))
Insurance	(Schedule 5.1(z))
Authorizations	(Schedule 5.1(aa))
Defaults	(Schedule 5.1(ee))
Permitted Encumbrances	(Schedule 7.2(b)(iv))
Affiliate Transactions	(Schedule 7.2(e))

EXHIBITS

EXHIBIT A	Form of Senior Subordinated Note
EXHIBIT B	Form of Senior Subordinated Note Warrant
EXHIBIT C	Form of Security Agreement
EXHIBIT D	Form of Registration Rights Agreement
EXHIBIT E	Form of Guaranty Agreement
EXHIBIT F	Form of Mortgage
EXHIBIT G	Form of Stockholders Voting Agreement
EXHIBIT H	Form of Subordination Agreement
EXHIBIT I	Form of Opinion of Borrower's Counsel
EXHIBIT J	Form of Compliance Certificate

SCHEDULES

EXHIBITS

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of February 18, 2003, by and between Environmental Tectonics Corporation, a corporation organized under the laws of the Commonwealth of Pennsylvania (the "Company"), and H. F. Lenfest ("Lenfest").

WHEREAS:

A. In connection with the Convertible Note and Warrant Purchase Agreement of even date herewith by and between the Company and Lenfest (the "Note and Warrant Purchase Agreement"), the Company has agreed, upon the terms and subject to the conditions contained therein, to issue and sell to Lenfest (i) subordinated convertible notes (the "Notes") which are convertible into shares of the Company's common stock, par value \$0.05 per share (the "Common Stock") and (ii) warrants (the "Warrants") to acquire shares of Common Stock.

B. To induce Lenfest to execute and deliver the Note and Warrant Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "Securities Act"), and applicable state securities laws.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Lenfest hereby agree as follows:

1. DEFINITIONS.

(a) As used in this Agreement, the following terms shall have the following meanings:

(i) "Investors" means Lenfest and any transferees or assignees who agree to become bound by the provisions of this Agreement in accordance with Section 9 hereof.

(ii) "register," "registered," and "registration" refer to a registration effected by preparing and filing a Registration Statement or Registration Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("Rule 415"), and the declaration or ordering of effectiveness of such Registration Statement by the United States Securities and Exchange Commission (the "SEC").

(iii) "Registrable Securities" means (A) the Common Stock issuable upon conversion of the Notes, and (B) the Common Stock issuable upon exercise of the Warrants.

(iv) "Registration Statement" means a registration statement of the Company under the Securities Act.

(b) Capitalized terms used herein and not otherwise defined herein shall have the respective meanings set forth in the Note and Warrant Purchase Agreement.

2. REGISTRATION.

(a) Demand Registration. Upon receipt of a written request (a "Demand Request") from Investors holding a majority of the Registrable

Securities, which Demand Request shall set forth the number of Registrable Securities the Investors are seeking to have registered, the Company shall prepare and file with the SEC as soon as practicable, but in no event later than sixty (60) days from the date of its receipt of a Demand Request, a Registration Statement on Form S-3 (or, if Form S-3 is not then available, on such form of Registration Statement as is then available to effect a registration of all of the Registrable Securities) covering the resale of the Registrable Securities which are the subject of the Demand Request. The Registration Statement filed hereunder, to the extent allowable under the Securities Act and the rules promulgated thereunder (including Rule 416), shall state that such Registration Statement also covers such indeterminate number of additional shares of Common Stock as may become issuable to prevent dilution resulting from stock splits, stock dividends or similar transactions. The Investors shall not be entitled to make more than four (4) Demand Requests pursuant to this Agreement. A registration request pursuant to this Section 2(a) shall not be deemed to have been effected and shall not be considered a demand registration which may be requested pursuant to this Section 2(a) unless a registration statement with respect thereto has been declared effective by the SEC.

(b) Piggy-Back Registrations. If at any time prior to the expiration of the Registration Period (as hereinafter defined), the Company shall file with the SEC a Registration Statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities (other than the amendment of a registration statement now on file, registration statements on Form S-4 or Form S-8 or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans), the Company shall send to each Investor written notice of such filing and, if within fifteen (15) days after the receipt of such notice, an Investor shall so request in writing, the Company shall include in such Registration Statement all or any part of the Registrable Securities such Investor requests to be registered, except that if, in connection with any underwritten public offering, the managing underwriter(s) thereof shall impose a limitation on the number of shares of Common Stock which may be included in the Registration Statement because, in such underwriter(s)' judgment, marketing or other factors dictate such limitation is necessary to facilitate public

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distribution, then the Company shall be obligated to include in such Registration Statement only such limited portion of the Registrable Securities with respect to which such Investor has requested inclusion hereunder as the underwriter shall permit. Any exclusion of Registrable Securities shall be made pro rata among the Investors seeking to include Registrable Securities, in proportion to the number of Registrable Securities sought to be included by such Investors; provided, however, that the Company shall not exclude any Registrable Securities unless the Company has first excluded all outstanding securities, the holders of which are not contractually entitled to inclusion of such securities in such Registration Statement or are not contractually entitled to pro rata inclusion with the Registrable Securities; and provided, further, however, that, after giving effect to the immediately preceding proviso, any exclusion of Registrable Securities shall be made pro rata with holders of other securities having the contractual right to include such securities in the Registration Statement other than holders of securities contractually entitled to inclusion of their securities in such Registration Statement by reason of demand registration rights. If an offering in connection with which an Investor is entitled to registration under this Section 2(b) is an underwritten offering, then each Investor whose Registrable Securities are included in such Registration Statement shall offer and sell such Registrable Securities in an underwritten offering using the same underwriter or underwriters and, subject to the provisions of this Agreement, on the same terms and conditions as other shares of Common Stock included in such underwritten offering.

(c) Registrations on Form S-3. Upon receipt of a written request (an "S-3 Request") from Investors holding a majority of the Registrable Securities, which S-3 Request shall set forth the number of Registrable Securities the Investors are seeking to have registered, the Company shall prepare and file

with the SEC as soon as practicable, but in no event later than sixty (60) days from the date of its receipt of an S-3 Request, a Registration Statement on Form S-3 covering the resale of the Registrable Securities which are the subject of the S-3 Request. The Registration Statement filed hereunder, to the extent allowable under the Securities Act and the rules promulgated thereunder (including Rule 416), shall state that such Registration Statement also covers such indeterminate number of additional shares of Common Stock as may become issuable to prevent dilution resulting from stock splits, stock dividends or similar transactions. The Investors shall not be entitled to make more than two (2) S-3 Requests during any twelve (12) month period.

(d) Eligibility for Form S-3. The Company represents and warrants that it meets the requirements for the use of Form S-3 for registration of the sale by the Investors of the Registrable Securities and the Company shall use its best efforts to file all reports required to be filed by the Company with the SEC in a timely manner so as to thereafter maintain such eligibility for the use of Form S-3.

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3. OBLIGATIONS OF THE COMPANY.

In connection with the registration of the Registrable Securities, the Company shall have the following obligations:

(a) Upon receipt of a Demand Request, the Company shall prepare and file with the SEC the Registration Statement in accordance with Section 2(a), and cause such Registration Statement relating to Registrable Securities to become effective as soon as practicable after such filing, and keep such Registration Statement effective pursuant to Rule 415 at all times until such date as is the earlier of (i) the date on which all of the Registrable Securities have been sold and (ii) the date on which all of the Registrable Securities (in the opinion of counsel to the Investors, which shall be sought upon the request of the Company) may be immediately sold to the public without registration or restriction pursuant to Rule 144(k) under the Securities Act or any successor provision (the "Registration Period"), which Registration Statement (including any amendments or supplements thereto and prospectuses contained therein and all documents incorporated by reference therein) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein not misleading, and (iii) shall comply in all material respects with the requirements of the Securities Act and the rules and regulations of the SEC promulgated thereunder. The financial statements of the Company included in the Registration Statement or incorporated by reference therein will comply in all material respects with the applicable accounting requirements and the published rules and regulations of the SEC applicable with respect thereto. Such financial statements will be prepared in accordance with U.S. generally accepted accounting principles, consistently applied, during the periods involved (except in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed on summary statements) and fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to immaterial year-end adjustments).

(b) The Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to keep the Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statement until the earlier of (i) such time as all of such Registrable Securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in the Registration Statement or (ii) the expiration of the Registration Period.

(c) The Company shall furnish to each Investor whose Registrable Securities are included in the Registration Statement and its legal counsel (i) promptly after the same is prepared and publicly distributed, filed with the SEC, or received by the Company, one copy of the Registration Statement and any amendment thereto, each preliminary prospectus and prospectus and each amendment or supplement thereto, and, in the case of the Registration Statement referred to in Section 2(a), each letter written by or on behalf of the Company to the SEC or the staff of the SEC (including, without limitation, any request to accelerate the effectiveness of the Registration Statement or amendment thereto), and each item of correspondence from the SEC or the staff of the SEC, in each case relating to the Registration Statement (other than any portion, if any, thereof which contains information for which the Company has sought confidential treatment), (ii) on the date of effectiveness of the Registration Statement or any amendment thereto, a notice stating that the Registration Statement or amendment has been declared effective, and (iii) such number of copies of a prospectus, including a preliminary prospectus, and all amendments and supplements thereto and such other documents as such Investor may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Investor.

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(d) The Company shall (i) register and qualify the Registrable Securities covered by the Registration Statement under such other securities or "blue sky" laws of such jurisdictions in the United States as each Investor who holds Registrable Securities being offered reasonably requests, (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (A) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (B) subject itself to general taxation in any such jurisdiction, (C) file a general consent to service of process in any such jurisdiction, (D) provide any undertakings that cause the Company undue expense or burden, or (E) make any change in its charter or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its shareholders.

(e) As promptly as practicable after becoming aware of such event, the Company shall notify each Investor by telephone and facsimile of the happening of any event, of which the Company has knowledge, as a result of which the prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and, promptly prepare a supplement or amendment to the Registration Statement to correct such untrue statement or omission, and deliver such number of copies of such supplement or amendment to each Investor as such Investor may reasonably request.

(f) The Company shall use reasonable best efforts (i) to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest practicable moment (including in each case by amending or supplementing such Registration Statement) and (ii) to notify each Investor who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance of such order and the resolution thereof (and if such Registration Statement is supplemented or amended, deliver such number of copies of such supplement or amendment to each Investor as such Investor may reasonably request).

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(g) The Company shall permit a single firm of counsel designated by the Investors to review the Registration Statement and all amendments and supplements thereto a reasonable period of time prior to its filing with the SEC, and not file any document in a form to which such counsel reasonably objects.

(h) At the request of an Investor in the case of an underwritten public offering, the Company shall furnish, on the date of effectiveness of the Registration Statement (i) an opinion, dated as of such date, from counsel representing the Company addressed to each Investor and in form, scope and substance as is customarily given in an underwritten public offering and (ii) a letter, dated such date, from the Company's independent certified public accountants in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and each Investor.

(i) The Company shall hold in confidence and not make any disclosure of information concerning an Investor provided to the Company unless (i) disclosure of such information is necessary to comply with federal or state securities laws, (ii) the disclosure of such information is necessary to avoid or correct a misstatement or omission in any Registration Statement, (iii) the release of such information is ordered pursuant to a subpoena or other order from a court or governmental body of competent jurisdiction, (iv) such information has been made generally available to the public other than by the Company or disclosure in violation of this or any other agreement, or (v) such Investor consents to the form and content of any such disclosure. The Company agrees that it shall, upon learning that disclosure of such information concerning an Investor is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to such Investor prior to making such disclosure, and allow the Investor, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, such information.

(j) The Company shall promptly cause all of the Registrable Securities covered by the Registration Statement to be listed, at its option, on the Nasdaq National Market ("NNM"), the Nasdaq SmallCap Market ("SmallCap"), the New York Stock Exchange (the "NYSE") or the American Stock Exchange ("AMEX") or another national securities exchange and on each additional national securities exchange on which securities of the same class or series issued by the Company are then listed, if any, if the listing of such Registrable Securities is then permitted under the rules of such exchange.

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(k) The Company shall provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities.

(l) The Company shall cooperate with the Investors who hold Registrable Securities being offered and the managing underwriter or underwriters, if any, to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legends) representing Registrable Securities to be offered pursuant to the Registration Statement and enable such certificates to be in such denominations or amounts, as the case may be, as the managing underwriter or underwriters, if any, or the Investors may reasonably request and registered in such names as the managing underwriter or underwriters, if any, or the Investors may request, and, within five (5) business days after the Registration Statement which includes Registrable Securities is ordered effective by the SEC, the Company shall deliver, and shall cause legal counsel selected by the Company to deliver, to the transfer agent for the Registrable Securities (with copies to the Investors whose Registrable Securities are included in such Registration Statement), an opinion of such counsel in the form reasonably satisfactory to the transfer agent.

4. OBLIGATIONS OF THE INVESTORS.

In connection with the registration of the Registrable Securities, each Investor shall have the following obligations:

(a) It shall be a condition precedent to the obligations of the Company to complete the registration pursuant to this Agreement with respect to the Registrable Securities of a particular Investor that such Investor shall furnish to the Company such information regarding himself, the Registrable Securities held by him or it and the intended method of disposition of the Registrable Securities held by him or it as shall be reasonably required to effect the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request. At least fifteen (15) days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Investor of the information the Company requires from each such Investor.

(b) Each Investor, by such Investor's acceptance of the Registrable Securities, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statement hereunder. The Company shall not be required to include in any Registration Statement the Registrable Securities of any Investor who fails to cooperate with the Company as reasonably requested in connection with the preparation and filing of the Registration Statement.

(c) Each Investor agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Sections 3(e) or 3(f), such Investor will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Investor's receipt of the copies of the supplemented or amended prospectus contemplated by Sections 3(e) or 3(f) and, if so directed by the Company, such Investor shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction at the Company's request) all copies in such Investor's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice.

(d) No Investor may participate in any underwritten distribution hereunder unless such Investor (i) agrees to sell such Investor's Registrable Securities on the basis provided in any underwriting arrangements in usual and customary form entered into by the Company, (ii) completes and executes all customary questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under underwritten offerings for selling shareholders, (iii) agrees to pay its pro rata share of all underwriting discounts and commissions and any expenses in excess of those payable by the Company pursuant to Section 5 below, and (iv) complies with all applicable laws in connection therewith.

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(e) In the event that in the judgment of the Company, it is advisable to suspend the use of a Prospectus included in the Registration Statement due to pending material developments or other events which have not yet been publicly disclosed and as to which the Company believes public disclosure would be detrimental to the Company, the Company shall notify each Investor to such effect, and, upon receipt of such notice, each Investor shall immediately discontinue any sales of Registrable Securities pursuant to the Registration Statement until such Investor receives copies of a supplemental or amended Prospectus or until such Investor is advised in writing by the Company that the then current Prospectus may be used and have received copies of any additional or supplemental filings that are incorporated or deemed incorporated by reference in such Prospectus (a "Disclosure Delay Period"). Notwithstanding the foregoing, there shall not be more than an aggregate of ninety (90) days in any twelve (12) month period during which the Company is in a Disclosure Delay Period.

5. EXPENSES OF REGISTRATION. All reasonable expenses incurred by the Company or the Investors in connection with registrations, filings or qualifications pursuant to Sections 2 and 3 above, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, and the fees and disbursements of counsel for the Company shall

be borne by the Company.

6. INDEMNIFICATION. In the event any Registrable Securities are included in a Registration Statement under this Agreement:

(a) To the extent permitted by law, the Company will indemnify, hold harmless and defend (i) each Investor who holds such Registrable Securities, and (ii) the directors, officers, partners, members, employees and agents of such Investor and each person who controls any Investor within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, if any, (each, an "Indemnified Person"), against any joint or several losses, claims, damages, liabilities or expenses (collectively, together with actions, proceedings or inquiries by any regulatory or self-regulatory organization, whether commenced or threatened, in respect thereof, "Claims") to which any of them may become subject insofar as such Claims arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or the omission or alleged omission to state therein a material fact required to be stated or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities (the matters in the foregoing clauses (i) through (iii) being, collectively, "Violations"). The Company shall reimburse the Investors and each other Indemnified Person, promptly as such expenses are incurred and are due and payable, for any reasonable legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(a) shall not apply to a Claim arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person for use in the Registration Statement or any such amendment thereof or supplement thereto. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Investors pursuant to Section 9 hereof.

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(b) In connection with any Registration Statement in which an Investor is participating, each such Investor agrees severally and not jointly to indemnify, hold harmless and defend, to the same extent and in the same manner set forth in Section 6(a), the Company, each of its directors, each of its officers who signs the Registration Statement, its employees, agents and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, and any other stockholder selling securities pursuant to the Registration Statement or any of its directors or officers or any person who controls such stockholder within the meaning of the Securities Act or the Exchange Act (collectively and together with an Indemnified Person, an "Indemnified Party"), against any Claim to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim arises out of or is based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Investor expressly for use in connection with such Registration Statement; and, subject to Section 6(c), such Investor will reimburse any legal or other expenses reasonably incurred by them in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Section 6(b) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Investor, which consent shall not be unreasonably withheld; provided,

further, however, that the Investor shall be liable in the aggregate to all Indemnified Parties under this Agreement (including this Section 6(b) and Section 7) for only that amount as does not exceed the net proceeds actually received by such Investor as a result of the sale of Registrable Securities pursuant to such Registration Statement. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(b) with respect to any preliminary prospectus shall not inure to the benefit of any Indemnified Party if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented.

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(c) Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 6 of notice of the commencement of any action (including any governmental action), such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided, however, that such indemnifying party shall not be entitled to assume such defense and an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential conflicts of interest between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding or the actual or potential defendants in, or targets of, any such action include both the Indemnified Person or the Indemnified Party and the indemnifying party and any such Indemnified Person or Indemnified Party reasonably determines that there may be legal defenses available to such Indemnified Person or Indemnified Party which are in conflict with those available to such indemnifying party. The indemnifying party shall pay for only one separate legal counsel for the Indemnified Person or the Indemnified Parties, as applicable, and such legal counsel shall be selected by Investors holding a majority-in-interest of the Registrable Securities included in the Registration Statement to which the Claim relates (with the approval of the Initial Investor if it holds Registrable Securities included in such Registration Statement), if the Investors are entitled to indemnification hereunder, or by the Company, if the Company is entitled to indemnification hereunder, as applicable. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 6, except to the extent that the indemnifying party is actually prejudiced in its ability to defend such action. The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as such expense, loss, damage or liability is incurred and is due and payable.

