UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

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

for the fiscal year ended February 27, 2009

or

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

For the transition period from to .

Commission File Number 1-10655

ENVIRONMENTAL TECTONICS CORPORATION

Pennsylvania	
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

125 James Way
County Line Industrial Park
Southampton, Pennsylvania 18966

(Address of principal executive offices, Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	
Common Stock, par value $.05 per share	**American Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes ☐ No ☑

As of August 29, 2008, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $12,571,000 based upon the closing sale price of the registrant's common stock on the American Stock Exchange of $2.25 on such date. See footnote (1) below.

As of May 1, 2009, there were 9,069,351 shares of the registrant's common stock issued and outstanding.

Index to Exhibits appears after page 39 of this Report.

(1) The information provided is not an admission that any person whose holdings are excluded from the figure is not an affiliate or that any person whose holdings are included is an affiliate and any such admission is hereby disclaimed. The information provided is solely for record keeping purposes of the Securities and Exchange Commission.

ENVIRONMENTAL TECTONICS CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED
FEBRUARY 27, 2009

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When used in this Annual Report on Form 10-K, except where the context otherwise requires, the terms "we", "us", "our", "ETC" and the "Company" refer to Environmental Tectonics Corporation.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on ETC's current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about ETC's and its subsidiaries that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

These forward-looking statements include statements with respect to the Company's vision, mission, strategies, goals, beliefs, plans, objectives, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business of the company, including but not limited to, (i) potential additional funding by H.F.Lenfest, a member of our Board of Directors and a significant shareholder and PNC Bank, (ii) the potential delisting of the Company's common stock from the NYSE AMEX LLC (formerly the American Stock Exchange) (iii) projections of revenues, costs of materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, capital structure, other financial items and the effects of currency fluctuations, (iv) statements of our plans and objectives of the Company or its management or Board of Directors, including the introduction of new products, or estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities, (v) statements of future economic performance, (vi) statements of assumptions and other statements about the Company or its business, (vii) statements made about the possible outcomes of litigation involving the Company, (viii) statements regarding the Company's ability to obtain financing to support its operations and other expenses, and (ix) statements preceded by, followed by or that include the words, "may," "could," "should," "looking forward," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," or the negative of such terms or similar expressions. These forward-looking statements involve risks and uncertainties which are subject to change based on various important factors. Some of these risks and uncertainties, in whole or in part, are beyond the Company's control. Factors that might cause or contribute to such a material difference include, but are not limited to, those discussed in this Annual Report on Form 10-K, in the section entitled "Risks Particular to Our Business." Shareholders are urged to review these risks carefully prior to making an investment in the Company's common stock.

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

In this report all references to "ETC," "the Company," "we," "us," or "our," mean Environmental Tectonics Corporation and our subsidiaries.

References to fiscal 2009 or the 2009 fiscal year are references to the year ended February 27, 2009. References to fiscal 2008 or the 2008 fiscal year are references to the year ended February 29, 2008.

PART I

Item 1. *Business*

We were incorporated in 1969 in Pennsylvania and are principally engaged in the design, manufacture and sale of (1) software driven products and services used to create and monitor the physiological effects of flight; (2) high performance jet tactical flight simulation ;(3) steam and gas sterilization; (4) testing and simulation devices for the automotive industry; (5) hyperbaric and hypobaric chambers; and (6) driving and disaster simulation systems. The Company considers its business activities to operate in two segments: the Training Services Group (TSG) and the Control Systems Group (CSG). Product categories included in TSG are pilot training and flight simulators, disaster management systems and entertainment applications. CSG includes sterilizers, environmental control devices and hyperbaric chambers along with parts and service support.

Marketing

We utilize both employees and agents to market our products and services. At February 27, 2009, approximately 24 employees were committed to sales and marketing functions. We have branch offices in England, Turkey, Egypt, Singapore, the United Arab Emirates and Malaysia. Internationally, we contract numerous independent sales agents and organizations.

Product Development

Technological improvement and enhancement is an integral part of our corporate philosophy. New ideas and products come from customer feedback and from our design and engineering staff. We have a designated Vice President Engineering Manager and a Vice President of Development whose responsibilities include the introduction of product extensions and new applications of existing technology.

Within the TSG segment, product development emphasizes additional functionality and fidelity, enhancing control systems and software graphics and exploring commercial possibilities. Our recent product development efforts are as follows:

Tactical Flight Combat and G-force/Disorientation Trainers

In response to the ongoing budgetary constraints for pilot G-force training and spatial disorientation, in 2004 we began incorporating tactical combat flight capabilities into our human centrifuge technology. Named the Authentic Tactical Fighting System (ATFS), this product is the first fully “flyable” centrifuge-based tactical maneuvering ground based simulator. This technology allows a fighter pilot to practice tactical air combat maneuvers such as dodging enemy missiles, ground fire and aircraft obstacles while experiencing the real life environment of a high G-force fighter aircraft. These flight trainers provide a low cost and extremely less risky alternative to actual air flight. We continue the development of this technology including incorporating some of this functionality into our GYROLAB products.

Upset Recovery Training

In 2009, our National AeroSpace Training and Research (NASTAR) Center, in conjunction with Embry Riddle Aeromedical University (ERAU), began conducting research flights under a Federal Aviation Administration (FAA) funded research project aimed at examining the effectiveness of using centrifuge based simulation for Upset Recovery Training (URT).

Loss of control in flight is a major cause factor in loss of life and hull damage aircraft accidents. Modern day commercial aviation currently has no requirement for training of pilots to deal with these situations, commonly referred to as upsets. Realistic training for upsets, or URT, which requires very dynamic and disorienting conditions, is difficult because non-centrifuged based simulators do not reproduce the angular and G accelerations or the disorientations of actual upsets. We believe our GYROLAB GL-2000 is an answer to providing pilots with the environment necessary for effective training.

The research project was focused on comparing the benefits of three different types of URT. The first included only academic lectures. The second type included academic lecture and computer based training using Microsoft Flight Simulator training software. The third type included academic lecture plus instruction in our GYROLAB GL-2000, a centrifuge type motion based simulator. The research involved training an equal number of ERAU's flight students under each approach and then comparing their upset recovery skills in an actual flight in ERAU's American Champion Aircraft (ACA) Decathlon airplane. Additionally, each student received identical classroom instruction at ERAU.

As of the filing date of this Annual Report on Form 10-K, the test flights have been completed and the results are under evaluation.

Advanced Disaster Management Simulator (ADMS)

During fiscal 2009, our simulation division continued development of its software-driven disaster scenario products. ETC-PZL, our Polish subsidiary, performed extensive effort on the ADMS software platform while engineers in our Orlando, Florida, branch office continued to expand our library of visual environments and incidents. We now offer training in aircraft accidents, hazardous material incidents, train and tunnel incidents, major traffic accidents, structural fires in high-rise, commercial, industrial and apartment buildings, large wildfires, terrorist attacks, bomb threats and explosions and school shootings.

In March 2008, we were contracted by the New York City Office of Emergency Management to supply a multi-station ADMS COMMAND, our most advanced training system. This contract includes a turnkey, multi-discipline team-training system with a comprehensive library of customized training scenarios. Our simulators will become an integral component of the overall Citywide Incident Management System (CIMS) Training Program for New York City. We also continued work on a contract with the Pennsylvania Southeast Region Counter-Terrorism Task Force (CTTF) to provide an ADMS-TEAM training system.

Internationally, we expanded our presence with sales to Düsseldorf, Germany and Hong Kong. Additionally, in November 2008, we were awarded a major contract to deliver multiple ADMS-COMMAND simulator systems to a national training institute in the Middle East.

We will continue to enhance product applications by adding additional software objects and increasing interactivity between the various disaster scenarios.

Subsidiaries

We presently have four operating subsidiaries. Entertainment Technology Corporation, our wholly owned subsidiary, is a Pennsylvania corporation that focuses on the development, manufacturing and distribution of our entertainment products. ETC-PZL Aerospace Industries, our 95%-owned subsidiary, is a Polish corporation that manufactures simulators. ETC-Europe, our 99%-owned subsidiary, is a United Kingdom corporation that focuses on generating international sales. NASTAR Center LLC is our wholly owned Delaware subsidiary which includes our NASTAR Center. ETC-Delaware, Inc., our wholly-owned subsidiary, is a Delaware corporation that serves as an investment holding company.

Suppliers

The components being used in the assembly of systems and the parts used to manufacture our products are purchased from equipment manufacturers, electronics supply firms and others. Generally, with an occasional exception, we have historically had no difficulty in obtaining supplies. Further, most of the raw materials, parts, components and other supplies which we use to manufacture our products can be obtained at competitive prices from alternate sources should existing sources of supply become unavailable.

In January 2009, we announced the formation of Team ETC, a vendor teaming arrangement which includes 30 of our most valuable vendors. Formation of this consortium expands our design and manufacturing capabilities to support large, multiple year contracts.

Patents and Trademarks

Patents:

ETC presently holds the following patent:

Patent No.		Expiration Date
6,818,178 B2	"Method for High Vacuum Sterilization of Closures"	February 8, 2022

Trademarks:

The following ETC trademarks are registered with the U.S. Patent and Trademark Office:

BARA-MED® **Reg. No. 1,267,016**	Medical Hyperbaric Chamber
ETC® **Reg. No. 1,298,508**	**Logo for Environmental Tectonics Corporation**
GAT-II® **Reg. No. 2,602,364**	General Aviation Trainer
G-LAB® **Reg. No. 1,540,289**	Human Centrifuge/USAF Type
G-POINTING® **Reg. No. 3,424,619**	Motion control algorithm feature; namely, a feature of Flight Simulators that duplicates G-force effects experienced during tactical flight in Class 9.
GYROLAB® **Reg. No. 1,454,987**	Spatial Disorientation Device
MRC Monster Roll Cage® **Reg. No. 3,001,401**	Interactive Simulator in the Nature of an Amusement Ride Machine that incorporates Virtual Reality Effects
NASTAR® CENTER **Reg. No. 3,370,892**	The National Aerospace Training & Research Center
THE RIDE WORKS® **Reg. No. 2,618,917**	(Facility for) Manufacture of Amusement and Entertainment Rides to the order and specification of others.

ETC also uses the following unregistered trademarks:

ADMS™	Advanced Disaster Management Simulator
ATFS™	Authentic Tactical Fighting System
Authentic Tactical Fighting System™	Authentic Tactical Fighting System
BARA-LAB™	Hyperbaric Chamber (other than medical)
ATFS-400 (stylized)	Authentic Tactical Fighting System
BARA•PRESS™	Hyperbaric Chamber Software
BIG MAC™	Entertainment ride based on a multi-armed Centrifuge Device
CAS™	Conditioned Air Supply
DMI™	Disaster Management Institute
EAGLE-VISION™	Visual Performance/Procedures Trainer
EPC™	Engine Pressure Controller/Environmental System
ETC™	ETC Biomedical Systems (***Stylized "ETC" with caduceus***.)
ETC™	Entertainment Technology Corporation (***Stylized "ETC" and name in color***.)

G-FETtm	Human Centrifuge (U.S. Navy type)
G-FET-IItm	Human Centrifuge (Malaysian Air Force type)
G-MAStm	Missile Avoidance System (Centrifuge feature)
GL-6000tm	Disorientation Device
GRAPH MASTER PROGRAMMERtm	Industrial Sterilizer Control
GUARDIAN MONITORING PACKAGEtm	GMP features for Sterilizers
GYRO-1tm	Multi-purpose basic Instrument Flight Trainer
GYRO-SATtm	Situational Awareness Trainer (feature of a Gyrolab)
GYROSIMtm	Gyrolab as a Simulator
LANE MASTERtm	Automobile Emissions Analyzer
MACtm	Entertainment Ride based on a Multi-Armed Centrifuge Device
OASIStm	Software-driven tool to build Test and Training Systems and scoring them; curriculum development, capability assessment, etc.
O.S.C.A.R.tm	Operating System for Control Recordkeeping
Phoenixtm	High fidelity, interactive, virtual tactical air combat maneuvering flight simulator that is integrated into a state-of-the-art high performance centrifuge motion platform.
ProFlyertm	Commercial Flight and Navigational Procedures Trainer meeting European regulations for civilian pilot training and certification
PRO-GENESIStm	Control Unit/column for Sterilizers
ProTrainertm	Commercial Instrument Procedures Trainer meeting FAA's PCATD requirements
SENTRY 84tm	Automobile Emissions Analyzer
SMOOTH RIDEtm	Computer Control Profile for Hyperbaric Chambers
TACModuletm	Tactical Aircraft Configuration Module
TNETtm and/or TRAINING NETtm	Computer Software for training emergency personnel in firefighting, disaster management, etc.
TESStm	Total Emissions Suppression System, EtO Sterilizer
Thrills Without Illstm	Describing ETC's entertainment rides, particularly those utilizing ETC's Human Centrifuge Technology, which precludes motion sickness commonly associated with motion-based entertainment rides.
VPT-1000tm	Visual Procedures Trainer

Customers

Throughout most of our history, in any given fiscal year a substantial portion of our revenues reflect contracts with a small number of customers. These customers tend to vary between fiscal years. In any given year, we do not depend upon repeat orders from these same customers, although many of these accounts are long time customers and over time tend to order additional products, upgrades or devices. We sell our aircrew training systems principally to U.S. and foreign governmental agencies. Most of our CSG products (sterilizers, environmental systems and hyperbaric monoplace chambers) are sold domestically to commercial customers.

In fiscal 2009, sales to one customer, the Royal Saudi Air Force, represented individually $7,327,000, or 20.0%, of total sales. International sales totaling at least $500,000 per country, listed by greatest to smallest, were made to customers in Saudi Arabia, Turkey, Thailand, Malaysia and Egypt. Open orders for one international customer represented 31.4% of our backlog at February 27, 2009. We do not have any relationship with these customers other than as customers. We are continuing to conduct business with these customers in fiscal 2010.

Foreign and Domestic Operations and Export Sales

During the fiscal years ended February 27, 2009 and February 29, 2008, approximately $3,096,000 (8.4%) and $1,828,000 (8.0%), respectively, of our net revenues were attributable to contracts with agencies of the U.S. Government or with other customers who had prime contracts with agencies of the U.S. Government.

During the fiscal years ended February 27, 2009 and February 29, 2008, $19,149,000 (52.2%) and $7,424,000 (32.7%), respectively, of our net revenues were attributable to export sales, including sales of our ETC-PZL subsidiary. Payments under international contracts are normally secured by irrevocable letters of credit primarily based on the geographic area of the world in which the customer is located.

During the fiscal years ended February 27, 2009 and February 29, 2008, $14,442,000 (39.4%) and $13,478,000 (59.3%), respectively, of our net revenues were attributable to domestic sales to customers other than the U.S. Government.

See “Note 11. Business Segment Information” to our consolidated financial statements in the Annual Report to Stockholders attached hereto as Exhibit 13 and incorporated herein by reference.

We do not believe that the distribution of our sales between foreign and domestic sales for any particular period is necessarily indicative of the distribution expected for any other period.

We derive a large portion of our sales from long-term contracts requiring more than one year to complete. We account for sales under long-term contracts on the percentage of completion basis. See the section “Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 3 — Summary of Significant Accounting Policies of the notes to our consolidated financial statements in the Annual Report in Form 10-K attached hereto as Exhibit 13 and incorporated herein by reference for an explanation of percentage of completion accounting.

Our U.S. Government contracts contain standard terms permitting termination either for the convenience of the U.S. Government or for default. In the event of termination for convenience, we are entitled to receive reimbursement on the basis of work completed (cost incurred plus a reasonable profit). We customarily record the amounts that we anticipate to be recovered from termination claims in income as soon as those amounts can be reasonably determined rather than at the time of final settlement. All costs applicable to a termination claim are charged as an offsetting expense concurrently with the recognition of income from the claim.

Manufacturing Facilities

Our manufacturing facility is located on a five-acre site in Southampton, Pennsylvania, U.S.A., a northern suburb of Philadelphia. We have approximately 64,000 square feet devoted to manufacturing, assembly and testing. ETC is a ISO 9001-2000 certified manufacturer.

Sales Backlog

Our sales backlog at February 27, 2009 and February 29, 2008, for work to be performed and revenue to be recognized under written agreements after such dates, was $44,324,000 and $38,281,000, respectively. Of the February 27, 2009 sales backlog, two product lines each represented at least 10% of the total backlog: aircrew training systems ($29,231,000, 66.0%) and disaster management simulation products ($6,397,000, 14.4%). Additionally, one customer represented $19,089,000, or 43.1%, of the total backlog.

We expect to complete approximately 66% of the February 27, 2009 sales backlog prior to February 26, 2010, the end of our 2010 fiscal year. Of the February 29, 2008 sales backlog, we completed approximately 67% by February 27, 2009.

Competition

Competition in our diverse product groups reflects our product applications (military versus commercial), market (defense purchases, capital goods for testing and production, etc.), customer (governmental versus commercial), and geographic area (domestic versus international). Our business strategy in recent years has been to seek niche markets in which there is limited competition. However, in some areas of our business we compete with well-established firms, some of which have substantially greater financial and personnel resources than we have.

Some competing firms have technical expertise and production capabilities in one or more of the areas involved in the design and production of physiological flight training equipment, environmental systems, and other specially designed products, and compete with us for this business. Awards for any particular project are determined by various factors including the technological requirements of the project, financial capability, reliability, product performance, past performance and price. Competition for our aeromedical products has increased in recent years.

We face competition in the sale of the larger custom-designed industrial sterilizers both from other manufacturers and from our customers' in-house production capabilities. Most of our competition for environmental products comes from small manufacturers, while the hyperbaric monoplace line has two major competitors.

We believe that we are a significant participant in the markets in which we compete, especially where we have a technical advantage.

Compliance with Environmental Laws

We did not incur during fiscal 2009, nor do we anticipate incurring during fiscal 2010, any material capital expenditures to maintain compliance with federal, state and local statutes, rules and regulations concerning the discharge of materials into the environment, nor do we anticipate that compliance with these provisions will have a material adverse effect on our earnings or competitive position. We believe that we are currently in compliance with federal, state and local statutes, rules and regulations concerning the discharge of materials into the environment.

Compliance with Export Controls

Depending on the product, customer, location and the application or use, many of our aeromedical products require an export license from the U.S. Commerce or State Department. We have implemented an Export License Compliance Program which covers all key aspects of the International Traffic in Arms (ITAR), as issued by the U.S. Department of Defense Trade Controls, an arm of the U.S. Department of State. Although most export licenses are readily obtainable in a reasonable timeframe, most of our international contracts for aeromedical equipment include the issuance of an export license as a "force majure" exception for any contract penalties or liquidated damages.

Employees

On February 27, 2009, we had 240 full-time employees, of which five were employed in executive positions, 83 were engineers, engineering designers, or drafts people, 66 were administrative (sales, sales support, accounting, etc.) and clerical personnel, and 86 were engaged principally in production, operations and field support.

Item 1A. *Risk Factors*

RISKS PARTICULAR TO OUR BUSINESS

Our business is subject to numerous risks and uncertainties which could cause our actual operating results and developments to be materially different from those expressed or implied in any of our public announcements or filings including this Annual Report on Form 10-K for the year ended February 27, 2009. These risks and uncertainties include the following items. This list is not inclusive of all the risks and uncertainties associated with our business.

If we are not successful in our refinancing transaction with H. F. Lenfest and PNC Bank, and if we cannot identify alternate sources of funds to meet our future debt obligations and operate our business, our results of operations and financial condition would be materially adversely affected.

- We require additional capital in order to continue to operate our business, submit proposals for and potentially perform under significant U.S. government and international contracts and grow our Company. H.F. Lenfest, a member of our Board of Directors and a significant shareholder, has agreed to provide up to an additional $12,500,000 in capital to ETC, through a $7,500,000 credit facility and the personal guarantee of an additional $5,000,000 of borrowings from PNC Bank, subject to our obtaining various shareholder approvals discussed in our preliminary proxy statement on Schedule 14A on or around May 12, 2009. Lenfest has already provided $2,000,000 of this amount, although these funds may be used only in connection with funding a specific contract with the United States government and this $2,000,000 loan will be due and payable on August 20, 2009 if we do not obtain the shareholder approvals.

A material condition to the completion of the proposed transactions is the approval of our shareholders to the various components of the proposed transaction.

If we are unable to obtain shareholder approval and complete the proposed transactions with Lenfest, we will have approximately $30 million in debt owed to PNC Bank and Lenfest due between August 20, 2009 and June 30, 2010. It is unlikely that we will be able to obtain the necessary capital that we need from alternative sources, on reasonable or any terms, to repay these obligations. Without the necessary capital to continue to operate our business and to repay our various debt obligations to PNC Bank and Lenfest as they become due, we will need to consider other alternatives, such as the sale of one or more of our operating divisions, eliminating workforce or seeking relief from our creditors. If we are unsuccessful in raising sufficient additional capital our results of operations and financial condition would be materially adversely affected.

The Lenfest transaction includes the following:

- a $7,500,000 line of credit to be provided by Lenfest ($2,000,000 of which has already been provided and which amount may be used only in connection with funding a specific contract with the United States government);
- exchange of Lenfest's Subordinated Note, together with all accrued interest and warrants issuable under this note, and all Series B Preferred Stock and Series C Preferred Stock, together with all accrued dividends thereon, for new Series E Preferred Stock; and
- the guarantee by Lenfest of all of our obligations to PNC Bank in connection with an increase of our existing 2007 PNC Credit Facility from $15,000,000 to $20,000,000, and in connection with this guarantee, the pledge by Lenfest to PNC Bank of $10,000,000 in marketable securities.

We are not in compliance with the listing standards of the NYSE AMEX LLC (formerly the American Stock Exchange) ("AMEX") and have applied to voluntarily delist our stock from that exchange.

We have been unsuccessful in reaching an agreement with NYSE AMEX LLC with respect to certain conditions set forth in our refinancing documents with Lenfest. Consequently, we have applied to voluntarily delist our common stock from trading on that exchange. The result of this action will be that in the near future our common stock will cease to be traded on the NYSE AMEX exchange and instead will trade on the "over the counter" market. Following delisting, our common stock will be quoted on the Over-The-Counter Bulletin Board if we are current with our SEC reporting obligations and meet the standards for quotation on the Over-The-Counter-Bulletin-Board. Otherwise, it is expected that our common stock would be quoted on the Pink Sheets. The quotation of our common stock on the Over-The-Counter Bulletin Board or the Pink Sheets will likely have the effect of making purchases and sales more difficult as well as decreasing the price of our common stock.

The market price of securities of thinly traded public companies has historically faced significant volatility. Although our common stock is currently traded on the NYSE AMEX LLC, it does not experience a significant average daily trading volume. Accordingly, if one stockholder elects to either purchase or sell a block of our common stock, it may have a significant effect on the current trading price of our common stock. In addition, the stock market in recent years has experienced significant price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of particular companies. Many factors that have influenced trading prices for our common stock will vary from period to period, including:

- actual or anticipated operating results;
- market conditions in the industries in which we compete;
- announcements by competitors;
- results of litigation;
- regulatory actions; and
- general economic conditions.

Any of these events would likely affect the market price of our common stock.

Our core business, aircrew training simulators, is highly dependent upon large multi-year contracts with the U.S. defense department and with defense agencies around the world. If we are unsuccessful in obtaining one or more of these contracts, our financial performance will be significantly negatively impacted.

As of May 1, 2009, we have multiple outstanding proposals for large defense simulator projects. Given the political and economic environment, and the extremely competitive nature of these contracts, there is no assurance that we will be successful in obtaining one or more of these contracts. We have spent significant funds over the prior years to develop advanced technologies to support the defense simulator industry and our cost of software, plant assets and operating expenses is relatively high in comparison to our revenue base. Also, the cost of preparing these complicated proposals is significant. Consequently, our financial performance is highly dependent upon obtaining these contracts.

There is a risk of an unfavorable outcome in litigation and resulting negative financial impact on our operating results.

On May 29, 2008, a Request for Arbitration was filed against us with the Secretariat of the International Court of Arbitration by Mends International Ltd. ("Mends"). Mends's Request for Arbitration arises out of a February 3, 1999 contract between us and Mends wherein Mends purchased aeromedical equipment for sale to the Nigerian Air Force. Mends asserted a claim for breach of contract and demanded $797,486, plus interest and costs. On September 16, 2008, Mends filed an Amended Request for Arbitration, adding tort claims for conversion and breach of fiduciary duty and seeking punitive damages. In response, we have asserted a counterclaim seeking damages for other disputes with Mends that have arisen under the contract that Mends has put at issue in this arbitration. During April 2009, we participated in an arbitration hearing in the United Kingdom on this matter. The results of this hearing are not expected until June 2009. We are contesting this arbitration case vigorously. However, as of February 27, 2009, we had recorded a reserve in this matter.

Our sources of revenues are not consistent; in any given fiscal year a substantial portion of our revenues is derived from a small number of customers that may not be recurring customers in future years.

In any given fiscal year, a substantial portion of our revenues is typically derived from a small number of customers. In fiscal 2009, sales to one customer represented 10% or more of total sales, the Royal Saudi Air Force which contributed $7,327,000 or 20.0% of total sales. In fiscal 2008, one customer represented 10% or more of total sales, General Motors, which contributed $3,898,000 or 17.2% of total sales. Of the February 27, 2009 sales backlog, two product lines each represented at least 10% of the total backlog: aircrew training systems ($29,231,000, 66.0%) and disaster management simulation products ($6,397,000, 14.4%). In each of these product areas, one customer (the same customer) represented at least 10% of each respective product area. This same customer represented $19,089,000, or 44.1%, of the total backlog. At February 29, 2008 two customers accounted for 51% of our sales backlog.

We cannot be certain that our most significant customers at any point in time will continue to order our products and services at the same level at which they have ordered them in the past. Due to the expensive nature and highly specialized market for our products and services, if any of these customers stops purchasing our products and services and we are unable to identify new customers in a timely manner, our business will be adversely affected.

Our significant debt could adversely affect our financial resources and prevent us from satisfying our debt service obligations.

We have a significant amount of indebtedness. We may not generate sufficient cash flow from operations, or have future borrowings available to us, sufficient to pay our debt. If we are unable to obtain shareholder approval and complete the proposed transactions with Lenfest and PNC Bank, we will have approximately $30 million in debt owed to PNC Bank and Lenfest due between August 20, 2009 and June 30, 2010. It is unlikely that we will be able to obtain the necessary capital that we need from alternative sources, on reasonable or any terms, to repay these obligations. During fiscal 2009 and 2008, we experienced negative cash flows from operations of approximately $.7 million and $5.8 million, respectively. At February 27, 2009, the face value of our total long-term debt due either to Lenfest or PNC Bank was $22.1 million, accrued interest and dividends due to Lenfest totaled $4.2 million and total Preferred Stock was $9.3 million.

Our ability to make debt payments depends on our future performance, which, to a certain extent, is subject to general economic, financial, competitive and other factors, some of which are beyond our control. Based upon our current level of operations and anticipated growth, we believe that cash on hand, future availability under the PNC Bank line of credit and the refinancing proposal with Lenfest will be adequate to meet our future obligations through at least June 1, 2010. There can be no assurance, however, that our business will generate sufficient cash flow from operations to enable us to pay our debts or to make necessary capital expenditures, that we will be successful in negotiating new financial arrangements including the proposed transactions with Lenfest and PNC Bank, or that any refinancing of debt would be available on commercially reasonable terms.

See the Liquidity and Capital Resources section of the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K.

We need to attain validation from the U.S. defense agencies of our Authentic Tactical Fighting Systems technology.

A challenging issue for our ATFS technology has been marketing this technology to the world's defense agencies. This is a new technology that is contrary to the conventional training belief that tactical flight and combat skills can only be learned in a flying aircraft. Although we made significant progress toward this goal during fiscal 2009 including completing contracts from the U.S. Navy and the U.S. Air Force to develop Tactical Aircraft Configuration Modules (TacModules) to support independent research in our ATFS high performance human centrifuge, at this point we cannot be certain that we will be able to overcome conventional thinking on training nor achieve an acceptable level of validation with respect to the applicability and efficacy of ATFS training.

Our operations involve rapidly evolving products and technological change.

The rapid change of technology is a key feature of the products in our Technical Services Group. This industry requires us to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. Technology development is only partially funded through enhancements included in customer orders. We cannot guarantee that we will continue to maintain comparable levels of research and development nor that this development will be customer-funded in the same ratio going forward. Reinvestment of operating funds and profits in an amount greater than currently earned may be required. Even so, we cannot be assured that we will successfully identify new opportunities and continue to have the financial resources required to develop new products profitably. At the same time, products and technologies developed by others may render our products and systems obsolete or non-competitive.

Delays in the delivery of our products may prevent us from invoicing our costs and estimated earnings on uncompleted contracts.

In accordance with generally accepted accounting principles for long-term contracts, under the percentage of completion ("POC") accounting method, due to timing differences we record an asset for our costs and estimated earnings that exceed the amount we are able to bill our customers on uncompleted contracts. At February 27, 2009, this asset totaled $2.5 million. Although a significant portion of these costs have been billed and collected since fiscal year-end, we cannot bill additional amounts unless and until we meet certain contractual milestones related to the production, delivery and integration of our products. Typically, there will be a lag ranging from six to twenty-four months between performance and associated costs for these types of projects and billing and collection of all contract payments. Our failure to meet milestones by delivering and integrating our products in a timely manner may impact our ability to collect final payments on these contracts, which could severely impact our cash flow.

In the event we suffer production delays, we may be required to pay certain customers substantial liquidated damages and other penalties.

The variety and complexity of our high technology product lines require us to deal with a multitude of suppliers and subcontractors. Some of the parts we purchase are highly specialized. Planning production, optimizing inventory levels and meeting delivery schedules all require high coordination and at times may have conflicting goals. Most of our large aircrew training simulators and our software products must be custom designed and manufactured, which is not only complicated and expensive, but can also require long periods of time to accomplish. Slight errors in design, planning and managing production, inventory levels, delivery schedules, or manufacturing can result in unsatisfactory products that may not be correctable. If we are unable to meet our delivery schedules, we may be subject to penalties, which may have an adverse impact on our business.

Our fixed-price and cost-reimbursement contracts may commit us to unfavorable terms.

Historically, we have provided our products and services primarily through fixed-price contracts. Under a fixed-price contract, we agree to perform the scope of work required by the contract for a predetermined contract price. Although a fixed-price contract generally permits us to retain profits if the total actual contract costs are less than the estimated contract costs, we bear the risk that increased or unexpected costs may reduce our profit or cause us to sustain losses on the contract. Therefore, unless there are customer-requested changes in scope or other changes in specifications which are reimbursable, we fully absorb cost overruns on fixed-price contracts and this reduces our profit margin on the contract. These cost overruns may result in us recognizing a loss on the contract. A further risk associated with fixed-price contracts is the difficulty of estimating sales and costs that are related to performance in accordance with contract specifications. Our failure to anticipate technical problems, estimate costs accurately or control costs during performance of a fixed-price contract reduce our profitability and may cause us to incur a loss on the project.

Our contracts and subcontracts that are funded by the U.S. Government or foreign governments are subject to government regulations, audits and other requirements.

Government contracts require compliance with various contract provisions and procurement regulations. The adoption of new or modified procurement regulations could have a material adverse effect on our business, financial condition or results of operations or increase the costs of competing for or performing government contracts. If we violate any of these regulations, then we may be subject to termination of these contracts, imposition of fines or exclusion from government contracting and government-approved subcontracting for some specific time period. During fiscal 2008, we agreed to settle a matter with the U.S. Navy by forgoing our claim for an additional payment over the contract amount (a reserve for $3.0 million was recorded for this matter in fiscal 2007) and agreeing to pay the U.S. Navy $3.55 million.

Our contract costs, progress payments and revenues are subject to adjustment as a result of government audits. We reflect any adjustments required by government auditors in our financial statements. Although we have thus far not been required to make any material audit adjustments, adjustments may be required in the future. Our international government contracts normally require collateral in the form of bonds, letters of credit or similar credit enhancements. We cannot assure you that we will be successful in obtaining these types of credit enhancements or that the credit enhancements available will be affordable in the future.