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7. CONTRIBUTION. To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Section 6 to the fullest extent permitted by law as is appropriate to reflect the relative fault of the indemnifying party, on the one hand, and the Indemnified Person or Indemnified Party, as the case may be, on the other hand, with respect to the Violation giving rise to the applicable Claim; provided, however, that (i) no contribution shall be made under circumstances where the party would not have been liable for indemnification under the fault standards set forth in Section 6, (ii) no person guilty of fraudulent

misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any seller of Registrable Securities who was not guilty of such fraudulent misrepresentation, and (iii) contribution (together with any indemnification or other obligations under this Agreement) by any seller of Registrable Securities shall be limited in the aggregate amount to the net amount of proceeds actually received by such seller from the sale of such Registrable Securities.

8. REPORTS UNDER THE EXCHANGE ACT. With a view to making available to each Investor the benefits of Rule 144 promulgated under the Securities Act or any other similar rule or regulation of the SEC that may at any time permit each Investor to sell securities of the Company to the public without registration ("Rule 144"), the Company agrees to:

(a) to use its best efforts to file with the SEC in a timely manner and make and keep available all reports and other documents required of the Company under the Securities Act and the Exchange Act so long as the Company remains subject to such requirements and the filing and availability of such reports and other documents is required for the applicable provisions of Rule 144; and

(b) furnish to each Investor so long as such Investor owns Registrable Securities, promptly upon request, (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the Securities Act and the Exchange Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested to permit each Investor to sell such securities under Rule 144 without registration.

9. ASSIGNMENT OF REGISTRATION RIGHTS. The rights of the Investors hereunder, including the right to have the Company register Registrable Securities pursuant to this Agreement, shall be automatically assignable by each Investor to any transferee of Registrable Securities or any assignee of the Note and Warrant Purchase Agreement if: (i) the Investor agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company after such assignment, (ii) the Company is furnished with written notice of (A) the name and address of such transferee or assignee, and (B) the securities with respect to which such registration rights are being transferred or assigned, and (iii) the transferee or assignee agrees in writing for the benefit of the Company to be bound by all of the provisions contained herein.

10. AMENDMENT OF REGISTRATION RIGHTS. Provisions of this Agreement may be amended and the observance thereof may be waived only with written consent of the Company and Investors who hold a majority in interest of the Registrable Securities or, in the case of a waiver, with the written consent of the party charged with the enforcement of any such provision.

11. MISCELLANEOUS.

(a) Any notices required or permitted to be given under the terms of this Agreement shall be sent by certified or registered mail (return receipt requested), or delivered personally or by courier, or by confirmed telecopy, or by a reputable overnight delivery service, and shall be effective upon receipt or refusal of receipt, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Environmental Tectonics Corporation
125 James Way
Southampton, PA 18966
Telephone: (215) 355-9100
Facsimile: (215) 357-4000

Attn: Chief Financial Officer

with a copy simultaneously transmitted by like means to:

Klehr, Harrison, Harvey, Branzburg & Ellers LLP
260 South Broad Street
Philadelphia, PA 19102
Telephone: (215) 569-4284
Facsimile: (215) 568-6603
Attn: Michael C. Forman, Esquire

and if to any Investor, at such address as such Investor shall have provided in writing to the Company, or at such other address as each such party furnishes by notice given in accordance with this Section 11(a).

(b) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(c) This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts made and to be performed in the Commonwealth of Pennsylvania. The Company and each Investor irrevocably consents to the jurisdiction of the United States federal courts and the state courts located in the Commonwealth of Pennsylvania in any suit or proceeding based on or arising under this Agreement and irrevocably agrees that all claims in respect of such suit or proceeding may be determined in such courts. The Company and each Investor irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding. The parties further agree that service of process upon the other party, mailed by first class mail shall be deemed in every respect effective service of process upon such party in any such suit or proceeding. Nothing herein shall affect the parties' right to serve process in any other manner permitted by law. Each party agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

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(d) This Agreement, the Note and Warrant Purchase Agreement, and the Warrant constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement supersedes all prior agreements and understandings between the parties hereto with respect to the subject matter hereof and thereof.

(e) Subject to the requirements of Section 9 hereof, this Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto.

(f) The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(g) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(h) Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(i) All consents, approvals and other determinations to be made by

the Investors pursuant to this Agreement shall be made by the Investors holding a majority in interest of the Registrable Securities held by all Investors.

(j) Each party to this Agreement has participated in the negotiation and drafting of this Agreement. As such, the language used herein shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party to this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above written.

ENVIRONMENTAL TECTONICS CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner
Title: C.F.O.

/s/ H. F. Lenfest

H. F. Lenfest

SECURITY AGREEMENT

This SECURITY AGREEMENT is made and entered into as of February 18, 2003, by and among ENVIRONMENTAL TECTONICS CORPORATION (the "Borrower"), ENTERTAINMENT TECHNOLOGY CORPORATION and ETC DELAWARE, INC. (the latter two, the "Guarantors" and, together with the Borrower, the "Debtors"), and H.F. LENFEST (the "Lender").

W I T N E S S E T H :

WHEREAS, the Borrower and the Lender are parties to a Note and Warrant Purchase Agreement dated as of the date hereof (as amended, supplemented or otherwise modified from time to time, the "Purchase Agreement");

WHEREAS, Guarantors have delivered to the Lender a Guaranty, dated as of the date hereof, in respect of the obligations of the Borrower under Purchase Agreement (the "Guaranty");

WHEREAS, pursuant to the provisions of the Purchase Agreement and upon the terms and subject to the conditions set forth therein, the Lender has agreed to provide a loan (the "Loan") to the Borrower to be evidenced by the senior subordinated convertible note issued by the Borrower thereunder (the "Note");

WHEREAS, it is a condition precedent to the obligation of the Lender to provide the Loan to the Borrower under the Purchase Agreement, that the Debtors shall have executed and delivered this Security Agreement to the Lender;

WHEREAS, pursuant to the terms of a Credit Agreement (the "Credit Agreement") dated the date hereof between the Borrower and PNC Bank, National Association ("PNC"), PNC is extending credit facilities to the Borrower;

WHEREAS, it is a condition precedent to the obligation of PNC to extend the credit facilities to the Borrower under the Credit Agreement, that the Lender enter into a subordination agreement (the "Subordination Agreement") with PNC, pursuant to which Lender agrees to subordinate (i) payment of the Note to the prior payment in full of Borrower's obligations to PNC, and (ii) the security interest granted by Debtors to Lender hereunder to the security interest granted by Debtors to PNC pursuant to the terms of Security Agreement between Debtors and PNC (the "PNC Security Agreement");

WHEREAS, the rights granted to Lender herein shall be subject to the terms and conditions of the Subordination Agreement.

NOW, THEREFORE, in consideration of the premises and to induce the Lender to enter into the Purchase Agreement and to induce the Lender to provide the Loan to the Borrower under the Purchase Agreement, the Debtors hereby agree with the Lender, as follows:

1. Defined Terms. Unless otherwise defined herein, terms which are defined in the Purchase Agreement and used herein are so used as so defined; the following terms which are defined in the Code are used herein as so defined: Accounts (including Health-Care-Insurance Receivables), Chattel Paper (including Electronic Chattel Paper and Tangible Chattel Paper), Commercial Tort Claims, Deposit Accounts, Documents, Equipment, Farm Products, Financial Assets, General Intangibles, Instruments, Inventory, Investment Property (including Securities Entitlements, Securities Accounts, Commodity Accounts, and Commodity Contracts), Letter-of-Credit Rights, Payment Intangibles, Software, Supporting Obligations

and Proceeds; and the following terms shall have the following meanings:

"Code" shall mean the Uniform Commercial Code as from time to time in effect in the Commonwealth of Pennsylvania.

"Collateral" shall have the meaning assigned to it in Section 2 of this Security Agreement.

"Contracts" shall mean all contracts and other agreements between any Debtor and any other Person, as the same may from time to time be amended, supplemented or otherwise modified, including, without limitation, (a) all rights of each Debtor to receive moneys due and to become due to it thereunder or in connection therewith, (b) all rights of each Debtor to damages arising out of, or for, breach or default in respect thereof and (c) all rights of each Debtor to perform and to exercise all remedies thereunder.

"Copyrights" shall mean (a) all copyrights, registrations and applications for registration, issued or filed, including any reissues, extensions or renewals thereof, by or with the United States Copyright Office or any similar office or agency of the United States, any State thereof, or any other country or political subdivision thereof, or otherwise, including, all rights in and to the material constituting the subject matter thereof, including, without limitation, any referred to in Schedule I hereto, and (b) any rights in any material which is copyrightable or which is protected by common law, United States copyright laws or similar laws or any law of any State, including, without limitation, any thereof referred to in Schedule I hereof.

"Copyright License" shall mean any agreement, written or oral, providing for a grant by any of the Debtors of any right in any Copyright, including, without limitation, any thereof referred to in Schedule I hereof.

"Obligations" shall mean the unpaid principal amount of, and interest on (including, without limitation, interest accruing after the maturity of the Loan and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to any of the Debtors, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the Note and all other obligations and liabilities of the Debtors to the Lender, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Purchase Agreement, the Note, this Security Agreement, the Guaranty, the other Transaction Documents, and any other document made, delivered or given in connection therewith or herewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including, without limitation, all fees and disbursements of counsel to the Lender that are required to be paid by the Debtors pursuant to the terms of the Purchase Agreement or any other Transaction Document) or otherwise.

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"Patents" shall mean (a) all letters patent of the United States or any other country or any political subdivision thereof, and all reissues and extensions thereof, including, without limitation, any thereof referred to in Schedule II hereto, and (b) all applications for letters patent of the United States and all divisions, continuations and continuations-in-part thereof or any other country or any political subdivision, including, without limitation, any thereof referred to in Schedule II hereto.

"Patent License" shall mean all agreements, whether written or oral, providing for the grant by any of the Debtors of any right to manufacture, use or sell any invention covered by a Patent, including, without limitation, any thereof referred to in Schedule II hereto.

"Security Agreement" shall mean this Security Agreement, as amended, supplemented or otherwise modified from time to time.

"Trademarks" shall mean (a) all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos and other source or business identifiers, and the goodwill associated therewith, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, whether in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, or otherwise, including, without limitation, any thereof referred to in Schedule III hereto, and (b) all reissues, extensions or renewals thereof.

"Trademark License" shall mean any agreement, written or oral, providing for the grant by any of the Debtors of any right to use any Trademark, including, without limitation, any thereof referred to in Schedule III hereto.

2. Grant of Security Interest. As collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations, each of the Debtors hereby grants to the Lender a security interest in all of the following property now owned or at any time hereafter acquired by such Debtor or in which such Debtor now has or at any time in the future may acquire any right, title or interest (collectively, the "Collateral"):

(i) all Accounts (including Health-Care-Insurance Receivables);

(ii) all Chattel Paper (including Electronic Chattel Paper and Tangible Chattel Paper);

(iii) all Contracts;

(iv) all Copyrights and Copyright Licenses;

(v) all Deposit Accounts;

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(vi) all Documents;

(vii) all Equipment;

(viii) all General Intangibles and Commercial Tort Claims;

(ix) all Instruments;

(x) all Inventory;

(xi) all Investment Property, (including Securities Entitlements, Securities Accounts, Commodity Accounts, and Commodity Contracts);

(xii) all Letter-of-Credit Rights;

(xiii) all Patents and Patent Licenses;

(xiv) all Payment Intangibles;

(xv) all Software (in whatever form);

(xvi) Supporting Obligations;

(xvii) Trademarks and Trademark Licenses; and

(xviii) to the extent not otherwise included, all Proceeds and products of any and all of the foregoing.

3. Rights of Lender; Limitations on Lender's Obligations.

(a) Debtors Remain Liable under Accounts and Contracts. Anything herein to the contrary notwithstanding, the Debtors shall remain liable under each of the Accounts and Contracts to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any agreement giving rise to each such Account and in accordance with and pursuant to the terms and provisions of each such Contract. The Lender shall have no obligation or liability under any Account (or any agreement giving rise thereto) or under any Contract by reason of or arising out of this Security Agreement or the receipt by the Lender of any payment relating to such Account or Contract pursuant hereto, nor shall the Lender be obligated in any manner to perform any of the obligations of the Debtors under or pursuant to any Account (or any agreement giving rise thereto) or under or pursuant to any Contract, to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party under any Account (or any agreement giving rise thereto) or under any Contract, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

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(b) Notice to Account Debtors and Contracting Parties. Upon the request of the Lender at any time after the occurrence and during the continuance of an Event of Default, the Debtors shall notify account debtors on the Accounts and parties to the Contracts that the Accounts and the Contracts have been assigned to the Lender and shall indicate on all billings that payments in respect thereof shall be made directly to the Lender. The Lender may in the name of the Debtors or in the name of others communicate with account debtors on the Accounts and parties to the Contracts to verify with them to its satisfaction the existence, amount and terms of any Accounts or Contracts.

(c) Analysis of Accounts. The Lender shall have the right to make test verifications of the Accounts through periodic site visits as provided in Section 7.1(i) of the Purchase Agreement, and the Debtors shall furnish all such assistance and information as the Lender may reasonably require in connection therewith. At any time, and from time to time, but in no event more than twice in any given twelve month period, upon the Lender's request and at the expense of the Debtors, the Debtors shall cause independent public accountants or others satisfactory to the Lender to furnish to the Lender reports showing reconciliations, aging and test verifications of, and trial balances for, the Accounts; provided that any such reconciliation, aging or test verification performed at the request of PNC and delivered to Lender shall satisfy a like request from Lender if made within 6 months of the request from PNC.

(d) Collections on Accounts. Subject to the further provisions of this Section 3(d), the Lender hereby authorizes the Debtors to collect the Accounts from the account debtors. Prior to the occurrence of an Event of Default, the Proceeds of Accounts so collected by the Debtors shall be received and held by the Debtors in trust for the Lender but may be applied by the Debtors in their discretion towards payment of the Obligations or other corporate purposes. Upon the occurrence of an Event of Default which has not been waived by or cured to the satisfaction of the Lender and subject to the direction of the Lender, (i) the authority hereby given to the Debtors to collect the Proceeds of Accounts may be terminated by the Lender at any time and after being notified of such termination, the Debtors shall deliver to the Lender on the date of receipt thereof by the Debtors all Proceeds in the form of cash, checks, drafts, notes and other remittances received in payment of or on account of the Debtors' Accounts; (ii) following receipt by the Lender any such Proceeds shall be deposited in a special bank account (the "Cash Collateral Account") of the Debtors maintained at a commercial bank chosen by the Lender over which the Lender alone shall have power of withdrawal; (iii) all Proceeds other than cash shall be deposited in precisely the form in which received, except for the addition thereto of the endorsement of the Debtors when necessary to permit collection of the items, which endorsement the Debtors agree to make;

and (iv) the Debtors will not commingle any such Proceeds with any of the Debtors' other funds or property but will hold them separate and apart from any other funds or property and upon an express trust for the Lender until deposit thereof is made in the Cash Collateral Account.

4. Representations and Warranties. The Debtors hereby represent and warrant that:

(a) Title; No Other Liens. Except for the Lien granted hereby, the Lien granted to PNC pursuant to the PNC Security Agreement and any other Permitted Liens, one or more of the Debtors own each item of the Collateral free and clear of any and all Liens or claims of others. No security agreement, financing statement or other public notice with respect to all or any part of the Collateral is on file or of record in any public office, except such as may have been filed in favor of the Lender, pursuant to this Security Agreement or as may be permitted pursuant to the Purchase Agreement.

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(b) Perfected Second Priority Liens. Upon the Lender taking all action necessary under the UCC to perfect its security interest in and to the Collateral, the Liens granted pursuant to this Security Agreement constitute perfected Liens on the Collateral in favor of the Lender, which are prior to all other Liens on the Collateral in existence on the date hereof (other than Permitted Liens) and are enforceable as such against all creditors of and purchasers from the Debtors and against any owner or purchaser of the real property where any of the Equipment is located and any present or future creditor obtaining a Lien on such real property.

(c) Accounts. The amount represented by the Debtors to the Lender in any accounts receivable aging and in other reports requested by or furnished to the Lender as owing by each account debtor or by all account debtors in respect of the Accounts will at such time be the correct amount actually owing by such account debtor or debtors thereunder except for normal cash discounts and allowances where applicable. No amount payable to the Debtors under or in connection with any Account is evidenced by any Instrument or Chattel Paper which has not been delivered to the Lender. The Debtors keep their records concerning the Accounts at the location or locations set forth in Schedule IV.

(d) Contracts. Except as contemplated hereby, no consent of any party (other than the Debtors) to any material Contract is required, or purports to be required, in connection with the execution, delivery and performance of this Security Agreement. Each material Contract is in full force and effect and constitutes a valid and legally enforceable obligation of the parties thereto, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditor's rights generally. No consent or authorization of, filing with or other act by or in respect of any Governmental Authority is required in connection with the execution, delivery, performance, validity or enforceability of any of the Contracts by any party thereto other than those which have been duly obtained, made or performed, are in full force and effect and do not subject the scope of any such Contract to any material adverse limitation, either specific or general in nature. Neither the Debtors nor (to the best of the Debtors' knowledge) any other party to any Contract are in default of any material provision thereof or are likely to become in default in the performance or observance of any of the material provisions thereof. The Debtors have fully performed all their material obligations under each Contract. The right, title and interest of each Debtor in, to and under each Contract to which such Debtor is a party are not subject to any defense, offset, counterclaim or claim which would materially adversely affect the value of such Contract as Collateral, nor have any of the foregoing been asserted or alleged against the Debtors as to any Contract. No amount payable to the Debtors under or in connection with any Contract is evidenced by any Instrument or Chattel Paper which has not been delivered to the Lender.

(e) Inventory. The types, amounts and valuations of the Inventory or any other information regarding the same represented by the Debtors in any reports requested by or furnished to the Lender, or any other holders of the Obligations will at such time be accurate to the best of the Debtors' knowledge. The Debtors keep records concerning the Inventory at the location or locations listed on Schedule V. Except for Inventory in transit, work in progress at other locations and consigned Inventory, the Inventory is kept at the locations listed on Schedule VI hereto.

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(f) Equipment. The Equipment is kept at the locations listed on Schedule VII hereto.

(g) Chief Executive Office; Place of Organization. The locations of each Debtor's chief executive office, chief place of business, form of and place of organization are set forth on Schedule VIII.

(h) Farm Products. None of the Collateral constitutes, or is the Proceeds of, Farm Products.

(i) Patents, Trademarks and Copyrights. Schedule I hereto includes all Copyrights and Copyright Licenses (except licenses to use off-the-shelf software in the ordinary course of business) owned by the Debtors in its own name as of the date hereof. Schedule II hereto includes all Patents and Patent Licenses owned by each of the Debtors in its own name as of the date hereof. Schedule III hereto includes all Trademarks and Trademark Licenses owned by each of the Debtors in its own name as of the date hereof. To the best of the Debtors' knowledge, each Copyright, Patent and Trademark is valid, subsisting, unexpired, enforceable and has not been abandoned. Except as set forth in any such Schedule, none of such Copyrights, Patents or Trademarks is the subject of any licensing or franchise agreement. No holding, decision or judgment has been rendered by any Governmental Authority which would limit, cancel or question the validity of any Copyright, Patent or Trademark. Except as set forth in any such Schedule, no action or proceeding is pending (i) seeking to limit, cancel or question the validity of any Copyright, Patent or Trademark, or (ii) which, if adversely determined, would have a material adverse effect on the value of any Copyright, Patent or Trademark.

(j) Power and Authority; Authorization. The Debtors have the corporate or other power and authority and the legal right to execute and deliver, to perform their obligations under, and to grant the Lien on the Collateral pursuant to, this Security Agreement and have taken all necessary corporate or other action to authorize its execution, delivery and performance of, and grant of the Lien on the Collateral pursuant to, this Security Agreement.

(k) Enforceability. This Security Agreement constitutes a legal, valid and binding obligation of each of the Debtors enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally.

(l) No Conflict. The execution, delivery and performance of this Security Agreement will not violate any provision of any Law or any obligation under any agreement, instrument, document or contract to which any of the Debtors is a party (each, a "Contractual Obligation") and will not result in the creation or imposition of any Lien on any of the properties or revenues of any of the Debtors pursuant to any Law or Contractual Obligation of any of the Debtors, except as contemplated hereby.

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(m) No Consents, etc. Except as contemplated hereby, no

consent or authorization of, filing with, or other act by or in respect of, any arbitrator or Governmental Authority and no consent of any other Person (including, without limitation, any stockholder or creditor of any of the Debtors), is required in connection with the execution, delivery, performance, validity or enforceability of this Security Agreement (except for the filing of the UCC financing statements).

(n) No Litigation. Except as set forth on Schedule 5.1(j) to the Purchase Agreement, no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Debtors, threatened by or against any of the Debtors or against any of its properties or revenues with respect to this Security Agreement or any of the transactions contemplated hereby.

5. Covenants. Each of the Debtors covenants and agrees with the Lender that, from and after the date of this Security Agreement until the Obligations are paid in full, and the Loan is terminated it will:

(a) Notices; Further Documentation; Authorization to File Financing Statements. Notify the Lender in writing at any time that it opens, acquires, obtains, or becomes the beneficiary of any type of Collateral (or rights therein) to the extent the Lender will not at that time have, and continuously thereafter (subject to the filing of continuation statements, if necessary) maintain, a perfected priority security interest in (subject to solely Permitted Liens) such Collateral, including but not limited to: all Deposit Accounts, Securities Accounts and Commodity Accounts and other Investment Property; all Commercial Tort Claims; all Instruments, Documents, Tangible Chattel Paper and Electronic Chattel Paper; all other Collateral in the possession of a third party; and all Letter-of-Credit Rights and other Supporting Obligations. At any time and from time to time, upon the written request of the Lender, and at the sole expense of the Debtors, promptly (i) deliver to the Lender all letters of credit and other Supporting Obligations, Instruments, Chattel Paper, Documents and Investment Property (including any necessary endorsements) that at any time is part of the Collateral or becomes Proceeds of any Collateral unless in possession of a lien holder with a prior Permitted Lien, and (ii) execute and deliver such further instruments, agreements and documents and take such further action as the Lender may reasonably request for the purpose of obtaining, preserving, and enforcing the full benefits of this Security Agreement and of the rights and powers herein granted, including, without limitation, executing and delivering and using commercially reasonable efforts to cause third parties to execute and deliver to the Lender security agreements, pledge agreements, control agreements, bailee acknowledgments, assignments and waivers, all in form and substance satisfactory to the Lender. The Debtors will mark all Chattel Paper with a legend indicating that the Lender has a security interest in the Chattel Paper.

The Debtors also hereby authorize the Lender to file any Uniform Commercial Code financing or continuation statement without the signature of the Debtors to the extent permitted by applicable law. The Debtors hereby ratify any filing by the Lender of financing statements prior to the date hereof with respect to the Collateral. A carbon, photographic, facsimile or other reproduction of this Security Agreement shall be sufficient as a financing statement for filing in any jurisdiction.

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(b) Indemnification. Pay, and save the Lender and any other holders of the Obligations harmless from, any and all liabilities, reasonable costs and expenses (including, without limitation, reasonable legal fees and expenses) (i) with respect to, or resulting from, any delay in paying any and all excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral, (ii) with respect to, or resulting from, any delay in complying with any Law applicable to any of the Collateral or (iii) in connection with protecting, storing, warehousing, appraising, insuring, handling, maintaining and shipping the Collateral, all reasonable costs, fees and expenses of creating, perfecting, maintaining and

enforcing the security interests created by this Security Agreement, and any and all excise, property, sales and use taxes imposed by any federal, state, local or foreign authority on any of the Collateral, or with respect to periodic appraisals and inspections of the Collateral, or with respect to the sale or other disposition thereof. In any suit, proceeding or action brought by the Lender under any Account or Contract for any sum owing thereunder, or to enforce any provisions of any Account or Contract, the Debtors will save, indemnify and keep the Lender harmless from and against all expense, loss or damage suffered by reason of any defense, setoff, counterclaim, recoupment or reduction of liability whatsoever of the account debtor or obligor thereunder, arising out of a breach by the Debtors of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing to or in favor of such account debtor or obligor or its successors from the Debtors; provided, however, that such expense, loss or damage does not arise from the gross negligence or willful misconduct of the Lender.

(c) Maintenance of Records. Keep and maintain at its own cost and expense true, correct and complete records of the Collateral, including, without limitation, a record of all payments received and all credits granted with respect to the Accounts. For the Lender's further security, the Lender shall have a security interest in the Debtors' books and records pertaining to the Collateral, and the Debtors shall turn over copies of any such books and records to the Lender or to its representatives during normal business hours at the request of the Lender.

(d) Right of Inspection and Audit. Give to the Lender, no more than two times during any twelve month period, upon reasonable prior notice full and free access during normal business hours (or following the occurrence and during the continuance of an Event of Default, at any time) to all of its books, correspondence and records and the Lender and its respective representatives may examine, inspect or audit the same, take extracts therefrom and make photocopies thereof, and the Debtors agree to render to the Lender, at the Debtors' cost and expense, such clerical and other assistance as may be reasonably requested with regard thereto. The Lender and its respective representatives shall at all times during normal business hours (or following the occurrence of an Event of Default, at any time) also have the right without breach of the peace to enter into and upon any premises where any of the Inventory or Equipment is located for the purpose of examining, inspecting or auditing the same, observing its use or otherwise protecting their interests therein.

(e) Compliance with Laws, etc. Comply in all material respects with all Laws applicable to the Collateral or any part thereof or to the operation of its business; provided, however, that the Debtors may contest any Law in any reasonable manner which shall not, in the sole opinion of the Lender, adversely affect the Lender's rights or the priority of their Liens on the Collateral.

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(f) Compliance with Terms of Contracts, etc. Perform and comply in all material respects with all its material obligations under the Contracts and all its other Contractual Obligations relating to the Collateral.

(g) Payment of Obligations. Pay promptly when due all taxes, assessments and governmental charges or levies imposed upon the Collateral or in respect of its income or profits therefrom, as well as all claims of any kind (including, without limitation, claims for labor, materials and supplies) against or with respect to the Collateral, except that no such charge need be paid if (i) the validity thereof is being contested in good faith by appropriate proceedings, (ii) such proceedings do not involve any material danger of the sale, forfeiture or loss of any of the Collateral or any interest therein and (iii) such charge is adequately reserved against on the Debtors' books in accordance with GAAP.

(h) Limitation on Liens on Collateral. Not create, incur

or permit to exist, will defend the Collateral against, and take such other action as is necessary to remove, any Lien or claim on or to the Collateral, other than the Permitted Liens, and will defend the right, title and interest of the Lender in and to any of the Collateral against the claims and demands of all Persons whomsoever.

(i) Limitations on Dispositions of Collateral. Not sell, transfer, lease or otherwise dispose of any of the Collateral, or attempt, offer or contract to do so except as expressly permitted pursuant to the Purchase Agreement or otherwise agreed to in writing by the Lender.

(j) Limitations on Discounts, Compromises, Extensions of Accounts. Not adjust, settle or compromise the amount or payment of any Account, or release wholly or partly any customer or obligor thereof, or allow any credit or discount thereon (other than adjustments, settlements, compromises, releases, credits and discounts in the ordinary course of business and in amounts which are not material to the Debtors) without the prior consent of the Lender.

(k) Further Identification of Collateral. Furnish to the Lender, from time to time, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Lender may reasonably request, all in reasonable detail.

(l) Notices. Advise the Lender promptly, in reasonable detail, at its address set forth in the Purchase Agreement, (i) of any Lien (other than Permitted Liens) on, or claim asserted against, any of the Collateral and (ii) of the occurrence of any other event which could reasonably be expected to have a material adverse effect on the aggregate value of the Collateral or on the Liens created hereunder.

(m) Changes in Locations, Name, Place of Organization, etc. Unless it shall have given the Lender at least 30 days prior written notice thereof none of the Debtors will (i) change the location of its chief executive office or chief place of business from that specified in Schedule VIII attached hereto or remove its books and records from the location specified in Section 4(g), (ii) permit any of the Inventory or Equipment to be kept at a location other than those listed on Schedules VI and VII hereto, (iii) change its name, identity or corporate structure to such an extent that any financing statement filed by the Lender in connection with this Security Agreement would become seriously misleading or (iv) change the state of its organization.

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(n) Patents, Trademarks and Copyrights.

(i) Unless any of the Debtors deems it appropriate in the exercise of its reasonable business judgment to do otherwise and, if after the occurrence of an Event of Default which has not been waived or cured to the satisfaction of the Lender with the prior written consent of the Lender, (i) continue to use each Trademark on each and every trademark class of goods applicable to its current line as reflected in its current catalogs, brochures and price lists in order to maintain such Trademark in full force free from any claim of abandonment for non-use, (ii) maintain as in the past the quality of products and services offered under such Trademark, (iii) employ such Trademark or Copyright with the appropriate notice of registration, (iv) not adopt or use any mark which is confusingly similar or a colorable imitation of such Trademark unless the Lender shall obtain a perfected security interest in such mark pursuant to this Security Agreement, and (v) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any Trademark or Copyright may become invalidated.

(ii) Not, unless any of the Debtors deems it appropriate in the exercise of its reasonable business judgment to do otherwise and, if after the occurrence of an Event of Default which has not been waived by or cured to the satisfaction of the Lender with the prior written consent of the Lender, do any act, or omit to do any act, whereby any Patent may become

abandoned or dedicated.

(iii) Notify the Lender immediately if it knows, or has reason to know, that any application or registration relating to any Patent, Trademark or Copyright may become abandoned or dedicated, or of any adverse determination or development (including, without limitation, the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, the United States Copyright Office or any court or tribunal in any country) regarding its ownership of any Patent, Trademark or Copyright or its right to register the same or to keep and maintain the same.

(iv) Whenever any of the Debtors, either by itself or through any agent, employee, licensee or designee, shall file an application for the registration of any Patent, Trademark or Copyright with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency in any other country or any political subdivision thereof, report such filing to the Lender within five Business Days after the last day of the fiscal quarter in which such filing occurs. Upon request of the Lender, the Debtors shall execute and deliver any and all agreements, instruments, documents, and papers as the Lender may request to evidence the Lender's security interest in any Patent, Trademark or Copyright and the goodwill and general intangibles of the Debtors relating thereto or represented thereby, and the Debtors hereby constitute the Lender, its attorney-in-fact to execute and file all such writings for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; such power being coupled with an interest is irrevocable until the Obligations are paid in full and the Loan is terminated.

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(v) Take all reasonable and necessary steps, including, without limitation, in any proceeding before the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency in any other country or any political subdivision thereof, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the Patents, Trademarks and Copyrights, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.

(vi) In the event that any Patent, Trademark or Copyright included in the Collateral is materially infringed, misappropriated or diluted by a third party, promptly notify the Lender after it learns thereof and shall, unless it shall reasonably determine that such Patent, Trademark or Copyright is of negligible economic value to it, which determination it shall promptly report to the Lender, promptly sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution, or take such other actions as it shall reasonably deem appropriate under the circumstances to protect such Patent, Trademark or Copyright.

6. Lender's Appointment as Attorney-in-Fact.

(a) Powers. The Debtors hereby irrevocably constitute and appoint the Lender and any agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Debtors and in the name of the Debtors or in its own name, from time to time in the Lender's discretion, for the purpose of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Security Agreement, and, without limiting the generality of the foregoing, the Debtors hereby give the Lender the power and right, on behalf of the Debtors, without notice to or assent by the Debtors, to do the following:

(i) in the case of any Account, at any time when the authority of the Debtors to collect the Accounts has been curtailed

or terminated pursuant to Section 3(d) hereof, or in the case of any other Collateral, at any time when any Event of Default shall have occurred and is continuing, in the name of the Debtors or its own name, or otherwise, to take possession of and indorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any Account, Instrument, General Intangible or Contract or with respect to any other Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Lender for the purpose of collecting any and all such moneys due under any Account, Instrument, General Intangible or Contract or with respect to any other Collateral whenever payable;

(ii) to pay or discharge taxes and Liens levied or placed on or threatened against the Collateral (other than Permitted Liens), to effect any repairs or procure any insurance called for by the terms of this Security Agreement and to pay all or any part of the premiums therefor and the costs thereof;

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(iii) upon the occurrence and during the continuance of any Event of Default, (A) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to the Lender or as the Lender shall direct; (B) to ask or demand for, collect, receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral; (C) to sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices and other documents in connection with any of the Collateral; (D) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any proceeds thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against the Debtors or any of them with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described in clause (E) above and, in connection therewith, to give such discharges or releases as the Lender may deem appropriate; (G) to assign any Patent or Trademark (along with the goodwill of the business to which any such Trademark pertains), throughout the world for such term or terms, on such conditions, and in such manner, as the Lender shall in its sole discretion determine; and (H) subject to the terms of Section 19, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Lender were the absolute owner thereof for all purposes, and to do, at the Lender's option and the Debtors' expense, at any time, or from time to time, all acts and things which the Lender deems necessary to protect, preserve or realize upon the Collateral and the Lender's Liens thereon and to effect the intent of this Security Agreement, all as fully and effectively as the Debtors might do; and

(iv) execute in its own name or on behalf of the Debtors such UCC financing Statements forms and similar instruments as the Lender may from time to time deem reasonably necessary or desirable to protect the security interests of the Lender and any other holders of the Obligations.

The Debtors hereby ratify all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

(b) Other Powers. The Debtors also authorize the Lender, and any other holders of the Obligations, at any time and from time to time, to execute, in connection with the sale provided for in Section 8 hereof, any

endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

(c) No Duty on the Lender's Part. The powers conferred on the Lender hereunder are solely to protect the Lender's interests in the Collateral and shall not impose any duty upon the Lender to exercise any such powers. The Lender shall be accountable only for amounts that Lender actually receives as a result of the exercise of such powers, and neither they nor any of their officers, directors, employees or agents shall be responsible to the Debtors for any act or failure to act hereunder, except for their own gross negligence or willful misconduct.

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7. Performance by the Lender of Debtors' Obligations. If any of the Debtors fails to perform or comply with any of its agreements contained herein and the Lender, as provided for by the terms of this Security Agreement, shall itself perform or comply, or otherwise cause performance or compliance, with such agreement, the expenses of the Lender incurred in connection with such performance or compliance shall be payable by the Debtors to the Lender on demand and shall constitute Obligations secured hereby, and if not promptly repaid to the Lender shall bear interest thereon at a rate per annum equal to the Default Rate (as defined in the Note).

8. Remedies.

(a) If an Event of Default shall occur and be continuing and all applicable notice and cure periods shall have expired, the Lender may exercise, in addition to all other rights and remedies granted to it in this Security Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, all rights and remedies of a secured party under the Code. Without limiting the generality of the foregoing, the Lender, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Debtors or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of the Lender or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Lender shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Debtors, which right or equity is hereby waived or released. The Debtors further agree, at the Lender's request, to assemble the Collateral and make it available to the Lender at places which the Lender shall reasonably select, whether at the Debtors' premises or elsewhere. The Lender shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of the Lender hereunder, including, without limitation, reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Obligations, in such order as the Lender may elect, and only after such application and after the payment by the Lender of any other amount required by any provision of law, including, without limitation, Section 9615 of the Code, need the Lender account for the surplus, if any, to the Debtors. To the extent permitted by applicable law, each of the Debtors waives all claims, damages and demands it may acquire against the Lender arising out of the exercise by it of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition. The Debtors shall remain liable for any deficiency if the proceeds

of any sale or other disposition of the Collateral are insufficient to pay the Obligations and the fees and disbursements of any attorneys employed by the Lender to collect such deficiency.

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(b) The Debtors agree, upon the occurrence and during the continuation of an Event of Default, to take any actions that the Lender may request in order to enable the Lender to obtain and enjoy the full rights and benefits granted to the Lender under this Security Agreement and any other Transaction Documents. Without limiting the generality of the foregoing, the Debtors shall upon the occurrence and during the continuation of an Event of Default, at the Debtors' sole cost and expense, assist in obtaining all approvals which are then required by law for or in connection with any action or transaction contemplated by this Security Agreement or Article 9 of the Uniform Commercial Code as in effect in any applicable jurisdiction.

9. Limitation on Duties Regarding Preservation of Collateral. The Lender's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9207 of the Code or otherwise, shall be to deal with it in the same manner as the Lender deals with similar property for its own account. No holder of any Obligation, nor any of their respective directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Debtors or otherwise.