Our contracts that are funded by the U.S. Government or foreign governments are subject to a competitive bidding process that may affect our ability to win contract awards or renewals in the future.

Government supply contracts generally are awarded to us through a formal competitive bidding process in which we may have many competitors. Upon expiration, government supply contracts may be subject, once again, to the competitive bidding process. We cannot assure you that we will be successful in winning contract awards or renewals in the future. Our failure to renew or replace government contracts when they expire could have a material adverse effect on our business, financial condition or results of operations. Our contracts with domestic or foreign government agencies are subject to competition and are awarded on the basis of technical merit, personnel qualifications, financial capability, experience and price. Our business, financial condition and results of operations could be materially adversely affected to the extent that government agencies believe our competitors offer a more attractive combination of the foregoing factors. In addition, new government contract awards also are subject to protest by competitors at the time of award that can result in the re-opening of the competition or evaluation process, the award of a contract to a competitor, or the re-opening of the competitive bidding process. We consider bid protests to be a customary element in the process of procuring government contracts. Other characteristics of the government contract market that may affect our operating results include the complexity of designs, the difficulty of forecasting costs and schedules when bidding on developmental and highly sophisticated technical work, and the speed with which product lines become obsolete due to technological advances and other factors characteristic of the market. Our earnings may vary materially on some contracts depending upon the types of government long-term contracts undertaken, the costs incurred in their performance, and the achievement of other performance objectives.

Our commercial contracts are subject to competition and strict performance and other requirements.

Although significant portions of our revenues are generated from the sale of our services and products in commercial markets, we cannot assure you that we will be able to compete successfully in these markets. Most of our commercial contracts contain fixed pricing which subjects us to substantial risks relating to unexpected cost increases and other factors outside of our control. We may fail to anticipate technical problems, estimate costs accurately, or control costs during performance of a fixed-price contract. Any of these failures may reduce our profit or cause a loss under our commercial contracts.

In connection with certain commercial contracts, we have been required to obtain bonds, letters of credit, or similar credit enhancements. We cannot assure you that we will be successful in obtaining these types of instruments or that these types of instruments, if available, will be affordable in the future.

Under the terms of our commercial contracts, we typically must agree to meet strict performance obligations and project milestones, which we may not be able to satisfy. If we fail to meet these performance obligations and milestones, the other party may terminate the contract and, under certain circumstances, recover liquidated damages or other penalties from us which could have a negative effect on our business, financial condition or results of operations.

There are certain risks inherent in our international business activities, which constitute a significant portion of our business.

Our international business activities expose us to a variety of risks. Our international business accounted for approximately 52% of our sales in fiscal 2009 and 33% of our sales in fiscal 2008. We expect that international sales will continue to be a significant portion of our overall business in the foreseeable future. Our international business experiences many of the same risks our domestic business encounters as well as additional risks such as:

- the effects of terrorism;
- currency exchange rate fluctuations;
- a longer and more complicated collections cycle;

- a high degree of corruption in some countries;
- a general decline in the strength of the global economy;
- the effect of foreign military or political conflicts and turmoil;
- U.S. foreign policy decisions;
- the extent, if any, of anti-American sentiment;
- changes in foreign governmental trade, monetary and fiscal policies and laws;
- export controls;
- political and economic instability; and
- travel restrictions.

The majority of our contracts which originate from ETC-Southampton are denominated in U.S. dollars. Except for intercompany work, and contracts with U.S. based companies, most of our contracts which originate from ETC-PZL are in Polish zlotys.

Since most of our production and administrative costs are based in U.S. dollars, the relative strength of the U.S. dollar currency relative to other international currencies may make our pricing un-competitive when compared to foreign local in-country competitors.

Although we may be exposed to currency fluctuations, we are not engaged in any material foreign currency hedging activities to offset this risk. With respect to currency risk, where we have a large on-going contract which is denominated in a foreign currency, we often establish local in-country bank accounts and fund in-country expenses in the local currency, thus creating a "natural" currency hedge for a portion of the contract.

Our international transactions frequently involve increased financial and legal risks arising from stringent contractual terms and conditions and widely differing legal systems, banking requirements, customs and standards in foreign countries. In addition, our international sales often include sales to various foreign government armed forces, with many of the same inherent risks associated with U.S. government sales discussed in this Annual Report on Form 10-K.

Legislative actions, higher director and officer insurance costs and potential new accounting pronouncements are likely to cause our general and administrative expenses to increase and impact our future financial condition and results of operations.

In order to comply with the Sarbanes-Oxley Act of 2002 and rules adopted by the Securities and Exchange Commission, we have been required to strengthen our internal controls, hire additional personnel and retain additional outside legal, accounting and advisory services, all of which have caused and will continue to cause our general and administrative costs to increase. Although we have not experienced any director and officer liability claims, these premiums are a significant part of our business insurance costs and may increase as a result of the (i) high claims rates insurers have experienced with other companies over the past years, (ii) the high stock ownership position of some of our non-affiliated shareholders, and (iii) our reduced operating performance. All of these increased costs have had and will continue to have a material adverse effect on our operating results.

Our operations could be hurt by terrorist attacks, war and other activities or occurrences that make air travel difficult or reduce the willingness of our commercial airline customers to purchase our simulation products.

As stated above, international sales accounted for 52% and 33% of our revenues for fiscal years 2009 and 2008, respectively. In the event terrorist attacks, wars or other activities or occurrences make air travel difficult, create hazards for our employees, or reduce the demand or willingness of our customers to purchase our commercial simulation products, our revenue may decline.

Geo-political and other factors may also limit or restrict our employees' ability to gain entrance to foreign locations to sell products or perform contract services.

Our quarterly operating results may vary significantly from quarter to quarter.

Our revenues and earnings tend to fluctuate from quarter to quarter based on factors that include the following:

- our ability to finance our operations;
- the number, size and scope of our projects;
- the mix of contracts (POC versus other);
- equipment purchases and other expenditures required for our business;
- the number of bid and proposal efforts undertaken;
- delays in sales bookings or production;
- the level of employee productivity;
- the adequacy of our provisions for receivable, inventory and other losses;
- the accuracy of our estimate of resources required to complete ongoing projects; and
- general economic conditions.

Demand for our products and services in each of the markets we serve can vary significantly from quarter to quarter due to revisions in customer budgets or schedules and other factors beyond our control. Due to all of the foregoing factors, our results of operations may fall below the expectations of our investors in a particular period. In this event, the price of our common stock may decline.

Our officers and directors own a significant amount of our common stock which permits them to exert significant influence over the direction of our business and affairs.

As of May 1, 2009, our directors and executive officers own and could vote an aggregate of approximately 58.1% on a fully converted basis of our outstanding common stock. Accordingly, our directors and executive officers, if they act together, will be able to exert significant control over the direction of our business and affairs.

Item 2. ***Properties***

We own our executive offices and principal production facilities located on a five acre site in the County Line Industrial Park, Southampton, Pennsylvania in an approximately 92,000 square foot steel and masonry building. Approximately 64,000 square feet of the building is devoted to manufacturing, our NASTAR training center occupies approximately 22,000 square feet, and approximately 5,000 square feet of this building is devoted to office space. The original building was erected in 1969 and additions were most recently made in 2001. Additionally, we rent office space at various sales and support locations throughout the world and in Warsaw, Poland at ETC-PZL Aerospace Industries, our Polish subsidiary.

We consider our machinery and plant to be in satisfactory operating condition. Increases in the level of operations beyond what we expect in the current fiscal year might require us to obtain additional facilities and equipment.

The NASTAR Center includes aerospace training and research equipment including:

- ATFS-400 Authentic Tactical Flight Simulator
- GYROLAB GL-2000 Advanced Spatial Disorientation Trainer
- Hypobaric Chamber
- Night Vision and Night Vision Goggle Training System

Item 3. *Legal Proceedings*

Mends International, Ltd.

On May 29, 2008, a Request for Arbitration was filed against us with the Secretariat of the International Court of Arbitration by Mends International Ltd. ("Mends"). Mends's Request for Arbitration arises out of a February 3, 1999 contract between us and Mends wherein Mends purchased aeromedical equipment for sale to the Nigerian Air Force. Mends asserted a claim for breach of contract and demanded $797,486.00, plus interest and costs. On September 16, 2008, Mends filed an Amended Request for Arbitration, adding tort claims for conversion and breach of fiduciary duty and seeking punitive damages. In response, we have asserted a counterclaim seeking damages for other disputes with Mends that have arisen under the contract that Mends has put at issue in this arbitration. During April 2009, we participated in an arbitration hearing in the United Kingdom on this matter. The results of this hearing are not expected until June 2009. We are contesting this arbitration case vigorously. However, as of February 27, 2009 we had recorded a reserve in this matter.

Walt Disney World Co.

In June 2003, Entertainment Technology Corporation ("EnTCo"), our wholly owned subsidiary, filed suit against Walt Disney World Co. and other entities ("Disney") in the United States District Court for the Eastern District of Pennsylvania, alleging breach of contract for, among other things, failure to pay all amounts due under a contract for the design and production of the amusement park ride "Mission: Space" located in Disney's Epcot Center. In response, in August 2003, Disney filed counterclaims against both EnTCo and us (under a guarantee) for, among other things, alleged failures in performance and design in the contract. Disney alleged damages ranging from approximately $36 million to $63 million plus punitive damages (collectively, the "2003 Litigation"). In December 2005, we and EnTCo filed a second lawsuit against Disney, alleging breach of contract and unfair competition (the "2005 Litigation").

In January 2009, we entered into a settlement agreement and release with Disney which resolved both the 2003 Litigation and the 2005 Litigation. The financial impact of the settlement did not have a material effect on the Company's financial position or results of operations.

Settlement with U.S. Navy

History of the Claim Receivable

In May 2003, the Company filed a certified claim with the Department of the Navy (the "Government") seeking costs totaling in excess of $5.0 million in connection with a contract for submarine rescue decompression chambers.

In accordance with accounting principles generally accepted in the United States of America, recognizing revenue on contract claims and disputes related to customer caused delays, errors in specifications and designs, and other unanticipated causes, and for amounts in excess of contract value, is generally appropriate if it is probable that the claim will result in additional contract revenue and if the Company can reliably estimate the amount of additional contract revenue the Company may receive. However, revenue recorded on a contract claim cannot exceed the incurred contract costs related to that claim. By fiscal 2004, the Company had recorded a claim receivable for $3,004,000 for this dispute. The Company's Form 10-K as originally filed for February 23, 2007 included this claim receivable. This claim receivable was subsequently deemed to be impaired and reserved in full (see below).

Litigation of the Certified Claim

On July 22, 2004, the Navy's contracting officer issued a final decision denying the claim in full. In July 2005, the Company converted this claim into a complaint which the Company filed in the United States Court of Federal Claims. On June 14, 2007, the Government amended its filings to add counterclaims pursuant to the anti-fraud provisions of the Contract Disputes Act, the False Claims Act, and the forfeiture statute.

Settlement of Litigation and Subsequent Funding

On June 27, 2007, the Company and the Government filed a Joint Motion to Dismiss with prejudice all of the Company's claims against the Government, which was granted on June 28, 2007. Additionally, the Company agreed to pay to the Government $3.55 million to reimburse the Government for estimated work to complete the chambers and for litigation expenses ($3.3 million recorded in the first quarter of fiscal 2008 and $250,000 recorded in the second quarter of fiscal 2008) and transfer the submarine rescue decompression chambers to the Navy. As of May 14, 2008, the Company had made all payments required under this settlement agreement and had transferred the chambers to the Government.

On October 2, 2007, the Company was suspended by the Department of the Navy from soliciting work for the federal government pursuant to the Federal Acquisition Regulation. Effective December 12, 2007, the Department of the Navy lifted the Company's suspension pursuant to the execution by the Company and the Department of the Navy of an Administrative Agreement. In accordance with the Administrative Agreement, the Company has established and implemented a program of compliance reviews, audits and reports.

Other Matters

Certain other claims, suits, and complaints arising in the ordinary course of business have been filed or are pending against us. In our opinion, after consultation with legal counsel handling these specific matters, all such matters are reserved for or adequately covered by insurance or, if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect on our financial position or results of operations if disposed of unfavorably.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were presented to our stockholders during the fourth quarter of fiscal 2009.

PART II

Item 5. ***Market for the Registrant's Common Stock and Related Security Holder Matters***

Our common stock is currently traded on the NYSE AMEX LLC (formerly the American Stock Exchange) under the symbol "ETC." As of May 1, 2009, the Company had 282 shareholders of record. The following table sets forth the calendar quarter ranges of high and low sale prices for shares of the common stock for the periods indicated.

	Sale Prices	
	High	**Low**
Fiscal 2009		
First Quarter	$2.95	$ 1.54
Second Quarter	2.82	1.35
Third Quarter	2.30	1.10
Fourth Quarter	1.92	0.55
Fiscal 2008		
First Quarter	$ 4.78	$ 3.26
Second Quarter	3.29	2.21
Third Quarter	3.94	2.15
Fourth Quarter	2.50	1.50

On May 1, 2009, the closing price of our common stock was $0.86. We have never paid any cash dividends on our common stock and do not anticipate that any cash dividends will be declared or paid in the foreseeable future. Our current subordinated debt agreement with Lenfest and our PNC Line of Credit agreement prohibit the payment of any dividends without Lenfest's prior written consent.

Refinancing Transaction

Effective April 24, 2009, the Company entered into a transaction (the "Lenfest Financing Transaction") with Lenfest that provides for the following upon the satisfaction of certain conditions, including the receipt of the approval of the Company's shareholders to certain components of the transaction: (i) a $7,500,000 credit facility to be provided by Lenfest to ETC; (ii) exchange of the Subordinated Note held by Lenfest, together with all accrued interest and warrants issuable under the Subordinated Note, and all Series B Preferred Stock and Series C Preferred Stock held by Lenfest, together with all accrued dividends thereon, for a new class of preferred stock, Series E Preferred Stock, of the Company; and (iii) the guarantee by Lenfest of all of ETC's obligations to PNC Bank in connection with an increase of the existing $15,000,000 revolving line of credit with PNC Bank to $20,000,000, and in connection with this guarantee, the pledge by Lenfest to PNC Bank of $10,000,000 in marketable securities. For additional information regarding the Lenfest Financing Transaction, please refer to Note 1 — Subsequent Events, Refinancing Transaction and Note 8 — Long-Term Obligations and Credit Arrangements in the accompanying Notes to the Consolidated Financial Statements.

Delisting from NYSE AMEX LLC

On April 23, 2009, ETC's Board of Directors decided to voluntarily delist its common stock from NYSE AMEX LLC ("AMEX") and notified AMEX of such decision. The Company currently anticipates that it will file with the Securities and Exchange Commission and AMEX a Form 25 relating to the delisting of its common stock on or about May 19, 2009, with the delisting of its common stock becoming effective ten days thereafter. Accordingly, the Company anticipates that the last day of trading of its common stock on AMEX will be on or about May 29, 2009. The Company is currently in discussions to have its common stock quoted for trading on the Over-the-Counter Bulletin Board.

The Board of Directors' decision to voluntarily delist its common stock from AMEX resulted from a compliance issue related to certain terms and conditions of the Lenfest Financing Transaction. ETC was not able to secure the Lenfest Financing Transaction on terms that would allow ETC to comply with the AMEX listing rules.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

See information appearing under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report to Stockholders attached hereto as Exhibit 13 and incorporated herein by reference.

Item 8. *Financial Statements and Supplementary Data*

See the information appearing under the headings "Consolidated Financial Statements" and "Notes to the Consolidated Financial Statements" in the Annual Report to Stockholders attached hereto as Exhibit 13 and incorporated herein by reference.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None

Item 9A. *Controls and Procedures*

(a) Evaluation of Disclosure Control and Procedures

As of the end of the period covered by this report, the Company's management conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

(b) Management's Assessment of ETC's Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework,* our management concluded that our internal control over financial reporting was effective as of February 27, 2009.

(c) Changes in Internal Control Over Financial Reporting.

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably expected to materially affect, our internal control over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The following table sets forth certain information with respect to our directors and executive officers:

Name	Age	Served as Director	
William F. Mitchell(2)	67	1969	Chairman of the Board, Chief Executive Officer, President and Director
Howard W. Kelley(3)	67	2002	Director *
George K. Anderson, M.D.(4)	63	2003	Director
H.F. Lenfest(5)	79	2003	Director
Alan M. Gemmill(6)	62	2006	Director **
Stephen F. Ryan(7)	73	2009	Director
George A. Sawyer(8)	77	2009	***
Duane D. Deaner(9)	61	1996	Chief Financial Officer

* Mr. Kelley will not run for reelection at the Annual Shareholder's meeting.

** Mr. Gemmill resigned from the Board effective February 25, 2009.

*** Mr. Sawyer will be a nominee for Director at the Annual Shareholder's meeting.

(1) Directors are elected for one-year terms.

(2) Mr. Mitchell has been our Chairman of the Board, President and Chief Executive Officer since 1969, except for the period from January 24, 1986 through January 24, 1987, when he was engaged principally in soliciting sales for our products in the overseas markets. Mr. Mitchell received a Bachelor of Science degree in physics from Drexel University and has completed graduate work in mechanical and electrical engineering. He is a member of the ASME and Drexel University engineering advisory boards. Additionally, he is a member of the Society of Automotive/Aerospace Engineering, the International Society of Pharmaceutical Engineering, the Undersea and Hyperbaric Medical Society, the Aerospace Medical Association, the American Society of Mechanical Engineering and the Institute of Environmental Sciences.

(3) Mr. Kelley recently retired as President of Sally Corporation, Jacksonville, Florida, which is one of the oldest and largest designers and fabricators of animation robotics and dark ride attractions used worldwide in theme

parks, museums and entertainment attractions. He remains a director of this company. Mr. Kelly is also director of American Electric Technologies, Inc. (NASDAQ: AETI). AETI is a Houston, Texas-based manufacturer of power delivery equipment for traditional and alternative energy industries. He is also currently president of Aspergantis LLC, a technology and Internet services and consulting company. He previously spent over 25 years in the broadcasting industry, including ten years in television management as a news director and later as Vice President and General Manager of Channel 12 WTLV (NBC) in Jacksonville, Florida. He is the former Chairman of the Board of Tempus Software, a medical software development firm located in Jacksonville, Florida. He has also previously served as broadcast strategic planner for a major U.S. communications company and as director of several U.S. technology firms with international business activities. In the academic arena, Mr. Kelley serves as an executive professor at the University of North Florida College of Business Administration and is a college adjunct instructor on Internet technology and E-commerce on the Internet. He is a graduate of the University of Florida and Harvard Business School PMD.

(4) Dr. Anderson is an experienced physician executive. He served in the Air Force as a flight surgeon, aerospace medicine staff officer, and commander of several medical organizations in Korea, Germany, and United States. He retired from active duty in the grade of Major General. Following his thirty years of military service, he transitioned to executive positions in the private sector. He served as Chief Executive Officer of the Koop Foundation from 1997 to 1998 and as Chief Executive Officer at Oceania, Inc., a medical software company, from 1999 to 2001. A period of practice as an independent medical technology consultant was followed by his current role as Executive Director of the Association of Military Surgeons of the United States (AMSUS). AMSUS, the nonprofit Society of the Federal Health agencies, operates from a headquarters located in Bethesda, Maryland.

(5) Mr. Lenfest practiced law with Davis Polk & Wardwell before joining Triangle Publications, Inc., in Philadelphia as Associate Counsel in 1965. In 1970, Mr. Lenfest was placed in charge of Triangle's Communications Division, serving as Editorial Director and Publisher of Seventeen Magazine and President of the CATV Operations. In 1974, Mr. Lenfest, with the support of two investors, formed Lenfest Communications, Inc., which purchased Suburban Cable TV Company and Lebanon Valley Cable TV Company from Triangle with a total of 7,600 subscribers. In January 2000, Mr. Lenfest sold his cable television operations, which by then served 1.2 million subscribers, to Comcast Corporation. Mr. Lenfest is the owner of various other businesses and is active in many philanthropic activities including as Chairman of the Board of the Philadelphia Museum of Art, the Curtis Institute, and the Lenfest Foundation. Mr. Lenfest is a graduate of Washington and Lee University and Columbia Law School.

(6) Mr. Gemmill is a retired U.S. Navy Rear Admiral. He graduated from the University of Arizona with a B.S. in Aerospace Engineering and began his flying career flying F-4 Phantoms. He graduated first in his class from U.S. Naval Test Pilot School in Patuxuent River, Maryland in 1974. After a stint as a test pilot and test pilot instructor, Mr. Gemmill then served numerous positions in Fighter Squadrons including command of F-14 Fighter Squadron 32. He commanded the USS San Jose during two deployments to the Arabian Gulf during Desert Shield and Desert Storm, and then commanded the nuclear aircraft carrier USS DWIGHT D EISENHOWER. From 1995 through 1999, he served as Deputy for Readiness and then for Operations for the U.S. Pacific Command and later as Assistant Deputy Chief of Staff for Aviation, U.S. Marine Corps. His last assignment in the Navy was as Head, Aircraft Carriers Program and Head, Naval Aviation Training. Rear Admiral Gemmill has almost 4,000 flight hours and 1,000 carrier landings. He has a Master of Science in Systems Management from the University of Southern California. He is currently Director, Defense Business Services for Bearing Point of McLean, VA.

(7) Mr. Ryan retired in 2001 from Selas Corporation of America (now known as IntriCon Corporation), a diversified international firm engaged in the design, development, engineering and manufacturing of industrial products, such as the furnace section of continuous annealing and galvanizing lines in steel production for automotive steel, glass production furnace lines, cable winch devices for below the chassis spare tire lift holders for the automotive industry, parts for hearing aid devices and transistors for electric surge guards for computers and electronics. Mr. Ryan also currently serves as a Director of Bolt Technology Corporation, a public company which is traded on NASDAQ. Bolt is a manufacturer and seller of seismic air guns, cables, hydrophones and other devices engaged in the offshore oil and gas exploration market. Mr. Ryan received a Bachelor of Business Administration degree from Iona College and MBA degree from the University of

Connecticut. He is a member of the New York State Society of Certified Public Accountants (NYSSCPA) and the American Institute of CPAs (AICPA).

(8) Mr. Sawyer is a founding partner of J.F. Lehman & Company and currently serves as Executive Advisor. From 1993 to 1995, he served as President and Chief Executive Officer of Sperry Marine, Inc. Prior thereto, Mr. Sawyer held a number of prominent positions in private industry and in the United States government, including serving as President of John J. McMullen Associates, President and Chief Operating Officer of TRE Corporation, Executive Vice President and Director of General Dynamics Corporation, Vice President of International Operations for Bechtel Corporation and Assistant Secretary of the Navy for Shipbuilding and Logistics. He graduated Phi Beta Kappa from Yale University and completed graduate studies in nuclear engineering at the Knolls Atomic Power Laboratories. He is also the co-inventor of the Consolidated Nuclear Steam Generator II and served in the US Navy for ten years as a nuclear submariner. Mr. Sawyer currently serves as a Director of National Air Cargo Holdings, Inc., Hawaii Superferry Incorporated, OAO Technology Solutions, Atlantic Marine Holding Company, Black Light Power Inc. and CHI Systems, Inc.

(9) Mr. Deaner has served as our Chief Financial Officer since January 1996. Mr. Deaner served as Vice President of Finance for Pennfield Precision Incorporated from September 1988 to December 1995. Mr. Deaner received a Masters of Business Administration degree from Temple University and a Bachelors of Arts degree in Mathematics from Millersville University in Pennsylvania.

Committees of the Board of Directors

During the fiscal year ended February 27, 2009, the Board of Directors held two meetings. All members of the Board of Directors attended all of the Board meetings.

We have three standing Board Committees: Audit, Compensation and Governance and Nominating. Each committee has a charter which can be found on the Company's website at www.etcusa.com. The members and chairpersons of each committee during fiscal 2009 are identified in the following table and each committee, its function and the number of meetings held by each committee during fiscal 2009 are described below.

Name of Director	Independent	Audit	Compensation	Governance and Nominating
Howard W. Kelley*	Yes	Chair	Acting Chair	X
Dr. George K. Anderson	Yes	X	X	Chair
Alan Mark Gemmill**	Yes	X	Chair	X
Number of Meetings Held in Fiscal Year		12	1	0

* Mr. Kelley will not run for reelection at the Annual Shareholder's meeting. His committee positions will be filled by Mr. Ryan.

** Mr. Gemmill resigned from the Board effective February 25, 2009. His committee positions will be filled by Mr. Sawyer, a nominee for Director at the Annual Shareholder's meeting.

During the fiscal year ended February 27, 2009, we had an Audit Committee consisting of Messrs. Kelley and Gemmill (until his resignation from the Board), and Dr. Anderson. Mr. Kelley served as the Chairman and the "financial expert" (as defined by the NYSE AMEX LLC) and has been designated as the Audit Committee Financial Expert as defined by the rules of the Securities and Exchange Commission. In addition, all members of the Audit Committee meet the financial literacy requirements of the NYSE AMEX LLC and are independent under the rules of the NYSA AMEX LLC. Among other responsibilities, the Audit Committee meets (via face-to-face or via telephone) with the external auditors to review and make recommendations to management concerning (if appropriate) the quarterly and annual financial results and the Reports on Forms 10-Q and 10-K. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of our independent accountants in their preparation or issuance of an audit report or the performance of other audit and review services.

Messrs. Kelley and Gemmill (until his resignation from the Board), and Dr. Anderson also served on our Compensation Committee during the year ended February 27, 2009, with Mr. Gemmill serving as Chairman until his resignation. Mr. Kelley was appointed to serve as Chairman on an interim basis. The Compensation Committee is charged with the following responsibilities:

- Establish CEO and executive officers compensation
- Develop the compensation philosophy which shall include the strict adherence to the company's Code of Ethics and Code of Conduct
- Assist with and review the Compensation Discussion and Analysis ("CD&A")
- Produce a compensation committee report
- Oversee equity compensation grant policy
- Retain and terminate outside experts if needed
- Evaluate related shareholder proposals

Messrs. Kelley and Gemmill (until his resignation from the Board), and Dr. Anderson also served on our Nominating and Governance Committee during the year ended February 27, 2009, with Dr. Anderson serving as Chairman. The Nominating and Governance Committee is charged with finding and recommending new Board members and with ensuring our compliance with all regulatory governance requirements.

During fiscal 2009, we also had a Transaction Committee which consisted of Messrs. Kelley, Gemmill and Dr. Anderson. This Committee was a special committee comprised of independent directors formed exclusively to consider a proposal received on February 20, 2008 from an affiliate of Lenfest to purchase all of the publicly traded shares of the common stock of the Company not owned by Lenfest. On September 11, 2008, ETC was informed by Lenfest that he was withdrawing this proposal and the Transaction Committee was subsequently disbanded.

Code of Ethics

We have adopted a Code of Ethics, which applies to our chief executive officer, chief financial officer, controller and other senior financial officers. We have also adopted a Company Code of Conduct that applies to our directors, officers and all employees. The Code of Ethics and the Company Code of Conduct were each approved and adopted by our Board of Directors in April 2004. The Code of Ethics and the Company Code of Conduct are posted on our website, which is located at *www.etcusa.com.* We will also disclose any amendments or waivers to the Code of Ethics or the Company Code of Conduct on our website.

In addition, we have adopted a Whistleblower Policy and an Insider Trading Policy, both of which are posted on our website.

Administrative Agreement

On December 12, 2007, the Company entered into an Administrative Agreement with the United States Navy in conjunction with the lifting of a contracting suspension. This agreement includes a program of compliance reviews, audits and reports. Unless extended, this agreement is effective through December 2010.

Compliance With Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the NYSE AMEX LLC. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. The rules of the SEC regarding the filing of Section 16(a) reports require that we disclose "late filings" of Section 16(a) reports.

Based solely on our review of the copies of such forms which we received, or written representations from reporting persons that no Section 16(a) reports were required for those persons, Mr. Mitchell had six late filings covering a total of 7,400 shares spanning a three week period in January and February 2009. We believe that our greater than ten percent beneficial owners complied with all applicable filing requirements.

Item 11. ***Executive Compensation***

COMPENSATION DISCUSSION AND ANALYSIS

Objectives and Philosophy of Executive Compensation

ETC's executive compensation program is administered by the Compensation Committee of the Board of Directors. The Compensation Committee is currently composed of Howard W. Kelley who serves as acting Chairman, George K. Anderson, M.D., MPH, and Stephen F. Ryan, each of whom is independent under the relevant rules of the Securities and Exchange Commission and NYSE AMEX LLC. Prior to his resignation in February 2009, Alan M. Gemmill served as Chairman of the Compensation Committee. The Compensation Committee is responsible for developing and implementing an executive compensation program that takes into account ETC's business strategy, the need for highly qualified management and other relevant factors. The executive compensation program is structured to link executive compensation to the overall performance of ETC to more closely align the interests of the executive management team with the interests of ETC's shareholders.

The Compensation Committee's philosophy in establishing its compensation policies is to maximize the possibilities for enhancing shareholder value by closely aligning compensation for ETC's executive officers with the profitability of ETC. In this regard, it is considered essential to the success of ETC that its compensation policies enable ETC to attract, retain and satisfactorily reward executive officers who are contributing to the long-term growth and success of ETC. William F. Mitchell, President and Chief Executive Officer, and Duane D. Deaner, Chief Financial Officer, are ETC's Named Executive Officers under applicable Securities and Exchange Commission regulations.

Primary Components of Executive Compensation

In 2004, the Board of Directors adopted and approved a Compensation Committee Charter which sets forth the principles and policies followed by the Compensation Committee in connection with executive compensation. A copy of ETC's Compensation Charter is available on ETC's corporate website (http:www.etcusa.com).

In April 2009, the Compensation Committee incorporated into its charter a policy statement which defined its specific responsibilities and established a set of generic evaluation criteria for developing and rewarding goals and objectives for the CEO and executive officers.

The primary components of ETC's executive compensation program consist of base salary, annual cash bonus incentive opportunities and long-term incentive opportunities in the form of options to acquire common stock.

Base Salary

Base salary levels for ETC's executive officers are set at or below the average base salary levels paid by other companies within ETC's peer group. William F. Mitchell, President and Chief Executive Officer, received a base salary of $225,000 in the 2009 fiscal year. Duane D. Deaner, Chief Financial Officer, received a base salary of $102,000 in the 2009 fiscal year. The Compensation Committee has responsibility for setting executive base salary.

Short-term Incentive Compensation

Based on the Compensation Committee's review of ETC's performance for the fiscal year ended February 27, 2009, and the performance of its management team, no discretionary cash incentive compensation awards were made to any officers or key employees for overall Company performance.

During the fiscal year ended February 27, 2009, three members of the executive management team, including Mr. Deaner, were given the opportunity to earn additional compensation of up to approximately 10% of their base salary by completing specific accomplishments tailored to their individual areas of responsibility. Payments under this program totaled $46,000 in fiscal 2009, including $15,000 paid to Mr. Deaner. This program must be re-authorized by the CEO on an annual basis and is subject to cancellation at any time.

Long-Term Incentive Compensation

ETC’s 1998 Incentive Stock Option Plan, which expired in October 2008, was a long-term plan designed not only to provide incentives to management, but also to align a significant portion of the executive compensation program with shareholder interests. The 1998 Incentive Stock Option Plan permitted ETC to grant certain officers and employees a right to purchase shares of stock at the fair market value per share at the date the option was granted. No options were granted to executive officers and employees in fiscal 2009. In granting stock options to officers and employees, the Compensation Committee takes into account ETC’s financial performance, its long-term strategic goal of increasing shareholder value, the employee’s level of responsibility and his continuing contributions to ETC.

In April 2009, our Board of Directors approved the 2009 Employee, Director and Consultant Stock Plan. The 2009 Stock Plan is subject to shareholder approval.

Mr. Mitchell has never received any options to purchase shares of ETC’s common stock.