10. Powers Coupled with an Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

11. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

12. Paragraph Headings. The paragraph headings used in this Security Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

13. No Waiver; Cumulative Remedies. No holder of any Obligation shall by any act (except by a written instrument pursuant to Section 14 hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of the any holder of the Obligations, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by any holder of any Obligations of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which such holder would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

14. Waivers and Amendments; Parties Bound; Governing Law. None of the terms or provisions of this Security Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Debtors and the Lender; provided that any provision of this Security Agreement may be waived by the Lender in a written letter or agreement executed by the Lender or by telex or facsimile transmission from the Lender. This Security Agreement shall be the joint and several obligation of the Debtors; each of the Debtors shall have made all of the representations, warranties,

covenants and agreements contained herein. This Security Agreement shall be binding upon the respective successors and permitted assigns of the Debtors and shall inure to the benefit of the Lender and its successors and assigns. THIS SECURITY AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE SUBSTANTIVE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA.

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15. Notices. All notices hereunder to the Debtors or the Lender to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered or sent in the manner and to the respective addresses as provided in subsection 9.6 of the Purchase Agreement.

16. Submission to Jurisdiction; Waivers.

(a) Each of the Debtors hereby irrevocably and unconditionally:

(i) submits for itself and its property in any legal action or proceeding relating to this Security Agreement, or for recognition and enforcement of any judgment in respect thereof to the non-exclusive general jurisdiction of the courts of the Commonwealth of Pennsylvania, the courts of the United States of America for the Eastern District of Pennsylvania, and appellate courts from any thereof;

(ii) consents that any such action or proceeding may be brought in such courts, and waives (to the extent permitted by applicable law) any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(iii) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the address set forth in the Purchase Agreement or at such other address of which the Lender shall have been notified;

(iv) waives and hereby acknowledges that it is estopped from raising any objections based on forum non conveniens, any claim that any of the above-referenced courts lack proper venue or any objection that any of such courts lack personal jurisdiction over it so as to prohibit such courts from adjudicating any issues raised in a complaint filed with such courts against it concerning this Security Agreement;

(v) acknowledges and agrees that the choice of forum contained in this paragraph shall not be deemed to preclude the enforcement of any judgement contained in any forum or the taking of any action under this Security Agreement to enforce the same in any appropriate jurisdiction;

(vi) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this subsection any special, exemplary or punitive or consequential damages; and

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(vii) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

(b) Each of the Debtors hereby unconditionally waives trial by jury in any legal action or proceeding referred to in paragraph (a)

above.

17. Counterparts. This Security Agreement may be executed by one or more of the parties to this Security Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Security Agreement signed by all the parties shall be lodged with the Debtors and the Lender.

18. Further Assurances. The parties acknowledge their intent that, upon the occurrence and during the continuation of an Event of Default, the Lender shall receive, to the fullest extent permitted by all Laws and governmental policy, all rights necessary or desirable to obtain, use or sell the Collateral, and to exercise all remedies available to it under this Security Agreement, the Uniform Commercial Code as in effect in any applicable jurisdiction, or other applicable law. The parties further acknowledge and agree that, in the event of any change in law or governmental policy occurring subsequent to the date hereof that affects in any manner the Lender's rights of access to, or use or sale of, the Collateral, or the procedures necessary to enable the Lender to obtain such rights of access, use or sale, the Lender and the Debtors shall amend this Agreement in such manner as the Lender shall request, in order to provide to the Lender such rights to the greatest extent possible consistent with all Laws and governmental policy.

19. Release. This Security Agreement and related instruments delivered to the Lender hereunder shall be released by the Lender upon the date on which the Obligations are paid in full and the Loan is terminated. This Security Agreement shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Obligations is rescinded or must otherwise be restored or returned by the Lender or any holder of the Obligations upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of any of the Debtors or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for any of the Debtors or any substantial part of its property, or otherwise, all as though such payments had not been made.

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IN WITNESS WHEREOF, the Debtors and the Lender have caused this Security Agreement to be duly executed and delivered as of the date first above written.

ENVIRONMENTAL TECTONICS CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner
Title: C.F.O.

ENVIRONMENTAL TECTONICS CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner
Title: Secretary

ETC DELAWARE, INC.

By: /s/ Duane Deaner

Name: Duane Deaner
Title: Treasurer

/s/ H.F. Lenfest

Witness:

H.F. Lenfest

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SCHEDULE I TO
Security Agreement

COPYRIGHTS AND COPYRIGHT LICENSES

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SCHEDULE II TO
Security Agreement

PATENTS AND PATENT LICENSES

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SCHEDULE III TO
Security Agreement

TRADEMARKS AND TRADEMARK LICENSES

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SCHEDULE IV TO
Security Agreement

LOCATIONS OF ACCOUNT RECORDS

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SCHEDULE V TO
Security Agreement

LOCATIONS OF INVENTORY RECORDS

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SCHEDULE VI TO
Security Agreement

LOCATIONS OF INVENTORY

SCHEDULE VII TO
Security Agreement

LOCATIONS OF EQUIPMENT

SCHEDULE VIII TO
Security Agreement

LOCATIONS OF CHIEF EXECUTIVE OFFICE, STATE OF ORGANIZATION

Chief Executive Office:

Chief Place of Business:

Form of and Place of Organization:

GUARANTY

THIS GUARANTY (this "Guaranty"), dated as of February 18, 2003, is made by ENTERTAINMENT TECHNOLOGY CORPORATION, a Pennsylvania corporation, and ETC DELAWARE, INC., a Delaware corporation (collectively, the "Guarantors"), in favor of H.F. LENFEST (the "Lender").

W I T N E S S E T H :

WHEREAS, Environmental Tectonics Corporation (the "Borrower") and the Lender are parties to a Note and Warrant Purchase Agreement, dated as of the date hereof (as amended, supplemented or otherwise modified from time to time, the "Purchase Agreement");

WHEREAS, the Purchase Agreement provides that, as a condition precedent to the making of a loan thereunder by the Lender to the Borrower (the "Loan"), the Guarantors must execute a guaranty in favor of the Lender;

WHEREAS, the Guarantors will derive substantial benefits from the Purchase Agreement and the

Loan;

WHEREAS, pursuant to the terms of a Credit Agreement (the "Credit Agreement") dated the date hereof between the Borrower and PNC Bank, National Association ("PNC"), PNC is extending credit facilities to the Borrower;

WHEREAS, it is a condition precedent to the obligation of PNC to extend the credit facilities to the Borrower under the Credit Agreement, that the Lender enter into a subordination agreement (the "Subordination Agreement") with PNC, pursuant to which Lender agrees to subordinate the obligations of the Guarantors to Lender hereunder to the obligations of the Guarantors to PNC, pursuant to the terms of the Guaranty by Guarantors in favor of PNC (the "PNC Guaranty"); and

WHEREAS, the rights granted to Lender herein shall be subject to the terms and conditions of the Subordination Agreement.

NOW, THEREFORE, in consideration of the premises and to induce the Lender to provide the Loan, the Guarantors, intending to be legally bound, hereby agree with the Lender as follows:

1. Defined Terms. Unless otherwise defined herein, terms, which are defined in the Purchase Agreement and used herein, are so used as so defined. As used herein, "Obligations" shall mean the unpaid principal of (which such term shall include any payments of principal Lender is compelled to surrender or disgorge) and interest on (including, without limitation, interest accruing after the maturity of the Loan and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the Loan, and all other obligations and liabilities of the Borrower to the Lender whether direct or indirect, absolute or contingent, liquidated or unliquidated, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Purchase Agreement, the Note, the other Transaction Documents and any other document made, delivered or given in connection therewith or herewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including, without limitation, all fees and disbursements of counsel to the Lender that are required to be paid by the Borrower pursuant to the terms of the Purchase Agreement or any other Transaction Document) or otherwise. Capitalized terms which are not defined herein have the meaning given to such terms in the

Purchase Agreement.

2. Guaranty. This is a Guaranty of payment and not of collectability. The Guarantors hereby jointly and severally, unconditionally and irrevocably guarantee to the Lender, the prompt and complete payment and performance by the Borrower when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations. The Guarantors further agree to pay any and all reasonable expenses (including, without limitation, all reasonable fees and disbursements of counsel), which may be paid or incurred by the Lender in enforcing, or obtaining advice of counsel in respect of, any of its rights under this Guaranty. This Guaranty shall remain in full force and effect until the Obligations are paid in full and the Credit Commitment is terminated, notwithstanding that from time to time prior thereto the Borrower may be free from any Obligations.

The Guarantors agree that whenever, at any time or from time to time, either shall make any payment to the Lender on account of its liability hereunder, it will notify the Lender in writing that such payment is made under this Guaranty for such purpose. No payment or payments made by the Borrower or any other Person or received or collected by the Lender from the Borrower or any other Person by virtue of any action or proceeding or any set-off or appropriation or application, at any time or from time to time, in reduction of or in payment of the Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of the Guarantors hereunder which liability shall, notwithstanding any such payment or payments, remain in full force and effect until the Obligations are paid in full and the Credit Commitment is terminated.

3. Right of Set-off. Upon the occurrence and during the continuance of any Event of Default, the Lender is hereby irrevocably authorized at any time and from time to time, without notice to the Guarantors, any such notice being hereby waived by the Guarantors, to set off and appropriate and apply any and all deposits (general or special, time or demand, provisional or final), and any other credits, indebtedness or claims, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by the Lender to or for the credit or the account of the Guarantors, in such amounts as the Lender may elect, on account of the liabilities of the Guarantors hereunder and claims of every nature and description of the Lender against the Guarantors, whether arising hereunder, under the Purchase Agreement, the Note, or otherwise, as the Lender may elect, whether or not the Lender has made any demand for payment and although such liabilities and claims may be contingent or unmatured. The Lender shall notify the Guarantors promptly of any such set-off made by it and the application made by it of the proceeds thereof, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Lender under this paragraph are in addition to other rights and remedies (including, without limitation, other rights of set-off), which the Lender may have.

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4. No Subrogation. Notwithstanding any payment or payments made by the Guarantors hereunder, or any set-off or application of funds of the Guarantors by the Lender, the Guarantors shall not be entitled to be subrogated to any of the rights of the Lender against the Borrower or against any collateral security or guaranty or right of offset held by the Lender for the payment of the Obligations, nor shall the Guarantors seek any reimbursement or indemnification from the Borrower in respect of payments made by the Guarantors hereunder, until all amounts owing to the Lender by the Borrower on account of the Obligations are paid in full and the Credit Commitment is terminated. If any amount shall be paid to the Guarantors on account of such subrogation or other rights at any time when all of the Obligations shall not have been paid in full, such amount shall be held by the Guarantors in trust for the Lender segregated from other assets of the Guarantors, and shall forthwith upon receipt by the

Guarantors, be turned over to the Lender in the exact form received by the Guarantors (duly indorsed by the Guarantors to the Lender, if required), to be applied against the Obligations, whether matured or unmatured, in such order as the Lender may determine.

5. No Marshalling. Lender has no obligation to marshal any assets in favor of either Guarantor, or against or in payment of (i) the Note, or (ii) any other obligation owed to Lender by Borrower or either Guarantor.

6. Waivers; Amendments, etc. with respect to the Obligations. Each Guarantor shall remain obligated hereunder notwithstanding that, without any reservation of rights against each Guarantor, and without notice to or further assent by each Guarantor, any demand for payment of any of the Obligations made by the Lender may be rescinded by the Lender, and any of the Obligations continued, and the Obligations, or the liability of any other party upon or for any part thereof, or any collateral security or guaranty therefor or right of offset with respect thereto may from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by the Lender, and the Purchase Agreement, the Note, the other Transaction Documents and any other documents executed and delivered in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Lender may deem advisable from time to time, and any collateral security, guaranty or right of offset at any time held by the Lender for the payment of the Obligations may, be sold, exchanged, waived, surrendered or released. The Lender shall not have any obligation to protect, secure, perfect or insure any lien at any time held by it as security for the Obligations or for this Guaranty or any property subject thereto.

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7. Guaranty Absolute and Unconditional. Each Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Obligations and notice of or proof of reliance by the Lender upon this Guaranty or acceptance of this Guaranty; the Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Guaranty; and all dealings between the Borrower and the Guarantors, on the one hand, and the Lender, on the other, shall likewise be conclusively presumed to have been had or consummated in reliance upon this Guaranty. Each Guarantor waives notice of acceptance of this Guaranty, notice of extensions of credit to the Borrower from time to time, notice of default, diligence, presentment, notice of dishonor, protest and demand for payment. This Guaranty is and shall be construed as a continuing, absolute and unconditional Guaranty of payment without regard to (a) the validity or enforceability of the Purchase Agreement, the Note, any of the other Transaction Documents, any of the Obligations or any collateral security therefor or guaranty or right of offset with respect thereto at any time or from time to time held by or for the benefit of the Lender, (b) any defense, set-off or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by the Borrower against the Lender, or (c) any other circumstance whatsoever (with or without notice to or knowledge of the Borrower or the Guarantors) which constitutes, or might be construed to constitute, an equitable or legal discharge of the Borrower for the Obligations, or of the Guarantors under this Guaranty, in bankruptcy or in any other instance. This Guaranty is intended to be a surety of each Guarantor on behalf of Lender. When the Lender is pursuing its rights and remedies hereunder against the Guarantors, the Lender may, but shall be under no obligation to, pursue such rights and remedies as it may have against the Borrower or any other Person or against any collateral security or guaranty for the Obligations or any right of offset with respect thereto, and any failure by the Lender to pursue such other rights or remedies or to collect any payments from the Borrower or any such other Person or to realize upon such collateral security or guaranty or to exercise any such right of offset, or any release of the Borrower or any such other Person or of any such collateral security, Guaranty or right of offset, shall not relieve the Guarantors of any joint and several liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Lender against the Guarantors.

8. Reinstatement. This Guaranty shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Obligations is rescinded or must otherwise be restored or returned by the Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for the Borrower or any substantial part of its property, or for any other reason, all as though such payments had not been made.

9. Payments. Each Guarantor hereby agrees that the Obligations will be paid to the order of the Lender without set-off or counterclaim in Dollars in immediately available funds at the office of the Lender set forth in Section 14 hereof.

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10. Power to Confess Judgment. The following paragraph sets forth a warrant of authority for any attorney to confess judgment against the undersigned Guarantors. In granting this warrant of attorney to confess judgment against the undersigned Guarantors, the undersigned Guarantors, following consultation with separate counsel for the undersigned Guarantors and with knowledge of the legal effect hereof, hereby knowingly, intentionally, voluntarily and unconditionally waive any and all rights the undersigned Guarantors have or may have to prior notice and an opportunity for hearing under the respective constitutions and laws of the United States of America, the Commonwealth of Pennsylvania, the State of Delaware, or elsewhere. Each Guarantor hereby empowers any attorney of any court of record, after the occurrence of any Event of Default hereunder, to appear for each Guarantor and, with or without complaint filed, confess judgment, or a series of judgments, against each Guarantor in favor of the Lender for the amount of the Obligations and an attorneys' commission of the greater of three percent (3%) of such principal and interest or \$5,000 added as a reasonable attorneys' fee (but in no event shall such attorney's fee exceed those fees actually and reasonably incurred notwithstanding the amount confessed) and for doing so this Guaranty or a copy verified by affidavit shall be a sufficient warrant. Each Guarantor hereby forever waives and releases all procedural errors in said proceedings and all rights of appeal and all relief from any and all appraisal, stay or exemption laws of any state now in force or hereafter enacted with respect to such judgment or judgments.

No single exercise of the foregoing power to confess judgment, or a series of judgments, shall be deemed to exhaust the power, whether or not any such exercise shall be held by any court to be invalid, voidable, or void, but the power shall continue undiminished and it may be exercised from time to time as often as the Lender shall elect until such time as the Lender shall have received payment in full of the Obligations and costs.

11. Severability. Any provision of this Guaranty which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

12. Paragraph Headings. The paragraph headings used in this Guaranty are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

13. No Waiver; Cumulative Remedies. The Lender shall not by any act (except by a written instrument pursuant to paragraph 13 hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of the Lender, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial

exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Lender of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Lender would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

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14. Waivers and Amendments; Successors and Assigns; Additional Guarantors; Governing Law. None of the terms or provisions of this Guaranty may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Guarantors and the Lender. This Guaranty shall be binding upon the successors and assigns of the Guarantors and shall inure to the benefit of the Lender and its successors and assigns. If at any time subsequent to the date hereof any new Subsidiary of the Borrower becomes a party to this Guaranty (an "Additional Guarantor") as provided in Section 4.1(c)(iii) of the Purchase Agreement by executing a joinder hereto, the obligations of such Additional Guarantor and any other Guarantor hereunder shall be joint and several and all references herein to the Guarantors shall include such Additional Guarantor. THIS GUARANTY SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE SUBSTANTIVE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA.

15. Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by facsimile), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or, in the case of facsimile notice, when sent during normal business hours with electronic confirmation or otherwise when received, addressed as set forth below for the Lender and as set forth on the signature page hereto for each Guarantor:

Lender: The Lenfest Group
1332 Enterprise Drive
West Chester, PA 19380
Attention: H.F. Lenfest
Thomas K. Pasch, Esquire
Telecopy: (610) 918-8442

16. Submission to Jurisdiction; Waivers.

(a) Each Guarantor hereby irrevocably and unconditionally:

(i) submits for itself and its property in any legal action or proceeding relating to this Guaranty or the other Transaction Documents, or for recognition and enforcement of any judgment in respect thereof to the non-exclusive general jurisdiction of the courts of the Commonwealth of Pennsylvania, the courts of the United States of America for the Eastern District of Pennsylvania, and appellate courts from any thereof;

(ii) consents that any such action or proceeding may be brought in such courts, and waives to the extent permitted by applicable law any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agree not to plead or claim the same;

(iii) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to it at its address set forth on the signature page hereto or at such other address of which the Lender shall have been notified;

(iv) waives and hereby acknowledges that it is estopped from raising any objection based on forum non conveniens, any claim that any of

the above-referenced courts lack proper venue or any objection that any of such courts lack personal jurisdiction over it so as to prohibit such courts from adjudicating any issues raised in a complaint filed with such courts against such Guarantor concerning this Guaranty or the other Transaction Documents;

(v) acknowledges and agree that the choice of forum contained in this paragraph 15 shall not be deemed to preclude the enforcement of any judgment obtained in any forum or the taking of any action under this Guaranty or any other Transaction Documents to enforce the same in any appropriate jurisdiction;

(vi) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this subsection any special, exemplary, punitive or consequential damages; and

(vii) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

(b) Each Guarantor hereby unconditionally waives trial by jury in any legal action or proceeding relating to this Guaranty or any other Transaction Document and for any mandatory counterclaim therein, including without limitation any action or proceeding referred to in paragraph (a) above.