Option Grant Date Pricing

The Compensation Committee administered ETC’s 1998 Incentive Stock Option Plan until it expired in October 2008 and will administer the 2009 Stock Plan. Mr. Mitchell may make recommendations with respect to option grants but all other determinations to award options to purchase ETC’s common stock are made by the Compensation Committee and in all instances the exercise price is equal to ETC’s stock price on the date the Compensation Committee approves such option grants.

Given the relatively low amount of option grants made by ETC (no options were awarded in fiscal 2009), the Compensation Committee does not actively attempt to coordinate option grants based on the presence or absence of material non-public information.

Chief Executive Officer Employment Agreement

On July 24, 2006, ETC entered into an employment agreement with William F. Mitchell (the (“CEO Plan”) pursuant to which Mr. Mitchell is employed as the President and Chief Executive Officer. Mr. Mitchell has been the Chairman of the Board, President and Chief Executive Officer of ETC since 1969, except for the period from January 24, 1986 to January 24, 1987 during which he was engaged principally in soliciting sales for ETC’s products in the overseas market. Under Mr. Mitchell’s employment agreement, he is entitled to receive a base salary of $225,000, which is subject to increase annually based on a review of Mr. Mitchell’s performance by ETC’s Board of Directors. Mr. Mitchell is also entitled to receive a bonus based on a formula and targets set forth in the CEO Plan.

The term of the employment agreement is three years, and, if ETC does not renew the employment agreement for additional three-year periods, Mr. Mitchell is entitled to terminate the employment agreement and receive certain benefits under the terms of the employment agreement including, without limitation, three years of base salary, bonuses and participation in various benefit plans. The employment agreement also provides Mr. Mitchell with three years of base salary, bonuses, and participation in various benefit plans of ETC if his employment is terminated due to a disability, by ETC without cause, or if Mr. Mitchell terminates his employment with ETC for good reason, including a change in control of ETC (other than a change of control in connection with an acquisition by Lenfest), each as defined in the employment agreement.

Chief Financial Officer Employment Agreement

On November 1, 2005, ETC entered into an employment agreement with Duane D. Deaner pursuant to which Mr. Deaner continues to be employed as the Chief Financial Officer. Mr. Deaner has been the Chief Financial Officer of ETC since 1996. Under Mr. Deaner’s employment agreement, he is entitled to receive a base salary of $102,000, which is subject to increase annually based on a review of his performance. Mr. Deaner is also entitled to receive a bonus based on specific annual objectives tailored to his individual area of responsibility.

The original term of the employment agreement was two years and has been renewed. If ETC does not renew the employment agreement for additional two-year periods, Mr. Deaner is entitled to terminate the employment agreement and receive certain benefits under the terms of the employment agreement including, without limitation, two years of base salary, bonuses and participation in various benefit plans. The employment agreement also provides Mr. Deaner with two years of base salary, bonuses, and participation in various benefit plans of ETC if his employment is terminated due to a disability, by ETC without cause, or if Mr. Deaner terminates his employment with ETC for good reason, including a change in control of ETC, each as defined in his employment agreement.

SUMMARY COMPENSATION TABLE

The following Summary Compensation Table sets forth the compensation of our Named Executive Officers for the fiscal years ended February 27, 2009 and February 29, 2008.

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
William F. Mitchell(1)	2009	$225,000	—	—	—	—	—	$ 68,000(2)	$293,000
Chairman of the Board, Chief Executive Officer, President and Director	2008	$225,000						$ 69,000(3)	$294,000
Duane D. Deaner(4)	2009	$ 102,000	$15,000	—	—	—	—	$ 2,000(5)	$ 119,000
Chief Financial Officer	2008	$ 102,000	$ 1,500					$ 3,000(6)	$ 106,500

The elements of the Summary Compensation Table are discussed in the Compensation Discussion and Analysis above.

(1) ETC is party to an employment agreement with Mr. Mitchell, pursuant to which Mr. Mitchell serves as President and Chief Executive Officer. The terms and conditions of Mr. Mitchell's employment agreement is summarized above under "Primary Components of Executive Compensation-Chief Executive Officer Employment Agreement."

(2) Consists of $60,000 paid to Mr. Mitchell in connection with ETC's use of Mr. Mitchell's properties, $2,000 in automobile allowance payments for Mr. Mitchell's company automobile, $3,000 in life insurance premium payments and $3,000 contribution on behalf of Mr. Mitchell pursuant to ETC's Retirement Savings Plan.

(3) Consists of $54,000 paid to Mr. Mitchell in connection with ETC's use of Mr. Mitchell's properties, $6,000 in automobile allowance payments for Mr. Mitchell's company automobile, $6,000 in life insurance premium payments and $3,000 contribution on behalf of Mr. Mitchell pursuant to ETC's Retirement Savings Plan.

(4) ETC is a party to an employment agreement with Mr. Deaner, pursuant to which Mr. Deaner serves as Chief Financial Officer. The terms and conditions of Mr. Deaner's employment agreement is summarized above under "Primary Components of Executive Compensation-Chief Financial Officer Employment Agreement."

(5) Consists of ETC's contribution on behalf of Mr. Deaner pursuant to ETC's Retirement Savings Plan.

(6) Consists of ETC's contribution on behalf of Mr. Deaner pursuant to ETC's Retirement Savings Plan.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

This table summarizes the equity awards held by our Named Executive Officers as of February 27, 2009.

Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price ($) (e)	Option Expiration Date (f)
William F. Mitchell Chairman of the Board, Chief Executive Officer, President and Director	—	—	—	—
Duane D. Deaner	2,881	—	$7.375	1/03/11
Chief Financial Officer	6,978	—	$ 7.24	9/15/14
	642	—	$ 6.07	9/21/16

Potential Payments Upon Termination or Change-In-Control

As discussed in the Compensation Discussion and Analysis above, we entered into an employment contract with Mr. Mitchell, our Chief Executive Officer, on July 24, 2006, which provides Mr. Mitchell with three years of base salary, bonuses and participation in various benefit plans of ETC if his employment is terminated due to a disability, by ETC without cause, or if Mr. Mitchell terminates his employment with ETC for good reason, including a change in control of ETC (other than a change of control in connection with an acquisition by Lenfest), each as defined in his employment agreement.

Also, as discussed in the Compensation Discussion and Analysis above, we entered into an employment contract with Mr. Deaner, our Chief Financial Officer, on November 1, 2005, which provides Mr. Deaner with two years of base salary, bonuses and participation in various benefit plans of ETC if his employment is terminated due to a disability, by ETC without cause, or if Mr. Deaner terminates his employment with ETC for good reason, including a change in control of ETC, each as defined in his employment agreement.

Compensation of Directors

During fiscal 2009, our directors who did not serve as officers were paid a fee of $2,000 (either in cash or equivalent value of common stock of the Company) per calendar quarter for attending Board of Directors and committee meetings. Additionally, under a plan approved by our shareholders at the 2005 Annual Meeting of Shareholders, non-employee directors may be awarded options to purchase common stock of the Company at fair market value. Pursuant to this plan, in February 2006, awards to purchase common stock were given as follows: Dr. Anderson, 50,000 options; Mr. Kelley, 25,000 options; and Mr. Gemmill, 5,000 options. No options were awarded to our directors in fiscal 2008 or fiscal 2009.

FISCAL 2009 DIRECTOR COMPENSATION TABLE

The following table sets forth the compensation paid by the Company to each of its Directors for the fiscal year ended February 27, 2009.

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($)(1) (c)	Option Awards ($) (d)	Non-Equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (f)	All Other Compensation ($) (g)	Total ($) (h)
William F. Mitchell(2)	—	—	—	—	—	—	—
George K. Anderson, M.D.(3)	$ 8,000	—	—	—	—	—	$8,000
Alan M. Gemmill(4)	$ 8,000	—	—	—	—	—	$8,000
Howard W. Kelley(5)	—	$8,000	—	—	—	—	$8,000
H. F. Lenfest(6)	—	$8,000	—	—	—	—	$8,000
Steve Ryan(7)	—	—	—	—	—	—	—

(1) ETC used the closing price of its common stock on the date of grant as reported on the American Stock Exchange to compute the value of these awards.

(2) Mr. Mitchell did not hold any options to purchase shares of our common stock as of February 27, 2009.

(3) Dr. Anderson held options to purchase an aggregate of 50,000 shares of our common stock as of February 27, 2009

(4) Mr. Gemmill held options to purchase an aggregate of 5,000 shares of our common stock as of February 27, 2009.

(5) Mr. Kelley held options to purchase an aggregate of 25,000 shares of our common stock as of February 27, 2009.

(6) Mr. Lenfest did not hold any options to purchase shares of our common stock as of February 27, 2009.

(7) Mr. Ryan did not hold any options to purchase shares of our common stock as of February 27, 2009.

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Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The following table sets forth, as of May 1, 2009, the number of shares and percentage of our common stock owned beneficially by each Director, each nominee for Director and each executive officer named in the Summary Compensation Table, and each person holding, to our knowledge, more than 5% of our outstanding common stock. The table also sets forth the holdings of all directors and executive officers as a group.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Common Stock(1)
William F. Mitchell(2) c/o Environmental Tectonics Corporation County Line Industrial Park Southampton, PA 18966	1,081,324(3)	8.1%
Howard W. Kelley(4) c/o Aspergantis LLC 3249 St. Johns Avenue Jacksonville, FL 32205	37,756(6)	*
George K. Anderson, M.D.(4) 8 Little Harbor Way Annapolis, MD 21403	51,100(7)	*
H.F. Lenfest(4) c/o The Lenfest Group Fire Tower Bridge-Suite 460 300 Barr Harbor Drive West Conshohocken, PA 19428	6,559,884(8)	49.5%
Stephen F. Ryan(4) c/o Environmental Tectonics Corporation County Line Industrial Park Southampton, PA 18966	5,000	*
George A. Sawyer(5) 404 North Union Street Alexandria, VA 22314	—	*
T. Todd Martin, III 50 Midtown Park East Mobile, AL 36606	999,592(9)	7.5%
Duane D. Deaner(10) c/o Environmental Tectonics Corporation County Line Industrial Park Southampton, PA 18966	10,501(11)	*
All directors, nominees for directors, and executive officers as a group (7 persons)	7,745,565(12)	58.1%

* less than 1%

(1) Beneficial ownership has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934. Unless otherwise noted, we believe that all persons named in the table have sole voting and investment power with respect to all shares of our common stock beneficially owned by them. The "Percent of Common Stock" is based on a denominator for the applicable Beneficial Owner equal to the sum of: (i) 9,069,351 shares of common stock outstanding, (ii) the shares of common stock, which may be acquired by such Beneficial Owner upon the exercise of options owned by such Beneficial Owner, and (iii) the shares of common stock beneficially owned by Lenfest set forth in footnote 8 below.

(2) Chairman of the Board, President, Chief Executive Officer and Director of the Company.

(3) Includes 45,200 shares of common stock held by Mr. Mitchell's wife.

(4) Director of the Company.

(5) Nominee for Director of the Company.

(6) Includes 25,000 shares of common stock which may be acquired upon the exercise of options granted under our Non-Employee Director Stock Option Plan that are presently exercisable.

(7) Includes 50,000 shares of common stock which may be acquired upon the exercise of options granted under our Non-Employee Director Stock Option Plan that are presently exercisable.

(8) Includes 1,818,181 shares of common stock issuable upon conversion of a promissory note in the principal amount of $10,000,000, 606,060 shares of common stock issuable upon conversion of 3,000 shares of Series B Preferred Stock issued on April 6, 2006, 449,101 shares of common stock issuable upon conversion of 3,000 shares of Series B Preferred Stock issued on July 31, 2006, 1,089,108 shares of common stock issuable upon conversion of 3,300 shares of Series C Preferred Stock issued on August 23, 2007, 143,885 shares of common stock issuable upon exercise of a warrant issued to Lenfest on February 20, 2009 and 58,511 shares of common stock issuable upon conversion of 55 shares of Series D Preferred Stock issued on April 24, 2009.

(9) Includes 938,692 shares of common stock owned by Advanced Technology Asset Management, LLC (formerly ETC Asset Management, LLC) ("ATAM"), a limited liability company of which T. Todd Martin, III is manager. Also includes 26,900 shares owned by Allied Williams Co, Inc., a corporation of which Mr. Martin is an officer and director, 17,000 shares owned by Equity Management, LLC, a limited liability company of which Mr. Martin is manager, 7,000 shares owned by trusts of which Mr. Martin is trustee, and 10,000 shares owned by Perdido Investors, LLC, of which Mr. Martin is the manager.

(10) Chief Financial Officer of the Company.

(11) Includes 10,501 shares of common stock which may be acquired upon the exercise of options granted under our Incentive Stock Option Plan that are presently exercisable.

(12) Includes 75,000 shares of common stock which may be acquired by members of the Board of Directors upon the exercise of options granted under our Non-Employee Director Stock Option Plan that are presently exercisable. Additionally, includes 1,818,181 shares of common stock issuable upon conversion of a promissory note in the principal amount of $10,000,000, 606,060 shares of common stock issuable upon conversion of 3,000 shares of Series B Preferred Stock issued on April 6, 2006, 449,101 shares of common stock issuable upon conversion of 3,000 shares of Series B Preferred Stock issued on July 31, 2006, 1,089,108 shares of common stock issuable upon conversion of 3,300 shares of Series C Preferred Stock issued on August 23, 2007, 143,885 shares of common stock issuable upon exercise of a warrant issued to Lenfest on February 20, 2009 and 58,511 shares of common stock issuable upon conversion of 55 shares of Series D Preferred Stock issued on April 24, 2009, all of which may be acquired by Lenfest. Also includes 10,501 shares of common stock which may be acquired by Duane Deaner, our chief financial officer, upon the exercise of options granted under our Incentive Stock Option Plan that are presently exercisable.

For information regarding our equity compensation plans, please see the Equity Compensation Plan Information section of the Annual Report to Stockholders attached hereto as Exhibit 13 and incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions and Director Independence*

Transactions Completed in Fiscal 2009 and Prior Years

On February 19, 2003, ETC completed a refinancing of its indebtedness with PNC Bank and Lenfest in the aggregate amount of $29,800,000. Pursuant to the terms of a Convertible Note and Warrant Purchase Agreement, dated February 19, 2003, between ETC and Lenfest, ETC issued to Lenfest (i) a 10% senior subordinated convertible promissory note in the original principal amount of $10,000,000 and (ii) warrants to purchase 803,048 shares of common stock. As a condition to closing the financing, ETC appointed Lenfest to its Board of Directors. On October 25, 2004, Lenfest executed a Limited Guaranty Agreement which guaranteed ETC's $5 million Letter of Credit facility with PNC Bank, and in connection therewith, ETC issued a Stock Purchase Warrant to Lenfest pursuant to which Lenfest was entitled to purchase up to 200,000 shares of common stock at an exercise price equal to the lesser of $4.00 per share or 2/3 of the average daily high and low of common stock during the 25 day trading period immediately preceding the date of exercise. On February 14, 2005, Lenfest exercised all of his outstanding warrants and received 1,003,048 shares of unregistered common stock and purchased an additional 373,831 shares of unregistered common stock for approximately $2 million. Shareholder approval of this transaction was received at ETC's 2005 annual meeting.

On April 7, 2006, we entered into a Preferred Stock Purchase Agreement (the "Lenfest Equity Agreement") with Lenfest. The Lenfest Equity Agreement, which was scheduled to terminate on October 6, 2007, permitted us to unilaterally draw down up to $15 million in exchange for shares of our newly created Series B Cumulative Convertible Participating Preferred Stock ("Series B Preferred Stock") at a dividend equal to six percent per annum. Three years after issue the Series B Preferred Stock was convertible, at Lenfest's request, into ETC common shares at a conversion price (the "Conversion Price") which was set on the day of each draw down. The Conversion Price was equal to the closing price of our common stock on the trading day immediately preceding the day in which the draw down occurred, subject to a floor price of $4.95 per common share. Drawdowns were not permitted on any day when the Conversion Price was less than this floor price. On the sixth anniversary of the Lenfest Equity Agreement, any issued and outstanding Series B Preferred Stock will be mandatorily converted into ETC common stock at each set Conversion Price. The Lenfest Equity Agreement also allows us to redeem any outstanding Series B Preferred Stock any time within its six-year term of the Lenfest Equity Agreement. Any issued and outstanding Series B Preferred Stock will vote with the ETC common stock on an as converted basis. The Lenfest Equity Agreement was terminated on July 31, 2007 upon execution of the credit agreement with PNC Bank (see following).

In connection with the execution of the Lenfest Equity Agreement, in April 2006 we drew down $3 million by issuing 3,000 shares of Series B Preferred Stock with a Conversion Price equal to $4.95 per share. Additionally, on July 31, 2006, we drew down an additional $3 million by issuing 3,000 shares of Series B Preferred Stock at a conversion price equal to $6.68 per common share. In each instance, the proceeds were used for general corporate purposes. The Series B Preferred Stock votes with ETC's common stock on an as-converted basis and is fully convertible into 1,055,163 shares of ETC common stock.

Effective May 9, 2007, the Company entered into a letter agreement with Lenfest pursuant to Lenfest agreed to provide financial support to the Company in the form of a guarantee and/or provide access to funding until June 30, 2008.

On July 31, 2007, ETC completed a refinancing of our indebtedness with PNC Bank in the aggregate amount of up to $15,000,000. This refinancing by ETC is an extension of a credit facility originally entered into with PNC Bank in February 2003. ETC's obligations under the Credit Agreement are secured by a personal guarantee from Lenfest under a Restated Guaranty, dated July 31, 2007, made by Lenfest in favor of PNC. ETC will pay Lenfest an annual cash fee of 1% of the loan commitment for his guarantee.

On August 23, 2007, the Company entered into the Series C Preferred Stock Purchase Agreement (the "Series C Purchase Agreement") with Lenfest, pursuant to which, among other things, ETC issued and sold 3,300 shares of its newly-created class of Series C Cumulative Convertible Participating Preferred Stock ("Series C Preferred Stock") to Lenfest for $3,300,000. The proceeds from the issuance of the Series C Preferred Stock were restricted solely for use to partially fund a settlement with the U.S. Navy.

The Series C Preferred Stock is convertible by Lenfest at any time into shares of ETC's common stock at a conversion price of $3.03 per share based on the closing price for ETC's common stock on August 22, 2007, the trading day immediately prior to the issuance. The Series C Preferred Stock votes with ETC's common stock on an as-converted basis and is fully convertible into 1,089,108 shares of ETC common stock. The Series C Preferred Stock automatically converts into ETC common shares on the fifth anniversary of its issuance. It carries a dividend equal to ten percent (10%) per annum.

ETC granted Lenfest certain demand and "piggy back" registration rights pursuant to a Registration Rights Agreement with respect to the shares of common stock issuable upon conversion of the Series C Preferred Stock.

In connection with Lenfest's investment in the Series C Preferred Stock, ETC agreed to amend the terms of the Series B Preferred Stock to (i) increase the dividend rate to 10% per annum, (ii) provide for immediate conversion into common stock at the option of Lenfest, and (iii) to remove ETC's right to redeem the Series B Preferred Stock.

The Series B and C Preferred Stock (the "instruments") are recorded in the accompanying financial statements as mezzanine financing.. This classification is due to the preferential redemption feature of the instruments, which provides that a change in ownership would result in a forced liquidation. A forced liquidation is considered outside the control of the Company. Therefore, the preferential treatment upon an act outside the control of the Company precluded equity treatment under the Securities and Exchange Commission Accounting Series Release ("ASR") 268 and Topic D98.

On February 20, 2008, ETC received a proposal from an affiliate of Lenfest to purchase all of the publicly traded shares of the common stock of the Company not owned by Lenfest. On September 11, 2008, ETC was informed by Lenfest that he was withdrawing this proposal.

On March 11, 2008, ETC entered into Amendment No. 1 to Convertible Note and Warrant Purchase Agreement (the "Purchase Agreement Amendment") and First Amendment to Senior Subordinated Convertible Note (the "Note Amendment") with Lenfest with respect to that certain Convertible Note and Warrant Purchase Agreement, dated as of February 18, 2003, by and between ETC and Lenfest (the "Convertible Note and Warrant Purchase Agreement"). Under the terms of the Purchase Agreement Amendment, ETC and Lenfest agreed to amend the financial covenants set forth in the Convertible Note and Warrant Purchase Agreement so that they are similar to the financial covenants contained in ETC's credit agreement with PNC Bank, dated as of July 31, 2007. Under the terms of the Note Amendment, the maturity date of the convertible promissory note in the principal amount of $10,000,000 issued by ETC to Lenfest pursuant to the Convertible Note and Warrant Purchase Agreement was extended from February 18, 2009 to March 1, 2010. The effective date of the Purchase Agreement Amendment and the Note Amendment is February 19, 2008.

On May 20, 2008, Lenfest agreed to fund all requests by ETC for funds to support its operations through June 30, 2009, on terms and conditions to be mutually agreed upon by Lenfest and ETC, provided that ETC shall not request more than $10 million in the aggregate. All agreements will be subject to any required approvals including the approval of ETC's shareholders and in accordance with the rules and regulations of the NYSE AMEX LLC (formerly the American Stock Exchange), if required.

Transactions Completed following the end of Fiscal 2009

Effective April 24, 2009, we entered into a transaction (the "Lenfest Financing Transaction") with H.F. Lenfest ("Lenfest") that provides for the following upon the satisfaction of certain conditions, including the receipt of the approval of the Company's shareholders to certain components of the transaction (as more fully described below, the "Shareholder Approvals"): (i) a $7,500,000 credit facility to be provided by Lenfest to ETC; (ii) exchange of the Subordinated Note (as defined below) held by Lenfest, together with all accrued interest and warrants issuable under the Subordinated Note, and all Series B Preferred Stock and Series C Preferred Stock held by Lenfest, together with all accrued dividends thereon, for a new class of preferred stock, Series E Preferred Stock, of the Company, the terms of which are described below; and (iii) the guarantee by Lenfest of all of ETC's obligations to PNC Bank in connection with an increase of the existing $15,000,000 revolving line of credit with PNC Bank (the "2007 PNC Credit Facility") to $20,000,000, and in connection with this guarantee, the pledge by Lenfest to PNC Bank of $10,000,000 in marketable securities.

Lenfest Credit Facility

As part of the Lenfest Financing Transaction, the Company established a credit facility in the maximum amount of $7,500,000 with Lenfest (the "Lenfest Credit Facility"). The Lenfest Credit Facility is to be used to finance certain government projects that ETC is seeking to be awarded (the "Projects"). The terms of the Lenfest Credit Facility are set forth in a Secured Credit Facility and Warrant Purchase Agreement between the Company and Lenfest, dated as of April 24, 2009 (the "Lenfest Credit Agreement"). In connection with the Lenfest Credit Agreement, the Company has executed, and will in the future execute, promissory notes in favor of Lenfest, in the aggregate principal amount of up to $7,500,000 (the "Lenfest Credit Facility Note"). Each Lenfest Credit Facility Note issued prior to ETC obtaining the Shareholder Approvals accrues interest at the rate of 15% per annum, payable in cash or, at the option of Lenfest, in shares of a new class of preferred stock, Series D Preferred Stock, of the Company, the terms of which are described below. The interest rate on the Lenfest Credit Facility Notes will decrease to 10% per annum retroactive to the date of the issuance of each note if the Company obtains the Shareholder Approvals. All Lenfest Credit Facility Notes issued after ETC obtains the Shareholder Approvals shall accrue interest at the rate of 10% per annum, payable in cash or, at the option of Lenfest, shares of Series D Preferred Stock.

In connection with the execution of the Lenfest Credit Agreement on April 24, 2009, the Company is initially entitled to drawdown $1,000,000 under the Lenfest Credit Agreement prior to obtaining the Shareholder Approvals and satisfying certain other conditions (the "Initial $1 Million Loan"). The Initial $1 Million Loan will have a maturity date of five (5) business days following the Shareholder Approval Date (as defined below) (the "Initial $1 Million Loan Early Maturity Date"), unless the Company receives the Shareholder Approvals, in which event the maturity date will be extended until three years from its date of issuance. Each additional Lenfest Credit Facility Note, none of which will be issued unless the Company receives the Shareholder Approvals, shall mature on the earlier of (i) three years from its date of issuance or (ii) December 31, 2012.

As set forth in the Form 8-K of the Company filed on February 26, 2009, Lenfest made a loan to ETC in the principal amount of $2,000,000 on February 20, 2009 (the "$2 Million Loan"), which amount is considered advanced under the Lenfest Credit Facility. The $2 Million Loan is to be used by ETC solely to support ETC's proposal on one of the Projects. The terms of the $2 Million Loan are set forth in a Secured Promissory Note, dated February 20, 2009, by ETC in favor of Lenfest (the "$2 Million Note"). The $2 Million Note will mature on the earlier of (i) three days following the date ETC is informed by the United States government or otherwise learns that it has been denied or will not be awarded the Project, (ii) August 20, 2009 if ETC has not obtained the Shareholder Approvals on or before the Shareholder Approval Date (the "$2 Million Loan Early Maturity Date") or (iii) three years following the date of issuance of the $2 Million Note. The proceeds from this $2 million loan are included in restricted cash in ETC's balance sheets.

Additional advances on the Lenfest Credit Facility after the Initial $1 Million Loan and the $2 Million Loan are subject to the satisfaction of certain conditions, in addition to the condition that the Shareholder Approvals have been obtained, including the award of one or more of the Projects to ETC and that at least one such Project remains in effect, the satisfaction of the other Financing Transaction Conditions described below and the determination by Lenfest, in his sole discretion, that ETC's prospects in the long-term for reaching consistent cash flow and positive operations are continuing to improve. ETC can make requests under the Lenfest Credit Facility up to December 31, 2010.

The Company paid to Lenfest an origination fee of 1% of the committed (but not advanced as of yet) amount of the Lenfest Credit Facility. The origination fee was paid in 55 shares of new Series D Preferred Stock of the Company, which has a stated value of $1,000 per share.

In connection with each Lenfest Credit Facility Note issued by ETC, ETC will issue to Lenfest a warrant to purchase a number of shares of ETC common stock equal to (i) 10% of the principal amount of the Lenfest Credit Facility Note divided by (ii) closing price of ETC common stock for the day immediately preceding the date of issuance of this warrant. The exercise price for the warrants will be equal to such closing price. The warrants will be exercisable for seven years following issuance.

With respect to the warrant to be issued in connection with the $1 Million Loan, if it is drawn down but not repaid in full on or before the Initial $1 Million Loan Early Maturity Date or ETC does not obtain the Shareholder Approvals by July 2, 2009 (which date will be extended up to August 13, 2009 if the Securities and Exchange Commission provides comments to the Proxy Statement to be filed in connection with the transactions described herein) (the "Shareholder Approval Date"), then Lenfest will be entitled to purchase under such warrant a number of shares of ETC Common Stock equal to $500,000 divided by the closing price of ETC's common stock for the day immediately preceding the date of issuance of the warrant, at an exercise price equal to 50% of the initial exercise price.

In addition, in connection with the $2 Million Loan, ETC issued to Lenfest a warrant (the "$2 Million Loan Warrant") to purchase 143,885 shares of ETC common stock, at an exercise price per share equal to $1.39, which is equal to the average price of ETC common stock for the 120 trading days immediately preceding the date of this warrant. If the $2 Million Loan is not repaid in full on or before the $2 Million Loan Early Maturity Date or ETC does not obtain the Shareholder Approvals by the Shareholder Approval Date, then Lenfest will be entitled to purchase an additional 575,539 shares of ETC stock for a total of 719,424 shares of ETC common stock under such warrant and the exercise price per share of such warrant will be decreased by 50% to $0.69 for all shares. The $2 Million Loan Warrant was amended and restated on April 24, 2009 to confirm its definition of the Shareholder Approval Date with the definition set forth in the Lenfest Credit Agreement.

The Lenfest Credit Agreement contains customary affirmative and negative covenants for transactions of this type, including limitations with respect to indebtedness, liens, investments, distributions, dispositions of assets, change of business and transactions with affiliates. The Lenfest Credit Agreement also contains financial covenants that are identical to the financial covenants set forth in the proposed Amended and Restated PNC Credit Agreement (as defined below).

The Lenfest Credit Facility Notes provide for customary events of default with corresponding grace periods, including the failure to pay any principal or interest when due, failure to comply with covenants, material misrepresentations, certain bankruptcy, insolvency or receivership events, imposition of judgments and the liquidation of ETC.

The obligations of the Company to Lenfest under the Lenfest Credit Facility are secured by (i) the grant of a security interest in all personal property of the Company and certain subsidiaries of the Company and (ii) the Company’s grant of a mortgage on all of the Company’s real property in favor of Lenfest.

Exchange of Existing Instruments for Series E Preferred Stock

As part of the Lenfest Financing Transaction, the Subordinated Note in the original principal amount of $10,000,000 issued by ETC to Lenfest on February 18, 2003, together with all accrued interest and warrants issuable pursuant to the terms of the Subordinated Note, and all Series B Preferred Stock and Series C Preferred Stock of the Company held by Lenfest, together with all accrued dividends thereon, will be exchanged (the “Series E Exchange”) for shares of a newly-created class of Series E Convertible Preferred Stock of the Company (the “Series E Preferred Stock”). The Series E Exchange is conditioned upon ETC’s receipt of the Shareholder Approvals. Accordingly, the Company will not be able to complete the Series E Exchange unless the Company obtains the Shareholder Approvals.

The Series E Preferred Stock will provide for a dividend equal to 10% per annum. The dividend will be payable on the liquidation of ETC, on the conversion of the Series E Preferred Stock or following declaration by the Board of Directors of ETC. Upon liquidation, dissolution or winding up of ETC, the Series E Preferred Stock will have the right to receive the original investment amount plus accrued dividends. To the extent of any remaining funds or assets, the Series E Preferred Stock will participate on an as-converted basis in additional distributions. The Series E Preferred Stock will rank *pari passu* with the Series D Preferred Stock. Assuming that ETC’s shareholders approve the Lenfest Financing Transaction, the Series E Preferred Stock will vote with the ETC common stock on an as converted basis on all matters that require the vote of ETC’s shareholders.

The Series E Preferred Stock will be convertible, at Lenfest’s request, into shares of ETC common stock at a conversion price equal to $2.00 per common share.

The Series E Preferred Stock contains anti-dilution protection for issuances of ETC’s common stock or securities convertible into ETC’s common stock at prices below the conversion price of the Series E Preferred Stock.

ETC has granted Lenfest demand and “piggy back” registration rights pursuant to a Registration Rights Agreement with respect to the shares of common stock issuable upon conversion of the Series E Preferred Stock.

The Series E Preferred Stock will be classified in the Company’s balance sheet as permanent equity.

Increased PNC Bank Credit Facility and Issuance of New Guarantee

On April 24, 2009, PNC Bank agreed to increase the amount of financing available under the 2007 PNC Credit Facility from $15,000,000 to $20,000,000 subject to the condition that Lenfest continues to personally guaranty all of ETC’s obligations to PNC Bank (the “Lenfest Guaranty”) and that Lenfest pledges $10,000,000 in marketable securities as collateral security for his guaranty (the "Lenfest Pledge"). Lenfest's obligation to provide the Lenfest Guaranty and the Lenfest Pledge is conditioned upon the Company's receipt of the Shareholder Approvals.

The terms of PNC Bank's agreement to increase the amount of financing under the 2007 PNC Credit Facility are set forth in a letter agreement, dated April 24, 2009, between ETC and PNC Bank (the "PNC Letter Agreement"). If the Shareholder Approvals are obtained, ETC and PNC Bank have agreed to enter into the Amended and Restated Credit Agreement (the "Amended and Restated PNC Credit Agreement") and the Second Amended and Restated Reimbursement Agreement for Letters of Credit (the "Amended and Restated Reimbursement Agreement") in the forms attached to the PNC Letter Agreement. The promissory note executed by ETC in favor of PNC Bank in connection with the 2007 PNC Credit Facility would also be cancelled and replaced with the Amended and Restated Promissory Note in the principal amount of $20,000,000 in the form attached to the PNC Letter Agreement (the "Amended and Restated PNC Note"). Lenfest would execute and deliver to PNC Bank the following agreements, the forms of with are attached to the PNC Letter Agreement: (i) an Amended and Restated Guaranty Agreement, which would replace the Restated Guaranty executed by Lenfest in connection with the 2007 PNC Credit Facility (the "Amended and Restated Guaranty"), (ii) a Pledge Agreement, pursuant to which Lenfest shall make the Lenfest Pledge, and (iii) a Notification and Control Agreement. Such agreements, together with the Amended and Restated PNC Credit Agreement, the Amended and Restated Reimbursement Agreement and the Amended and Restated PNC Note are collectively referred to herein as the "2009 PNC Financing Documents".

In the event that the Shareholder Approvals are not obtained or ETC and Lenfest fail to enter into the 2009 PNC Financing Documents on or before August 6, 2009, PNC Bank will no longer be obligated to enter into such agreements and increase the amount of financing available to ETC to $20,000,000.

Borrowings under the Amended and Restated PNC Credit Agreement will be available for working capital or other general business purposes and for issuances of letters of credit. Amounts borrowed under the Amended and Restated PNC Credit Agreement may be borrowed, repaid and reborrowed from time to time until June 30, 2010. Borrowings made under the Amended and Restated PNC Credit Agreement will bear interest at the London Interbank Offered Rate (as described in the Amended and Restated PNC Note) plus 2.50%. Additionally, ETC will be obligated to pay a fee of 0.125% per annum for unused available funds.

The Amended and Restated PNC Credit Agreement contains affirmative and negative covenants that are customary for transactions of this type, including limitations with respect to indebtedness, liens, investments, distributions, dispositions of assets, change of business and transactions with affiliates. Under the Amended and Restated PNC Credit Agreement, the Company must maintain a minimum Consolidated Tangible Net Worth (which, as defined, is total assets excluding intangibles less liabilities excluding the Subordinated Note) of $3,500,000 for each fiscal quarter. Under the Amended and Restated PNC Credit Agreement, the Company must also maintain a minimum EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of (a) $300,000 for the fiscal quarter ended May 31, 2009, (b) $1,200,000 for the fiscal quarter ended August 31, 2009, (c) $1,000,000 for the fiscal quarter ended November 30, 2009, (d) $900,000 for the fiscal quarter ended February 28, 2010 and (e) $1,300,000 for the fiscal quarter ending March 1, 2010 and thereafter.

The Amended and Restated Reimbursement Agreement governs letters of credit issued pursuant to the Amended and Restated PNC Credit Agreement.

All of ETC's indebtedness to Lenfest shall be subordinated to the indebtedness under the 2009 PNC Financing Documents pursuant to the terms of the Second Amended and Restated Subordination and Intercreditor Agreement, dated April 24, 2009, by and among the Company, Lenfest and PNC Bank.

If the 2009 PNC Financing Documents are entered into, ETC will pay Lenfest an origination fee equal to 1% of the Lenfest Pledge and annual interest equal to 2% of the Lenfest Pledge, each payable in shares of Series D Preferred Stock. In consideration of Lenfest entering into the Amended and Restated Guaranty, ETC will issue to Lenfest warrants to purchase shares of ETC common stock equal to 10% of the amount of the $5,000,000 increase in funding available under the Amended and Restated PNC Credit Agreement. The warrants will be exercisable for seven years following issuance at an exercise price per share equal to the closing price of ETC's common stock on the day prior to issuance.

If ETC does not obtain the Shareholder Approvals by August 6, 2009, Lenfest will not extend the Amended and Restated Guaranty and the Lenfest Pledge, and PNC Bank will not close on the Amended and Restated PNC Credit Agreement, in which event ETC will not receive the additional $5,000,000 of borrowing availability for its working capital needs.

Series D Preferred Stock

ETC has created a new class of Series D Preferred Stock. The Series D Preferred Stock will be issued for payment of the origination fee and interest on the Lenfest Credit Facility Notes as described above. The Series D Preferred Stock will provide for a dividend equal to 10% per annum. The dividend will be paid on the liquidation of ETC, on the conversion of the Series D Preferred Stock or following declaration by the Board of Directors of ETC. Upon liquidation, dissolution or winding up of ETC, the Series D Preferred Stock will have the right to receive the original investment amount plus accrued dividends. To the extent of any remaining funds or assets, the Series D Preferred Stock will participate on an as-converted basis in additional distributions. The Series D Preferred Stock will rank *pari passu* with the Series E Preferred Stock. The Series D Preferred Stock will vote with the ETC common stock on an as converted basis on all matters that require the vote of ETC's shareholders.

The Series D Preferred Stock will be convertible, at Lenfest's request, into ETC common shares at a conversion price equal to the fair market value of ETC's common stock on the date of issuance.

The Series D Preferred Stock contains anti-dilution protection for issuances of ETC's common stock or securities convertible into ETC's common stock at prices below the conversion price of the Series D Preferred Stock.

ETC has granted Lenfest demand and "piggy back" registration rights pursuant to a Registration Rights Agreement with respect to the shares of common stock issuable upon conversion of the Series D Preferred Stock.

The Series D Preferred Stock will be classified in the Company's balance sheet as permanent equity.

Accounting Treatment for Refinancing Transaction

Upon its review of EITF-19 "Debtor's Accounting for a Modification or Exchange of Debt Instruments", the Company will account for the Refinancing Transaction as an extinguishment of debt due to the fact that the instruments being exchanged have substantially different terms. The Subordinated Note, accrued interest and accrued dividends have conversion features to the Company's common stock ranging from $3.03 to $6.05 per share as compared to the Series E Preferred Stock which has a conversion feature of $2.00 per share. The Series B and Series C Preferred Stock have conversion features ranging from $3.03 to $6.68 per share compared to the Series E Preferred Stock which has a conversion feature of $2.00 per share.

Upon its review of EITF Topic No. D-98, "Classification and Measurement of Redeemable Securities" and EITF Topic No. D-109, "Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No. 133", the Company has determined that both the Series D and Series E Preferred Stock will be accounted for as permanent equity. Due to the attributes of these instruments, (designation, conversion to common stock, dividends, no mandatory conversion and voting rights), the Company has determined that these instruments are more comparable to equity than debt. Additionally, due to the fact that the conversion feature is clearly and closely related to the preferred stock, it qualifies for the scope exception of paragraph 6 of FAS 133 — Accounting for Derivatives and Hedging Activities.

Financing Transaction Conditions

Additional advances under the Lenfest Line of Credit, the Series E Exchange and Lenfest's execution of the Lenfest Guaranty are subject to certain conditions (the "Financing Transaction Conditions"). These conditions include (i) shareholder approval of an increase in the number of authorized shares of the Company from 20,000,000 to 50,000,000, (ii) shareholder approval of the Series E Exchange, and (iii) shareholder approval of the restoration of Lenfest's voting rights with respect to all preferred and common shares owned by Lenfest currently or issuable to Lenfest as part of the Lenfest Financing Transaction (collectively, the "Shareholder Approvals"). These conditions also include the amendment of existing employment agreements between ETC and certain ETC employees to amend certain change in control provisions. Pursuant to a Shareholders Voting Agreement, dated April 24, 2009, William F. Mitchell, Sr. has agreed to vote all of his shares of ETC common stock in favor of the Shareholder Approvals.

Other Related Party Transactions

ETC purchases industrial products from Industrial Instruments Corp. which is owned by Christine and Charles Walter, the daughter and son-in-law of William F. Mitchell, ETC's President and Chief Executive Officer. During fiscal 2009, 2008 and 2007, the Company purchased $325,000, $315,000 and $265,000, respectively, from Industrial Instruments. ETC also rents office space to Industrial Instruments at ETC's corporate headquarters. During fiscal 2009, 2008 and 2007, Industrial Instruments paid to ETC rent in the amounts of $8,450, $8,450 and $7,750, respectively.

ETC purchases travel accommodations from Jet Set, a company that employs Kathleen Mahon, the daughter of Mr. Mitchell. During fiscal 2009, 2008 and 2007, ETC purchased travel through Jet Set totaling $237,000, $254,000 and $217,000, respectively, and Ms. Mahon received approximately $12,000 from her employer in each fiscal period in commissions on account of such purchases. Ms. Mahon is also engaged by ETC as a consultant to review expense reports submitted by Company employees. During fiscal 2009, 2008 and 2007, Ms. Mahon received $16,000, $11,000 and $10,000, respectively in consideration of such services.

ETC also employs William F. Mitchell, Jr., the son of Mr. Mitchell, as its Vice President, Contracts/Purchasing, and David Mitchell, the son of Mr. Mitchell, as its Business Unit Manager for Sterilizers. In fiscal 2009, William F. Mitchell, Jr., received $115,000 and David Mitchell received $112,000 in compensation from ETC.

Review, Approval or Ratification of Transactions with Related Parties.

We have not adopted any formal policies or procedures for the review, approval or ratification of certain related-party transactions. However, such transactions, if and when they are proposed or have occurred, have traditionally been, and will continue to be, reviewed by our Audit Committee on a case-by-case basis. The Audit Committee may consider any relevant factors when reviewing the appropriateness of a related-party transaction, including, but not limited to, the following: (i) the importance of the transaction to ETC; (ii) the amount involved in the proposed transaction; (iii) the specific interest of the director or executive officer (or immediate family members of same) in the proposed transaction; and (iv) the overall fairness of the terms of the transaction to ETC.

Director Independence.

NYSE AMEX LLC rules require that a majority of our board of directors be composed of "independent directors," which is defined generally as a person other than an officer or employee of a company or its subsidiaries or any other individual having a relationship, which, in the opinion of the company's board of directors, would interfere with the director's exercise of independent judgment in carrying out the responsibilities of a director. Messrs. Kelley and Ryan, and Dr. Anderson are our independent directors. Independent directors constitute a majority of our Board of Directors.

Item 14. ***Principal Accounting Fees and Services***

Under the Company's Bylaws and the Charter of the Audit Committee of the Board of Directors, authority to select the Company's auditors rests with the Audit Committee of the Board of Directors. Such selection is made through the formal act of the Audit Committee. It has not been and is not the Company's policy to submit selection of its auditors to the vote of the shareholders because there is no legal requirement to do so.

On November 28, 2007, Grant Thornton LLP, who had been the Company's independent registered public accounting firm since 1995, resigned. They were replaced on January 30, 2008 with Friedman, LLP, who were the Company's independent registered public accounting firm for the fiscal years ended February 29, 2008 and February 27, 2009.

The following table presents fees for professional audit services rendered by Grant Thornton LLP for professional services rendered before their resignation. No fees for Friedman, LLP, after they were engaged, were paid in fiscal 2008. The fees include charges for quarterly financial statement reviews and the annual audit, employee benefit plans, and tax services for the fiscal years ended February 27, 2009 and February 29, 2008.

	FY 2009	FY 2008
Audit Fees	$ 240,780	$146,675
Audit related fees(1)	19,048	57,222
Audit and audit related fees	259,828	203,897
Tax fees(2)	24,212	24,882
Total fees	$ 284,040	$228,779

(1) Audit related fees consist of fees related to review of the Lenfest transaction (fiscal 2009) and review of the U.S. Government claim issue (fiscal 2008) and employee benefit plan audits.

(2) Tax fees consist of tax compliance services and other consultations on miscellaneous tax matters.

PART IV

Item 15. *Exhibits and Financial Statement Schedules.*

(a) Exhibits:

Number	
3.1(i)(1)	Registrant's Articles of Incorporation, as amended, were filed as Exhibit 3.1. to Registrant's Form 10-K for the year ended February 28, 1997 and are incorporated herein by reference.
3.1(i)(2)	Statement with respect to shares of Series B Cumulative Convertible Participating Preferred Stock, filed as Exhibit 3(i) 1, to Registrant's Form 8-K dated April 6, 2006, and incorporated herein by reference.
3.1(i)(3)	Statement with respect to shares of Series C Cumulative Convertible Participating Preferred Stock was filed as Exhibit 3(i) 1, to Registrant's Form 8-K dated August 28, 2007, and incorporated herein by reference.
3.1(i)(4)	Statement with respect to shares of Series D Convertible Preferred Stock (Filed herewith).
3.1(ii)	Registrant's amended and restated By-Laws were filed as Exhibit 3.2 to Registrant's Form 8-K dated May 25, 2005, and are incorporated herein by reference.
4.1	$10,000,000 Senior Subordinated Convertible Note, dated February 18, 2003, issued by the Registrant in favor of H.F. Lenfest was filed on February 25, 2003 as Exhibit 4.1 to Form 8-K and is incorporated herein by reference.
4.2	Unsecured $1 million Promissory Note, dated June 28, 2007 executed by the Registrant in favor of H.F. Lenfest, was filed on June 28, 2007 as Exhibit 10.1 to Form 8-K and is incorporated by reference.
4.3	$15 million Committed Line of Credit Note,, dated as of July 31, 2007 issued by the Registrant in favor of and PNC Bank, National Association, was filed on August 3, 2007 as Exhibit 10.2 to Form 8-K and is incorporated by reference
4.4	First Amendment to Senior Subordinated Convertible Note, effective as of February 19, 2008, by the Registrant in favor of H.F. Lenfest was filed on was filed on March 11, 2008 as Exhibit 10.2 to Form 8-K and is incorporated by reference.
4.5	Secured Promissory Note by the Registrant in favor of H.F. Lenfest, dated as of February 20, 2009, was filed on February 26, 2009 as Exhibit 10.2 to Form 8-K and is incorporated by reference.
4.6	Common Stock Warrant issued by the Registrant in favor of H.F. Lenfest, dated as of February 20, 2009, was filed on February 26, 2009 as Exhibit 10.3 to Form 8-K and is incorporated by reference.
4.7	Amended and Restated Warrant, dated as of April 24, 2009, between Registrant and Lenfest, was filed on April 27, 2009 as Exhibit 10.1 to Form 8-K and is incorporated by reference.

Number	
10.1	Registrant's 1998 Stock Option Plan was filed on October 8, 1998 on Form S-8 and is incorporated herein by reference.*
10.2	Registrant's Employee Stock Purchase Plan was filed on July 6, 1988 as Exhibit A to the Prospectus included in Registrant's Registration Statement (File No. 33-42219) on Form S-8 and is incorporated herein by reference.*
10.3	Registrant's Stock Award Plan adopted April 7, 1993, was filed as Exhibit 10(ix) to the Registrant's Form 10-K for the fiscal year ended February 25, 1994 and is incorporated herein by reference.*
10.4	Convertible Note and Warrant Purchase Agreement dated February 18, 2003, by and between the Registrant and Lenfest was filed on February 25, 2003 as Exhibit 10.8 to Form 8-K and is incorporated herein by reference.
10.5	Registration Rights Agreement dated as of February 18, 2003, by and between the Registrant and H.F. Lenfest was filed on February 25, 2003 as Exhibit 10.9 to Form 8-K and is incorporated herein by reference.
10.6	Security Agreement, made and entered into as of February 18, 2003, by and among the Registrant, Entertainment Technology Corporation, ETC Delaware, Inc. and H.F. Lenfest was filed on February 25, 2003 as Exhibit 10.10 to Form 8-K and is incorporated herein by reference.
10.7	Guaranty, dated as of February 18, 2003, made by Entertainment Technology Corporation and ETC Delaware, Inc. in favor of H.F. Lenfest was filed on February 25, 2003 as Exhibit 10.11 to Form 8-K and is incorporated herein by reference.
10.8	Subscription Agreement, dated as of February 14, 2005, between the Registrant and H.F. Lenfest, was filed on February 16, 2005 as Exhibit 10.1 to Form 8-K and is incorporated herein by reference.
10.9	2005 Non-employee Director Stock Option Plan, incorporated by reference to Annex A of Registrant's Definitive Proxy Statement on Schedule 14A filed on August 16, 2005 and incorporated herein by reference.*
10.10	Preferred Stock Purchase Agreement between the Registrant and H.F. Lenfest, dated as of April 6, 2006, filed as Exhibit 10.1 to Registrant's Form 8-K dated April 6, 2006, and incorporated herein by reference.
10.11	Registration Rights Agreement between the Registrant and H.F. Lenfest, dated as of April 6, 2006, filed as Exhibit 10.2 to Registrant's Form 8-K dated April 6, 2006, and incorporated herein by reference.
10.12	Restated Limited Guaranty Agreement, dated as of November 16, 2006, between the Registrant and H.F. Lenfest, was filed on November 20, 2006 as Exhibit 10.4 to Form 8-K and is incorporated herein by reference.
10.13	Employment Agreement, dated as of November 1, 2005, between Registrant and Duane D. Deaner, Chief Financial Officer was filed on May 24, 2007 as Exhibit 10.33 to the Registrant's Form 10-K for the fiscal year ended February 23, 2007 and is incorporated herein by reference.*
10.14	Employment Agreement, dated as of July 24, 2006, between Registrant and William F. Mitchell , was filed on July 24, 2006 as Exhibit 10.1 to Form 8-K and is incorporated herein by reference.*
10.15	Credit Agreement, dated as of July 31, 2007 between the Registrant and PNC Bank, National Association, was filed on August 3, 2007 as Exhibit 10.1 to Form 8-K and is incorporated by reference.
10.16	Agreement between Registrant and H.F. Lenfest, dated as of May 9, 2007 was filed on May 24, 2007 as Exhibit 10.33 to the Registrant's Form 10-K for the fiscal year ended February 23, 2007 and is incorporated herein by reference.
10.17	Amended and Restated Reimbursement Agreement for Letters of Credit, dated as of July 31, 2007 issued by the Registrant in favor of and PNC Bank, National Association was filed on August 3, 2007 as Exhibit 10.2 to Form 8-K and is incorporated by reference.
10.18	Restated Guaranty Agreement, dated as of July 31, 2007 by H.F. Lenfest in favor of PNC Bank, National Association, was filed on August 3, 2007 as Exhibit 10.2 to Form 8-K and is incorporated by reference
10.19	Series C Preferred Stock Purchase Agreement dated as of August 23, 2007, between the Registrant and H.F. Lenfest as Exhibit 10.1 to Form 8-K and is incorporated by reference.

Number	
10.20	Registration Rights Agreement dated as of August 23, 2007, between the Registrant and H.F. Lenfest as Exhibit 10.2 to Form 8-K and is incorporated by reference.
10.21	Letter Agreement, dated as of August 23, 2007, between the Registrant and H.F. Lenfest was filed on August 28, 2007 as Exhibit 10.3 to Form 8-K and is incorporated by reference.
10.22	Administrative Agreement dated as of December 12, 2007 between the Registrant and the Department of the Navy was filed on December 18, 2007 as Exhibit 10.1 to Form 8-K and is incorporated by reference.
10.23	Credit Agreement and Waiver and Amendment between the Registrant and PNC Bank, National Association, dated January 31, 2008 was filed on February 5, 2008 as Exhibit 10.1 to Form 8-K and is incorporated by reference.
10.24	Settlement Agreement between the Registrant and the Department of the Navy dated as of February 22, 2008 was filed on February 26, 2008 as Exhibit 10.1 to Form 8-K and is incorporated by reference.
10.25	Amendment No. 1 to Convertible Note and Warrant Purchase Agreement, effective as of February 19, 2008, by and between the Registrant and H.F. Lenfest was filed on March 11, 2008 as Exhibit 10.1 to Form 8-K and is incorporated by reference.
10.26	Letter Agreement between Registrant and H.F. Lenfest, dated as of May 20, 2008 was filed on May 29, 2008 as Exhibit 10.32 to Form 10-K and is incorporated by reference.
10.27	First Amendment to Loan Documents between Registrant and PNC Bank, National Association, was filed on October 7, 2008 as Exhibit 10.1 to Form 8-K and is incorporated by reference.
10.28	Security Agreement by the Registrant in favor of H.F. Lenfest, dated as of February 20, 2009, was filed on February 26, 2009 as Exhibit 10.2 to Form 8-K and is incorporated by reference.
10.29	Secured Credit Facility and Warrant Purchase Agreement, dated April 24, 2009, between Registrant and H.F. Lenfest, was filed on April 27, 2009 as Exhibit 10.1 to Form 8-K and is incorporated by reference.
10.30	Letter Agreement, dated April 24, 2009, between Registrant and PNC Bank, with the Amended and Restated PNC Credit Agreement, the Amended and Restated PNC Note, the Amended and Restated Guaranty Agreement, the Pledge Agreement and the Notification and Control Agreement (each as defined in such letter agreement) attached thereto as exhibits, was filed on April 27, 2009 as Exhibit 10.3 to Form 8-K and is incorporated by reference.
10.31	Second Amended and Restated Subordination Agreement, dated April 24, 2009, among PNC Bank, Lenfest and Registrant, was filed on April 27, 2009 as Exhibit 10.4 to Form 8-K and is incorporated by reference.
10.32	Amended and Restated Open-End Mortgage and Security Agreement, dated as of April 24, 2009, by Registrant in favor of Lenfest (filed herewith).
13	Portions of Registrant's 2009 Annual Report to Shareholders which are incorporated by reference into this Form 10-K.
14	Code of Ethics was filed on May 24, 2007 as Exhibit 14 to Form 10-K and is incorporated by reference.
16.1	Letter from Grant Thornton LLP dated as of November 28, 2007 was filed on December 4, 2007 as Exhibit 16.1 to Form to 8-K and is incorporated by reference.
21	Subsidiaries of the Registrant (Filed herewith).
23	Consent of Friedman LLP dated May 29, 2008. (Filed herewith)
31.1	Certification dated May 12, 2009 pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 made by William F. Mitchell, Chief Executive Officer. (Filed herewith)
31.2	Certification dated May 12, 2009 pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 made by Duane D. Deaner, Chief Financial Officer. (Filed herewith)
32	Certification dated May 12, 2009 pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 made by William F. Mitchell, Chief Executive Officer and Duane D. Deaner, Chief Financial Officer. (Filed herewith)
99.1	Proposal Letter from H.F. Lenfest was filed on February 22, 2008 as Exhibit 99.2 on Form 8-K and is incorporated herein by reference.

* Represents a management contract or a compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENVIRONMENTAL TECTONICS CORPORATION

By /s/ William F. Mitchell
William F. Mitchell,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the registrant and in the capacities and on the dates indicated have signed this report below.

Name		Date
/s/ William F. Mitchell William F. Mitchell	Chairman of the Board, Chief Executive Officer, President and Director (Principal Executive Officer)	May 12, 2009
/s/ Duane D. Deaner Duane D. Deaner	Chief Financial Officer (Principal Financial and Accounting Officer)	May 12, 2009
/s/ Howard W. Kelley Howard W. Kelley	Director	May 12, 2009
/s/ H.F. Lenfest H.F. Lenfest	Director	May 12, 2009
/s/ George K. Anderson George K. Anderson, M.D.	Director	May 12, 2009
/s/ Stephen F. Ryan Stephen F. Ryan	Director	May 12, 2009

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EXHIBIT INDEX

Exhibit No.	
3.1(i)(4)	Statement with respect to shares of Series D Convertible Preferred Stock.
10.32	Amended and Restated Open-End Mortgage and Security Agreement, dated as of April 24, 2009, by Registrant in favor of Lenfest.
13	Portions of Registrant’s 2009 Annual Report to Shareholders which are incorporated by reference into this Form 10-K.
21	Subsidiaries of the Registrant.
23	Consent of Friedman LLP.
31.1	Certification dated May 12, 2009 pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 made by William F. Mitchell, Chief Executive Officer.
31.2	Certification dated May 12, 2009 pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 made by Duane D. Deaner, Chief Financial Officer.
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Exhibit 3.1(i)(4)

Statement With Respect to Shares
of
Series D Convertible Preferred Stock
of
Environmental Tectonics Corporation

Pursuant to Section 1522(b) of the
Business Corporation Law of the Commonwealth of Pennsylvania

In compliance with the requirements of 15 Pa.C.S. § 1522(b) (relating to statements with respect to shares), Environmental Tectonics Corporation, a Pennsylvania corporation (the "***Corporation***"), desiring to state the designation and voting rights, preferences, limitations, and special rights, if any, of a class or series of its shares, hereby states that:

FIRST: The name of the Corporation is Environmental Tectonics Corporation.

SECOND: The resolution amending the Articles of Incorporation of the Corporation under 15 Pa. C.S. § 1522(b) (relating to divisions and determinations by the board), set forth in full, is as follows:

WHEREAS, the Articles of Incorporation of the Corporation authorizes Preferred Stock consisting of 1,000,000 shares issuable from time to time in one or more series; and

WHEREAS, the Board of Directors of the Corporation (or an authorized committee thereof) is authorized, subject to limitations prescribed by law and by the Articles of Incorporation to establish and fix the number of shares to be included in any series of Preferred Stock and the par value, designation, rights, preferences and limitations of the shares of such series; and

WHEREAS, the Board of Directors, acting through its Audit Committee, intends to establish a new series of Preferred Stock, called Series D Convertible Preferred Stock.

NOW, THEREFORE, BE IT RESOLVED, that pursuant to Article 6 of the Corporation's Articles of Incorporation, the designation, rights, preferences, powers, restrictions and limitations applicable to the Series D Preferred Stock be and hereby are set forth below:

1. <u>Designation</u>. The designation of this series, which consists of 11,000 shares of Preferred Stock, $0.05 par value per share, is the Series D Convertible Preferred Stock (the "***Series D Preferred Stock***") and the stated value shall be One Thousand U.S. Dollars ($1,000.00) per share (the " ***Stated Value***"). The Series D Preferred Stock may be issued in one or more sub-series of Series D Preferred Stock to be designated: Series D-1 Preferred Stock, Series D-2 Preferred Stock, Series D-3 Preferred Stock, and so on and so forth, the number of shares of each such series to be determined by resolution of the Board of Directors of the Corporation, including the Series D Director Nominee (as hereinafter defined). Each sub-series of Series D Preferred Stock shall have all of the same rights, preferences and privileges as each other sub-series of Series D Preferred Stock, except that the Conversion Price (as hereinafter

defined) shall differ based on the Market Price (as hereinafter defined) on the date of issuance of such sub-series of Series D Preferred Stock.

2. Certain Definitions. For purposes of this Statement With Respect to Shares, the following terms shall have the following meanings:

"***Common Stock***" means the common stock of the Corporation, $0.05 par value per share.

"***Conversion Date***" means, for any Optional Conversion (as defined below), the date specified in the notice of conversion in the form attached hereto (the "***Notice of Conversion***"), so long as a copy of the Notice of Conversion is faxed (or delivered by other means resulting in notice) to the Corporation before 4:59 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 Corporation.

"***Conversion Price***" means, with respect to each share of Series D Preferred Stock, the Market Price as of the date of issuance of such shares of Series D Preferred Stock, provided that such Conversion Price shall be subject to adjustment as provided herein.

"***Market Price***" means, as of any date, (i) the closing sale price for the shares of Common Stock as reported on NYSE AMEX LLC, the successor to the American Stock Exchange ("***AMEX***") by Bloomberg Financial Markets ("***Bloomberg***") for the trading day immediately preceding such date, or (ii) if 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 one hundred twenty (120) day period immediately preceding such date, or (iii) 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 of the Corporation.

3. Dividends.

(a) Accruing Dividends. From and after the date a share of Series D Preferred Stock is issued (the " ***Applicable Issue Date***"), the holder of such issued and outstanding share of Series D Preferred Stock (each a " ***Holder***" and collectively, the "***Holders***") shall be entitled to receive, out of funds legally available therefor, cumulative dividends at a rate of ten percent (10%) per annum of the Stated Value on each such share of Series D Preferred Stock (the " ***Accruing Dividends***") in preference to the holders of Common Stock or any other series of Preferred Stock issued by the Corporation after the date hereof which does not, by its terms, provide that it is senior to or *pari passu* with the Series D Preferred Stock with respect to dividends. The Accruing Dividends shall accrue on each issued and outstanding share of Series D Preferred Stock from the Applicable Issue Date, from day to day, whether or not earned or declared, and shall compound annually and be cumulative. The Corporation shall only pay the Holder the Accruing Dividends upon a Liquidation Event (as hereinafter defined) or when otherwise declared by the Board of Directors of the Corporation.

(b) The Corporation shall not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Corporation (other than dividends on shares of Common Stock payable in shares of Common Stock) unless (in addition to the obtaining of any consents required elsewhere in the Articles of Incorporation) the holders of the Series D Preferred Stock then outstanding shall first receive a dividend on each outstanding share of Series D Preferred Stock in an amount at least equal to the amount of the aggregate Accruing Dividends then accrued on such share of Series D Preferred Stock and not previously paid.

(c) The Holders shall be entitled to receive, if and when declared by the Board of Directors and paid by the Corporation, any dividends paid with respect to the Common Stock (other than any dividends paid in additional shares of Common Stock). In the case of any such dividend, each Holder shall be entitled to receive an amount per share of Series D Preferred Stock held by such Holder as of the record date for such dividend equal to the product of: (i) the amount of the dividend payable with respect to one share of Common Stock and (ii) the number of shares of Common Stock that would be issued to a Holder if one share of Series D Preferred Stock were converted by the Holder on the record date.

4. Conversion.

(a) Conversion at the Option of the Holder. Each Holder may, at any time and from time to time, convert (an "***Optional Conversion***") each of its shares of Series D Preferred Stock plus all accrued but unpaid Accruing Dividends into a number of fully paid and nonassessable shares of the Common Stock determined by dividing the Stated Value plus the aggregate amount of the Accruing Dividends by the Conversion Price for such shares of Series D Preferred Stock.

(b) Mechanics of Conversion. In order to effect an Optional Conversion, a Holder shall: (x) fax (or otherwise deliver) a copy of the fully executed Notice of Conversion to the Corporation or the transfer agent for the Common Stock and (y) surrender or cause to be surrendered the original certificates representing the Series D Preferred Stock being converted (the "***Series D Preferred Stock Certificates***"), duly endorsed, along with a copy of the Notice of Conversion as soon as practicable thereafter to the Corporation or the transfer agent. Upon receipt by the Corporation of a facsimile copy of a Notice of Conversion from a Holder, the Corporation shall promptly send, via facsimile, a confirmation to such Holder stating that the Notice of Conversion has been received, the date upon which the Corporation expects to deliver the Common Stock issuable upon such conversion and the name and telephone number of a contact person at the Corporation regarding the conversion. The Corporation shall not be obligated to issue shares of Common Stock upon a conversion unless either the Series D Preferred Stock Certificates are delivered to the Corporation or the transfer agent as provided above, or the Holder notifies the Corporation or the transfer agent that such Series D Preferred Stock Certificates have been lost, stolen or destroyed and delivers the documentation to the Corporation required by Section 10(b) hereof.

(i) Delivery of Common Stock Upon Conversion. Upon the surrender of Series D Preferred Stock Certificates accompanied by a Notice of Conversion, the Corporation shall, no later than the later of (a) the third (3^{rd}) business day following the Conversion Date and (b) the (2^{nd}) second business day following the date of such surrender (or, in the case of lost, stolen or destroyed certificates, after provision of indemnity pursuant to Section 10(b)) (the "***Delivery Period***"), issue and deliver to the Holder or its nominee (x) that number of shares of Common Stock issuable upon conversion of such shares of Series D Preferred Stock and Accruing Dividends being converted and (y) a certificate representing the number of shares of Series D Preferred Stock not being converted, if any. If the Corporation's transfer agent is participating in the Depository Trust Company ("***DTC***") Fast Automated Securities Transfer program, and so long as the certificates therefor do not bear a legend and the Holder thereof is not then required to return such certificate for the placement of a legend thereon, the Corporation shall cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the Holder by crediting the account of the Holder or its nominee with DTC through its Deposit Withdrawal Agent Commission system ("***DTC Transfer***"). If the aforementioned conditions to a DTC Transfer are not satisfied, the Corporation shall deliver to the Holder physical certificates representing the Common Stock issuable upon conversion. Further, a Holder may instruct the Corporation to deliver to the Holder physical certificates representing the Common Stock issuable upon conversion in lieu of delivering such shares by way of DTC Transfer.

(ii) No Fractional Shares. If any conversion of Series D Preferred Stock would result in the issuance of a fractional share of Common Stock, such fractional share shall be disregarded, and the number of shares of Common Stock issuable upon conversion of the Series D Preferred Stock shall be rounded off to the nearest whole number of shares.