Each Guarantor acknowledges that it has read and understood all the provisions of this Guaranty, including the waiver of jury trial and confession of judgment, and has been advised by counsel as necessary or appropriate.

IN WITNESS WHEREOF, the undersigned has caused this Guaranty to be duly executed and delivered as of the date first above written.

ENVIRONMENTAL TECTONICS CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner
Title: Secretary

Address: c/o Environmental Tectonics Corporation

125 James Way

Southampton, PA 18966

ETC DELAWARE, INC.

By: /s/ Duane Deaner

Name: Duane Deaner
Title: Treasurer

Address: c/o Environmental Tectonics Corporation

125 James Way

Southampton, PA 18966

OPEN-END MORTGAGE AND SECURITY AGREEMENT

ENVIRONMENTAL TECTONICS CORPORATION

Mortgagor

AND

H.F. LENFEST,

Mortgagee

Return to:

The Lenfest Group

1332 Enterprise Drive

West Chester, PA 19380

Attention: H.F. Lenfest

OPEN-END MORTGAGE AND SECURITY AGREEMENT
(This Mortgage Secures Future Advances)

THIS OPEN-END MORTGAGE AND SECURITY AGREEMENT (this "Mortgage") is made as of the 18th day of February, 2003, by ENVIRONMENTAL TECTONICS CORPORATION, a Pennsylvania corporation (the "Mortgagor"), with an address at 125 James Way, Southampton, Pennsylvania 18966 in favor of H.F. LENFEST, an individual (the "Mortgagee"), with an address c/o The Lenfest Group, 1332 Enterprise Drive, West Chester, Pennsylvania 19380.

WHEREAS, the Mortgagor is the owner of a certain tract or parcel of land described in Exhibit A attached hereto and made a part hereof, together with the improvements now or hereafter erected thereon; and

WHEREAS, pursuant to the terms of that certain Convertible Note and Warrant Purchase Agreement, dated as of the date hereof (the "Note Purchase Agreement"), between the Mortgagor and the Mortgagee, the Mortgagor is executing and delivering this Mortgage as collateral security for a borrowing from the Mortgagee, in an aggregate amount not to exceed Ten Million Dollars (\$10,000,000) (the "Loan"), which Loan is evidenced in part by Mortgagor's 10% Senior Subordinated Convertible Note Due February 18, 2009 in favor of the Mortgagee (the "Note");

NOW, THEREFORE, for the purpose of securing the payment and performance of the following obligations (collectively called the "Obligations"):

(A) the Loan, the Note and all other loans, advances, debts, liabilities, obligations, covenants and duties owing by the Mortgagor to the

Mortgagee or to any other direct or indirect affiliate of Mortgagee, of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Mortgagor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether or not evidenced by any note, guaranty or other instrument, whether arising under any agreement, instrument or document, whether or not for the payment of money, whether arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, under any interest or currency swap, future, option or other interest rate protection or similar agreement, or in any other manner, whether arising out of overdrafts on deposit or other accounts or electronic funds transfers (whether through automated clearing houses or otherwise) or out of the Mortgagee's non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository transfer check or other similar arrangements, whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, and any amendments, extensions, renewals or increases and all reasonable costs and expenses of the Mortgagee incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including reasonable attorneys' fees and expenses.

(B) Any sums advanced by the Mortgagee or which may otherwise become due pursuant to the provisions of the Note Purchase Agreement, the Note or this Mortgage or pursuant to any other document or instrument at any time delivered to the Mortgagee to evidence or secure any of the Obligations or which otherwise relate to any of the Obligations (as the same may be amended, supplemented or replaced from time to time, the "Loan Documents").

The Mortgagor, for good and valuable consideration, receipt of which is hereby acknowledged, and intending to be legally bound hereby, does hereby give, grant, bargain, sell, convey, assign, transfer, mortgage, hypothecate, pledge, set over and confirm unto the Mortgagee and does agree that the Mortgagee shall have a security interest in the following described property, all accessions and additions thereto, all substitutions therefor and replacements and proceeds thereof, and all reversions and remainders of such property now owned or held or hereafter acquired (the "Property"), to wit:

(a) All of the Mortgagor's estate in the premises described in Exhibit A, together with all of the easements, rights of way, privileges, liberties, hereditaments, gores, streets, alleys, passages, ways, waters, watercourses, rights and appurtenances thereunto belonging or appertaining, and all of the Mortgagor's estate, right, title, interest, claim and demand therein and in the public streets and ways adjacent thereto, either in law or in equity (the "Land");

(b) All the buildings, structures and improvements of every kind and description now or hereafter erected or placed on the Land, and all facilities, fixtures, machinery, apparatus, appliances, installations, machinery and equipment, including all building materials to be incorporated into such buildings, all electrical equipment necessary for the operation of such buildings and heating, air conditioning and plumbing equipment now or hereafter attached to, located in or used in connection with those buildings, structures or other improvements (the "Improvements");

(c) All rents, issues and profits arising or issuing from the Land and the Improvements (the "Rents") including the Rents arising or issuing from all leases and subleases now or hereafter entered into covering all or any part of the Land and Improvements (the "Leases"), all of which Leases and Rents are hereby assigned to the Mortgagee by the Mortgagor. The foregoing assignment shall include all cash or securities deposited under Leases to secure performance of lessees of their obligations thereunder, whether such cash or securities are to be held until the expiration of the terms of such leases or applied to one or more installments of rent coming due prior to the expiration of such terms. The foregoing assignment extends to Rents arising both before and after the commencement by or against the Mortgagor of any case or proceeding

under any Federal or State bankruptcy, insolvency or similar law, and is intended as an absolute assignment and not merely the granting of a security interest. The Mortgagor, however, shall have a license to collect retain and use the Rents so long as no Event of Default shall have occurred and be continuing or shall exist. The Mortgagor will execute and deliver to the Mortgagee, on demand, such additional assignments and instruments as the Mortgagee may require to implement, confirm, maintain and continue the assignment of Rents hereunder;

(d) All proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims;

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(e) And without limiting any of the other provisions of this Mortgage, the Mortgagor, as debtor, expressly grants unto the Mortgagee, as secured party, a security interest in all those portions of the Property which may be subject to the Uniform Commercial Code provisions applicable to secured transactions under the laws of the state in which the Property is located (the "UCC"), and the Mortgagor will execute and deliver to the Mortgagee on demand such financing statements and other instruments as the Mortgagee may require in order to perfect and maintain such security interest under the UCC on the aforesaid collateral.

To have and to hold the same unto the Mortgagee, its successors and assigns, forever, under and subject to the Open-End Mortgage and Security Agreement of even date herewith by Mortgagor in favor of PNC Bank, National Association (the "Prior Mortgage") recorded immediately prior to this Mortgage (the "Prior Mortgage"). All of the duties and obligations of the Mortgagor and the rights and remedies of the Mortgagee hereunder are under and subject in all respects to performance of the duties and obligations of the Mortgagor to the Prior Mortgagee and to the rights and remedies of the Prior Mortgagee under the Prior Mortgage. The failure by Mortgagor to perform or comply with any of the provisions of this Mortgage shall not be an Event of Default hereunder if such failure arises solely from Mortgagor's performance or compliance with comparable obligations under the Prior Mortgage and performance or compliance with both the Prior Mortgage and this Mortgage is impossible.

Provided, however, that if the Mortgagor shall pay to the Mortgagee the Obligations, and if the Mortgagor shall keep and perform each of its other covenants, conditions and agreements set forth herein and in the other Loan Documents, then, upon the termination of all obligations, duties and commitments of the Mortgagor under the Obligations and this Mortgage, and subject to the provisions of the paragraph entitled "Survival; Successors and Assigns", the estate hereby granted and conveyed shall become null and void.

This Mortgage is an "Open-End Mortgage" as set forth in 42 Pa. C.S.A. ss.8143 and secures obligations up to a maximum principal amount of indebtedness outstanding at any time equal to double the face amount of the Note, plus accrued and unpaid interest, including advances for the payment of taxes and municipal assessments, maintenance charges, insurance premiums, costs incurred for the protection of the Property or the lien of this Mortgage, expenses incurred by the Mortgagee by reason of default by the Mortgagor under this Mortgage and advances for construction, alteration or renovation on the Property or for any other purpose, together with all other sums due hereunder or secured hereby. All notices to be given to the Mortgagee pursuant to 42 Pa. C.S.A. ss.8143 shall be given as set forth in Section 18.

1. Representations and Warranties. The Mortgagor represents and warrants to the Mortgagee that the Mortgagor has good and marketable title to an estate in fee simple absolute in the Land and Improvements and has all right, title and interest in all other property constituting a part of the Property, in each case free and clear of all liens and encumbrances, except as may otherwise be set forth on an Exhibit B hereto. This Mortgage is a valid and enforceable first lien on the Property (except as set forth on Exhibit B). The Mortgagor shall preserve such title as it warrants herein and the validity and priority of the lien hereof and shall forever warrant and defend the same to the Mortgagee

against the claims of all persons claiming by, through or under Mortgagor.

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2. Affirmative Covenants. Until all of the Obligations shall have been fully paid, satisfied and discharged the Mortgagor shall:

(a) Payment and Performance of Obligations. Pay or cause to be paid and perform all Obligations when due as provided in the Loan Documents.

(b) Legal Requirements. Promptly comply with and conform in all material respects to all present and future laws, statutes, codes, ordinances, orders and regulations and all covenants, restrictions and conditions which may be applicable to the Mortgagor or to any of the Property (the "Legal Requirements").

(c) Impositions. Before interest or penalties are due thereon and otherwise when due, the Mortgagor shall pay all taxes of every kind and nature, all charges for any easement or agreement maintained for the benefit of any of the Property, all general and special assessments (including any condominium or planned unit development assessments, if any), levies, permits, inspection and license fees, all water and sewer rents and charges, and all other charges and liens, whether of a like or different nature, imposed upon or assessed against the Mortgagor or any of the Property (the "Impositions") unless the amount thereof is being contested in good faith by the Mortgagor by appropriate proceedings with adequate reserves made for the payment thereof. Within thirty (30) days after the payment of any Imposition if requested by Mortgagee, the Mortgagor shall deliver to the Mortgagee evidence acceptable to the Mortgagee of such payment. The Mortgagor's obligations to pay the Impositions shall survive the Mortgagee's taking title to the Property through foreclosure, deed-in-lieu or otherwise.

(d) Maintenance of Security. Use, and permit others to use, the Property only for its present use or such other uses as permitted by applicable Legal Requirements and approved in writing by the Mortgagee. The Mortgagor shall keep the Property in good condition and order and in a rentable and tenantable state of repair and will make or cause to be made, as and when necessary, all repairs, renewals, and replacements, structural and nonstructural, exterior and interior, foreseen and unforeseen, ordinary and extraordinary, provided, however, that no structural repairs, renewals or replacements in excess of \$100,000 shall be made without the Mortgagee's prior written consent. The Mortgagor shall not remove, demolish or alter any material portion of the Property or any of the Property in a manner that materially adversely affects the same, nor commit or suffer waste with respect thereto, nor permit the Property to become deserted or abandoned. The Mortgagor covenants and agrees not to take or permit any action with respect to the Property which will in any manner impair the security of this Mortgage.

3. Leases. Except as permitted by the Loan Documents, the Mortgagor shall not (a) execute an assignment or pledge of the Rents or the Leases other than in favor of the Mortgagee; (b) accept any prepayment of an installment of any Rents more than 30 days prior to the due date of such installment; or (c) enter into or amend any of the terms of any of the Leases without the Mortgagee's prior written consent. Any or all leases or subleases of all or any part of the Property shall be subject in all respects to the Mortgagee's prior written consent, shall be subordinated to this Mortgage and to the Mortgagee's rights and, together with any and all rents, issues or profits relating thereto, shall be assigned at the time of execution to the Mortgagee as additional collateral security for the Obligations, all in such form, substance and detail as is satisfactory to the Mortgagee in its sole discretion.

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4. Due on Sale Clause. The Mortgagor shall not sell, convey or otherwise transfer any interest in the Property (whether voluntarily or by operation of law), or agree to do so, without the Mortgagee's prior written consent, including (a) any sale, conveyance, assignment, or other transfer of (including installment land sale contracts), or the grant of a security interest in, all or any part of the legal or equitable title to the Property, except as otherwise permitted hereunder; (b) any lease of all or any portion of the Property; or (c) any sale, conveyance, assignment, or other transfer of, or the grant of a security interest in, any share of stock of the Mortgagor, except as otherwise permitted by the Loan Documents. Any default under this Section shall cause an immediate acceleration of the Obligations without any demand by the Mortgagee.

5. Insurance. The Mortgagor shall keep the Improvements continuously insured, in an amount not less than the cost to replace the Improvements or an amount not less than eighty percent (80%) of the full insurable value of the Property, whichever is greater, against loss or damage by fire, with extended coverage and against other hazards as the Mortgagee may from time to time require. With respect to any property under construction or reconstruction, the Mortgagor shall maintain builder's risk insurance. The Mortgagor shall also maintain comprehensive general public liability insurance, in an amount of not less than One Million Dollars (\$1,000,000) per occurrence and Two Million Dollars (\$2,000,000) general aggregate per location, which includes contractual liability insurance for the Mortgagor's obligations under the Leases, and worker's compensation insurance. All property and builder's risk insurance shall include protection for continuation of income for a period of twelve (12) months, in the event of any damage caused by the perils referred to above. All policies, including policies for any amounts carried in excess of the required minimum and policies not specifically required by the Mortgagee, shall be with an insurance company or companies satisfactory to the Mortgagee, shall be in form satisfactory to the Mortgagee, shall meet all coinsurance requirements of the Mortgagee, shall be maintained in full force and effect, with premiums satisfied as collateral security for payment of the Obligations, shall be endorsed with a standard mortgagee clause in favor of the Mortgagee and shall provide for at least thirty (30) days notice of cancellation to the Mortgagee. Such insurance shall also name the Mortgagee as an additional insured under the comprehensive general public liability policy and the Mortgagor shall also deliver to the Mortgagee a copy of the replacement cost coverage endorsement. If the Property is located in an area which has been identified by any governmental agency, authority or body as a flood hazard area or the like, then the Mortgagor shall maintain a flood insurance policy covering the Improvements in an amount not less than the appraised value of the Property or the maximum limit of coverage available under the federal program, whichever amount is less.

6. Rights of Mortgagee to Insurance Proceeds. In the event of loss, the Mortgagee shall have the exclusive right to adjust, collect and compromise all Material Insurance Claims (as defined below), and the Mortgagor shall not adjust, collect or compromise any Material Insurance Claims under said policies without the Mortgagee's prior written consent. Each insurer is hereby authorized and directed to make payment under said policies, including return of unearned premiums, directly to the Mortgagee instead of to the Mortgagor and the Mortgagee jointly, and the Mortgagor appoints the Mortgagee as the Mortgagor's attorney-in-fact to endorse any draft therefor. All Material Insurance Claims proceeds may, at the Mortgagee's sole option, be applied to all or any part of the Obligations and in any order (notwithstanding that such Obligations may not then otherwise be due and payable) or to the repair and restoration of any of the Property under such terms and conditions as the Mortgagee may impose. All other insurance claim proceeds must be applied to the repair and restoration of the Property under terms and conditions satisfactory to the Mortgagee. For purposes of this paragraph 6, the term "Material Insurance Claim" means any insurance claim in excess of \$500,000.

7. Installments for Insurance, Taxes and Other Charges. Upon the

Mortgagee's request at any time following the occurrence of an Event of Default, the Mortgagor shall pay to the Mortgagee monthly, an amount equal to one-twelfth (1/12) of the annual premiums for the insurance policies referred to hereinabove and the annual Impositions and any other item which at any time may be or become a lien upon the Property (the "Escrow Charges"). The amounts so paid shall be used in payment of the Escrow Charges so long as no Event of Default shall have occurred. No amount so paid to the Mortgagee shall be deemed to be trust funds, nor shall any sums paid bear interest. The Mortgagee shall have no obligation to pay any insurance premium or Imposition if at any time the funds being held by the Mortgagee for such premium or Imposition are insufficient to make such payments. If, at any time, the funds being held by the Mortgagee for any insurance premium or Imposition are exhausted, or if the Mortgagee determines, in its sole discretion, that such funds will be insufficient to pay in full any insurance premium or Imposition when due, the Mortgagor shall promptly pay to the Mortgagee, upon demand, an amount which the Mortgagee shall estimate as sufficient to make up the deficiency. Upon the occurrence of an Event of Default, the Mortgagee shall have the right, at its election, to apply any amount so held against the Obligations due and payable in such order as the Mortgagee may deem fit, and the Mortgagor hereby grants to the Mortgagee a lien upon and security interest in such amounts for such purpose.

8. Condemnation. The Mortgagor, immediately upon obtaining knowledge of the institution of any proceedings for the condemnation or taking by eminent domain of any of the Property, shall notify the Mortgagee of the pendency of such proceedings. The Mortgagee may participate in any such proceedings and the Mortgagor shall deliver to the Mortgagee all instruments requested by it to permit such participation. Any award or compensation for property taken or for damage to property not taken in excess of \$500,000, whether as a result of such proceedings or in lieu thereof, is hereby assigned to and shall be received and collected directly by the Mortgagee, and any award or compensation shall be applied, at the Mortgagee's option, to any part of the Obligations and in any order (notwithstanding that any of such Obligations may not then be due and payable) or to the repair and restoration of any of the Property under such terms and conditions as the Mortgagee may impose.

9. Environmental Matters. (a) For purposes of this Section 9, the term "Environmental Laws" shall mean all federal, state and local laws, regulations and orders, whether now or in the future enacted or issued, pertaining to the protection of land, water, air, health, safety or the environment. The term "Regulated Substances" shall mean all substances regulated by Environmental Laws, or which are known or considered to be harmful to the health or safety of persons, or the presence of which may require investigation, notification or remediation under the Environmental Laws. The term "Contamination" shall mean the discharge, release, emission, disposal or escape of any Regulated Substances into the environment other than as permitted under applicable Environmental Laws.