(iii) Conversion Disputes. In the case of any dispute with respect to a conversion, the Corporation shall promptly issue such number of shares of Common Stock as are not disputed in accordance with subparagraph (i) above. If such dispute involves the calculation of the Conversion Price, the Corporation shall submit the disputed calculations to an independent outside accountant within two (2) business days of receipt of the Notice of Conversion. The accountant, at the Corporation's expense, shall review the calculations and notify the Corporation and the Holder of the results. The accountant's calculation shall be deemed conclusive, absent manifest error. The Corporation shall then issue the appropriate number of shares of Common Stock in accordance with subparagraph (i) above no later than two (2) business days from the date it receives the determination from the independent outside accountant.

5. Rank. The Series D Preferred Stock shall rank (i) prior to the Common Stock; (ii) prior to the Series B Preferred Stock; (iii) prior to the Series C Preferred Stock; (iv) prior to any class or series of capital stock of the Corporation hereafter created that does not, by its terms, rank senior to or *pari passu* with the Series D Preferred Stock (collectively with the Common Stock, the Series B Preferred Stock and the Series C Preferred Stock, "***Junior Securities***"); (v) *pari passu* with any class or series of capital stock of the Corporation hereafter created that, by its terms, ranks on parity with the Series D Preferred Stock (the "***Pari Passu Securities***"); and (vi) junior to any class or series of capital stock of the Corporation hereafter created that, by its terms, ranks senior to the Series D Preferred Stock (collectively, the "***Senior Securities***"), in each case as to distribution of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary.

6. Liquidation Preference.

(a) If the Corporation shall commence a voluntary case under the U.S. federal bankruptcy laws or any other applicable bankruptcy, insolvency or similar law, or consent to the entry of an order for relief in an involuntary case under any law or to the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Corporation or of any substantial part of its property, or make an assignment for the benefit of its creditors, or admit in writing its inability to pay its debts generally as they become due, or if a decree or order for relief in respect of the Corporation shall be entered by a court having jurisdiction in the premises in an involuntary case under the U.S. federal bankruptcy laws or any other applicable bankruptcy, insolvency or similar law resulting in the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Corporation or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order shall be unstayed and in effect for a period of ninety (90) consecutive days and, on account of any such event, the Corporation shall liquidate, dissolve or wind up, or if the Corporation shall otherwise liquidate, dissolve or wind up (a "***Liquidation Event***"), no distribution shall be made to the holders of any shares of Junior Securities upon liquidation, dissolution or winding up of the Corporation unless prior thereto the Holders shall have received the Liquidation Preference (as defined below) with respect to each share of Series D Preferred Stock then outstanding. Any acquisition of the Corporation by means of a merger or other form of corporate reorganization approved by the Board of Directors of the Corporation in which all outstanding shares of Common Stock are exchanged for securities or other consideration issued by the acquiring corporation or its subsidiary or the effectuation by the Corporation of a transaction or series of related transactions approved by the Board of Directors of the Corporation in which more than 50% of the voting power is disposed of or the sale, lease or other disposition of all or substantially all of the assets of the Corporation, shall be deemed a Liquidation Event unless the holders of a majority of the outstanding shares of Series D Preferred Stock elect to the contrary; such election to be made by giving written notice thereof to the Corporation at least three (3) days before the closing of such event. For clarification, none of the transactions described in the preceding sentence shall be deemed a Liquidation Event unless any such transaction is approved by the Board of Directors of the Corporation. In such event, the Holders will be entitled to receive in preference to the holders of Junior Securities, the Liquidation Preference with respect to shares of Series D Preferred Stock in the form of cash, securities or other property as is payable in connection with the transaction deemed to be a Liquidation Event. In the event that the Corporation sells, conveys or disposes of all or substantially all of its assets, the Holders will be entitled to receive, prior to the holders of the Junior Securities, if and when the Board of Directors declares a distribution of the consideration received by the Corporation in such asset sale, the Liquidation Preference with respect to the shares of Series D Preferred Stock. If, upon the occurrence of a Liquidation Event, the assets and funds available for distribution among the Holders and holders of Pari Passu Securities shall be insufficient to permit the payment to such holders of the preferential amounts payable thereon, then the entire assets and funds of the Corporation legally available for distribution to the Series D Preferred Stock and the Pari Passu Securities, if any, shall be distributed ratably among such shares in proportion to the ratio that the Liquidation Preference payable on each such share bears to the aggregate Liquidation Preference payable on all such shares. Following payments of preferences to all holders of preferred stock of the Corporation, all remaining assets and funds of the Corporation legally available for distribution shall be distributed ratably to the holders of Common Stock, Series D Preferred Stock (on an as-if converted to Common Stock basis) and any other capital stock of the Corporation entitled to share in such distribution.

(b) The "***Liquidation Preference***" with respect to a share of Series D Preferred Stock means an amount equal to the Stated Value thereof plus any accrued and unpaid dividends thereon, including the Accruing Dividends. The Liquidation Preference with respect to any Pari Passu Securities shall be as set forth in the Statement With Respect to Shares filed in respect thereof.

7. Adjustments to the Conversion Price. The Conversion Price shall be subject to adjustment from time to time as follows:

(a) Stock Splits, Stock Dividends, Etc. If, at any time on or after the date hereof, the number of outstanding shares of Common Stock is increased by a stock split, stock dividend, combination, reclassification or other similar event, the Conversion Price for each share of Series D Preferred Stock shall be proportionately reduced, or if the number of outstanding shares of Common Stock is decreased by a reverse stock split, combination or reclassification of shares, or other similar event, the Conversion Price for each share of Series D Preferred Stock shall be proportionately increased.

(b) Adjustment Due to Merger, Consolidation, Etc. If, at any time after the date hereof, there shall be (i) any reclassification or change of the outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), (ii) any consolidation or merger of the Corporation with any other entity (other than a merger in which the Corporation is the surviving or continuing entity and its capital stock is unchanged), (iii) any sale or transfer of all or substantially all of the assets of the Corporation or (iv) any share exchange pursuant to which all of the outstanding shares of Common Stock are converted into other securities or property (each of (i) — (iv) above being a "***Corporate Change***"), and, if such Corporate Change is not a Liquidation Event pursuant to the terms of Section 6(a), then the Holders shall thereafter have the right to receive upon conversion, in lieu of the shares of Common Stock otherwise issuable, such shares of stock, securities and/or other property as would have been issued or payable in such Corporate Change with respect to or in exchange for the number of shares of Common Stock which would have been issuable upon conversion had such Corporate Change not taken place, and in any such case, appropriate provisions (in form and substance reasonably satisfactory to the Holders of a majority of the Series D Preferred Stock then outstanding) shall be made with respect to the rights and interests of the Holders to the end that the economic value of the shares of Series D Preferred Stock are in no way diminished by such Corporate Change and that the provisions hereof (including, without limitation, in the case of any such consolidation, merger or sale in which the successor entity or purchasing entity is not the Corporation, an immediate adjustment of the Conversion Price for each share of Series D Preferred Stock so that the Conversion Price immediately after the Corporate Change reflects the same relative value as compared to the value of the surviving entity's common stock that existed between the Conversion Price and the value of the Common Stock immediately prior to such Corporate Change).

(c) Adjustment Due to New Issuances of Equity Securities Below the Conversion Price .

(i) *Weighted Average Anti-Dilution Formula.*

(A) If the Corporation issues, after the date hereof (the "***Effective Date***"), any Additional Stock (as defined below) without consideration or for a consideration per share less than the Conversion Price for any sub-series of the Series D Preferred Stock in effect immediately prior to the issuance of such Additional Stock, the Conversion Price for such sub-series of the Series D Preferred Stock in effect immediately prior to each such issuance shall forthwith (except as otherwise provided in this Section 7(c)(i)) be reduced to a price determined in accordance with the following formula:

$$CP2 = CP1 * (A + B) \div (A + C).$$

For purposes of the foregoing formula, the following definitions shall apply:

(1) "CP2" shall mean the Conversion Price for the Series D Preferred Stock in effect immediately after such issue of Additional Stock

(2) "CP1" shall mean the Conversion Price of the Series D Preferred Stock in effect immediately prior to such issue of Additional Stock;

(3) "A" shall mean the number of shares of Common Stock actually outstanding immediately prior to such issuance of Additional Stock (excluding shares of Common Stock issuable on conversion or exercise of preferred stock, convertible promissory notes, options, warrants and other options to purchase or rights to subscribe for such convertible or exchangeable securities);

(4) "B" shall mean the number of additional shares of Common Stock that would have been issued if such Additional Stock had been issued at a price per share equal to CP1 (determined by dividing the aggregate consideration received by the Corporation in respect of such issue by CP1); and

(5) "C" shall mean the number of such Additional Stock issued in such transaction.

(B) No adjustment of the Conversion Price for any series of Series D Preferred Stock will be made in an amount less than one cent per share, provided that any adjustments that are not required to be made by reason of this sentence will be carried forward and shall be either taken into account in any subsequent adjustment made prior to three (3) years from the date of the event giving rise to the adjustment being carried forward, or will be made at the end of three (3) years from the date of the event giving rise to the adjustment being carried forward. Except to the limited extent provided for in Sections 7(c)(i)(E)(3) and 7(c)(i)(E)(4), no adjustment of such Conversion Price pursuant to this Section 7(c)(i) shall have the effect of increasing the Conversion Price above the Conversion Price in effect immediately prior to such adjustment.

(C) In the case of the issuance of Common Stock for cash, the consideration will be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by the Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(D) In the case of the issuance of Common Stock for a consideration in whole or in part other than cash, the consideration other than cash will be deemed to be the fair value thereof as determined in good faith by the Board of Directors irrespective of any accounting treatment.

(E) In the case of the issuance (whether before, on or after the Effective Date) of warrants, options to purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock or warrants, options to purchase or rights to subscribe for such convertible or exchangeable securities, the following provisions will apply for all purposes of this Section 7(c)(i) and Section 7(c)(ii):

(1) The aggregate maximum number of shares of Common Stock deliverable upon exercise (to the extent then exercisable) of such warrants, options to purchase or rights to subscribe for Common Stock will be deemed to have been issued at the time such warrants, options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in Sections 7(c)(i)(C) and 7(c)(i)(D)), if any, received by the Corporation upon the issuance of such warrants, options or rights plus the minimum exercise price provided in such warrants, options or rights the Common Stock covered thereby.

(2) The aggregate maximum number of shares of Common Stock deliverable upon conversion of, or in exchange (to the extent then convertible or exchangeable) assuming the satisfaction of any conditions to convertibility or exchangeability, including, without limitation, the passage of time, for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof will be deemed to have been issued at the time such securities were issued or such options or rights were issued and for a consideration equal to the consideration, if any, received by the Corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the minimum additional consideration, if any, to be received by the Corporation upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in Sections 7(c)(i)(C) and 7(c)(i)(D)).

(3) In the event of any change in the number of shares of Common Stock deliverable or in the consideration payable to the Corporation upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the antidilution provisions thereof, the Conversion Price of the Series D Preferred Stock, to the extent in any way affected by or computed using such options, rights or securities, will be recomputed to reflect such change, but no further adjustment will be made for the

actual issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities.

(4) Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price of the Series D Preferred Stock, to the extent in any way affected by or computed using such options, rights or securities or options or rights related to such securities, will be recomputed to reflect the issuance of only the number of shares of Common Stock (and convertible or exchangeable securities that remain in effect) actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities.

(5) The number of shares of Common Stock deemed issued and the consideration deemed paid therefor pursuant to Sections 7(c)(i)(E)(1) and 7(c)(i)(E)(2) will be appropriately adjusted to reflect any change, termination or expiration of the type described in either Section 7(c)(i)(E)(3) or 7(c)(i)(E)(4).

(ii) *Definition of Additional Stock*. "***Additional Stock***" means any shares of Common Stock issued (or deemed to have been issued pursuant to Section 7(c)(i)(E)) by the Corporation after the date hereof other than:

(a) shares of Common Stock issued pursuant to a transaction described in Section 7(a) hereof;

(b) shares of Common Stock issued or issuable to any employee, officer, director, consultant or advisor of the Corporation for services provided to the Corporation directly or pursuant to any employee benefit plan which has been approved by the Board of Directors of the Corporation, so long as the total number of shares of Common Stock so issued or issuable (and not repurchased at cost by the Corporation in connection with the termination of employment or other provision of services to the Corporation and not subject to options that expire unexercised) does not exceed 1,366,890 shares;

(c) shares of Common Stock issued or issuable pursuant to a bona fide firm commitment underwritten public offering with a nationally recognized underwriter that generates gross proceeds in excess of $30,000,000 and that is approved by the Board of Directors of the Corporation, including the Series D Director Nominee;

(d) shares of Common Stock issued pursuant to the conversion, exchange or exercise of convertible or exercisable securities outstanding as of the date hereof or subsequently issued pursuant to this Section 7(c)(ii);

(e) shares of Common Stock issued or issuable in connection with a bona fide business acquisition of or by the Corporation, whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise that is approved by the Board of Directors of the Corporation, including the Series D Director Nominee;

(f) shares of Common Stock issuable upon conversion of any shares of any sub-series of Series D Preferred Stock;

(g) shares of Common Stock issuable upon exercise of those certain warrants to purchase common stock issued or issuable in connection with the transactions contemplated by that certain Secured Credit Facility and Warrant Purchase Agreement dated as of April ___, 2009 by and between the Corporation and H.F. Lenfest) (the "**2009 Purchase Agreement**");

(h) shares of Preferred Stock issued to H.F. Lenfest (or his designee) pursuant to the terms of the 2009 Purchase Agreement; or

(i) shares of Common Stock issued pursuant to a transaction in which the Conversion Price adjustments set forth in this Section 7(c) are waived by the holders of at least a majority of the then outstanding shares of Series D Preferred Stock.

(d) Notice of Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Section 7, the Corporation shall promptly compute such adjustment or readjustment and prepare and furnish to each Holder a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based.

8. Voting Rights.

(a) General. The Holders shall be entitled to vote with the holders of Common Stock, voting together as one class, on all matters submitted to a vote of the holders of Common Stock, and each share of Series D Preferred Stock shall be entitled to a number of votes equal to the number of shares of Common Stock into which each such share is convertible as of the record date for the applicable vote. To the extent that under the Pennsylvania Business Corporation Law the vote of the Holders, voting separately as a class or series, as applicable, is required to authorize a given action of the Corporation, the affirmative vote or consent of the Holders of at least a majority of the then outstanding shares of Series D Preferred Stock represented at a duly held meeting at which a quorum is present or by written consent of the Holders of at least a majority of the then outstanding shares of Series D Preferred Stock shall constitute the approval of such action by the class. On all matters submitted to vote or consent of the holders of Series D Preferred Stock, all sub-series of Series D Preferred Stock shall vote together as one class.

(b) Election of Directors. So long as any shares of Series D Preferred Stock remain outstanding, the Board of Directors will consist of five (5) members, one of which shall be the Chief Executive Officer, or similar position, of the Corporation and one of which shall be nominated by the holders of shares of Series D Preferred Stock, voting separately as a single class (the "***Series D Director Nominee***"), which director may be removed from office, and any vacancy caused by the resignation, death or removal of the Series D Director Nominee shall be filled by the holders of a majority of the then outstanding shares of Series D Preferred Stock.

9. Protective Provisions. So long as any of the shares of Series D Preferred Stock are outstanding, the Corporation shall not, without first obtaining the approval (by vote or written

consent) of the Holders of a majority of the then outstanding shares of Series D Preferred Stock (i) amend the rights, preferences or privileges of the Series D Preferred Stock set forth in this Statement With Respect to Shares; (ii) create any new class or series of capital stock that would constitute Senior Securities or Pari Passu Securities (except as contemplated under the terms of the 2009 Purchase Agreement); (iii) redeem, or declare or pay any dividend or other distribution on account of, any shares of Common Stock or Junior Securities (other than pursuant to the terms of any stock option plan for directors, officers, employees, advisors or consultants approved by the Board of Directors); (iv) amend, alter or repeal any provision of the Articles of Incorporation or Bylaws of the Corporation; (v) effect any transaction that would be deemed a Liquidation Event (as defined in Section 6(a)) or Corporate Change (as defined in Section 7(b) hereof); (vi) authorize or enter into any transaction or series or related transactions in which the holder or holders of capital stock of the Corporation immediately prior to such transaction or series of transactions will hold, immediately after such transaction or series of transactions, less than a majority of the aggregate voting power of the outstanding capital stock of the surviving entity; (vii) increase or decrease the authorized number of directors constituting the Board of Directors; (viii) decrease the number of authorized shares of Preferred Stock; (ix) redeem or offer to redeem any shares of Series D Preferred Stock; (x) authorize or effect a transaction in which the Corporation would incur any debt secured by the assets of the Corporation or amend its current secured debt facility; or (xi) enter into any transaction, other than employment or consulting agreements in the ordinary course of business on a basis consistent with past practices, with any officer, director or beneficial owner of five percent (5%) or more of the Common Stock or any affiliate of the foregoing. Notwithstanding the foregoing, no consent or approval of the Holders will be required for, and the Board of Directors is expressly authorized to provide for, the issuance of shares of Preferred Stock if such series would constitute Junior Securities, by filing a certificate pursuant to the applicable law of the Commonwealth of Pennsylvania, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereon.

10. Miscellaneous.

(a) Cancellation of Series D Preferred Stock. If any shares of Series D Preferred Stock are converted pursuant to Section 4, the shares so converted shall be canceled, shall return to the status of authorized, but unissued Preferred Stock of no designated series, and shall not be issuable by the Corporation as Series D Preferred Stock.

(b) Lost or Stolen Certificates. Upon receipt by the Corporation of (i) evidence of the loss, theft, destruction or mutilation of any Series D Preferred Stock Certificate(s) and (ii) (y) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to the Corporation, or (z) in the case of mutilation, upon surrender and cancellation of the Series D Preferred Stock Certificate(s), the Corporation shall execute and deliver new Series D Preferred Stock Certificate(s) of like tenor and date. However, the Corporation shall not be obligated to reissue such lost or stolen Series D Preferred Stock Certificate(s) if the Holder contemporaneously requests the Corporation to convert such Series D Preferred Stock.

(c) Status as Shareholder. Upon submission of a Notice of Conversion by a Holder, (i) the shares covered thereby and any accrued and unpaid Accruing Dividends thereon shall be deemed converted into shares of Common Stock and (ii) the Holder's rights as a holder of such converted shares of Series D Preferred Stock shall cease and terminate, excepting only the right to receive certificates for such shares of Common Stock and to any remedies provided herein or otherwise available at law or in equity to such Holder because of a failure by the Corporation to comply with the terms of this Statement With Respect to Shares.

THIRD: With respect to the Series D Preferred Stock, the aggregate number of shares of such class or Series established and designated by (a) such resolutions, (b) all prior statements, if any, filed under 15 Pa. C.S. § 1522 or corresponding provisions of prior law with respect thereto, and (c) any other provision of the Articles of Incorporation is 11,000 shares.

FOURTH: The resolution was adopted by the Audit Committee of the Board of Directors effective as of April 23, 2009.

FIFTH: The resolution shall be effective upon the filing of this Statement With Respect to Shares in the Department of State.

* * * * * *

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has caused this Statement With Respect to Shares to be signed by a duly authorized officer this 23rd day of April, 2009.

ENVIRONMENTAL TECTONICS CORPORATION,
a Pennsylvania corporation

By: /s/ Duane D. Deaner
Name: Duane D. Deaner
Title: CFO

NOTICE OF CONVERSION
(To be Executed by the Registered Holder
in order to Convert the Series D Preferred Stock)

The undersigned hereby irrevocably elects to convert ___________ shares of Series D Preferred Stock, represented by stock certificate No(s). ___________ (the "***Series D Preferred Stock Certificates***"), into shares of common stock ("***Common Stock***") of Environmental Tectonics Corporation (the "***Corporation***") according to the conditions of the Statement With Respect to Shares of Series D Convertible Preferred Stock, as of the date written below. If securities are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto. No fee will be charged to the holder for any conversion, except for transfer taxes, if any. A copy of each Series D Preferred Stock Certificate is attached hereto (or evidence of loss, theft or destruction thereof).

[The Corporation shall electronically transmit the Common Stock issuable pursuant to this Notice of Conversion to the account of the undersigned or its nominee (which is ___________) with DTC through its Deposit Withdrawal Agent Commission System ("***DTC Transfer***").]

The undersigned acknowledges that all offers and sales by the undersigned of the securities issuable to the undersigned upon conversion of the Series D Preferred Stock may only be made pursuant to registration of the Common Stock under the Securities Act of 1933, as amended (the "***Act***"), or pursuant to an exemption from registration under the Act.

☐ [In lieu of receiving the shares of Common Stock issuable pursuant to this Notice of Conversion by way of DTC Transfer, the undersigned hereby requests that the Corporation issue and deliver to the undersigned physical certificates representing such shares of Common Stock.]

Date of Conversion: ______________________________

Conversion Price: ______________________________

Number of Shares of Common
Stock to be Issued: ____________________

[Holder]

By: ____
Name:
Title:

Address: ____________________________________

____

EXHIBIT 10.32

AMENDED AND RESTATED OPEN-END MORTGAGE AND SECURITY AGREEMENT
(This Mortgage Secures Future Advances)

THIS AMENDED AND RESTATED OPEN-END MORTGAGE AND SECURITY AGREEMENT (this "***Mortgage***") is made as of the 24th day of April, 2009, by **ENVIRONMENTAL TECTONICS CORPORATION**, a Pennsylvania corporation with an address at 125 James Way, Southampton, Pennsylvania 18966 ("***Mortgagor***"), in favor of **H.F. LENFEST,** an individual with an address at c/o The Lenfest Group, 300 Barr Harbor Drive, Suite 460, West Conshohocken, Pennsylvania 19428 ("***Mortgagee***").

WHEREAS, 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;

WHEREAS, Mortgagee executed that certain Senior Subordinated Convertible Note dated as of February 18, 2003 (the " ***2003 Note***") in favor of Mortgagee in the original principal amount of Ten Million Dollars ($10,000,000) (the " ***2003 Loan***"), which 2003 Note was secured, in part, by that certain Open-End Mortgage and Security Agreement made by Mortgagor in favor of Mortgagee dated February 18, 2003 and recorded in the Office of the Recorder of Deeds in and for Bucks County, Pennsylvania, on February 23, 2003 in Book 3148, page 1444 (the " ***2003 Mortgage***");

WHEREAS, pursuant to the terms of that certain Secured Promissory Note dated February 20, 2009 (the " ***2009 Bridge Note***"), Mortgagee extended to Mortgagor an additional loan in the original principal amount of Two Million Dollars ($2,000,000) (the " ***Bridge Loan***");

WHEREAS, pursuant to the terms of that certain Secured Credit Facility and Warrant Purchase Agreement, dated as of the date hereof, between Mortgagor and Mortgagee (the "***Credit Facility Agreement***"), Mortgagor has agreed to extend to Mortgagee a loan in the aggregate principal amount of up to Seven Million Five Hundred Thousand Dollars ($7,500,000) (including the principal amount of the 2009 Bridge Note) (the " ***Credit Facility***"), which Credit Facility is intended to be secured by this Mortgage;

WHEREAS, pursuant to the terms and subject to the conditions of the Credit Facility Agreement, Mortgagee has agreed to personally guarantee the repayment by Mortgagor of the maximum principal amount of up to Twenty Million Dollars ($20,000,000) (the " ***Personal Guaranty***") as may be payable by Mortgagor to PNC Bank, National Association ("***Senior Lender***") in, and pursuant to the terms of, a Letter Agreement relating to a $20,000,000 committed line of credit to be entered into by and between Mortgagor and Senior Lender (the " ***Senior Credit Agreement***"), in accordance with the terms of that certain letter agreement by and between Mortgagor and Senior Lender dated the date hereof; and

WHEREAS, Mortgagor and Mortgagee desire to amend and restate in its entirety the 2003 Mortgage in order to secure all of the obligations of Mortgagor to Mortgagee under the Credit Facility Agreement.

NOW, THEREFORE, for the purpose of securing the payment and performance of the following obligations (collectively called the " ***Obligations***"):

(A) Any amounts due under the 2003 Note, the 2009 Bridge Note, all notes now or hereafter executed by Mortgagor to memorialize an advance under the Credit Facility or pursuant to the terms of the Credit Facility Agreement and all sums paid by Mortgagee under the Personal Guaranty (including any interest accruing thereon before or after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to Mortgagor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), and any amendments, extensions, renewals or increases and all reasonable costs and expenses of Mortgagee incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including reasonable attorneys' fees and expenses; and

(B) Any sums advanced by Mortgagee or which may otherwise become due pursuant to the provisions of the Credit Facility Agreement, the Personal Guaranty, the 2003 Note, the 2009 Bridge Note or this Mortgage or pursuant to any other document or instrument at any time delivered to 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***").

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 Mortgagee and does agree that 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 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 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 Mortgagee by 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 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. 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. Mortgagor will execute and deliver to Mortgagee, on demand, such additional assignments and instruments as 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;

(e) And without limiting any of the other provisions of this Mortgage, Mortgagor, as debtor, expressly grants unto 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 Mortgagor will execute and deliver to Mortgagee on demand such financing statements and other instruments as 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 Mortgagee, its successors and assigns, forever, under and subject to the terms of the Senior Credit Agreement and related documents (collectively, the "***Senior Credit Documents***"). All of the duties and obligations of Mortgagor and the rights and remedies of Mortgagee hereunder are under and subject in all respects to performance of the duties and obligations of Mortgagor to Senior Lender and to the rights and remedies of Senior Lender under the Senior Credit Documents. 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 Senior Credit Documents and performance or compliance with both the Senior Credit Documents and this Mortgage is impossible.

Provided, however, that if Mortgagor shall pay to Mortgagee the Obligations, and if 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 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. §8143 and secures obligations up to a maximum principal amount of Thirty-Seven Million Five Hundred

Thousand Dollars ($37,500,000), plus accrued and unpaid interest outstanding at any time under the Loan Documents, 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 Mortgagee by reason of default by 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 Mortgagee pursuant to 42 Pa. C.S.A. §8143 shall be given as set forth in Section 18.

1. **Representations and Warranties**. Mortgagor represents and warrants to Mortgagee that 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 lien on the Property (except as set forth on Exhibit B). 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 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 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 Mortgagor or to any of the Property (the " ***Legal Requirements***").

(c) Impositions. Before interest or penalties are due thereon and otherwise when due, 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 Mortgagor or any of the Property (the " ***Impositions***") unless the amount thereof is being contested in good faith by 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, Mortgagor shall deliver to Mortgagee evidence acceptable to Mortgagee of such payment. Mortgagor's obligations to pay the Impositions shall survive 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 Mortgagee. 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 Mortgagee's prior written consent, not to be unreasonably withheld, conditioned or delayed. 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. Mortgagor covenants and agrees not to take or permit any action with respect to the Property which will in any manner materially impair the security of this Mortgage.

3. **Leases**. Except as permitted by the Loan Documents, Mortgagor shall not (a) execute an assignment or pledge of the Rents or the Leases other than in favor of 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 Mortgagee's prior written consent, not to be unreasonably withheld, conditioned or delayed. Any or all leases or subleases of all or any part of the Property shall be subject in all respects to Mortgagee's prior written consent, not to be unreasonably withheld, conditioned or delayed, shall be subordinated to this Mortgage and to Mortgagee's rights and, together with any and all rents, issues or profits relating thereto, shall be assigned at the time of execution to Mortgagee as additional collateral security for the Obligations, all in such form, substance and detail as is satisfactory to Mortgagee in its reasonable discretion.

4. **Due on Sale Clause**. 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 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; or (b) any lease of all or any portion of the Property. Any default under this Section shall cause an immediate acceleration of the Obligations without any demand by Mortgagee.

5. **Insurance**. 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 Mortgagee may from time to time require. With respect to any property under construction or reconstruction, Mortgagor shall maintain builder's risk insurance. 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 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 Mortgagee, shall be with an insurance company or companies satisfactory to Mortgagee, shall be in form satisfactory to Mortgagee, shall meet all coinsurance requirements of 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 Mortgagee and shall provide for at least thirty (30) days notice of cancellation to Mortgagee. Such insurance

shall also name Mortgagee as an additional insured under the comprehensive general public liability policy and Mortgagor shall also deliver to 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 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, Mortgagee shall have the exclusive right to adjust, collect and compromise all Material Insurance Claims (as defined below), and Mortgagor shall not adjust, collect or compromise any Material Insurance Claims under said policies without Mortgagee's prior written consent, not to be unreasonably withheld, conditioned or delayed. Each insurer is hereby authorized and directed to make payment under said policies, including return of unearned premiums, directly to Mortgagee instead of to Mortgagor and Mortgagee jointly, and Mortgagor appoints Mortgagee as Mortgagor's attorney-in-fact to endorse any draft therefor. All Material Insurance Claims proceeds may, at 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 Mortgagee may reasonably impose; provided, however, that so long as no Event of Default has occurred and is continuing, such proceeds shall be applied to the repair and restoration of the Property. All other insurance claim proceeds must be applied to the repair and restoration of the Property under terms and conditions satisfactory to 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 Mortgagee's request at any time following the occurrence and during the continuance of an Event of Default, Mortgagor shall pay to 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 and is continuing. No amount so paid to Mortgagee shall be deemed to be trust funds, nor shall any sums paid bear interest. Mortgagee shall have no obligation to pay any insurance premium or Imposition if at any time the funds being held by Mortgagee for such premium or Imposition are insufficient to make such payments. If, at any time, the funds being held by Mortgagee for any insurance premium or Imposition are exhausted, or if Mortgagee determines, in its reasonable discretion, that such funds will be insufficient to pay in full any insurance premium or Imposition when due, Mortgagor shall promptly pay to Mortgagee, upon demand, an amount which Mortgagee shall estimate as sufficient to make up the deficiency. Upon the occurrence and during the continuance of an Event of Default, Mortgagee shall have the right, at its election, to apply any amount so held against the Obligations due and payable in such order as Mortgagee may deem fit, and Mortgagor hereby grants to Mortgagee a lien upon and security interest in such amounts for such purpose.

8. **Condemnation**. 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 Mortgagee of the pendency of such proceedings. Mortgagee may

participate in any such proceedings and Mortgagor shall deliver to 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 Mortgagee, and any award or compensation shall be applied, at 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 Mortgagee may reasonably impose provided, however, that so long as no Event of Default has occurred and is continuing, such proceeds shall be applied to the repair and restoration of the Property.

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.

(b) Mortgagor represents and warrants except as provided in the Loan Documents or otherwise disclosed to Lender in writing (i) that no Contamination is present at, on or under the Property and that no Contamination is being or, to the best of 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 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 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) 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. Mortgagor shall notify Mortgagee promptly and in reasonable detail in the event that 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. 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. 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) Mortgagee shall not be liable for, and Mortgagor shall indemnify, defend and hold 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 Mortgagee may suffer or incur (including as holder of the Mortgage, as mortgagee in possession or as successor in interest to 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 in any material respect of any representation, warranty, covenant or undertaking by 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; provided, however, that Mortgagor shall not be liable under this Section (d) for any damages caused by Mortgagee's gross negligence or willful misconduct.

(e) Upon Mortgagee's request, Mortgagor shall execute and deliver an Environmental Indemnity Agreement satisfactory in form and substance to Mortgagee, to more fully reflect Mortgagor's representations, warranties, covenants and indemnities with respect to the Environmental Laws.

10. **Inspection of Property**. Mortgagee shall have the right to enter the Property upon reasonable prior notice 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. Mortgagee may enter the Property (and cause Mortgagee's employees, agents and consultants to enter the Property), upon reasonable prior written notice to Mortgagor, to conduct any and all environmental testing deemed appropriate by Mortgagee in his reasonable discretion. The environmental testing shall be accomplished by whatever means Mortgagee may deem appropriate, including the taking of soil samples and the installation of ground water monitoring wells or other intrusive environmental tests. Mortgagor shall provide Mortgagee (and 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 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 Facility Agreement); (b) the failure by 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 after written notice thereof is delivered to Mortgagor; (c) falsity, inaccuracy or material breach by Mortgagor of any written warranty, representation or statement made herein by Mortgagor; (d) any lien against or the

making of any levy, seizure or attachment of or on the Property not dismissed or adequately bonded within ninety (90) days; (e) the failure of Mortgagee to have a mortgage lien on the Property; (f) 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 which is not dismissed within ninety (90) days; (g) the failure by 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 (h) Mortgagor or any other obligor or guarantor of any of the Obligations, shall at any time deliver or cause to be delivered to Mortgagee a notice pursuant to 42 Pa. C.S.A. §8143 electing to limit the indebtedness secured by this Mortgage.

12. **Rights and Remedies of Mortgagee**. If an Event of Default occurs, Mortgagee may, at its option and without demand, notice or delay, do one or more of the following:

(a) Mortgagee may declare the entire unpaid principal balance of the Obligations, together with all interest thereon, to be due and payable immediately.

(b) Mortgagee may (i) institute and maintain an action of mortgage foreclosure against the Property and the interests of 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 Mortgagee shall be entitled to all costs of suit and attorneys fees.

(c) Mortgagee may, in his 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 Mortgagor under any Lease, or (iii) enforce any obligation of any tenant of any of the Property. Mortgagee may exercise any right under this subsection (c), whether or not Mortgagee shall have entered into possession of any of the Property, and nothing herein contained shall be construed as constituting Mortgagee a “mortgagee in possession”, unless Mortgagee shall have entered into and shall continue to be in actual possession of the Property. Mortgagor hereby authorizes and directs each and every present and future tenant of any of the Property to pay all Rents directly to Mortgagee and to perform all other obligations of that tenant for the direct benefit of Mortgagee, as if Mortgagee were the landlord under the Lease with that tenant, immediately upon receipt of a demand by Mortgagee to make such payment or perform such obligations. 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 Mortgagee, and any such payment or performance to Mortgagee shall discharge the obligations of the tenant to make such payment or performance to Mortgagor.

(d) 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 Mortgagee may advance moneys to a receiver for such purposes. Any moneys so expended or advanced by Mortgagee or by a receiver shall be added to and become a part of the Obligations secured by this Mortgage.

13. **Application of Proceeds**. 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 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 Mortgagee has asserted any other right or exercised any other remedy under this Mortgage or any of the other Loan Documents, he shall be lawful for any attorney of any court of record as attorney for Mortgagor to confess judgment in ejectment against Mortgagor and all persons claiming under Mortgagor for the recovery by 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 Mortgagor, 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.

15. **Mortgagee's Right to Protect Security**. 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 Mortgagee's rights or powers hereunder if Mortgagor fails to so defend such action or proceeding to the satisfaction of Mortgagee; (b) purchase such insurance policies covering the Property as he may elect if Mortgagor fails to maintain the insurance coverage required hereunder; and (c) take such action as 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**. Mortgagee, or any of his officers, is hereby irrevocably appointed attorney-in-fact for 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 and during the continuance 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 Mortgagee may require in order to perfect and maintain his security interest under the Uniform Commercial Code on any portion of the Property.

17. **Certain Waivers**. Mortgagor hereby waives and releases all benefit that might accrue to 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 Mortgagor's default or of Mortgagee's election to exercise, or 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 Mortgagor or 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 Mortgagor or Mortgagee may give to the other in writing for such purpose.

19. **Further Acts**. Mortgagor will, at the cost of Mortgagor, and without expense to Mortgagee, do, execute, acknowledge and deliver all further acts, deeds, conveyances, mortgages, assignments, notices of assignment, transfers and assurances as Mortgagee shall, from time to time, reasonably require for the better assuring, conveying, assigning, transferring or confirming unto Mortgagee the property and rights hereby mortgaged, or which Mortgagor may be or may hereafter become bound to convey or assign to 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. Mortgagor grants to 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 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 Mortgagor or Mortgagee's interest in the Property, Mortgagor will pay such tax, with interest and penalties thereon, if any. If Mortgagee determines that the payment of such tax or interest and penalties by Mortgagor would be unlawful or taxable to Mortgagee or unenforceable or provide the basis for a defense of usury, then Mortgagee shall have the option, by written notice of not less than one hundred twenty (120) 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, Mortgagor will pay for the same, with interest and penalties thereon, if any.

22. **Preservation of Rights**. No delay or omission on 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 Mortgagee's action or inaction impair any such right or power. Mortgagee's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which Mortgagee may have under other agreements, at law or in equity. 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 Mortgagor therefrom will be effective unless made in a writing signed by 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 Mortgagor in any case will entitle 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 Mortgagor and 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 Mortgagor and Mortgagee and their respective heirs, executors, administrators, successors and assigns; provided, however, that Mortgagor may not assign this Mortgage in whole or in part without Mortgagee's prior written consent and 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 Mortgagee or through action of 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**. Mortgagor agrees to indemnify each of Mortgagee, his affiliated companies, directors, officers and employees and 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

Mortgagor), whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by 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 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. 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 Mortgagee and will be deemed to be made in the State where Mortgagee's office indicated above is located. **This Mortgage will be interpreted and the rights and liabilities of Mortgagor and Mortgagee determined in accordance with the laws of the State where 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 Mortgagee is located) shall govern the creation, perfection and foreclosure of the liens created hereunder on the Property or any interest therein.** Mortgagor hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the county or judicial district where Mortgagee's office indicated above is located; provided that nothing contained in this Mortgage will prevent Mortgagee from bringing any action, enforcing any award or judgment or exercising any rights against Mortgagor individually, against any security or against any property of Mortgagor within any other county, state or other foreign or domestic jurisdiction. Mortgagor acknowledges and agrees that the venue provided above is the most convenient forum for both Mortgagee and Mortgagor. Mortgagor waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Mortgage.

30. **WAIVER OF JURY TRIAL**. 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. MORTGAGOR ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

[Signature Page Follows]

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: ______________________

By: /s/ Duane D. Deaner
(SEAL)

Print Name: ______________________
Title: ______________________

Print Name: Duane D. Deaner
Title: CFO

The principal place of business and complete post office address of Mortgagee is:

c/o The Lenfest Group
300 Barr Harbor Drive, Suite 460
West Conshohocken, PA 19428

The address of Mortgagee for the purposes of 42 Pa.C.S. §8143(d) is:

c/o The Lenfest Group
300 Barr Harbor Drive, Suite 460
West Conshohocken, PA 19428

COMMONWEALTH OF PENNSYLVANIA)
) ss:
COUNTY OF BUCKS)

On this, the _________ day of _______________, 2009, before me, a Notary Public, the undersigned officer, personally appeared ___________________________, who acknowledged himself/herself to be the _______________________________ 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.

Notary Public

My commission expires:

EXHIBIT 13

PORTIONS OF
ENVIRONMENTAL TECTONICS CORPORATION
2009
ANNUAL REPORT TO STOCKHOLDERS

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

Fiscal Year End	2009	2008
Net sales	$ 36,687	$ 22,730
Gross profit	11,858	4,380
Operating loss	(346)	(12,043)
Net loss	(1,974)	(13,895)
Loss per common share:		
Basic	(0.32)	(1.61)
Diluted	(0.32)	(1.61)
Working capital	2,334	1,742
Long-term obligations	22,072	18,192
Total assets	34,928	37,625
Total stockholders' deficiency	(11,752)	(8,831)
Weighted average common shares:		
Basic	9,037,000	9,030,000
Diluted	9,037,000	9,030,000

No cash dividends have ever been paid on the Company's common stock, and the Company is prohibited from declaring any cash dividends on its common stock under the terms of its subordinated debt agreement with Lenfest without the prior written comment of Lenfest.

Dividends on the Company's Preferred Stock as declared are accrued per agreement but cash payments have been deferred until the maturity of each respective agreement.

Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on ETC's current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about ETC's and its subsidiaries that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

These forward-looking statements include statements with respect to the Company's vision, mission, strategies, goals, beliefs, plans, objectives, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business of the company, including but not limited to, (i) potential additional funding by Lenfest and PNC Bank, (ii) the potential delisting of the Company's common stock from the NYSE AMEX LLC (formerly the American Stock Exchange), (iii) projections of revenues, costs of materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, capital structure, other financial items and the effects of currency fluctuations, (iv) statements of our plans and objectives of the Company or its management or Board of Directors, including the introduction of new products, or estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities, (v) statements of future economic performance, (vi) statements of assumptions and other statements about the Company or its business, (vii) statements made about the possible outcomes of litigation involving the Company, (viii) statements regarding the Company's ability to obtain financing to support its operations and other expenses, and (ix) statements preceded by, followed by or that include the words "may," "could," "should," "looking forward," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," or the negative of such terms or similar expressions. These forward-looking statements involve risks and uncertainties which are subject to change based on various important factors. Some of these risks and uncertainties, in whole or in part, are beyond the Company's control. Factors that might cause or contribute to such a material difference include, but are not limited to, those discussed in this Annual Report on Form 10-K, in the section entitled "Risks Particular to Our Business." Shareholders are urged to review these risks carefully prior to making an investment in the Company's common stock.

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

In this report all references to "ETC," the "Company", "we," "us," or "our," mean Environmental Tectonics Corporation and our subsidiaries.

References to fiscal 2009 or the 2009 fiscal year are references to the year ended February 27, 2009. References to fiscal 2008 or the 2008 fiscal year are references to the year ended February 29, 2008.

Overview

We are principally engaged in the design, manufacture and sale of software driven products and services used to recreate and monitor the physiological effects of motion on humans and equipment and to control, modify, simulate and measure environmental conditions. These products include aircrew training systems (aero medical, tactical combat and general), disaster management systems and services, entertainment products, sterilizers (steam and gas), environmental testing products and hyperbaric chambers and other products that involve similar manufacturing techniques and engineering technologies. ETC primarily manufactures, under contract, various types of high-technology equipment which it has designed and developed. ETC considers its business activities to be divided into two segments: the Training Services Group (TSG) and the Control Systems Group (CSG). Product categories included in TSG are pilot training and flight simulators, disaster management systems and entertainment applications. CSG includes sterilizers, environmental control devices, hyperbaric chambers along with parts and service support.

Unfavorable Impacts

The following factors had an adverse impact on our financial performance and cash flow requirements for the fiscal year ended February 27, 2009:

- Severely contracted domestic economic conditions which affected new contract awards primarily in the second half of the fiscal year in our Controls Systems Group, whose main market is U.S. based;

The product groups in our CSG sell primarily to domestic commercial accounts. These businesses have been highly impacted by current domestic economic conditions. Our environmental line primarily sells test products to the automotive industry, which is in a precarious state and shrinking. Our sterilizer line sells primarily large custom made sterilizers to the medical device and life science research market, both which have been highly impacted by overall capital availability and the financial issues in the drug industry. Our hyperbaric chambers are placed in hospitals and wound care centers, both of which have suffered from capital shortages.

- the continuing cost of worldwide marketing of our Authentic Tactical Fighting Systems (ATFS);
- engineering costs to improve the technical abilities of our ATFS line of products;
- cost overruns on a TacModule contracted by the U.S. Navy; and
- validation effort associated with Upset Recovery Training.

In response to the ongoing market budgetary constraints for G-force training and spatial disorientation, in 2004 we began incorporating tactical combat flight capabilities into our human centrifuge technology. Designated the Authentic Tactical Fighting System, this product was the first fully "flyable" centrifuge-based tactical maneuvering ground based simulator. This technology allows a fighter pilot to practice tactical air combat maneuvers such as dodging enemy missiles, ground fire and aircraft obstacles while experiencing the real life environment of a high G-force fighter aircraft. These flight trainers provide a low cost and extremely less risky alternative to actual air flight.

Spending continued in fiscal 2009 and continues in fiscal 2010 to market tactical flight simulation to the world's defense agencies. Our goal is to validate the use of ground-based simulation as an alternative method to actual in-flight training to teach jet pilots tactical flight and combat skills. In fiscal 2009, we concluded multiple research contracts from various U.S. Government agencies including the Department of Defense, National Aeronautics and Space Administration (NASA) and the Federal Aviation Administration (FAA).

The National Aerospace Training and Research (NASTAR) Center, which opened in fiscal 2008, is an integrated pilot training center offering a complete range of aviation training and research support for military jet pilots and civil aviation as well as space travel and tourism. The NASTAR Center houses state of the art equipment including the ATFS-400, a GYROLAB GL-2000 Advanced Spatial Disorientation Trainer, a Hypobaric Chamber, an Ejection Seat Trainer, and a Night Vision and Night Vision Goggle Training System. These products represent 37 years of pioneering development and training solutions for the most rigorous stresses encountered during high performance aircraft flight including the effects of altitude exposure, High G-force exposure, spatial disorientation and escape from a disabled aircraft.

In 2009, our National AeroSpace Training and Research (NASTAR) Center, in conjunction with Embry Riddle Aeromedical University (ERAU), began conducting research flights under a Federal Aviation Administration (FAA) funded research project aimed at examining the effectiveness of using centrifuge based simulation for Upset Recovery Training (URT).

Loss of control in flight is a major cause factor in loss of life and hull damage aircraft accidents. Modern day commercial aviation currently has no requirement for training of pilots to deal with these situations, commonly referred to as upsets. Realistic training for upsets, or URT, which requires very dynamic and disorienting conditions, is difficult because non-centrifuged based simulators do not reproduce the angular and G accelerations or the disorientations of actual upsets. We believe our GYROLAB GL-2000 is an answer to providing pilots with the environment necessary for effective training.

The research project was focused on comparing the benefits of three different types of URT. The first included only academic lectures. The second type included academic lecture and computer based training using Microsoft Flight Simulator training software. The third type included academic lecture plus instruction in our GYROLAB GL-2000, a centrifuge type motion based simulator. The research involved training an equal number of ERAU's flight students under each approach and then comparing their upset recovery skills in an actual flight in ERAU's American Champion Aircraft (ACA) Decathlon airplane. Additionally, each student received identical classroom instruction at ERAU.

As of the filing date of this Annual Report on Form 10-K, the test flights have been completed and the results are under evaluation.

- continued development of software for our Advanced Disaster Management Scenario (ADMS) product line; and
- product line and market definition for our ADMS applications.

We have made significant progress in advancing and enhancing our ADMS line of products. Graphics are sharper and more realistic, interactivity and connectivity of objects is tighter, additional disaster scenarios have been added, and we have made the hardware configuration more user-friendly. One of the first tasks of Mr. Marco van Wijngaarden, our President of this division, has been to refine the parameters of this product group. This effort, while important, has detracted him from his main role of promoting and selling the technology.

- amortization of development costs with limited revenue generation in our entertainment division.

We consider this a non-core, opportunistic business in an industry which is currently contracting.

- higher commissions expense reflecting the sales mix and higher sales level; and
- higher costs of capital and amortization of deferred finance charges;

Interest expense for fiscal 2009 was $1,569,000 or 4.3 **%** of sales. This included approximately $298,000 of non-cash charges for amortization of debt discount expenses.

- Bid and proposal effort primarily directed to significant potential U.S government contracts;

Proposal activity has been high in our TSG primarily reflecting the impact of the Base Realignment and Closure commission Report; and

- cash flow.

One of the greatest challenges we faced in fiscal 2009 and continue to face in fiscal 2010 is adequately funding the cash requirements of large, long-term multi-year projects, the costs of technological development of existing products, the cost to modify the building and produce the equipment for the NASTAR Center, and the costs to market our ATFS technology to the U.S. government and international government defense agencies. Although some long-term contracts incorporate milestone payments, the cash flows associated with production and material requirements tend to vary significantly over time. These projects are usually cash positive in the early stages and cash negative during the production phase. Funding these contracts and the other initiatives throughout fiscal 2009 resulted in a net cash usage.

To address our cash requirements and grow our Company, on April 24, 2009, we entered into a transaction (the "Lenfest Financing Transaction") with Lenfest that provides for the following upon the satisfaction of certain conditions, including the receipt of the approval of the Company's shareholders to certain components of the transaction (as more fully described below, the "Shareholder Approvals"): (i) a $7,500,000 credit facility to be provided by Lenfest to ETC; (ii) exchange of the Subordinated Note (as defined below) held by Lenfest, together with all accrued interest and warrants issuable under the Subordinated Note, and all Series B Preferred Stock and Series C Preferred Stock held by Lenfest, together with all accrued dividends thereon, for a new class of preferred stock, Series E Preferred Stock, of the Company, the terms of which are described below; and (iii) the guarantee by Lenfest of all of ETC's obligations to PNC Bank in connection with an increase of the existing $15,000,000 revolving line of credit with PNC Bank (the "2007 PNC Credit Facility") to $20,000,000, and in connection with this guarantee, the pledge by Lenfest to PNC Bank of $10,000,000 in marketable securities. For a complete description of these instruments, please review the details presented in the Liquidity and Capital Resources section of this report.

Challenges Going Forward

We face the following challenges and business goals in order to make fiscal 2010 a successful year:

- Successfully complete our current large ongoing aeromedical projects.
- Book at least one major contract with the U.S. Department of Defense.
- Obtain additional research and validation contracts for our ATFS technologies.
- Book at least one significant international contract for aeromedical equipment.
- Maintain our market position for the products in our CSG lines in anticipation of improved market and economic conditions.
- Promote the Upset Recovery Training available through our gyro-lab simulator.
- Finalize our only outstanding major litigation case either through settlement, mediation or by judicial determination.
- Complete our refinancing transaction with Lenfest and PNC Bank.

Our plans to meet our goals include the following:

- Market ATFS technology to the U.S. military.
- Search for additional research contracts to utilize NASTAR resources.
- Reduce our costs of manufacture for all product offerings in our Control Systems Group divisions.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that reflect significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies include those described below. For a detailed discussion on the application of these and other accounting policies, see Note 3 to the Consolidated Financial Statements, Summary of Significant Accounting Policies.

We currently market our products and services primarily through our sales offices and employees. In addition, we also utilize the services of approximately 100 independent sales agents and organizations in seeking foreign orders for our products.

We consider our business activities to be divided into two segments: the Training Services Group (TSG) and the Control Systems Group (CSG). The TSG includes aircrew training products and services, disaster management training product and services and entertainment products. The CSG includes sterilizer, environmental and hyperbaric products and services. We sell utilizing two business approaches: integrated training services and products. Some of our products are customized, using our proprietary software based on specifications provided by our customers. Some of our products take more than one year to manufacture and deliver to the customer. In the TSG segment, we offer integrated training services to both commercial and government military defense agencies and training devices to government military defense agencies both in the United States and internationally. We sell our entertainment products to amusement parks, zoos and museums. We sell our disaster management simulation training and products to fire and emergency training schools and state and local governments. In the CSG segment, we sell our sterilizers to pharmaceutical and medical device manufacturers. We sell our environmental testing systems primarily to commercial automobile manufacturers and heating, ventilation and air conditioning (HVAC) manufacturers. We sell our hyperbaric products to the military (mainly larger chambers) and hospitals and clinics (mainly single occupant monoplace chambers). To a lesser degree, we provide upgrade, maintenance and repair services for our products and for products manufactured by other parties.

We have operating subsidiaries in the United Kingdom and Poland, maintain regional offices in the Middle East, Asia and Canada, and use the services of approximately 100 independent sales agents and organizations throughout the world. ETC International Corporation is a holding company established for federal income tax purposes and is not an operating subsidiary.

- Revenue Recognition

We recognize revenue using three methods:

On long-term contracts over $250,000 in value and over six months in length, the percentage of completion (POC) revenue recognition method is utilized. Under this method a percentage is calculated based on costs incurred from inception to date on a contract as compared to the estimated total costs required to fulfill the contract. This percentage is then multiplied by the contract value to determine the amount of revenue to be recognized in any given accounting period. Revenue recognized on uncompleted long-term contracts in excess of amounts billed to customers is reflected as a current asset on the balance sheet under the caption “Costs and estimated earnings in excess of billings on uncompleted long-term contracts”. Amounts billed to customers (milestone payments) in excess of revenue recognized are reflected as a current liability on the balance sheet under the caption “Billings in excess of costs and estimated earnings on uncompleted long-term contracts.” At any time during performance if it is estimated that a contract at completion will result in a loss, the entire amount of the estimated loss is accrued. The effect of revisions in cost and profit estimates for long-term contracts is reflected in the accounting period in which we learn the facts which require us to revise our cost and profit estimates. Contract progress billings are based upon contract provisions for customer advance payments, contract costs incurred, and completion of specified contract milestones. Contracts may provide for customer retainage of a portion of amounts billed until contract completion. Retainage is generally due within one year of completion of the contract. Revenue recognition under the percentage of completion method involves significant estimates, both at inception and throughout the performance period.

Revenue for contracts under $250,000, or to be completed in less than six months, and where there are no post-shipment services (such as installation and customer acceptance) is recognized on the date that the finished product is shipped to the customer.

Revenue for the sale of parts and services is also recognized on the date that the part is shipped to the customer or when the service is completed. Revenue for service contracts is recognized ratably over the life of the contract with related material costs expensed as incurred.

In accordance with accounting principles generally accepted in the United States of America, recognizing revenue on contract claims and disputes related to customer caused delays, errors in specifications and designs, and other unanticipated causes, for amounts in excess of contract value, is appropriate if it is probable that the claim will result in an increase in the contract value and if the company can reliably estimate the amount of potential additional contract revenue (claim revenue). However, revenue recorded on a contract claim cannot exceed the incurred contract costs related to that claim. Claims are subject to negotiation, arbitration and audit by the customer or governmental agency.

Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and the customer’s current creditworthiness. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based on historical experience and any specific customer collection issues that have been identified. Most of our collection issues are related to contract disputes, not customer creditworthiness. While our credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Additionally, as a result of the concentration of international receivables, we cannot predict the effect, if any, that geopolitical disputes and financial constraints will have on the ultimate collection of our international receivables.

Results of Operations

We have historically experienced significant variability in our quarterly revenue, earnings and other operating results, and our performance may fluctuate significantly in the future.

Fiscal 2009 versus Fiscal 2008

	Summary Table of Results			
	Year Ended February 27, 2009	Year Ended February 29, 2008	Variance $	Variance %
	(Amounts in thousands)			
Sales:				
Domestic	$ 14,442	$ 13,478	$ 964	7.2%
US Government	3,096	1,828	1,268	69.4%
International	19,149	7,424	11,725	157.9%
Total Sales	36,687	22,730	13,957	61.4%
Gross Profit	11,858	4,380	7,478	170.7%
Selling, general and administrative	11,094	11,652	558	4.8%
Claim settlement costs	—	3,638	3,638	100.0%
Impairment expense	—	455	455	100.0%
Research and development	1,110	678	(432)	(63.7)%
Operating loss	(346)	(12,043)	11,697	97.1%
Interest expense, net	1,569	1,582	13	0.8%
Other expense, net	67	236	169	71.6%
Income taxes	—	37	37	100.0%
Minority interest	(8)	(3)	5	166.7%
Net loss	$ (1,974)	$ (13,895)	$ 11,921	85.8%
Net loss per common share	$ (0.32)	$ (1.61)	$ 1.29	80.1%

Net Loss

ETC had a net loss of $1,974,000, or $0.32 per share (diluted), in fiscal 2009 versus a net loss of $13,895,000, or $(1.61) per share (diluted), in fiscal 2008, a decrease in net loss of $11,921,000, or 85.8%. Operating loss in fiscal 2009 was $346,000 versus an operating loss of $12,043,000 in fiscal 2008, a decrease in operating loss of $11,697,000 or 97.1%. The decrease in operating loss resulted primarily from the higher sales level and resulting increased gross profit along with a reduction of claim settlement costs ($3,638,000) and impairment expense ($455,000).

The Company had earnings before interest, taxes, depreciation and amortization expense ("EBITDA") of $1,451,000 for fiscal 2009, compare to a negative EBITDA of $10,047,000 for fiscal 2008. We expect to maintain a minimum EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of (a) $300,000 for the fiscal quarter ended May 31, 2009, (b) $1,200,000 for the fiscal quarter ended August 31, 2009, (c) $1,000,000 for the fiscal quarter ended November 30, 2009, (d) $900,000 for the fiscal quarter ended February 28, 2010 and (e) $1,300,000 for the fiscal quarter ending March 1, 2010 and thereafter.

Sales

For the fiscal year ended February 27, 2009, total sales were $36,687,000, an increase of $13,957,000 or 61.4% from fiscal 2008. The increase primarily reflected favorable performance in all geographic areas and in the pilot training, hyperbaric and simulation product lines.

Geographically, domestic sales were $14,442,000, up $964,000, or 7.2%, from fiscal 2008, and represented 39.4% of total sales, down from 59.3% in fiscal 2008, reflecting favorable performance in hyperbaric (up 117.3%) and simulation (up 93.5%) products, offset in part by declines in sterilizer (down 17.4%) and environmental (down 15.8%) products. U.S. Government sales increased $1,268,000 or 69.4% from the prior fiscal year reflecting contracted research work for two TacModules. U.S. Government sales represented 8.4% of total sales, up from 8.0% in fiscal 2008. International sales, including those in the Company's foreign subsidiaries, were $19,149,000, up $11,725,000 or 157.9%, from the prior fiscal period and represented 52.2% of total sales, up from 32.7% in fiscal 2008, primarily due to increased sales of aircrew training systems to customers in Saudi Arabia and Turkey.

In fiscal 2009, sales to one customer represented 10% or more of total sales as the Royal Saudi Air Force which contributed $7,327,000, or 20.0%, of total sales. International sales totaling at least $500,000 per country were made to customers in Saudi Arabia, Turkey, Thailand, Malaysia and Egypt. Open orders for one international customer represented 31.4% of our backlog at February 27, 2009. Fluctuations in sales to international countries from year to year primarily reflect percentage of completion revenue recognition on the level and stage of development and production on multi-year long-term contracts. Of the February 27, 2009 sales backlog, two product lines each represented at least 10% of the total backlog: aircrew training systems ($29,231,000, 66.0%) and disaster management simulation products ($6,397,000, 14.4%). Additionally, one customer represented $19,089,000, or 43.1%, of the total backlog.

We have historically experienced significant variability in our sales performance. This reflects the existing sales backlog, product and the nature of contract (size and performance time) mix, the manufacturing cycle and amount of time to effect installation and customer acceptance, and certain factors not in our control such as customer delays and the time required to obtain U.S. Government export licenses. One or a few contract sales may account for a substantial percentage of our revenue in any period.

Domestic Sales

Overall, domestic sales in fiscal 2009 were $14,442,000 as compared to $13,478,000 in fiscal 2008, an increase of $964,000 or 7.2%, reflecting favorable performance in hyperbaric (up 117.3%) and simulation (up 93.5%) products, offset in part by declines in sterilizer (down 17.4%) and environmental (down 15.8%) products. Domestic sales represented 39.4% of our total sales in fiscal 2009, down from 59.3% in fiscal 2008. Sales to the U.S. Government in fiscal 2009 were $3,096,000 as compared $1,828,000 in fiscal 2008, representing an increase of $1,268,000, or 69.4%, reflecting contracted research work for two TacModules. U.S. Government sales represented 8.4% of total sales, up from 8.0% in fiscal 2008.

International Sales

International sales, including those in the Company's foreign subsidiaries, were $19,149,000, up $11,725,000 or 157.9%, from the prior fiscal period and represented 52.2% of total sales, up from 32.7% in fiscal 2008, primarily due to increased sales of aircrew training systems to Saudi Arabia and Turkey.

Throughout our history, most of the sales for Aircrew Training Systems ("ATS") have been made to international customers. In fiscal 2009, international sales totaling at least $500,000 per country were made to customers in Saudi Arabia, Turkey, Thailand, Malaysia and Egypt. Of the February 27, 2009 sales backlog, two product lines each represented at least 10% of the total backlog: aircrew training systems ($29,231,000, 66.0%) and disaster management simulation products ($6,397,000, 14.4%). In each product area one customer (the same customer) represented $19,089,000, or 79.2%, of the total ATS backlog.

Segment Sales

Fiscal Year	($000 except for %) Training Services Group $	%	Control Systems Group $	%	Total $	%
2009	20,608	56.2%	16,079	43.8%	36,687	100.0%
2008	7,844	34.5%	14,886	65.5%	22,730	100.0%

The Company primarily manufactures, under contract, various types of high-technology equipment which it has designed and developed. The Company considers its business activities to be divided into two segments: Training Services Group (TSG) and Control Systems Group (CSG). Product categories included in TSG are pilot training and flight simulators, disaster management systems and entertainment applications. CSG includes sterilizers, environmental control devices, hyperbaric chambers along with parts and service support.

Sales of our TSG products were $20,608,000 in fiscal 2009, an increase of $12,764,000, or 162.7% from fiscal 2008. Sales of these products accounted for 56.2% of our sales versus 34.5% in fiscal 2008. Sales in our other segment, the CSG, increased $1,193,000 or 8.0%, and constituted 43.8% of our total sales compared to 65.5% in fiscal 2008.

Given the Company's backlog at February 27, 2009 and the existing and continuing difficult domestic economic conditions, going forward it is anticipated that the TSG segment will continue to experience growth at some level while the CSG segment will be significantly negatively impacted by the domestic marketplace. We expect most of the Company's anticipated earnings performance to be generated by the TSG segment.

Gross Profit

Gross profit for fiscal 2009 increased by $7,478,000, or 170.7%, from fiscal 2008, reflecting the favorable sales performance and resulting gross profit. Additionally, a favorable product and contract mix resulted in an increase in the gross profit rate as a percent of sales to 32.3% for fiscal 2009 versus 19.3% for fiscal 2008. Significantly favorable margin rates were realized in simulation, aircrew training systems and sterilizers. Within the ATS product group, one specific international contract for aeromedical equipment contributed significantly to both the favorable gross profit dollar and improvement in the gross proft rate as a percentage of revenue increase.

Selling and Administrative Expenses

Selling and administrative expenses decreased $558,000, or 4.8%, from fiscal 2008. This decrease reflects a reduction in bad debt expense and legal fees.

Claim Settlement Costs

Claim settlement costs in fiscal 2008 were $3,638,000. This expense directly related to the claim settlement with the U.S. Navy. (See Note 14 of the Notes to the Consolidated Financial Statements — Commitments and Contingencies)

Impairment Expense

Impairment expense in fiscal 2008 reflected the write down of the remaining goodwill associated with the Company's purchase of ETC-PZL in 1998. Based on an evaluation of the net undiscounted cash flows expected from ETC-PZL in fiscal 2009, it was determined that the asset representing the net book value over purchase price for this subsidiary would not be recovered.

Research and Development Expenses

Research and development expenses increased $432,000, or 63.7%, in fiscal 2009 as compared to fiscal 2008. This increase reflected reduced reimbursement for government grants in our Turkish subsidiary under government research awards. Most of our research efforts, which were and continue to be significant costs of our business, are included in cost of sales for applied research for specific contracts, as well as research for feasibility and technology updates.

Operating Loss

Operating loss was $346,000 in fiscal 2009 compared to an operating loss of $12,043,000 in fiscal 2008, a decrease in the operating loss of $11,697,000, or 97.1%. This improvement in operating results represented a combination of higher sales volume and gross profit coupled with reduced claim settlement costs and impairment expenses.

On a segment basis, TSG had an operating income of $2,431,000 a $6,360,000 improvement over the segment operating loss of $3,929,000 in fiscal 2008. The CSG had an operating loss of $1,497,000 in fiscal 2009, a decrease in operating loss of $4,054,000, or 73.0%, from fiscal 2008. These segment operating results were offset, in part, by unallocated corporate expenses of $1,280,000 which were down $805,000, or 38.6%, from fiscal 2008.

Given the positive operating performance in fiscal 2009 versus the prior period, the level and mix of the Company's backlog at February 27, 2009, open proposals and proposals under preparation, which include quotations for some significant potential U.S. Government and international contract awards, and the Company's continuing positive feedback from potential customers for its ATFS technology, it is anticipated that performance in fiscal 2010 would be at least consistent with that attained in fiscal 2009. However, it is also anticipated that the Company's CSG segment will continue to suffer from negative market conditions.

Interest Expense

Interest expense (net of interest income) decreased $13,000, or 0.8%, in fiscal 2009 from fiscal 2008.