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(b) The Mortgagor represents and warrants (i) that no Contamination is present at, on or under the Property and that no Contamination is being or, to the best of the Mortgagor's knowledge, has been emitted onto any surrounding property other than as permitted under applicable Environmental Laws; (ii) all operations and activities on the Property have been and are being conducted in accordance with all Environmental Laws, and the Mortgagor has all permits and licenses required under the Environmental Laws; (iii) no underground or aboveground storage tanks are or have been located on or under the Property; and (iv) no legal or administrative proceeding is pending or, to the best of the Mortgagor's knowledge, threatened relating to any environmental condition, operation or activity on the Property regulated under any applicable Environmental Laws, or any violation or alleged violation of Environmental Laws. These representations and warranties shall be true as of the date hereof, and shall be deemed to be continuing representations and warranties which must remain true, correct and accurate during the entire duration of the term of this Mortgage.

(c) The Mortgagor shall ensure, at its sole cost and expense, that the Property and the conduct of all operations and activities thereon comply and continue to comply with all Environmental Laws. The Mortgagor shall notify the Mortgagee promptly and in reasonable detail in the event that the Mortgagor becomes aware of any violation of any Environmental Laws, the presence or release of any Contamination with respect to the Property, or any governmental or third party claims under applicable Environmental Laws relating to the environmental condition of the Property or the conduct of operations or activities thereon. The Mortgagor also agrees not to permit or allow the presence of Regulated Substances on any part of the Property, except (i) to the extent such Regulated Substances are used without violating any Environmental Laws; and (ii) those Regulated Substances which are naturally occurring on the Property. The Mortgagor agrees not to cause, allow or permit the presence of any Contamination on the Property except to the extent such Contamination is in compliance with all applicable Environmental Laws.

(d) The Mortgagee shall not be liable for, and the Mortgagor shall indemnify, defend and hold the Mortgagee and all of its officers, directors, employees and agents, and all of their respective successors and assigns harmless from and against all losses, costs, liabilities, damages, fines, claims, penalties and expenses (including reasonable attorneys', consultants' and contractors' fees, costs incurred in the investigation, defense and settlement of claims, as well as costs incurred in connection with the investigation, remediation or monitoring of any Regulated Substances or Contamination) that the Mortgagee may suffer or incur (including as holder of the Mortgage, as mortgagee in possession or as successor in interest to the Mortgagor as owner of the Property by virtue of a foreclosure or acceptance of a deed in lieu of foreclosure) as a result of or in connection with (i) any Environmental Laws (including the assertion that any lien existing or arising pursuant to any Environmental Laws takes priority over the lien of the Mortgage); (ii) the breach of any representation, warranty, covenant or undertaking by the Mortgagor in this Section 9; (iii) the presence on or the migration of any Contamination or Regulated Substances on, under or through the Property; or (iv) any litigation or claim by the government or by any third party in connection with the environmental condition of the Property or the presence or migration of any Regulated Substances or Contamination on, under, to or from the Property.

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(e) Upon the Mortgagee's request, the Mortgagor shall execute and deliver an Environmental Indemnity Agreement satisfactory in form and substance to the Mortgagee, to more fully reflect the Mortgagor's representations, warranties, covenants and indemnities with respect to the Environmental Laws.

10. Inspection of Property. The Mortgagee shall have the right to enter the Property at any reasonable hour for the purpose of inspecting the order, condition and repair of the buildings and improvements erected thereon, as well as the conduct of operations and activities on the Property. The Mortgagee may enter the Property (and cause the Mortgagee's employees, agents and consultants to enter the Property), upon reasonable prior written notice to the Mortgagor, to conduct any and all environmental testing deemed appropriate by the Mortgagee in its sole but reasonable discretion. The environmental testing shall be accomplished by whatever means the Mortgagee may deem appropriate, including the taking of soil samples and the installation of ground water monitoring wells or other intrusive environmental tests. The Mortgagor shall provide the Mortgagee (and the Mortgagee's employees, agents and consultants) reasonable rights of access to the Property as well as such information about the Property and the past or present conduct of operations and activities thereon as the Mortgagee shall reasonably request.

11. Events of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default" hereunder: (a) any Event of Default (as defined in the Note Purchase Agreement); (b) the failure by the Mortgagor to perform its obligations set forth in Section 2(a) hereof; (c) the

failure by the Mortgagor to perform any of its other obligations under this Mortgage or under any Environmental Indemnity Agreement executed and delivered pursuant to Section 9(e) for a period of fifteen (15) days or more; (d) falsity, inaccuracy or material breach by the Mortgagor of any written warranty, representation or statement made herein by the Mortgagor; (e) an uninsured material loss, theft, damage, or destruction to any of the Property, or any lien against or the making of any levy, seizure or attachment of or on the Property; (f) the failure of the Mortgagee to have a mortgage lien on the Property with the priority required under Section 1; (g) any indication or evidence received by the Mortgagee that the Mortgagor may have directly or indirectly been engaged in any type of activity which, in the Mortgagee's discretion, might result in the forfeiture of any property of the Mortgagor to any governmental entity, federal, state or local; (h) foreclosure proceedings are instituted against the Property upon any other lien or claim, whether alleged to be superior or junior to the lien of this Mortgage; (i) the failure by the Mortgagor to pay any Impositions as required under Section 2(c), or to maintain in full force and effect any insurance required under Section 5; or (j) the Mortgagor or any other obligor or guarantor of any of the Obligations, shall at any time deliver or cause to be delivered to the Mortgagee a notice pursuant to 42 Pa. C.S.A. ss.8143 electing to limit the indebtedness secured by this Mortgage.

12. Rights and Remedies of Mortgagee. If an Event of Default occurs, the Mortgagee may, at its option and without demand, notice or delay, do one or more of the following:

(a) The Mortgagee may declare the entire unpaid principal balance of the Obligations, together with all interest thereon, to be due and payable immediately.

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(b) The Mortgagee may (i) institute and maintain an action of mortgage foreclosure against the Property and the interests of the Mortgagor therein, (ii) institute and maintain an action on any instruments evidencing the Obligations or any portion thereof, and (iii) take such other action at law or in equity for the enforcement of any of the Loan Documents as the law may allow, and in each such action the Mortgagee shall be entitled to all costs of suit and attorneys fees.

(c) The Mortgagee may, in its sole and absolute discretion: (i) collect any or all of the Rents, including any Rents past due and unpaid, (ii) perform any obligation or exercise any right or remedy of the Mortgagor under any Lease, or (iii) enforce any obligation of any tenant of any of the Property. The Mortgagee may exercise any right under this subsection (c), whether or not the Mortgagee shall have entered into possession of any of the Property, and nothing herein contained shall be construed as constituting the Mortgagee a "mortgagee in possession", unless the Mortgagee shall have entered into and shall continue to be in actual possession of the Property. The Mortgagor hereby authorizes and directs each and every present and future tenant of any of the Property to pay all Rents directly to the Mortgagee and to perform all other obligations of that tenant for the direct benefit of the Mortgagee, as if the Mortgagee were the landlord under the Lease with that tenant, immediately upon receipt of a demand by the Mortgagee to make such payment or perform such obligations. The Mortgagor hereby waives any right, claim or demand it may now or hereafter have against any such tenant by reason of such payment of Rents or performance of obligations to the Mortgagee, and any such payment or performance to the Mortgagee shall discharge the obligations of the tenant to make such payment or performance to the Mortgagee.

(d) The Mortgagee shall have the right, in connection with the exercise of its remedies hereunder, to the appointment of a receiver to take possession and control of the Property or to collect the Rents, without notice and without regard to the adequacy of the Property to secure the Obligations. A receiver while in possession of the Property shall have the right to make repairs and to make improvements necessary or advisable in its or his opinion to preserve the Property, or to make and keep it rentable to the best

advantage, and the Mortgagee may advance moneys to a receiver for such purposes. Any moneys so expended or advanced by the Mortgagee or by a receiver shall be added to and become a part of the Obligations secured by this Mortgage.

13. Application of Proceeds. The Mortgagee shall apply the proceeds of any foreclosure sale of, or other disposition or realization upon, or Rents or profits from, the Property to satisfy the Obligations in such order of application as the Mortgagee shall determine in its exclusive discretion.

14. Confession of Judgment in Ejectment. At any time after the occurrence and during the continuance of an Event of Default, without further notice, regardless of whether the Mortgagee has asserted any other right or exercised any other remedy under this Mortgage or any of the other Loan Documents, it shall be lawful for any attorney of any court of record as attorney for the Mortgagor to confess judgment in ejectment against the Mortgagor and all persons claiming under the Mortgagor for the recovery by the Mortgagee of possession of all or any part of the Property, for which this Mortgage shall be sufficient warrant. If for any reason after such action shall have commenced the same shall be discontinued and the possession of the Property shall remain in or be restored to the Mortgagor, the Mortgagee shall have the right upon any subsequent default or defaults to bring one or more amicable action or actions as hereinbefore set forth to recover possession of all or any part of the Property.

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15. Mortgagee's Right to Protect Security. The Mortgagee is hereby authorized to do any one or more of the following, irrespective of whether an Event of Default has occurred: (a) appear in and defend any action or proceeding purporting to affect the security hereof or the Mortgagee's rights or powers hereunder if the Mortgagor fails to so defend such action or proceeding to the satisfaction of the Mortgagee; (b) purchase such insurance policies covering the Property as it may elect if the Mortgagor fails to maintain the insurance coverage required hereunder; and (c) take such action as the Mortgagee may determine to pay, perform or comply with any Impositions or Legal Requirements, to cure any Events of Default and to protect its security in the Property.

16. Appointment of Mortgagee as Attorney-in-Fact. The Mortgagee, or any of its officers, is hereby irrevocably appointed attorney-in-fact for the Mortgagor (without requiring any of them to act as such), such appointment being coupled with an interest, to do any or all of the following: (a) collect the Rents after the occurrence of an Event of Default; (b) settle for, collect and receive any awards payable under Section 8 from the authorities making the same; and (c) execute, deliver and file such financing statements and other instruments as the Mortgagee may require in order to perfect and maintain its security interest under the Uniform Commercial Code on any portion of the Property.

17. Certain Waivers. The Mortgagor hereby waives and releases all benefit that might accrue to the Mortgagor by virtue of any present or future law exempting the Property, or any part of the proceeds arising from any sale thereof, from attachment, levy or sale on execution, or providing for any stay of execution, exemption from civil process or extension of time for payment or any rights of marshalling in the event of any sale hereunder of the Property, and, unless specifically required herein, all notices of the Mortgagor's default or of the Mortgagee's election to exercise, or the Mortgagee's actual exercise of any option under this Mortgage or any other Loan Document.

18. Notices. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder must be in writing and will be effective upon receipt by the Mortgagor or the Mortgagee. Such notices and other communications may be hand-delivered, sent by facsimile transmission with confirmation of delivery and a copy sent by first-class mail, or sent by nationally recognized overnight courier service, to a party's address set forth above or to such other address as the Mortgagor or the Mortgagee may give to the other in writing for such purpose.

19. Further Acts. The Mortgagor will, at the cost of the Mortgagor, and without expense to the Mortgagee, do, execute, acknowledge and deliver all further acts, deeds, conveyances, mortgages, assignments, notices of assignment, transfers and assurances as the Mortgagee shall, from time to time, reasonably require for the better assuring, conveying, assigning, transferring or confirming unto the Mortgagee the property and rights hereby mortgaged, or which Mortgagor may be or may hereafter become bound to convey or assign to the Mortgagee, or for carrying out the intent of or facilitating the performance of the terms of this Mortgage or for filing, registering or recording this Mortgage. The Mortgagor grants to the Mortgagee an irrevocable power of attorney coupled with an interest for the purpose of exercising and perfecting any and all rights and remedies available to the Mortgagee under the Note, this Mortgage, the other Loan Documents, at law or in equity, including, without limitation, the rights and remedies described in this paragraph.

20. Changes in the Laws Regarding Taxation. If any law is enacted or adopted or amended after the date of this Mortgage which deducts the Obligations from the value of the Property for the purpose of taxation or which imposes a tax, either directly or indirectly, on the Mortgagor or the Mortgagee's interest in the Property, the Mortgagor will pay such tax, with interest and penalties thereon, if any. If the Mortgagee determines that the payment of such tax or interest and penalties by the Mortgagor would be unlawful or taxable to the Mortgagee or unenforceable or provide the basis for a defense of usury, then the Mortgagee shall have the option, by written notice of not less than ninety (90) days, to declare the entire Obligations immediately due and payable.

21. Documentary Stamps. If at any time the United States of America, any State thereof or any subdivision of any such State shall require revenue or other stamps to be affixed to the Note or this Mortgage, or impose any other tax or charge on the same, the Mortgagor will pay for the same, with interest and penalties thereon, if any.

22. Preservation of Rights. No delay or omission on the Mortgagee's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Mortgagee's action or inaction impair any such right or power. The Mortgagee's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Mortgagee may have under other agreements, at law or in equity. The Mortgagee may exercise any one or more of its rights and remedies without regard to the adequacy of its security.

23. Illegality. In case any one or more of the provisions contained in this Mortgage should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

24. Changes in Writing. No modification, amendment or waiver of any provision of this Mortgage nor consent to any departure by the Mortgagor therefrom will be effective unless made in a writing signed by the Mortgagee, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Mortgagor in any case will entitle the Mortgagor to any other or further notice or demand in the same, similar or other circumstance.

25. Entire Agreement. This Mortgage (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the Mortgagor and the Mortgagee with respect to the subject matter hereof.

26. Survival; Successors and Assigns. This Mortgage will be binding upon and inure to the benefit of the Mortgagor and the Mortgagee and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Mortgagor may not assign this Mortgage in whole or in part without the Mortgagee's prior written consent and the Mortgagee at any time may assign this Mortgage in whole or in part; and provided, further, that the rights and benefits under the Paragraphs entitled "Environmental Matters", "Inspection of Property" and "Indemnity" shall also inure to the benefit of any persons or entities who acquire title or ownership of the Property from or through the Mortgagee or through action of the Mortgagee (including a foreclosure, sheriff's or judicial sale). The provisions of Paragraphs entitled "Environmental Matters", "Inspection of Property" and "Indemnity" shall survive the termination, satisfaction or release of this Mortgage, the foreclosure of this Mortgage or the delivery of a deed in lieu of foreclosure.

27. Interpretation. In this Mortgage, the singular includes the plural and the plural the singular; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation" and references to sections or exhibits are to those of this Mortgage unless otherwise indicated. Section headings in this Mortgage are included for convenience of reference only and shall not constitute a part of this Mortgage for any other purpose. If this Mortgage is executed by more than one party as Mortgagor, the obligations of such persons or entities will be joint and several.

28. Indemnity. The Mortgagor agrees to indemnify each of the Mortgagee, its directors, officers and employees and the Mortgagee's holding company, if any, (the "Indemnified Parties") and to hold each Indemnified Party harmless from and against any and all claims, damages, losses, liabilities and expenses (including all reasonable fees and charges of internal or external counsel with whom any Indemnified Party may consult and all reasonable expenses of litigation or preparation therefor) which any Indemnified Party may incur or which may be asserted against any Indemnified Party in connection with or arising out of the matters referred to in this Mortgage or in the other Loan Documents by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Mortgagor), whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Mortgagor, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority, which arises out of or relates to this Mortgage, any other Loan Document, or the use of the proceeds of the Loan; provided, however, that the foregoing indemnity agreement shall not apply to claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Mortgage, payment of any Loan and assignment of any rights hereunder. The Mortgagor may participate at its expense in the defense of any such action or claim.

29. Governing Law and Jurisdiction. This Mortgage has been delivered to and accepted by the Mortgagee and will be deemed to be made in the State where the Mortgagee's office indicated above is located. THIS MORTGAGE WILL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE MORTGAGOR AND THE MORTGAGEE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE WHERE THE MORTGAGEE'S OFFICE INDICATED ABOVE IS LOCATED, EXCEPT THAT THE LAWS OF THE STATE WHERE THE PROPERTY IS LOCATED (IF DIFFERENT FROM THE STATE WHERE SUCH OFFICE OF THE MORTGAGEE IS LOCATED) SHALL GOVERN THE CREATION, PERFECTION AND FORECLOSURE OF THE LIENS CREATED HEREUNDER ON THE PROPERTY OR ANY INTEREST THEREIN. The Mortgagor hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the county or judicial district where the Mortgagee's office

Notary Public

My commission expires:

NOTARIAL SEAL
ANN M. ALLEN, Notary Public
Upper Southampton Twp., Bucks County
My Commission Expires Sept. 26, 2004

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EXHIBITS

- A. Legal Description
- B. Permitted Encumbrances

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SUBORDINATION AND INTERCREDITOR AGREEMENT

This Subordination and Intercreditor Agreement (this "Agreement") is dated as of February 18, 2003 among PNC BANK, NATIONAL ASSOCIATION (the "Bank"), SUBORDINATED LENDER (as defined below), and ENVIRONMENTAL TECTONICS CORPORATION, a Pennsylvania corporation ("Company").

BACKGROUND

As an inducement for Bank to provide a secured credit facility in favor of Company, Subordinated Lender has agreed to enter into this Agreement to provide for the subordination of (i) the Subordinated Indebtedness (as defined below) to the Senior Indebtedness (as defined below) and (ii) the Liens (as defined below) in the assets of Company granted to Subordinated Lender to the Liens in such assets of Company granted to Bank.

AGREEMENTS

NOW, THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Definitions.

1.1 General Terms. For purposes of this Agreement, the following terms shall have the following meanings:

"Bank" shall have the meaning set forth in the introductory paragraph of this Agreement and any successor, assign or other provider of the Senior Indebtedness.

"Collateral" shall mean all of the property and interests in property, tangible or intangible, real or personal, now owned or hereafter acquired by Company or the Guarantor in or upon which Bank at any time has a Lien, and including, without limitation, all proceeds and products of such property and interests in property and any guaranty by the Guarantor.

"Company" shall mean Company and its successors and assigns.

"Creditor Agreements" shall mean, collectively, the Senior Lending Agreements and the Subordinated Lending Agreements.

"Creditors" shall mean, collectively, Bank and Subordinated Lender and their respective successors and assigns.

"Default" shall have the meaning given to the term "Default" set forth in the Loan Agreement.

"Distribution" shall mean any payment in cash or any other property (other than securities of the Company into which the Subordinated Indebtedness is convertible pursuant to the terms of the Subordinated Note), or security for any such Distribution.

"Event of Default" shall have the meaning given to the term "Event of Default" set forth in the Loan Agreement.