Other Expense, net

Other expense, net, decreased $169,000 for fiscal 2009 versus fiscal 2008 reflecting miscellaneous income from insurance and other settlements.

Provision for Income Taxes

The Company recorded no income tax expense in fiscal 2009. Although ETC Southampton reported a pre-tax loss during fiscal 2008, no offsetting income tax benefit and corresponding deferred tax asset was recorded, due to the uncertain nature of their ultimate realization based on past performance and the potential that sufficient taxable income may not be generated in the near future. We will recognize these benefits only as reassessment demonstrates that they are realizable. Realization is entirely dependent upon future earnings in specific tax jurisdictions.

Income tax expense in fiscal 2008 resulted from expense timing differences in ETC-PZL as, although ETC-PZL had a book loss for reporting purposes, it reported a profit for tax purposes.

Reflecting the Company's significant losses in the current and prior fiscal years, the Company has approximately $39.8 million of federal and approximately $46.2 million of state net loss carry forwards available to offset future income tax liabilities, beginning to expire in 2025. However, due to the uncertain nature of their ultimate realization based on past performance, and the potential that sufficient taxable income may not be generated in the near future, we have established a full valuation allowance of the same amount against these carry forward benefits and will recognize these benefits only as reassessment demonstrates that they are realizable. Realization is entirely dependent upon future earnings in specific tax jurisdictions. While the need for this valuation allowance is subject to periodic review, if the allowance is reduced, the tax benefits of the carry forwards will be recorded in future operations as a reduction of our income tax expense. In addition, the Company may be subject to limitation on the use of its net operating losses based on the potential ownership change that may have occurred as defined by Section 382 of the Internal Revenue Code. The Company is currently evaluating the need to undertake an ownership change study in order to conclude if a further limitation is required.

Liquidity and Capital Resources

During fiscal 2009, we used $739,000 of cash for operating activities versus a usage of $5,761,000 for fiscal 2008. The usage in fiscal 2009 primarily reflected the net loss, an increase in accounts receivable and a reduction in billing in excess of costs and estimated earnings on uncompleted long-term contracts which was partially offset by cash from depreciation and amortization and reduced inventories.

The Company's investing activities used $1,908,000 in fiscal 2009 and consisted primarily of costs for the continued construction activities and the manufacturing of demonstration simulators for our NASTAR Center coupled with higher software enhancements for our Advanced Tactical Fighter Systems technology.

The Company's financing activities generated $1,504,000 of cash during fiscal 2009. This primarily reflected the proceeds from borrowings under the Company's bank line.

Effective April 24, 2009, we entered into a transaction (the "Lenfest Financing Transaction") with H.F. Lenfest ("Lenfest") that provides for the following upon the satisfaction of certain conditions, including the receipt of the approval of the Company's shareholders to certain components of the transaction (as more fully described below, the "Shareholder Approvals"): (i) a $7,500,000 credit facility to be provided by Lenfest to ETC; (ii) exchange of the Subordinated Note (as defined below) held by Lenfest, together with all accrued interest and warrants issuable under the Subordinated Note, and all Series B Preferred Stock and Series C Preferred Stock held by Lenfest, together with all accrued dividends thereon, for a new class of preferred stock, Series E Preferred Stock, of the Company, the terms of which are described below; and (iii) the guarantee by Lenfest of all of ETC's obligations to PNC Bank in connection with an increase of the existing $15,000,000 revolving line of credit with PNC Bank (the "2007 PNC Credit Facility") to $20,000,000, and in connection with this guarantee, the pledge by Lenfest to PNC Bank of $10,000,000 in marketable securities. For additional information regarding the Lenfest Financing Transaction, see Note 1 — Subsequent Events, Refinancing Transaction in the accompanying Notes to the Consolidated Financial Statements.

The following table presents our contractual cash flow commitments on long-term debt and operating leases. See Notes 8 and 9 to the accompanying Notes to the Consolidated Financial Statements for additional information on our long-term debt and operating leases.

The following table lists the long-term debt and other long-term obligations of the Company as of February 27, 2009.

	Total	Less Than 1 Year	1-3 Years	After 4 Years
Long-term debt, including current maturities	$22,081	$ 9	$ 22,072	$ —
Operating leases	407	135	254	18
Total	$22,488	$ 144	$22,326	$ 18

Long-term debt is reported net of unamortized discount of $336,000 on the Company's subordinated debt.

Sales Backlog

Our sales backlog at February 27, 2009 and February 29, 2008, for work to be performed and revenue to be recognized under written agreements after such dates, was $44,324,000 and $38,281,000, respectively. Of the February 27, 2009 sales backlog, two product lines each represented at least 10% of the total backlog: aircrew training systems ($29,231,000, 66.0%) and disaster management simulation products ($6,397,000, 14.4%). Additionally, one customer represented $19,089,000, or 43.1%, of the total backlog.

We expect to complete approximately 66% of the February 27, 2009 sales backlog prior to February 26, 2010, the end of our 2010 fiscal year. Of the February 29, 2008 sales backlog, we completed approximately 67% by February 27, 2009.

Our order flow does not follow any seasonal pattern as we receive orders in each fiscal quarter of our fiscal year.

We believe that existing cash balances at February 27, 2009, cash generated from operating activities and future availability under the proposed transaction with Lenfest will be adequate to meet our future obligations through at least June 30, 2010. We expect to maintain a minimum EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of (a) $300,000 for the fiscal quarter ended May 31, 2009, (b) $1,200,000 for the fiscal quarter ended August 31, 2009, (c) $1,000,000 for the fiscal quarter ended November 30, 2009, (d) $900,000 for the fiscal quarter ended February 28, 2010 and (e) $1,300,000 for the fiscal quarter ending March 1, 2010 and thereafter.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements during the fiscal year ended February 27, 2009 that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our investors.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued FASB No. 141(R), *"Business Combinations"*. FASB 141(R) was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement applies to a transaction or other event that meets the definition of a business combination. It does not apply to the formation of a joint venture, the acquisition of an asset or a group of assets that do not constitute a business, a combination between entities or businesses under common control, or a combination between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization. This Statement shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier application is prohibited. The Company does not anticipate that adoption of this Issue will have a material affect on the Company's financial condition, results of operations, cash flows or disclosures.

In June 2008, the Emerging Issues Task Force ("EITF") issued EITF 07-5, *"Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock"*. EITF 07-5 clarifies how to determine whether certain instruments or features were indexed to an entity's own stock under EITF 01-6, *"The Meaning of "Indexed to a Company's Own Stock".* It also resolves issues related to proposed Statement 133 Implementation Issue No. C21, Scope Exceptions: *"Whether Options (Including Embedded Conversion Options) Are Indexed to both an Entity's Own Stock and Currency Exchange Rates"*. EITF 07-5 will become effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The consensus must be applied to all instruments outstanding on the date of adoption and the cumulative effect of applying the consensus must be recognized as an adjustment to the opening balance of retained earnings at transition. The Company does not anticipate that adoption of this Issue will have a material affect on the Company's financial condition, results of operations, cash flows or disclosures.

In November 2008, the Emerging Issues Task Force ("EITF") issued EITF 08-6, *"Equity Method Investment Accounting Considerations".* EITF 08-6 clarifies the accounting for certain transactions and impairment consideration involving equity method investments. This Issue applies to all investments accounted for under the equity method and is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. This Issue shall only be applied prospectively. The Company does not anticipate that adoption of this Issue will have a material affect on the Company's financial condition, results of operations, cash flows or disclosures.

In November 2008, the Emerging Issues Task Force ("EITF") issued EITF 08-7, *"Accounting for Defensive Intangible Assets".* EITF 08-7 clarifies the accounting for defensive intangible assets subsequent to initial measurement. This Issue is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and shall be applied prospectively. The Company does not anticipate that adoption of this Issue will have a material affect on the Company's financial condition, results of operations, cash flows or disclosures.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)		Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a)) (c)
Equity compensation plans approved by security holders	157,652	$	5.90	520,000
Equity compensation plans not approved by security holders	—		N/A	197,843
Total	157,652	$	5.90	717,843

The following plans have not been approved by our shareholders:

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan, which was adopted by the Board of Directors on November 3, 1987. All employees meeting service requirements, except officers, directors and 10% stockholders are eligible to voluntarily purchase common stock through payroll deductions up to 10% of salary. We make a matching contribution equal to 20% of the employee's contribution.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Environmental Tectonics Corporation

We have audited the accompanying consolidated balance sheets of Environmental Tectonics Corporation and Subsidiaries (the "Company") as of February 27, 2009 and February 29, 2008 and the related consolidated statements of operations, changes in stockholders' deficiency, and cash flows for the fifty two weeks ended February 27, 2009 and the fifty three weeks ended February 29, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Environmental Tectonics Corporation and Subsidiaries as of February 27, 2009 and February 29, 2008, and the consolidated results of their operations and their cash flows for the each of the fifty two weeks ended February 27, 2009 and the fifty three weeks ended February 29, 2008 in conformity with accounting principles generally accepted in the United States of America.

We have also audited the accompanying Schedule II of Environmental Tectonics Corporation and Subsidiaries as of February 27, 2009 and February 29, 2008 and for the fifty two weeks ended February 27, 2009 and the fifty three weeks ended February 29, 2008. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth herein.

/s/ Friedman LLP

East Hanover, New Jersey
May 12, 2009

Environmental Tectonics Corporation

Consolidated Balance Sheets

	February 27, 2009	February 29, 2008
	(In thousands, except share information)	
ASSETS		
Cash and cash equivalents	$ 520	$ 1,871
Restricted cash	4,454	4,526
Accounts receivable, net of allowance for bad debt of $364 and $746	5,100	3,231
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	2,460	3,422
Inventories, net	4,435	6,773
Prepaid expenses and other current assets	479	833
Total current assets	17,448	20,656
Property, plant and equipment, at cost, net	15,786	15,208
Construction in progress	275	141
Software development costs, net of accumulated amortization of $13,105 and $12,161	1,013	1,614
Other assets	406	6
Total assets	$ 34,928	$ 37,625
LIABILITIES		
Current portion of long-term debt	$ 9	$ 9
Accounts payable — trade	2,105	3,060
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	4,155	6,491
Customer deposits	2,397	2,989
Accrued claim settlement costs	—	2,275
Accrued interest and dividends	4,197	2,287
Other accrued liabilities	2,251	1,803
Total current liabilities	15,114	18,914
Long-term obligations, less current portion:		
Credit facility payable to bank	10,510	8,810
Promissory note payable	1,891	—
Subordinated convertible debt	9,664	9,366
Other long-term debt	7	16
	22,072	18,192
Unearned interest	152	—
Total liabilities	37,338	37,106
Commitments and contingencies	—	—
Minority interest	42	50
Cumulative convertible participating preferred stock, Series B, $.05 par value, 15,000 shares authorized; 6,000 shares issued and outstanding	6,000	6,000
Cumulative convertible participating preferred stock, Series C, $.05 par value, 3,300 shares authorized, issued and outstanding	3,300	3,300
STOCKHOLDERS' DEFICIENCY		
Cumulative convertible participating preferred stock, Series D	—	—
Cumulative convertible participating preferred stock, Series E	—	—
Common stock, $.05 par value, 20,000,000 shares authorized; 9,049,351 and 9,035,355 shares issued and outstanding	452	451
Additional paid-in capital	15,399	16,139
Accumulated other comprehensive loss	(557)	(349)
Accumulated deficit	(27,046)	(25,072)
Total stockholders' deficiency	(11,752)	(8,831)
Total liabilities and stockholders' deficiency	$ 34,928	$ 37,625

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

Environmental Tectonics Corporation

Consolidated Statements of Operations

	52 Weeks Ended February 27, 2009	53 Weeks Ended February 29, 2008
	(Amounts in thousands, except share information)	
Net sales	$ 36,687	$ 22,730
Cost of goods sold	24,829	18,350
Gross profit	11,858	4,380
Operating expenses:		
Selling and administrative, including stock compensation expense of $44 and $114	11,094	11,652
Claim settlement costs	—	3,638
Impairment charge	—	455
Research and development	1,110	678
	12,204	16,423
Operating loss	(346)	(12,043)
Other expenses:		
Interest expense, net	1,569	1,582
Other expense, net	67	236
	1,636	1,818
Loss before provision for income taxes and minority interest	(1,982)	(13,861)
Provision for income taxes	—	37
Loss before minority interest	(1,982)	(13,898)
Income attributable to minority interest	(8)	(3)
Net loss	(1,974)	(13,895)
Preferred stock dividends	(927)	(661)
Loss applicable to common shareholders	$ (2,901)	$ (14,556)
Per share information:		
Loss per common share applicable to common shareholders:		
Basic and diluted	$ (0.32)	$ (1.61)
Weighted average common shares:		
Basic and diluted	9,037,000	9,030,000

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

Environmental Tectonics Corporation

Consolidated Statements of Changes in Stockholders' Deficiency
For the 52 weeks ended February 27, 2009 and the 53 weeks ended February 29, 2008

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Loss	Deficit	Deficiency
	(Amounts in thousands, except share information)					
Balance, February 23, 2007	**9,028,459**	**$ 451**	**$ 16,662**	**$ (149)**	**$ (11,177)**	**$ 5,787**
Net loss for the year					(13,895)	(13,895)
Interest hedge valuation				(228)		(228)
Foreign currency translation adjustment				28		28
Total comprehensive loss						(14,095)
Stock compensation expense			114			114
Issuance of stock under employee stock purchase plan and Board of Director's compensation	6,896		24			24
Accumulated preferred stock dividends	—	—	(661)	—	—	(661)
Balance, February 29, 2008	**9,035,355**	**$ 451**	**$ 16,139**	**$ (349)**	**$ (25,072)**	**$ (8,831)**
Net loss for the year					(1,974)	(1,974)
Interest hedge valuation				(40)		(40)
Foreign currency translation adjustment				(168)		(168)
Total comprehensive loss						(2,182)
Stock compensation expense			44			44
Warrants issued with $2 million promissory note			128			128
Issuance of stock under employee stock purchase plan and Board of Director's compensation	13,996	1	15			16
Accumulated preferred stock dividends	—	—	(927)	—	—	(927)
Balance, February 27, 2009	**9,049,351**	**$ 452**	**$ 15,399**	**$ (557)**	**$ (27,046)**	**$ (11,752)**

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

Environmental Tectonics Corporation

Consolidated Statements of Cash Flows

	52 Weeks Ended February 27, 2009	53 Weeks Ended February 29, 2008
	(Amounts in thousands)	
Cash flows from operating activities:		
Net loss	$ (1,974)	$ (13,895)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation and amortization	1,797	1,996
Accretion of debt discount	298	536
Increase in allowance for accounts receivable and inventory	212	687
Income attributable to minority interest	(8)	(3)
Impairment charge	—	455
Stock compensation expense	44	138
Deferred income taxes (benefit)	(38)	28
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(1,483)	(1,601)
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	962	(606)
Inventories	1,740	(2,257)
Prepaid expenses and other current assets	392	(577)
Other assets	(381)	24
Increase (decrease) in liabilities:		
Accounts payable	(955)	806
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(2,336)	5,091
Customer deposits	(592)	2,195
Accrued income taxes	—	—
Accrued interest and dividends	983	958
Other accrued liabilities	600	264
Net cash used in operating activities	(739)	(5,761)
Cash flows from investing activities:		
Acquisition of equipment	(1,566)	(3,618)
Software development costs	(342)	(669)
Net cash used in investing activities	(1,908)	(4,287)
Cash flows from financing activities:		
Borrowings under credit facility	1,700	8,810
Issuance of notes payable, Lenfest	2,000	4,000
Repayments of notes payable, Lenfest	—	(4,000)
Restricted cash from notes payable, Lenfest	(2,000)	—
Other debt obligations	(9)	25
Issuance of preferred stock	—	3,300
Restricted cash for claim settlement	2,072	(2,072)
Accrued claim settlement costs	(2,275)	2,275
Restricted cash for performance guarantee	—	(2,434)
Issuance of common stock	16	—
Net cash provided by financing activities	1,504	9,904
Effect of other comprehensive income	(208)	(200)
Net decrease in cash and cash equivalents	(1,351)	(344)
Cash and cash equivalents at beginning of year	1,871	2,215
Cash and cash equivalents at end of year	$ 520	$ 1,871
Supplemental schedule of cash flow information:		
Interest paid	$ 475	$ 230
Income taxes paid	—	—
Supplemental information on non-cash operating, investing and financing activities:		
Accrued dividends on preferred stock	$ 927	$ 661

In the year ended February 29, 2008, the Company reclassified $8,460,000 from Construction in Progress to Property, Plant and Equipment.

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

1. Subsequent Events

Refinancing Transaction

Effective April 24, 2009, Environmental Tectonics Corporation ("ETC" or the "Company") entered into a transaction (the "Lenfest Financing Transaction") with H.F. Lenfest ("Lenfest"), a member of the Company's Board of Directors and a significant shareholder, that provides for the following upon the satisfaction of certain conditions, including the receipt of the approval of the Company's shareholders to certain components of the transaction (as more fully described below, the "Shareholder Approvals"): (i) a $7,500,000 credit facility to be provided by Lenfest to ETC; (ii) exchange of the Subordinated Note (as defined below) held by Lenfest, together with all accrued interest and warrants issuable under the Subordinated Note, and all Series B Preferred Stock and Series C Preferred Stock held by Lenfest, together with all accrued dividends thereon, for a new class of preferred stock, Series E Preferred Stock, of the Company, the terms of which are described below; and (iii) the guarantee by Lenfest of all of ETC's obligations to PNC Bank in connection with an increase of the existing $15,000,000 revolving line of credit with PNC Bank (the "2007 PNC Credit Facility") to $20,000,000, and in connection with this guarantee, the pledge by Lenfest to PNC Bank of $10,000,000 in marketable securities.

Lenfest Credit Facility

As part of the Lenfest Financing Transaction, the Company established a credit facility in the maximum amount of $7,500,000 with Lenfest (the "Lenfest Credit Facility"). The Lenfest Credit Facility is to be used to finance certain government projects that ETC is seeking to be awarded (the "Projects"). The terms of the Lenfest Credit Facility are set forth in a Secured Credit Facility and Warrant Purchase Agreement between the Company and Lenfest, dated as of April 24, 2009 (the "Lenfest Credit Agreement"). In connection with the Lenfest Credit Agreement, the Company has executed, and will in the future execute, promissory notes in favor of Lenfest, in the aggregate principal amount of up to $7,500,000 (the "Lenfest Credit Facility Note"). Each Lenfest Credit Facility Note issued prior to ETC obtaining the Shareholder Approvals accrues interest at the rate of 15% per annum, payable in cash or, at the option of Lenfest, in shares of a new class of preferred stock, Series D Preferred Stock, of the Company, the terms of which are described below. The interest rate on the Lenfest Credit Facility Notes will decrease to 10% per annum retroactive to the date of the issuance of each note if the Company obtains the Shareholder Approvals. All Lenfest Credit Facility Notes issued after ETC obtains the Shareholder Approvals shall accrue interest at the rate of 10% per annum, payable in cash or, at the option of Lenfest, shares of Series D Preferred Stock.

In connection with the execution of the Lenfest Credit Agreement on April 24, 2009, the Company is initially entitled to drawdown $1,000,000 under the Lenfest Credit Agreement prior to obtaining the Shareholder Approvals and satisfying certain other conditions (the "Initial Loan"). The Initial Loan will have a maturity date of five (5) business days following the Shareholder Approval Date (as defined below) (the "Initial Loan Early Maturity Date"), unless the Company receives the Shareholder Approvals, in which event the maturity date will be extended until three years from its date of issuance. Each additional Lenfest Credit Facility Note, none of which will be issued unless the Company receives the Shareholder Approvals, shall mature on the earlier of (i) three years from its date of issuance or (ii) December 31, 2012.

As set forth in the Form 8-K of the Company filed on February 26, 2009, Lenfest made a loan to ETC in the principal amount of $2,000,000 on February 20, 2009 (the "$2 Million Loan"), which amount is considered advanced under the Lenfest Credit Facility. The $2 Million Loan is to be used by ETC solely to evidence adequate solvency related to a proposal submitted for a Project.. The terms of the $2 Million Loan are set forth in a Secured Promissory Note, dated February 20, 2009, by ETC in favor of Lenfest (the "$2 Million Note"). The $2 Million Note will mature on the earlier of (i) three days following the date ETC is informed by the United States government or otherwise learns that it has been denied or will not be awarded the Project, (ii) August 20, 2009 if ETC has not obtained the Shareholder Approvals on or before the Shareholder Approval Date (the "$2 Million Loan Early Maturity Date") or (iii) three years following the date of issuance of the $2 Million Note. The proceeds from this

$2 million loan are included in restricted cash in ETC's balance sheets. The $2 Million Note is considered an advance against the $7.5 million Lenfest Credit Facility.

Additional advances on the Lenfest Credit Facility after the Initial $1 Million Loan and the $2 Million Loan are subject to the satisfaction of certain conditions, in addition to the condition that the Shareholder Approvals have been obtained, including the award of one or more of the Projects to ETC and that at least one such Project remains in effect, the satisfaction of the other Financing Transaction Conditions described below and the determination by Lenfest, in his sole discretion, that ETC's prospects in the long-term for reaching consistent cash flow and positive operations are continuing to improve. ETC can make requests under the Lenfest Credit Facility up to December 31, 2010.

The Company paid to Lenfest an origination fee of 1% of the committed (but not advanced as of yet) amount of the Lenfest Credit Facility. The origination fee was paid in 55 shares of new Series D Preferred Stock of the Company, which has a stated value of $1,000 per share.

In connection with each Lenfest Credit Facility Note issued by ETC, ETC will issue to Lenfest a warrant to purchase a number of shares of ETC common stock equal to (i) 10% of the principal amount of the Lenfest Credit Facility Note divided by (ii) closing price of ETC common stock for the day immediately preceding the date of issuance of this warrant. The exercise price for the warrants will be equal to such closing price. The warrants will be exercisable for seven years following issuance.

With respect to the warrant to be issued in connection with the $1 Million Loan, if it is drawn down but not repaid in full on or before the Initial $1 Million Loan Early Maturity Date or ETC does not obtain the Shareholder Approvals by July 2, 2009 (which date will be extended up to August 13, 2009 upon certain conditions (the "Shareholder Approval Date"), then Lenfest will be entitled to purchase under such warrant a number of shares of ETC Common Stock equal to $500,000 divided by the closing price of ETC's common stock for the day immediately preceding the date of issuance of the warrant, at an exercise price equal to 50% of the initial exercise price.

In addition, in connection with the $2 Million Loan, ETC issued to Lenfest a warrant (the "$2 Million Loan Warrant") to purchase 143,885 shares of ETC common stock, at an exercise price per share equal to $1.39, which is equal to the average price of ETC common stock for the 120 trading days immediately preceding the date of this warrant. The Company has recorded a debt discount of $109,000 using the Black-Scholes options-pricing model with the following weighted average assumptions: expected volatility of 107.0%; risk-free interest rate of 0.64%; and an expected life of seven years. The $2 Million Loan has a value of $1,891,000 as of February 27, 2009. Additionally, the Company issued 20,000 shares of the Company's common stock. The value of the stock to be issued is $19,000 and has been recorded as a loan origination fee. The $2,000,000 in proceeds from the $2 Million Note is included in Restricted Cash as of February 27, 2009.

If the $2 Million Loan is not repaid in full on or before the $2 Million Loan Early Maturity Date or ETC does not obtain the Shareholder Approvals by the Shareholder Approval Date, then Lenfest will be entitled to purchase an additional 575,539 shares of ETC stock for a total of 719,424 shares of ETC common stock under such warrant and the exercise price per share of such warrant will be decreased by 50% to $0.69 for all shares. This would result in an additional debt discount of $472,000. The $2 Million Loan Warrant was amended and restated on April 24, 2009 to confirm its definition of the Shareholder Approval Date with the definition set forth in the Lenfest Credit Agreement.

The Lenfest Credit Agreement contains affirmative and negative covenants, including limitations with respect to indebtedness, liens, investments, distributions, dispositions of assets, change of business and transactions with affiliates. The Lenfest Credit Agreement also contains financial covenants that are identical to the financial covenants set forth in the proposed Amended and Restated PNC Credit Agreement.

The Lenfest Credit Facility Notes provide for events of default with corresponding grace periods, including the failure to pay any principal or interest when due, failure to comply with covenants, material misrepresentations, certain bankruptcy, insolvency or receivership events, imposition of judgments and the liquidation of ETC.

The obligations of the Company to Lenfest under the Lenfest Credit Facility are secured by (i) the grant of a security interest in all personal property of the Company and certain subsidiaries of the Company and (ii) the Company's grant of a mortgage on all of the Company's real property in favor of Lenfest.

Exchange of Existing Instruments for Series E Preferred Stock

As part of the Lenfest Financing Transaction, the Subordinated Note in the original principal amount of $10,000,000 issued by ETC to Lenfest on February 18, 2003, together with all accrued interest and warrants issuable pursuant to the terms of the Subordinated Note, and all Series B Preferred Stock and Series C Preferred Stock of the Company held by Lenfest, together with all accrued dividends thereon, will be exchanged (the "Series E Exchange") for shares of a newly-created class of Series E Convertible Preferred Stock of the Company (the "Series E Preferred Stock"). The Series E Exchange is conditioned upon ETC's receipt of the Shareholder Approvals. Accordingly, the Company will not be able to complete the Series E Exchange unless the Company obtains the Shareholder Approvals.

The Series E Preferred Stock will provide for a dividend equal to 10% per annum. The dividend will be payable on the liquidation of ETC, on the conversion of the Series E Preferred Stock or following declaration by the Board of Directors of ETC. Upon liquidation, dissolution or winding up of ETC, the Series E Preferred Stock will have the right to receive the original investment amount plus accrued dividends. To the extent of any remaining funds or assets, the Series E Preferred Stock will participate on an as-converted basis in additional distributions. The Series E Preferred Stock will rank *pari passu* with the Series D Preferred Stock. Assuming that ETC's shareholders approve the Lenfest Financing Transaction, the Series E Preferred Stock will vote with the ETC common stock on an as converted basis on all matters that require the vote of ETC's shareholders.

The Series E Preferred Stock will be convertible, at Lenfest's request, into shares of ETC common stock at a conversion price equal to $2.00 per common share. The Series E Preferred Stock contains anti-dilution provisions for issuances of ETC's common stock or securities convertible into ETC's common stock at prices below the conversion price of the Series E Preferred Stock.ETC has granted Lenfest demand and "piggy back" registration rights pursuant to a Registration Rights Agreement with respect to the shares of common stock issuable upon conversion of the Series E Preferred Stock.

Increased PNC Bank Credit Facility and Issuance of New Guarantee

On April 24, 2009, PNC Bank agreed to increase the amount of financing available under the 2007 PNC Credit Facility from $15,000,000 to $20,000,000 subject to the condition that Lenfest continues to personally guaranty all of ETC's obligations to PNC Bank (the "Lenfest Guaranty") and that Lenfest pledges $10,000,000 in marketable securities as collateral security for his guaranty (the "Lenfest Pledge"). Lenfest's obligation to provide the Lenfest Guaranty and the Lenfest Pledge is conditioned upon the Company's receipt of the Shareholder Approvals.

The terms of PNC Bank's agreement to increase the amount of financing under the 2007 PNC Credit Facility are set forth in a letter agreement, dated April 24, 2009, between ETC and PNC Bank (the "PNC Letter Agreement"). If the Shareholder Approvals are obtained, ETC and PNC Bank have agreed to enter into the Amended and Restated Credit Agreement (the "Amended and Restated PNC Credit Agreement") and the Second Amended and Restated Reimbursement Agreement for Letters of Credit (the "Amended and Restated Reimbursement Agreement") in the forms attached to the PNC Letter Agreement. The promissory note executed by ETC in favor of PNC Bank in connection with the 2007 PNC Credit Facility would also be cancelled and replaced with the Amended and Restated Promissory Note in the principal amount of $20,000,000 in the form attached to the PNC Letter Agreement (the "Amended and Restated PNC Note"). Lenfest would execute and deliver to PNC Bank the following agreements, the forms of with are attached to the PNC Letter Agreement: (i) an Amended and Restated Guaranty Agreement, which would replace the Restated Guaranty executed by Lenfest in connection with the 2007 PNC Credit Facility (the "Amended and Restated Guaranty"), (ii) a Pledge Agreement, pursuant to which Lenfest shall make the Lenfest Pledge, and (iii) a Notification and Control Agreement. Such agreements, together with the

Amended and Restated PNC Credit Agreement, the Amended and Restated Reimbursement Agreement and the Amended and Restated PNC Note are collectively referred to herein as the “2009 PNC Financing Documents”.

In the event that the Shareholder Approvals are not obtained or ETC and Lenfest fail to enter into the necessary agreements on or before August 6, 2009, PNC Bank will no longer be obligated to enter into such agreements and increase the amount of financing available to ETC to $20,000,000.

Borrowings under the Amended and Restated PNC Credit Agreement will be available for working capital or other general business purposes and for issuances of letters of credit. Amounts borrowed under the Amended and Restated PNC Credit Agreement may be borrowed, repaid and reborrowed from time to time until June 30, 2010. Borrowings made under the Amended and Restated PNC Credit Agreement will bear interest at the London Interbank Offered Rate (as described in the Amended and Restated PNC Note) plus 2.50%. Additionally, ETC will be obligated to pay a fee of 0.125% per annum for unused available funds.

The Amended and Restated PNC Credit Agreement contains affirmative and negative covenants, including limitations with respect to indebtedness, liens, investments, distributions, dispositions of assets, change of business and transactions with affiliates. Under the Amended and Restated PNC Credit Agreement, the Company must maintain a minimum Consolidated Tangible Net Worth (which, as defined, is total assets excluding intangibles less liabilities excluding the Subordinated Note) of $3,500,000 for each fiscal quarter. Under the Amended and Restated PNC Credit Agreement, the Company must also maintain a minimum EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of (a) $300,000 for the fiscal quarter ended May 31, 2009, (b) $1,200,000 for the fiscal quarter ended August 31, 2009, (c) $1,000,000 for the fiscal quarter ended November 30, 2009, (d) $900,000 for the fiscal quarter ended February 28, 2010 and (e) $1,300,000 for the fiscal quarter ending March 1, 2010 and thereafter.

The Amended and Restated Reimbursement Agreement governs letters of credit issued pursuant to the Amended and Restated PNC Credit Agreement.

All of ETC’s indebtedness to Lenfest shall be subordinated to the indebtedness under the 2009 PNC Financing Documents pursuant to the terms of the Second Amended and Restated Subordination and Intercreditor Agreement, dated April 24, 2009, by and among the Company, Lenfest and PNC Bank.

If the 2009 PNC Financing Documents are entered into, ETC will pay Lenfest an origination fee equal to 1% of the Lenfest Pledge and annual interest equal to 2% of the Lenfest Pledge, each payable in shares of Series D Preferred Stock. In consideration of Lenfest entering into the Amended and Restated Guaranty, ETC will issue to Lenfest warrants to purchase shares of ETC common stock equal to 10% of the amount of the $5,000,000 increase in funding available under the Amended and Restated PNC Credit Agreement. The warrants will be exercisable for seven years following issuance at an exercise price per share equal to the closing price of ETC’s common stock on the day prior to issuance.

If ETC does not obtain the Shareholder Approvals by August 6, 2009, Lenfest will not extend the Amended and Restated Guaranty and the Lenfest Pledge, and PNC Bank will not close on the Amended and Restated PNC Credit Agreement, in which event ETC will not receive the additional $5,000,000 of borrowing availability for its working capital needs.

Series D Preferred Stock

ETC has created a new class of Series D Preferred Stock. The Series D Preferred Stock will be issued for payment of the origination fee and interest on the Lenfest Credit Facility Notes as described above. The Series D Preferred Stock will provide for a dividend equal to 10% per annum. The dividend will be paid on the liquidation of ETC, on the conversion of the Series D Preferred Stock or following declaration by the Board of Directors of ETC. Upon liquidation, dissolution or winding up of ETC, the Series D Preferred Stock will have the right to receive the original investment amount plus accrued dividends. To the extent of any remaining funds or assets, the Series D

Preferred Stock will participate on an as-converted basis in additional distributions. The Series D Preferred Stock will rank *pari passu* with the Series E Preferred Stock. The Series D Preferred Stock will vote with the ETC common stock on an as converted basis on all matters that require the vote of ETC's shareholders.