"Holder of Subordinated Indebtedness" or "Subordinated Lender" shall mean H.F. Lenfest and any other Person(s) at any time or in any manner acquiring any right or interest in any of the Subordinated Indebtedness.

"Insolvency Event" shall have the meaning set forth in Section 2.2(c) hereof.

"Lien" shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, encumbrance (including, but not limited to, easements, rights of way and the like), lien (statutory or other), security agreement or transfer intended as security including, without limitation, any conditional sale or other title retention agreement, the interest of a lessor under a capital lease or any financing lease having substantially the same economic effect as any of the foregoing.

"Loan Agreement" shall mean the Credit Agreement, dated as of the date hereof, between Company and Bank, as the same may be amended, supplemented, modified or restated from time to time.

"Note Purchase Agreement" shall mean the Convertible Note and Warrant Purchase Agreement dated as of the date hereof between Company and Subordinated Lender, as the same may be amended, supplemented, modified or restated from time to time.

"Person" shall mean an individual, a partnership, a corporation (including a business trust), a joint stock company, a trust, an unincorporated association, a joint venture, a limited liability company, a limited liability partnership or other entity, or a government or any agency, instrumentality or political subdivision thereof.

"Secured Lender Remedies" shall mean any action which results in the sale, foreclosure, realization upon, or a liquidation of any of the Collateral including, without limitation, the exercise or any of the rights or remedies of a "secured party" under Article 9 of the Uniform Commercial Code, such as, without limitation, the notification of account debtors.

"Senior Indebtedness" shall mean all Obligations of any kind owed by Company or the Guarantor to Bank from time to time under or pursuant to any of the Senior Lending Agreements including, without limitation, all principal, interest accruing thereon, charges, expenses, fees and other sums (including all interest, charges, expenses, fees and other sums accruing after commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of Company) chargeable to Company or Guarantor by Bank, and reimbursement, indemnity or other obligations due and payable to Bank. Senior Indebtedness shall continue to constitute Senior Indebtedness, notwithstanding the fact that such Senior Indebtedness or any claim for such Senior Indebtedness is subordinated, avoided or disallowed under the federal Bankruptcy Code or other applicable law. Senior Indebtedness shall also include any indebtedness of Company incurred in connection with a refinancing of the Senior Indebtedness under the Senior Lending Agreements if the terms and conditions of the agreements, documents and instruments related to such refinancing, taken as a whole, are not materially more onerous to Holder of Subordinated Indebtedness than those set forth in the Senior Lending Agreements, as in effect on the date hereof. The principal portion of the Senior Indebtedness and the principal amount subject to this Agreement shall in no event exceed \$22,000,000.

"Senior Lending Agreements" shall mean collectively the Loan Agreement, the Revolving Credit Notes and the Loan Documents together with any other agreements, documents and instruments at any time evidencing, securing or related to the Senior Indebtedness, each as from time to time in effect.

"Subordinated Indebtedness" shall mean all principal, interest and other amounts payable or chargeable in connection with the Subordinated Note.

"Subordinated Lending Agreements" shall mean, collectively, the Note Purchase Agreement, the Subordinated Note and all promissory notes, guaranties, agreements, documents and instruments now or at any time hereafter executed and/or delivered by Company, Guarantor or any other person to, with or in favor of the Subordinated Lender in connection therewith or related thereto (other than the warrants issued simultaneously with the Subordinated Note and the

documents and agreements executed in connection therewith or related thereto), as all of the foregoing now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

"Subordinated Note" shall mean collectively the convertible promissory note issued by Company to Subordinated Lender in the original aggregate principal amount of \$10,000,000 dated February 18, 2003 issued pursuant to the Note Purchase Agreement, together with any extensions thereof, or modifications or amendments thereto or replacements and substitutions therefor.

1.2 Other Terms. Capitalized terms not otherwise defined herein shall have the meanings given to them in the Loan Agreement.

1.3 Certain Matters of Construction. The terms "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronoun used shall be deemed to cover all genders. Wherever appropriate in the context, terms used herein in the singular also include the plural and vice versa. All references to statutes and related regulations shall include any amendments of the same and any successor statutes and regulations. Except as expressly set forth herein, all references to any instruments or agreements, including, without limitation, references to any of the Creditor Agreements shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof.

2. Covenants. Company and each Holder of Subordinated Indebtedness hereby covenant that until the Senior Indebtedness shall have been paid in full and satisfied in cash and the Loan Agreement shall have been terminated, all in accordance with the terms of the Loan Agreement, each will comply with such of the following provisions as are applicable to it:

2.1 Transfers. Each Holder of Subordinated Indebtedness covenants to cause any transferee from it of any Subordinated Indebtedness, prior to acquiring such interest, to execute and deliver a counterpart of this Agreement to Bank.

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2.2 Subordination Provisions. To induce Bank to enter into the Loan Agreement and to make loans and advances thereunder, notwithstanding any other provision of the Subordinated Indebtedness to the contrary but subject to subsection 2.2(a), any Distribution with respect to the Subordinated Indebtedness is and shall be expressly junior and subordinated in right of payment to all amounts due and owing upon all Senior Indebtedness outstanding from time to time until such time as the Senior Indebtedness has been paid in full in cash and the Loan Agreement has been terminated.

(a) Payments. Company shall not make a Distribution on the Subordinated Indebtedness until such time as the Senior Indebtedness shall have been paid in full in cash and the Loan Agreement shall have been terminated; provided, however, so long as no Default or Event of Default shall have occurred and be continuing under the Senior Lending Agreements, Company may pay, and Holders of Subordinated Indebtedness may receive, regularly scheduled payments of interest on, and principal at the stated (but not any accelerated) maturity of, the Subordinated Indebtedness as set forth on the date hereof in the Note Purchase Agreement and the Subordinated Note.

Following the occurrence of an Event of Default under the Senior Lending Agreements and receipt by Holders of Subordinated Indebtedness of written notice of such Event of Default from Bank (such notice, the "Default Notice"), Company shall not make a Distribution on the Subordinated Indebtedness and no such Holder of Subordinated Indebtedness shall be entitled to receive any such Distribution in respect of the Subordinated Indebtedness; provided, however, that notwithstanding the foregoing restriction, Company may pay, and Holders of Subordinated Indebtedness shall be entitled to receive, any then due and payable (on a non-accelerated basis) interest payment with respect to the

Subordinated Indebtedness on the earlier to occur of (x) the date on which all such Events of Default specified in the Default Notice shall have been cured or waived, or (y) in the case of an Event of Default other than with respect to the payment when due of any Senior Indebtedness, the expiration of a period of 180 days from delivery of the Default Notice. Nothing herein shall limit the accrual of deferred interest or default interest in accordance with the terms of the Subordinated Lending Agreements.

(b) Limitation on Acceleration. During any period described in Section 2.2 (a) hereof in which a Distribution is not permitted to be made on Subordinated Indebtedness, no Holder of Subordinated Indebtedness shall be entitled to accelerate the maturity of the Subordinated Indebtedness, exercise any Secured Lender Remedies or commence any other action or proceeding to recover any amounts due or to become due with respect to Subordinated Indebtedness, provided, however, the foregoing limitation on acceleration or exercise of any remedies shall not be applicable following (x) the occurrence of an Insolvency Event or (y) following the maturity or acceleration of the Senior Indebtedness.

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(c) Prior Payment of Senior Indebtedness in Bankruptcy, etc. In the event of any insolvency or bankruptcy proceedings relative to Company or Company's property, or any receivership, liquidation, reorganization or other similar proceedings in connection therewith, or, in the event of any proceedings for voluntary liquidation, dissolution or other winding up of Company or distribution or marshalling of Company's assets or any composition with creditors of Company, whether or not involving insolvency or bankruptcy, or if Company shall cease its operations, call a meeting of its creditors or no longer do business as a going concern (each individually or collectively, an "Insolvency Event"), then all Senior Indebtedness shall be paid in full and satisfied in cash and the Loan Agreement terminated before any Distribution shall be made on account of any Subordinated Indebtedness. Any such Distribution resulting from an Insolvency Event which would, but for the provisions hereof, be payable or deliverable in respect of the Subordinated Indebtedness, shall be paid or delivered directly to Bank until amounts owing upon Senior Indebtedness shall have been paid in full in cash and the Loan Agreement terminated provided that any such Distribution to Bank to which the Subordinated Lender would be entitled except for the provisions of this Agreement shall, as between Company and Subordinated Lender, not be deemed to be a Distribution by Company to or on account of the Subordinated Indebtedness.

(d) Acceleration. In the event of all Senior Indebtedness becoming due and payable, whether by acceleration, maturity or otherwise, no Distribution shall thereafter be made on account of the Subordinated Indebtedness until all Senior Indebtedness shall be paid in full in cash and the Loan Agreement shall have been terminated.

(e) Power of Attorney. Subordinated Lender shall have the right to participate in any bankruptcy or insolvency proceedings, subject to the terms and conditions of this Section 2.2(e). To enable Bank to assert and enforce its rights hereunder upon the happening of any Insolvency Event and until all amounts owing upon Senior Indebtedness shall have been paid in full in cash and the Loan Agreement terminated, Bank or any person whom it may designate is hereby irrevocably appointed attorney in fact for Subordinated Lenders with full power to act in the place and stead of Subordinated Lender solely for such purpose, including the right to make, present, file and vote such proofs of claim against Company on account of all or any part of the Subordinated Indebtedness as Bank may deem advisable and to receive and collect any and all distributions or other payments in respect of the Subordinated Indebtedness made thereon and to apply the same on account of the Senior Indebtedness. In the event that Bank or its designee fails to file a proof of claim with respect to the Subordinated Indebtedness in any bankruptcy proceeding relative to Company prior to the date which is ten (10) days prior to any claims bar date in such proceeding, the Subordinated Lender may file such proofs of claim with respect to the Subordinated Indebtedness. Subordinated Lender will execute and deliver

to Bank such instruments as may be required by Bank to enforce any and all Subordinated Indebtedness, to effectuate the aforesaid power of attorney and to effect collection of any and all distributions or other payments in respect of the Subordinated Indebtedness which may be made at any time after the occurrence of an Insolvency Event, on account thereof, and Subordinated Lender hereby irrevocably appoints Bank as the lawful attorney and agent of Subordinated Lender to execute financing statements on behalf of Subordinated Lender and hereby further authorizes Bank to file such financing statements in any appropriate public office.

(f) Knowledge; Delivery of Default Notice. No Holder of any Subordinated Indebtedness shall at any time be charged with knowledge of any Event of Default under the Senior Lending Agreements or on such account be prohibited from receiving or retaining any payment of monies or from taking any action regarding acceleration or the exercise of remedies, unless and until such holder shall have received the Default Notice; provided, however, any "default" or "event of default" under the Subordinated Notes and/or Subordinated Lending Agreements shall automatically constitute an Event of Default under the Senior Lending Agreements so that payments received by any Holder of Subordinated Indebtedness following any such occurrence shall not be retained irrespective of the lack of receipt by such holder of a Default Notice, unless the Event of Default is waived by such Holder of Subordinated Indebtedness or satisfied or cured by Company.

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Each Default Notice shall be deemed to be properly given by Bank or other holder of Senior Indebtedness to Holders of Subordinated Indebtedness if such Default Notice is delivered in accordance with Section 4.10 hereof; provided, however, that each and every additional or subsequent Holder of Subordinated Indebtedness shall be entitled to deliver written notice to Bank of its name and address and of its status as such a Holder of Subordinated Indebtedness, and upon delivery of such notice said holder shall also be entitled to receive Default Notices and to have the benefit of the provisions of this paragraph.

(g) Payments Held in Trust. Should any Distribution or the proceeds thereof, in respect of the Subordinated Indebtedness, be collected or received by Subordinated Lender or any Affiliate (as such term is defined in Rule 405 of Regulation C adopted by the Securities and Exchange Commission pursuant to the Securities Act of 1933) of Subordinated Lender at a time when Subordinated Lender is not permitted to receive any such Distribution or proceeds thereof pursuant to the terms hereof, then Subordinated Lender will forthwith deliver, or cause to be delivered, the same to Bank in precisely the form held by Subordinated Lender (except for any necessary endorsement) and until so delivered, the same shall be held in trust by Subordinated Lender, or any such Affiliate, as the property of Bank and shall not be commingled with other property of Subordinated Lender or any such Affiliate.

(h) Subrogation. Subject to the prior payment in full in cash of the Senior Indebtedness and the termination of the Loan Agreement, to the extent that Bank has received any Distribution on the Senior Indebtedness which, but for this Agreement, would have been applied to the Subordinated Indebtedness, the rights of Subordinated Lender shall be subrogated to the then or thereafter rights of Bank including, without limitation, the right to receive any Distribution made on the Senior Indebtedness (as if the Senior Indebtedness had not been paid in full or the Loan Agreement terminated) until the principal of, interest on and other charges due under the Subordinated Indebtedness shall be paid in full; and, for the purposes of such subrogation, no Distribution to Bank to which the Subordinated Lender would be entitled except for the provisions of this Agreement shall, as between Company, its creditors (other than Bank) and Subordinated Lender, be deemed to be a Distribution by Company to or on account of Senior Indebtedness, it being understood that the provisions hereof are and are intended solely for the purpose of defining the relative rights of the Subordinated Lender on the one hand, and Bank on the other hand.

(i) Scope of Subordination. The provisions of this Agreement are solely to define the relative rights of any Holder of Subordinated Indebtedness and Bank. Nothing in this Agreement shall impair, as between Company and Subordinated Lender the unconditional and absolute obligation of Company to punctually pay the principal, interest and any other amounts and obligations owing under the Subordinated Note and Subordinated Lending Agreements in accordance with the terms thereof, subject to the rights of Bank under this Agreement.

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(j) Relationship. The parties acknowledge that certain rights and remedies are provided to the Subordinated Lender in the Subordinated Lending Agreements (the "Subordinated Rights") and certain rights and remedies are provided to Bank in the Senior Lending Agreements (the "Bank Rights"). Those rights may include, among other things: (i) the right, after an Event of Default, to direct account debtors to make payments directly to such Creditor; (ii) the requirement to deliver original instruments and other possessory collateral into the possession of a Creditor; (iii) the requirement to assemble and make available collateral to a Creditor; and (iv) the requirement to execute and deliver such further documents and instruments as a Creditor may deem necessary to obtain, preserve and enforce the benefits of its Creditor Agreements. In addition, the Company has certain obligations to Subordinated Lender in the Subordinated Lending Agreements (the "Company Subordinated Lender Obligations") and the Company has certain obligations to the Bank in the Senior Lending Agreements (the "Company Bank Obligations"). The parties agree that, (a) in the event of a conflict between the Subordinated Lender Rights and the Bank Rights, the Bank Rights shall be superior to the Subordinated Lender Rights, and (b) that in the event of a conflict between the Company Subordinated Lender Obligations and the Company Bank Obligations, the Company Bank Obligations will be superior to the Company Subordinated Lender Obligations. The Company shall in good faith determine the correct Creditor to make deliveries to, comply with instructions from and otherwise satisfy the obligations owing to, based on the provisions of this Section 2.2(j); provided, however, if it is determined that the obligations were satisfied with respect to the wrong Creditor, the Creditors shall make such adjustments as between themselves as to satisfy the purposes of this Agreement. To the extent that it is impossible or impracticable for the Company to satisfy conflicting obligations with respect to the Subordinated Rights and the Bank Rights, or with respect to the Company Subordinated Lender Obligations and the Company Bank Obligations, it shall not be in default under the Creditor Agreements if it satisfies the relevant obligations with respect to only one Creditor otherwise in accordance with this Section 2.2(j).

3. Security.

3.1 Acknowledgment of Lien. Each Creditor hereby agrees and acknowledges that the other Creditor has been granted a Lien or otherwise has rights in upon the Collateral.

3.2 Priority. Notwithstanding the order or time of attachment, or the order, time or manner of perfection, or the order or time of filing or recordation of any document or instrument, or other method of perfecting a Lien in favor of each Creditor in any Collateral and notwithstanding any conflicting terms or conditions which may be contained in any of the Creditor Agreements, the Liens upon and rights in the Collateral of Bank have and shall have priority over the Liens upon and rights in the Collateral of Subordinated Lender and such Liens and rights of Subordinated Lender are and shall be, in all respects, subject and subordinate to the Liens and rights of Bank therein to the full extent of the Senior Indebtedness outstanding from time to time. Subordinated Lender shall not take any action to foreclose or realize upon the Collateral until such time as the Senior Indebtedness shall have been paid in full in cash and the Loan Agreement irrevocably terminated; provided however, Subordinated Lender may join in any foreclosure proceeding of the Collateral commenced by the Bank to the extent the joinder in such legal proceeding is necessary to prevent the waiver or lapse of Subordinated Lender's rights with respect to such Collateral, but subject at all times to the Bank's rights hereunder to determine

the disposition of such Collateral in accordance with the terms hereof.

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3.3 No Alteration of Priority. The lien priorities provided in Section 3.2 hereof shall not be altered or otherwise affected by any amendment, modification, supplement, extension, renewal, restatement or refinancing of any Senior Indebtedness or the Subordinated Indebtedness, nor by any action or inaction which Creditor may take or fail to take in respect of the Collateral.

3.4 Perfection. Each Creditor shall be solely responsible for perfecting and maintaining the perfection of its Lien in and to each item constituting the Collateral in which such Creditor has been granted a Lien or any rights. The foregoing provisions of this Agreement are intended solely to govern the respective lien priorities as between Creditors and shall not impose on Bank any obligations in respect of the disposition of proceeds of foreclosure on any Collateral which would conflict with prior perfected claims therein in favor of any other Person. Subordinated Lender agrees that it will not contest the validity, perfection, priority or enforceability of the Liens of Bank in the Collateral and that as between Bank and such Subordinated Lender, the terms of this Agreement shall govern even if part or all of the Senior Indebtedness or the Liens of Bank securing payment and performance thereof are avoided, disallowed, set aside or otherwise invalidated in any judicial proceeding or otherwise.

3.5 Management of Collateral. Until all amounts owing upon Senior Indebtedness shall have been paid in full in cash and the Loan Agreement terminated, Bank shall have the exclusive right to manage, perform and enforce the terms of the Senior Lending Agreements with respect to the Collateral and to exercise and enforce all privileges and rights thereunder according to its discretion and exercise of its business judgment, including, without limitation, the exclusive right to enforce or settle insurance claims, take or retake control or possession of the Collateral and to hold, prepare for sale, process, sell, lease, dispose of, or liquidate the Collateral, subject to the requirement that the net proceeds of such sale or other disposition are applied to the Senior Indebtedness and/or the Subordinated Indebtedness as required under Section 3.6. In connection therewith, each Subordinated Lender waives any and all rights to affect the method or challenge the appropriateness of any action by Bank.

3.6 Sale of Collateral. Notwithstanding anything to the contrary contained in any of the Creditor Agreements until all amounts owing upon Senior Indebtedness shall have been paid in full in cash and the Loan Agreement terminated, only Bank shall have the right to restrict or permit, or approve or disapprove, the sale, transfer or other disposition of Collateral. Subordinated Lender will, promptly upon the request of Bank, release or otherwise terminate its Liens on the Collateral upon which it has a Lien, to the extent such Collateral is sold or otherwise disposed of either by Bank, its agents, or Company with the consent of Bank, and the net proceeds of such sale or other disposition are applied to the Senior Indebtedness and/or the Subordinated Indebtedness, and Subordinated Lender will promptly deliver such release documents as Bank may require in connection therewith. Bank shall have the sole discretion as to whether to apply the net proceeds of such sales or other dispositions to the Senior Indebtedness and/or the Subordinated Indebtedness.

In the event that Bank conducts a foreclosure proceeding with respect to any Collateral, Subordinated Lender may bid to purchase such Collateral, but such ability to bid shall not impose any additional obligations on Bank or limit the discretion of Bank with respect to the disposition of the Collateral.

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3.7 Secured Lender Remedies. Subject to Section 2.2(b) hereof, in no event shall Subordinated Lender exercise any Secured Lender Remedies until

such time as the Senior Indebtedness shall have been paid in full in cash and the Senior Lending Agreements terminated; nor shall Subordinated Lender join in the filing of any petition in bankruptcy, solicit any other person to, or act to cause the commencement of, any case involving Company under any state or federal bankruptcy or insolvency laws or seek the appointment of a receiver for the affairs or property of Company until such time as the Senior Indebtedness shall have been paid in full in cash and the Senior Lending Agreements shall have been irrevocably terminated; provided however, Subordinated Lender may join in any foreclosure proceeding of the Collateral commenced by Bank to the extent the joinder in such legal proceeding is necessary to prevent the waiver or lapse of Subordinated Lender's rights with respect to such Collateral, but subject at all times to Bank's rights hereunder to determine the disposition of such Collateral in accordance with the terms hereof. In the event Subordinated Lender shall receive any payment or distribution of any kind representing proceeds of any Collateral as to which its Lien upon the Collateral is or is required to be subordinated to the Lien of Bank before the Senior Indebtedness shall have been paid in full in cash and the Senior Lending Agreements terminated, such sums shall be held in trust by Subordinated Lender for the benefit and on account of Bank and such amounts shall be paid to Bank for application to the then unpaid Obligations under the Senior Lending Agreements.

3.8 Section 9-611 Notice and Waiver of Marshaling. Subordinated Lender and Bank acknowledge that this Agreement shall constitute notice of their respective interests in the Collateral as provided by Section 9-611 of the Pennsylvania Uniform Commercial Code and each hereby waive any right to compel any marshaling of any of the Collateral.

3.9 Perfection of Certificates. The Bank shall hold that portion of the Collateral, if any, as to which perfection of the security interest in the Collateral requires possession (the "Possessed Collateral") on behalf of Subordinated Lender (and subject to the senior lien of Bank) solely for the purpose of perfecting and keeping perfected the security interest granted to the Holders of the Subordinated Indebtedness. In connection therewith, Bank shall take such actions as are reasonably requested by Subordinated Lender to perfect and maintain the priority of the Liens of Subordinated Lender in the Possessed Collateral, provided such requests do not impair the prior Liens of Bank in the Possessed Collateral or violate the requirements of the Senior Lending Agreements. The duties and responsibilities of Bank to the Holders of the Subordinated Indebtedness with respect to the Possessed Collateral shall be limited solely to those set forth in this Section 3.9. In no event shall Bank be liable for its actions with respect to the Possessed Collateral except for gross negligence or willful misconduct. Upon payment in full in cash of the Senior Indebtedness and termination of the Loan Agreement, Bank shall deliver possession of the Possessed Collateral to Subordinated Lender or as otherwise ordered by a court and shall take all actions reasonably necessary and at the expense of Subordinated Lender to transfer the Possessed Collateral to Subordinated Lender.

4. Miscellaneous.

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4.1 Provisions of Subordinated Note. From and after the date hereof, Company and the Subordinated Lender shall cause each Subordinated Note to contain a provision to the following effect:

"This Note is subject to the Subordination and Intercreditor Agreement, dated as of February 18, 2003, among the Maker, the Payee and PNC Bank, National Association, under which this Note and the Maker's obligations hereunder are subordinated in the manner set forth therein to the prior payment of certain obligations to the holders of Senior Indebtedness as defined therein."

Proof of compliance with the foregoing shall be promptly given to Bank.

4.2 Additional Agreements. In the event that the Senior Indebtedness is refinanced in full, Subordinated Lender agrees, subject to the last two sentences of the definition of Senior Indebtedness, at the request of such refinancing party to enter into a subordination and intercreditor agreement on terms substantially similar to this Agreement.

4.3 Survival of Rights. The right of Bank to enforce the provisions of this Agreement shall not be prejudiced or impaired by any act or omitted act of Company or Bank including forbearance, waiver, consent, compromise, amendment, extension, renewal, or taking or release of security in respect of any Senior Indebtedness or noncompliance by Company with such provisions, regardless of the actual or imputed knowledge of Bank.

4.4 Bankruptcy Financing Issues. This Agreement shall continue in full force and effect after the filing of any petition ("Petition") by or against Company under the United States Bankruptcy Code (the "Code") and all converted or succeeding cases in respect thereof. All references herein to Company shall be deemed to apply to Company as debtor-in-possession and to a trustee for Company. If Company shall become subject to a proceeding under the Code, and if Bank shall desire to permit the use of cash collateral or to provide post-Petition financing from Bank to Company under the Code, Subordinated Lender agrees as follows: (1) adequate notice to Subordinated Lender shall be deemed to have been provided for such consent or post-Petition financing if Subordinated Lender receives notice thereof three (3) Business Days (or such shorter notice as is given to Bank) prior to the earlier of (a) any hearing on a request to approve such post-Petition financing or (b) the date of entry of an order approving same and (2) no objection will be raised by Subordinated Lender to any such use of cash collateral or such post-Petition financing from Bank.

4.5 Insurance Proceeds. Proceeds of the Collateral include insurance proceeds, and therefore, notwithstanding the terms set forth in the Senior Lending Agreements or Subordinated Lender Agreements, the priorities set forth in Section 3.2 govern the ultimate disposition of casualty insurance proceeds. Bank, as the holder of a senior security interest on the Collateral insured shall have the sole and exclusive right, as against Subordinated Lender, to adjust settlement of insurance claims in the event of any covered loss, theft or destruction of such Collateral. All proceeds of such insurance shall inure to Bank, to the extent of Bank's claims for Senior Indebtedness, and Subordinated Lender shall cooperate (if necessary) in a reasonable manner in effecting the payment of insurance proceeds to Bank. In the event Bank, in its sole discretion or pursuant to agreement with Company, permits Company to utilize the proceeds of insurance to replace Collateral, the consent of Bank thereto shall be deemed to include the consent of Subordinated Lender.

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4.6 Receipt of Agreements. Company hereby acknowledges that it has delivered to Bank a correct and complete copy of the Subordinated Lending Agreements as in effect on the date hereof. Subordinated Lender, solely for the purposes of this Agreement, hereby acknowledges receipt of a correct and complete copy of each of the Senior Lending Agreements as in effect on the date hereof.

4.7 No Amendment of Subordinated Lending Agreements. So long as the Loan Agreement remains in effect, neither Company nor any Holder of Subordinated Indebtedness shall, without the prior written consent of Bank, (i) enter into any amendment to or modification of any Subordinated Lending Agreements which relates to or affects the principal amount, interest rate, or payment terms of Company thereunder (other than any extension of maturity or postponement of payment or accrual and payment of deferred interest on the Subordinated Note), or (ii) enter into any amendment to or modification of any Subordinated Lending Agreements which causes any other material covenant or agreement of Company thereunder to be more restrictive than the terms of the Senior Lending Agreements.

4.8 Amendments to Senior Lending Agreements. Nothing contained in this Agreement, or in any other agreement or instrument binding upon any of the parties hereto, shall in any manner limit or restrict the ability of Bank from increasing or changing the terms of the loans under the Senior Lending Agreements, or to otherwise waive, amend or modify the terms and conditions of the Senior Lending Agreements, in such manner as Bank and Company shall mutually determine. Each Holder of Subordinated Indebtedness hereby consents to any and all such waivers, amendments, modifications and compromises, and any other renewals, extensions, indulgences, releases of collateral or other accommodations granted by Bank to Company from time to time, and agrees that none of such actions shall in any manner affect or impair the subordination established by this Agreement in respect of the Subordinated Indebtedness.

4.9 Notice of Default and Certain Events. Bank and the Holders of Subordinated Indebtedness shall undertake in good faith to notify the other of the occurrence of any of the following as applicable:

- (a) the obtaining of actual knowledge of the occurrence of any default under the Subordinated Note;
- (b) the acceleration of any Senior Indebtedness by Bank or of any Subordinated Indebtedness by any Holder of Subordinated Indebtedness;
- (c) the granting by Bank of any waiver of any Event of Default under the Loan Agreement or the granting by any Holder of Subordinated Indebtedness of any waiver of any "default" or "event of default" under the Subordinated Lending Agreements;
- (d) the payment in full by Company (whether as a result of refinancing or otherwise) of all Senior Indebtedness; or
- (e) the sale or liquidation of, or realization upon, the Collateral other than collection of Receivables in the ordinary course of business.

The failure of any party to give such notice shall not affect the subordination of the Subordinated Indebtedness or the relative Lien priorities as provided in this Agreement.

4.10 Notices. Any notice or other communication required or permitted pursuant to this Agreement shall be deemed given (a) when personally delivered to any officer of the party to whom it is addressed, (b) on the earlier of actual receipt thereof or three (3) days following posting thereof by certified or registered mail, postage prepaid, (c) upon actual receipt thereof when sent by a recognized overnight delivery service or (d) upon actual receipt thereof when sent by telecopier to the number set forth below with electronic confirmation of receipt, in each case addressed to each party at its address or telecopier number set forth below or at such other address or telecopier number as has been furnished in writing by a party to the other by like notice:

If to Agent:	PNC Bank, National Association 1600 Market Street Philadelphia, Pennsylvania 19103 Attention: John Siegrist Telephone: (215) 585-5355 Facsimile: (215) 585-4144
with a copy to:	Ballard Spahr Andrews & Ingersoll, LLP 1735 Market Street, 51st Floor Philadelphia, PA 19103 Attention: Carl H. Fridy, Esquire Telephone: (215) 864-8726 Facsimile: (215) 864-8999

If to Subordinated Lender: H.F. Lenfest
1332 Enterprise Drive
West Chester, PA 19380
Telephone: (610) 918-8440
Facsimile: (610) 918-8442

with a copy to; The Lenfest Group
1332 Enterprise Drive
P.O. Box 2660 West Chester, PA 19380
Attention: Thomas K. Pasch, Esquire
Telephone: 610-918-8435
Facsimile: 610-918-8442

If to Company: Environmental Tectonics Corporation
125 James Way
Southampton, PA 18966
Attention: Duane Deaner
Telephone: (215) 355-9100
Facsimile: (215) 357-4000

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with a copy to: Klehr, Harrison, Harvey, Branzburg &
Eilers LLP
260 S. Broad Street
Philadelphia, PA 19102
Attention: Jeffrey Greenfield, Esquire
Telephone: (215) 569-3009
Facsimile: (215) 568-6603

4.11 Books and Records. Subordinated Lender shall furnish Bank, upon request from time to time, a statement of the account between Subordinated Lender and Company.

4.12 Binding Effect; Other. This Agreement shall be a continuing agreement, shall be binding upon and shall inure to the benefit of the parties hereto from time to time and their respective successors and assigns, shall be irrevocable and shall remain in full force and effect until the Senior Indebtedness shall have been paid in full in cash and the Loan Agreement shall have been terminated, but shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any amount paid by or on behalf of Company with regard to the Senior Indebtedness is rescinded or must otherwise be restored or returned upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Company, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee, custodian, or similar officer, for Company or any substantial part of its property, or otherwise, all as though such payments had not been made. No action which Bank or Company may take or refrain from taking with respect to the Senior Indebtedness, including any amendments thereto, shall affect the provisions of this Agreement or the obligations of Subordinated Lender hereunder. Any waiver or amendment hereunder must be evidenced by a signed writing of the party to be bound thereby, and shall only be effective in the specific instance. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania. The headings in this Agreement are for convenience of reference only, and shall not alter or otherwise affect the meaning hereof.

5. Representations and Warranties.

(a) Subordinated Lender represents and warrants to Bank that Subordinated Lender is the holder of a portion of the Subordinated Indebtedness and Liens which secure or will secure the Subordinated Indebtedness. Subordinated Lender agrees that it shall not assign or transfer any of the Subordinated Indebtedness or Liens without (i) prior notice being given to Bank and (ii) such assignment or transfer being made expressly subject to the terms of this Agreement. Subordinated Lender agrees upon Bank's request to execute and file an amendment to any financing statement or mortgage, trust deed or other

encumbrance now on file which covers Collateral to the effect that the same is subject to the terms of this Agreement, and agrees to so mark any extension of such financing statements, or any financing statement or mortgage, trust deed or other encumbrance filed by Subordinated Lender on Collateral in the future. Subordinated Lender further warrants to Bank that it has full right, power and authority to enter into this Agreement and, to the extent Subordinated Lender is an agent or trustee for other parties, that this Agreement shall fully bind all such other parties.

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(b) Bank represents and warrants to Subordinated Lender that Bank is the holder of the Senior Indebtedness and Liens which secure or will secure the Senior Indebtedness. Bank agrees that it shall not assign or transfer any of the Senior Indebtedness or Liens without (i) prior notice being given to Subordinated Lender and (ii) such assignment or transfer being made expressly subject to the terms and provisions of this Agreement. Bank further warrants to Subordinated Lender that it has full right, power and authority to enter into this Agreement and, to the extent Bank is an agent or trustee for other parties, that this Agreement shall fully bind all such other parties.

6. Proceedings. ANY JUDICIAL PROCEEDING BROUGHT BY OR AGAINST SUBORDINATED LENDER, COMPANY OR BANK WITH RESPECT TO THIS AGREEMENT OR ANY RELATED AGREEMENT MAY BE BROUGHT IN ANY COURT OF COMPETENT JURISDICTION IN THE COMMONWEALTH OF PENNSYLVANIA, UNITED STATES OF AMERICA, AND, BY EXECUTION AND DELIVERY OF THIS AGREEMENT EACH PARTY THERETO ACCEPTS FOR THEMSELVES AND IN CONNECTION WITH THEIR PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE NON-EXCLUSIVE JURISDICTION OF THE AFORESAID COURTS, AND IRREVOCABLY AGREES TO BE BOUND BY ANY FINAL JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT. NOTHING HEREIN SHALL AFFECT THE RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF ANY PARTY HERETO TO BRING PROCEEDINGS AGAINST ANY OTHER PARTY IN ANY COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY ANY PARTY HERETO AGAINST ANY OTHER PARTY INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER OR CLAIM IN ANY WAY ARISING OUT OF, RELATED TO OR CONNECTED WITH THIS AGREEMENT OR ANY RELATED AGREEMENT, SHALL BE BROUGHT ONLY IN A COURT LOCATED IN THE COUNTY OF PHILADELPHIA, COMMONWEALTH OF PENNSYLVANIA; PROVIDED THAT NOTWITHSTANDING THE FOREGOING, IF IN ANY JUDICIAL PROCEEDING BY OR AGAINST ANY PARTY HERETO THAT IS BROUGHT IN ANY OTHER COURT SUCH COURT DETERMINES THAT ANY PARTY HERETO IS AN INDISPENSABLE PARTY, ANY SUCH PARTY SHALL BE ENTITLED TO JOIN OR INCLUDE ANY OTHER PARTY HERETO IN SUCH PROCEEDINGS IN SUCH OTHER COURT. EACH PARTY HERETO WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED HEREUNDER AND SHALL NOT ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE OR BASED UPON FORUM NON CONVENIENS.

7. Waiver Of Jury Trial. EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF ANY CREDITOR OR COMPANY WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENTS OR AGREEMENT EXECUTED OR DELIVERED BY THEM IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HERETO HEREBY AGREES AND CONSENTS THAT ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT JURY, AND THAT ANY OF THEM MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THEIR CONSENT TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

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8. Company Acknowledgement. Company agrees that (i) nothing contained in this Agreement shall be deemed to amend, modify, supercede or otherwise alter the terms of the respective agreements between Company and each

Creditor and (ii) this Agreement is solely for the benefit of the Creditors and shall not give Company, its successors or assigns or any other person any rights vis-a-vis any Creditor.

9. Counterparts; Facsimile. This Agreement may be executed by the parties hereto in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission shall be deemed to be an original signature hereto.

[SIGNATURE PAGES FOLLOW]

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(SIGNATURE PAGE TO SUBORDINATION AND INTERCREDITOR AGREEMENT)

IN WITNESS WHEREOF, the undersigned have entered into this Agreement as of this 18th of February, 2003.

PNC BANK, NATIONAL ASSOCIATION

By: /s/ John G. Siegrist

Name: John G. Siegrist
Title: Vice President

H.F. LENFEST

By: /s/ H.F. Lenfest

Name: H.F. Lenfest

ENVIRONMENTAL TECTONICS CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner
Title: C.F.O.

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ACKNOWLEDGMENT AND AGREEMENT

Each of the undersigned hereby acknowledges the provisions of the foregoing Subordination Agreement (the "Agreement") and confirms and agrees that its obligations under the Subordinated Lending Agreements, including any guaranty in favor of Subordinated Lender (as defined in the Agreement), are subject to the terms and conditions set forth in the Agreement, as amended from time to time.

ENTERTAINMENT TECHNOLOGY CORPORATION

By: /s/ Duane Deaner

Name: Duane Deaner
Title: Secretary

ETC DELAWARE, INC.

By: /s/ Duane Deaner

Name: Duane Deaner
Title: Treasurer