The Series D Preferred Stock will be convertible, at Lenfest's request, into ETC common shares at a conversion price equal to the fair market value of ETC's common stock on the date of issuance. The Series D Preferred Stock contains anti-dilution provisions for issuances of ETC's common stock or securities convertible into ETC's common stock at prices below the conversion price of the Series D Preferred Stock. ETC has granted Lenfest demand and "piggy back" registration rights pursuant to a Registration Rights Agreement with respect to the shares of common stock issuable upon conversion of the Series D Preferred Stock.

Accounting Treatment for Refinancing Transaction

Upon its review of EITF-19 "Debtor's Accounting for a Modification or Exchange of Debt Instruments", the Company will account for the Refinancing Transaction as an extinguishment of debt due to the fact that the instruments being exchanged have substantially different terms. The Subordinated Note, accrued interest and accrued dividends have conversion features to the Company's common stock ranging from $3.03 to $6.05 per share as compared to the Series E Preferred Stock which has a conversion feature of $2.00 per share. The Series B and Series C Preferred Stock have conversion features ranging from $3.03 to $6.68 per share compared to the Series E Preferred Stock which has a conversion feature of $2.00 per share.

Upon its review of EITF Topic No. D-98, "Classification and Measurement of Redeemable Securities" and EITF Topic No. D-109, "Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No. 133", the Company has determined that both the Series D and Series E Preferred Stock will be accounted for as permanent equity. Due to the attributes of these instruments, (designation, conversion to common stock, dividends, no mandatory conversion and voting rights), the Company has determined that these instruments are more comparable to equity than debt. Additionally, due to the fact that the conversion feature is clearly and closely related to the preferred stock, it qualifies for the scope exception of paragraph 6 of FAS 133 — Accounting for Derivatives and Hedging Activities.

Financing Transaction Conditions

Additional advances under the Lenfest Line of Credit, the Series E Exchange and Lenfest's execution of the Lenfest Guaranty and Lenfest Pledge are subject to certain conditions (the "Financing Transaction Conditions"). These conditions include (i) shareholder approval of an increase in the number of authorized shares of the Company from 20,000,000 to 50,000,000, (ii) shareholder approval of the Series E Exchange, and (iii) shareholder approval of the restoration of Lenfest's voting rights with respect to all preferred and common shares owned by Lenfest currently or issuable to Lenfest as part of the Lenfest Financing Transaction (collectively, the "Shareholder Approvals"). These conditions also include the amendment of existing employment agreements between ETC and certain ETC employees to amend certain change in control provisions. Pursuant to a Shareholders Voting Agreement, dated April 24, 2009, William F. Mitchell, Sr. has agreed to vote all of his shares of ETC common stock in favor of the Shareholder Approvals.

Unaudited Pro Forma Balance Sheet

The following unaudited pro forma balance sheet as of February 27, 2009 gives effect to the Series E Exchange as if it occurred on that date. The unaudited pro form balance sheet is presented for informational purposes only, is not necessarily indicative of the financial position that would actually have occurred had the Series E Exchange been consummated as of the date presented, nor is it necessarily indicative of the financial position of ETC. The unaudited pro forma balance sheet and the pro forma adjustments should be read in conjunction with the accompanying consolidated financial statements and the notes to the consolidated financial statements.

Environmental Tectonics Corporation Pro forma Balance Sheet as of February 27, 2009	February 27, 2009 (Audited)	Pro Forma Adjustments (Unaudited) (Amounts in thousands)			Pro Forma February 27, 2009 (Unaudited)
ASSETS					
Cash and cash equivalents	$ 520				$ 520
Restricted cash	4,454				4,454
Accounts receivable, net	5,100				5,100
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	2,460				2,460
Inventories, net	4,435				4,435
Prepaid expenses and other current assets	479	—	—	—	479
Total current assets	17,448	—	—	—	17,448
Property, plant and equipment, at cost, net	15,786				15,786
Construction in progress	275				275
Software development costs, net	1,013				1,013
Other assets	406	—(e)	200(f)	205	811
Total assets	$ 34,928	$ —	$ 200	$ 205	$ 35,333
LIABILITIES					
Current portion of long-term debt	$ 9				$ 9
Accounts payable — trade	2,105				2,105
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	4,155				4,155
Customer deposits	2,397				2,397
Accrued claim settlement costs	—				—
Accrued interest and dividends	4,197(b)	(4,170)			27
Other accrued liabilities	2,251	—	—	—	2,251
Total current liabilities	15,114	(4,170)	—	—	10,944
Long-term obligations, less current portion:					
Credit facility payable to bank	10,510				10,510
Promissory note payable	1,891				1,891
Subordinated convertible debt	9,664(a)	336(c)	(10,000)		—
Other long-term debt	7	—	—	—	7
	22,072	336	(10,000)	—	12,408
Unearned interest	152	—	—	—	152
Total liabilities	37,338	(3,834)	(10,000)	—	23,504
Commitments and contingencies	—				—
Minority interest	42				42
Cumulative convertible participating preferred stock, Series B	6,000		(d)	(6,000)	—
Cumulative convertible participating preferred stock, Series C	3,300		(d)	(3,300)	—
STOCKHOLDERS' (DEFICIENCY) EQUITY					
Cumulative convertible participating preferred stock, Series D		(e)	100(f)	55	155
Cumulative convertible participating preferred stock, Series E	(b)	4,170(c)	10,000(d)	9,300	23,470
Common stock	452				452
Additional paid-in capital	15,399	(e)	100(f)	150	15,649
Accumulated other comprehensive loss	(557)				(557)
Accumulated deficit	(27,046)(a)	(336)	—	—	(27,382)
Total stockholders' (deficiency) equity	(11,752)	3,834	10,200	9,505	11,787
Total liabilities and stockholders' (deficiency) equity	$ 34,928	$ —	$ 200	$ 205	$ 35,333

Pro forma adjustments:

(a) To expense as extinguishment of debt the unamortized debt discount on the Subordinated convertible debt

(b) Exchange of $2,323 of accrued interest due on Subordinated note payable plus $1,847 of accrued dividends due on Series B and Series C preferred stock for $4,170 of Series E Preferred Stock

(c) Exchange of Subordinated note payable for $10,000 of Series E Preferred Stock

(d) Exchange of $6,000 of Series B and $3,300 of Series C preferred stock for $9,300 of Series E preferred stock

(e) Issuance of $100 of Series D preferred stock as loan origination fee for additional Lenfest $10,000 collateral on PNC line of credit plus 10% warrant coverage on the $5 million increase in the line of credit

(f) Issuance of $55 of Series D preferred stock as loan origination fee for additional Lenfest $7,500 line of credit plus 10% warrant coverage

Delisting from NYSE AMEX LLC

On April 23, 2009, ETC's Board of Directors decided to voluntarily delist its common stock from NYSE AMEX LLC ("AMEX") and notified AMEX of such decision. The Company currently anticipates that it will file with the Securities and Exchange Commission and AMEX a Form 25 relating to the delisting of its common stock on or about May 19, 2009, with the delisting of its common stock becoming effective ten days thereafter. Accordingly, the Company anticipates that the last day of trading of its common stock on AMEX will be on or about May 29, 2009. The Company is currently in discussions to have its common stock quoted for trading on the Over-the-Counter Bulletin Board.

The Board of Directors' decision to voluntarily delist its common stock from AMEX resulted from a compliance issue related to certain terms and conditions of the Lenfest Financing Transaction. ETC was not able to secure the Lenfest Financing Transaction on terms that would allow ETC to comply with the AMEX listing rules.

2. Nature of Business and Liquidity Matters:

Environmental Tectonics Corporation is principally engaged in the design, manufacture and sale of software driven products and services used to recreate and monitor the physiological effects of motion on humans and equipment and to control, modify, simulate and measure environmental conditions. These products include aircrew training systems (aeromedical, tactical combat and general), disaster management systems and services, entertainment products, sterilizers (steam and gas), environmental testing products and hyperbaric chambers and other products that involve similar manufacturing techniques and engineering technologies. ETC focuses on software enhancements, product extensions, new product development and new marketplace applications. Sales of its products are made principally to U.S. and foreign government agencies and to the entertainment market. We operate in two primary business segments, the Training Services Group (TSG) and the Control Systems Group (CSG).

Training Services Group. This segment includes three primary product groups: aircrew training devices and services, disaster management training and systems, and entertainment products.

Control Systems Group. This segment includes three primary product lines: sterilizers, environmental control systems and other products, and hyperbarics.

The Company's fiscal year is the 52-or 53-week annual accounting period ending the last Friday in February. Certain amounts from prior consolidated financial statements have been reclassified to conform to the presentation in fiscal 2009.

On May 20, 2008, Lenfest agreed to fund all requests by ETC for funds to support its operations through June 30, 2009, on terms and conditions to be mutually agreed upon by Lenfest and ETC, provided that ETC shall not request more than $10 million in the aggregate. All agreements will be subject to any required approvals including the approval of ETC's shareholders and in accordance with the rules and regulations of the NYSE AMEX LLC, if required.

Sales Backlog

The Company's sales backlog at February 27, 2009 and February 29, 2008, for work to be performed and revenue to be recognized under written agreements after such dates, was $44,324,000 and $38,281,000, respectively. Of the February 27, 2009 sales backlog, two product lines each represented at least 10% of the total backlog: aircrew training systems ($29,231,000, 66.0%) and disaster management simulation products ($6,397,000, 14.4%). Additionally, one customer represented $19,089,000, or 43.1%, of the total backlog.

The Company expects to complete approximately 66% of the February 27, 2009 sales backlog prior to February 26, 2010, the end of our 2010 fiscal year. Of the February 29, 2008 sales backlog, we completed approximately 67% by February 27, 2009.

The Company believes that existing cash balances at February 27, 2009, cash generated from operating activities and future availability under the proposed transaction with Lenfest will be adequate to meet its future obligations through at least June 30, 2010. The Company expects to maintain a minimum EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of (a) $300,000 for the fiscal quarter ended May 31, 2009, (b) $1,200,000 for the fiscal quarter ended August 31, 2009, (c) $1,000,000 for the fiscal quarter ended November 30, 2009, (d) $900,000 for the fiscal quarter ended February 28, 2010 and (e) $1,300,000 for the fiscal quarter ending March 1, 2010 and thereafter.

If the Company is unable to obtain shareholder approval and complete the proposed transactions with Lenfest, the Company will have approximately $30 million in debt owed to PNC Bank and Lenfest due between August 20, 2009 and June 30, 2010. It is unlikely that the Company will be able to obtain the necessary capital that we need from alternative sources, on reasonable or any terms, to repay these obligations. If the Company is unsuccessful in raising sufficient additional capital its results of operations and financial condition would be materially adversely affected.

If the Company does not receive shareholder approval, it would probably not be able to expand its operations as the Company would not be able to qualify nor perform under any major new contracts. However, the Company's options would include continuing to operate at our current or a lesser level of activity. The Company would anticipate renegotiating its financial instruments with PNC Bank and Lenfest.

3. Summary of Significant Accounting Policies:

Principles of Consolidation:

The consolidated financial statements include the accounts of Environmental Tectonics Corporation, its wholly owned subsidiaries Entertainment Technology Corporation, ETC Delaware, and ETC International Corporation, its 95% owned subsidiary, ETC-PZL Aerospace Industries SP. Z 0.0, and its 99% owned subsidiary, ETC Europe. "ETC SH" refers to the company's corporate headquarters and main production plant located in Southampton, Pennsylvania, USA. All material inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates:

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made for revenue recognition under the percentage of completion method, claims receivable, inventories and computer software costs.

Fair Value of Financial Instruments

Effective March 1, 2008, the Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurement". The effect of adopting this standard was not significant. This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. The standard utilizes a fair value hierarchy which is categorized into three levels based on the inputs to the valuation techniques used to measure fair value. The standard does not require any new fair value measurements, but discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost). The levels of the hierarchy are described below:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets of liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices or identical assets or liabilities in markets that are not active;
- Level 3: Unobservable inputs that are supported by little or no market activity, which require the reporting entity's judgment or estimation.

The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy. The Company's financial liabilities that are accounted for at fair value on a recurring basis are summarized below:

	Fair Value Measurement at February 27, 2009 using (amounts in thousands)			
Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Credit facility payable to bank	$—	$—	$13,241	$13,241
Interest rate swap agreements	—	269	—	269
Subordinated convertible debt	—	—	9,091	9,091
Promissory note payable	—	—	1,503	1,503
Total	**$—**	**$269**	**$23,835**	**$24,104**

For the interest rate swap agreements, fair value is calculated using standard industry models used to calculate the fair value of the various financial instruments based on significant observable market inputs such as swap rates, interest rates, and implied volatilities obtained from various market sources. For the other financial instruments, fair value is determined using the discounted cash flow methodology.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are reasonable estimates of their fair values due to the short maturity of these financial instruments.

Revenue Recognition:

On long-term contracts, with a contract value over $250,000 and a minimum completion period of six months, the percentage-of-completion ("POC") method is applied based on costs incurred as a percentage of estimated total costs. This percentage is multiplied by the total estimated revenue under a contract to calculate the amount of revenue recognized in an accounting period. Revenue recognized on uncompleted long-term contracts in excess of amounts billed to customers is reflected as an asset. Amounts billed to customers in excess of revenue recognized on uncompleted long-term contracts are reflected as a liability. When it is estimated that a contract will result in a loss, the entire amount of the loss is accrued. The effect of revisions in cost and profit estimates for long-term contracts is reflected in the accounting period in which the Company learns the facts which require it to revise the cost and profit estimates. Contract progress billings are based upon contract provisions for customer advance payments, contract costs incurred, and completion of specified contract milestones. Contracts may provide for customer retainage of a portion of amounts billed until contract completion. Retainage is generally due within one year of completion of the contract.

For contracts under $250,000, or to be completed in less than six months, and where there are no post-shipment services included in the contract, the completed contract method is applied and revenue is recognized on the date that the finished product is shipped to the customer.

Revenue derived from the sale of parts and services is also recognized on the date that the finished product is shipped to the customer. Revenue on contracts under $250,000, or to be completed in less than six months, and where post-shipment services (such as installation and customer acceptance) are required, is recognized following customer acceptance. Revenue for service contracts is recognized ratably over the life of the contract with related material costs expensed as incurred.

In accordance with accounting principles generally accepted in the United States of America, recognizing revenue on contract claims and disputes related to customer caused delays, errors in specifications and designs, and other unanticipated causes, and for amounts in excess of contract value, is generally appropriate if it is probable that the claim will result in additional contract revenue and if the Company can reliably estimate the amount of additional contract revenue the Company may receive. However, revenue recorded on a contract claim cannot exceed the incurred contract costs related to that claim. Claims are subject to negotiation, arbitration and audit by the customer or governmental agency.

Cash and Cash Equivalents:

Cash includes short-term deposits at market interest rates with original maturities of three months or less. The Company maintains cash balances at several financial institutions located in the Northeast United States and at some locations internationally. Accounts in each domestic institution are insured by the Federal Deposit Insurance Corporation up to $250,000. During each fiscal year, the Company periodically has cash and cash equivalents in excess of insured amounts. However, significant portions of the Company’s funds are with one financial institution, which has had no experience of significant customer losses to date.

Restricted Cash:

Restricted cash as of February 27, 2009 represents proceeds from the issuance of a $2 million promissory note to Lenfest in February 2009 specifically for a bid requirement as well as monies on deposit in Turkey securing a performance guarantee in Turkey.

Restricted cash as of February 29, 2008 included proceeds from the issuance of Series C Preferred Stock to fund the settlement with the U.S. Navy, which was paid. See Note 14 — Commitments and Contingencies.

Accounts Receivable and Concentration of Credit Risk

The Company performs ongoing credit evaluations of our customers and adjusts credit limits based on payment history and the customer’s current creditworthiness. The Company continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based on historical experience and any specific customer collection issues that have been identified. Most collection issues are related to contract disputes, not customer creditworthiness. While credit losses have historically been within the Company’s expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Additionally, as a result of the concentration of international receivables, we cannot predict the effect, if any, that geopolitical disputes and financial constraints will have on the ultimate collection of our international receivables. Amounts due under contracts related to agencies of a foreign government totaled

$2,756,000, or 54.0%, of the total accounts receivable, net as of February 27, 2009. The majority of these receivables have been collected subsequent to year end.

Inventories:

Inventories are valued at the lower of cost or market. Cost is determined principally by the first-in, first-out method. The costs of finished goods and work-in-process inventories include material, direct engineering, manufacturing labor and overhead components. The Company periodically reviews the net realizable value of the inventory and, if necessary, records a reserve to reflect the net realizable value of the inventory.

Depreciation of Property, Plant and Equipment:

Property, plant and equipment are depreciated over their estimated useful lives by the straight-line method for financial reporting purposes. Buildings and building additions are depreciated over 40 years; machinery and equipment, 3 to 20 years; office furniture and equipment, 10 years; and building improvements, 5 to 10 years. Upon sale or retirement of property, plant and equipment, the costs and related accumulated depreciation are eliminated from the accounts with any resulting gains or losses.

Goodwill:

The net value of goodwill as of February 23, 2007, arising from a prior acquisition, was $455,000. Based on an evaluation of the net undiscounted cash flows expected from ETC-PZL in fiscal 2009, it was determined that the asset representing the net book value over purchase price for this subsidiary would not be recovered. Therefore, the entire amount of Goodwill was charged to operations in fiscal 2008. This expense is included in the Consolidated Statement of Operations as an Impairment charge for the 53 weeks ended February 29, 2008.

Capitalized Software Development Costs:

The Company capitalizes the qualifying costs of developing software contained in certain products. Capitalization of costs requires that technological feasibility has been established. When the software is fully documented and tested, capitalization of development costs cease and amortization commences on a straight-line basis over a period ranging from 36 to 60 months, depending upon the life of the product, which, at a minimum, approximates estimated sales. Realization of capitalized software costs is subject to the Company's ability to market the related product in the future and generate cash flows to support future operations. Capitalized software costs totaled $342,000 and $774,000 respectively, for the fiscal years ended February 27, 2009 and February 29, 2008. Related software amortization totaled $943,000 and $1,213,000, respectively, for fiscal 2009 and 2008.

Research and Development:

Research and development expenses are charged to operations as incurred. During fiscal 2009 and 2008, the Company incurred research and development costs of $1,110,000 and $678,000, respectively.

Income Taxes:

The Company accounts for income taxes using the liability method, which reflects the impact of temporary differences between values recorded for assets and liabilities for financial reporting purposes and values utilized for measurement in accordance with applicable tax laws.

Long-Lived Assets:

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company periodically evaluates the period of depreciation or amortization for long-lived assets to determine whether current circumstances warrant revised estimates of useful lives. The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the net undiscounted cash flows expected to be generated by the asset. An impairment loss would be recorded for the excess of net book value over the fair value of the asset impaired. The fair value is estimated based on expected undiscounted future cash flows. The results of impairment tests are subject to management's estimates and assumptions of projected cash flows and operating results. Actual results may differ.

Share-Based Compensation:

The Company adopted Statement of Financial Accounting Standard ("SFAS") No. 123(R) effective February 25, 2006. SFAS No. 123(R) requires the Company to recognize expense related to the fair value of stock-based compensation awards, including employee stock options. Prior to the adoption of SFAS No. 123(R), the Company accounted for stock options using the intrinsic value method of APB Opinion No. 25, and it did not recognize compensation expense in its income statement for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant.

Advertising Costs:

The Company expenses advertising costs, which include trade shows, as incurred. Advertising expense was $394,000 and $310,000 in fiscal 2009 and 2008, respectively.

Earnings Per Common Share:

SFAS No. 128, "Earnings Per Share", requires presentation of basic and diluted earnings per share together with disclosure describing the computation of the per share amounts. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued FASB No. 141(R), *"Business Combinations"*. FASB 141(R) was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement applies to a transaction or other event that meets the definition of a business combination. It does not apply to the formation of a joint venture, the acquisition of an asset or a group of assets that do not constitute a business, a combination between entities or businesses under common control, or a combination between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization. This Statement shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier application is prohibited. The Company does not anticipate that adoption of this Issue will have a material affect on the Company's financial condition, results of operations, cash flows or disclosures.

In June 2008, the Emerging Issues Task Force ("EITF") issued EITF 07-5, *"Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock"*. EITF 07-5 clarifies how to determine whether certain instruments or features were indexed to an entity's own stock under EITF 01-6, *"The Meaning of "Indexed to a Company's Own Stock".* It also resolves issues related to proposed Statement 133 Implementation Issue No. C21, Scope Exceptions: *"Whether Options (Including Embedded Conversion Options) Are Indexed to both an Entity's Own Stock and Currency Exchange Rates"*. EITF 07-5 will become effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The consensus must be applied to all instruments outstanding on the date of adoption and the cumulative effect of applying the consensus must be recognized as an adjustment to the opening balance of retained earnings at transition. The Company does not anticipate that adoption of this Issue will have a material affect on the Company's financial condition, results of operations, cash flows or disclosures.

In November 2008, the EITF issued EITF 08-6, *"Equity Method Investment Accounting Considerations"*. EITF 08-6 clarifies the accounting for certain transactions and impairment consideration involving equity method investments. This Issue applies to all investments accounted for under the equity method and is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. This Issue shall only be applied prospectively. The Company does not anticipate that adoption of this Issue will have a material affect on the Company's financial condition, results of operations, cash flows or disclosures.

In November 2008, the EITF issued EITF 08-7, *"Accounting for Defensive Intangible Assets"*. EITF 08-7 clarifies the accounting for defensive intangible assets subsequent to initial measurement. This Issue is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and shall be applied prospectively. The Company does not anticipate that adoption of this Issue will have a material affect on the Company's financial condition, results of operations, cash flows or disclosures.

Certain amounts from the fiscal 2008 consolidated financial statements regarding the Company's European subsidiary have been reclassified from cost of goods sold to selling and administrative expenses to conform to the presentation in fiscal 2009.

4. Accounts Receivable:

The components of accounts receivable at February 27, 2009 and February 29, 2008 are as follows:

	February 27, 2009	February 29, 2008
	(In thousands)	
U.S. government receivables billed and unbilled contract costs subject to negotiation	$ 551	$ 315
U.S. commercial receivables billed	1,002	2,573
International receivables billed	3,911	1,089
	5,464	3,977
Less allowance for doubtful accounts	(364)	(746)
Accounts receivable, net	$ 5,100	$ 3,231

5. Costs and Estimated Earnings on Uncompleted Contracts:

Unbilled costs

The following is a summary of long-term contracts in progress at February 27, 2009 and February 29, 2008:

	February 27, 2009	February 29, 2008
	(In thousands)	
Cost incurred on uncompleted long-term contracts	$ 26,777	$ 44,451
Estimated earnings	16,911	12,071
	43,688	56,522
Less billings to date	(45,383)	(59,591)
	$ (1,695)	$ (3,069)

Included in accompanying balance sheets under the following captions:

	February 27, 2009	February 29, 2008
	(In thousands)	
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	$ 2,460	$ 3,422
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(4,155)	(6,491)
	$ (1,695)	$ (3,069)

Included in billings in excess of costs and estimated earnings on uncompleted long-term contracts is a provision for unexpected losses on contracts of $200,000 in fiscal 2009 and 2008.

6. Inventories:

Inventories consist of the following:

	February 27, 2009	February 29, 2008
	(In thousands)	
Raw material	$ 92	$ 90
Work in process	3,564	5,916
Finished goods	779	767
Total inventory	$ 4,435	$ 6,773

Inventory is presented above net of an allowance for obsolescence of $1,820,000 (Raw material $92,000, Work in process $1,027,000 and Finished goods $701,000) and $1,222,000 (Raw material $90,000, Work in process $571,000 and Finished goods $561,000) in fiscal 2009 and 2008, respectively.

7. Property, Plant and Equipment:

The following is a summary of property, plant and equipment, at cost, and estimated useful lives at February 27, 2009 and February 29, 2008:

	February 27, 2009	February 29, 2008
	(In thousands)	
Land	$ 100	$ 100
Buildings and building additions	3,851	3,851
Machinery and equipment	22,426	21,034
Office furniture and equipment	1,194	1,194
Building improvements	2,489	2,466
	30,060	28,645
Less accumulated depreciation	(14,274)	(13,437)
Property, plant and equipment, net	$ 15,786	$ 15,208

Depreciation expense for the fiscal years ended February 27, 2009 and February 29, 2008 was $837,000 and $783,000, respectively.

8. Long-Term Obligations and Credit Arrangements:

This Note refers to Obligations and Credit Arrangements that were in effect as of February 27, 2009. This Note should be read in conjunction with Note 1 — Subsequent Event, Refinancing Transaction.

Lenfest Promissory Note

On February 20, 2009, Lenfest made a loan to ETC in the principal amount of $2,000,000 (the "Loan"), which amount is considered advanced under the Lenfest Credit Facility. The Loan is to be used by ETC solely to support ETC's proposal on one of the Projects. The terms of the Loan are set forth in a Secured Promissory Note, dated February 20, 2009, by ETC in favor of Lenfest (the "Note"). The Note will mature on the earlier of (i) three days following the date ETC is informed by the United States government or otherwise learns that it has been denied or will not be awarded the Project, (ii) August 20, 2009 if ETC has not obtained the Shareholder Approvals on or before the Shareholder Approval Date (the "$2 Million Loan Early Maturity Date") or (iii) three years following the date of issuance of the Note.

In connection with the Loan, the Company issued warrants to purchase 143,885 warrants to purchase the Company's common stock at $1.39 per share. The Company has recorded a debt discount of $109,000 using the Black-Scholes options-pricing model with the following weighted average assumptions: expected volatility of 107.0%; risk-free interest rate of 0.64%; and an expected life of 7 years. The $2 Million Loan has a value of $1,891,000 as of February 27, 2009. Additionally, the Company issued 20,000 shares of the Company's common stock. The value of the stock to be issued is $19,000 and has been recorded as a loan origination fee. The $2,000,000 in proceeds from the $2 Million Note is included in Restricted Cash as of February 27, 2009.

If the $2 Million Loan is not repaid in full on or before the $2 Million Loan Early Maturity Date or ETC does not obtain the Shareholder Approvals by the Shareholder Approval Date, then Lenfest will be entitled to purchase an additional 575,539 shares of ETC stock for a total of 719,424 shares of ETC common stock under such warrant and the exercise price per share of such warrant will be decreased by 50% to $0.69 for all shares. This would result in an additional debt discount of $472,000.

Lenfest Letter Agreement

On May 20, 2008, Lenfest agreed to fund all requests by ETC for funds to support its operations through June 30, 2009, on terms and conditions to be mutually agreed upon by Lenfest and ETC, provided that ETC shall not request more than $10 million in the aggregate. All agreements will be subject to any required approvals including the approval of ETC's shareholders and in accordance with the rules and regulations of the NYSE AMEX LLC, if required.

Bank Credit and Facility

July 31, 2007, ETC entered into a revolving credit agreement (the "Credit Agreement") in order to refinance its indebtedness with PNC Bank the aggregate amount of up to $15,000,000. This Credit Agreement was a replacement of a credit facility originally entered into with PNC Bank in February 2003.

On September 10, 2008, the Credit Agreement was renewed. The expiration date of the Credit Agreement was extended from June 30, 2009 to June 30, 2010. All other terms and conditions of the Credit Agreement remained in full force and effect. Borrowings are required to be used for ETC's working capital or other general business purposes and for issuances of letters of credit. Amounts borrowed under the Credit Agreement may be borrowed, repaid and reborrowed from time to time until June 30, 2010. Borrowings made pursuant to the Credit Agreement bear interest at either the prime rate (as described in the promissory note executed in accordance with the Credit Agreement) minus 1.00% or the London Interbank Offered Rate (as described in the Note) plus 0.90%. Additionally, ETC is obligated to pay a fee of 0.125% per annum for unused available funds.

The Credit Agreement contains affirmative and negative covenants for transactions of this type, including limitations with respect to indebtedness, liens, investments, distributions, dispositions of assets, change of business and transactions with affiliates. Effective August 26, 2008, the Credit Agreement was amended to reflect that the Company must maintain a minimum Consolidated Tangible Net Worth (which, as defined, is total assets excluding intangibles less liabilities excluding the Subordinated Convertible Debt) of (a) $5,000,000 for the fiscal quarter ended August 29, 2008, (b) $4,000,000 for the fiscal quarter ended November 28, 2008 and (c) $3,500,000 for the fiscal quarter ending February 27, 2009 and thereafter. At February 27, 2009, our availability under the Credit Agreement was approximately $1,219,000. This included cash borrowings under the Credit Agreement of $10,510,000 and outstanding letters of credit of $3,271,000.

Borrowings are to be used for ETC's working capital or other general business purposes and for issuances of letters of credit. Amounts borrowed under the Credit Agreement may be borrowed, repaid and reborrowed from time to time until June 30, 2010. Borrowings made pursuant to the Credit Agreement will bear interest at either the prime rate (as described in the Note) minus 1.00% or the London Interbank Offered Rate (as described in the Note) plus 0.90%. Additionally, ETC is obligated to pay a fee of 0.125% per annum for unused available funds.

For the purpose of reducing the risk associated with variable interest rates, ETC has entered into an interest rate swap agreement (Swap Agreement) with PNC which provides for a fixed rate through June 30, 2009, the maturity date of the Swap Agreement, for the borrowings during the first quarter of fiscal 2008. If the Swap Agreement is terminated prior to maturity, an additional payment to PNC or a credit to the Company might be due, based on the relative market rates at the time of termination. The Swap Agreement transaction has been accounted for under FAS No. 133 — "Accounting for Derivative and Instruments and Hedging Activities". At February 27, 2009, ETC recorded a Comprehensive Loss of $269,000 reflecting the reduced value of the interest rate hedge in the accompanying Consolidated Balance Sheets.

ETC's obligations under the Credit Agreement are secured by a personal guarantee from Lenfest under a Restated Guaranty, dated July 31, 2007, made by Lenfest in favor of PNC. ETC will pay Lenfest an annual cash fee of 1% of the loan commitment for his guarantee. Fees due under the Restated Guaranty are included in Accrued interest and dividends in the accompanying consolidated balance sheets.

In connection with entering into the Credit Agreement, ETC entered into an Amended and Restated Reimbursement Agreement with PNC Bank (the "Reimbursement Agreement"), and an Amended and Restated Subordination and Intercreditor Agreement with PNC Bank and Lenfest (the "Subordination Agreement"). The Reimbursement Agreement governs letters of credit issued pursuant to the Credit Agreement. Under the Subordination Agreement, Lenfest agreed to continue to subordinate his rights in connection with a convertible promissory note executed by ETC in favor of Lenfest in the original aggregate principal amount of $10,000,000, dated February 18, 2003, to the rights of PNC Bank in connection with the Line of Credit.

At February 27, 2009, the Company had $1,219,000 available under the line of credit.

Long-term obligations at February 27, 2009 and February 29, 2008 consist of the following:

	February 27, 2009	February 29, 2008
	(In thousands)	
Note payable to bank	$ 10,510	$ 8,810
Automobile loan	16	25
Promissory note, net of unamortized discount of $109	1,891	—
Subordinated convertible debt, net of unamortized discount of $336 and $634 at February 27, 2009 and February 29, 2008, respectively	9,664	9,366
	$ 22,081	$ 18,201

The amounts of future long-term obligations maturing in each of the next five fiscal years are as follows (amounts in thousands):

2010	$ 9
2011	22,072
2012 and thereafter	—
Total future obligations	$22,081

The interest rate in the Company's subordinated debt agreement is 10% per annum. However, Lenfest reduced the interest rate to 8% per annum for the period December 1, 2004 through November 30, 2009.

Equity Line

On April 7, 2006, the Company entered into a Preferred Stock Purchase Agreement (the "Lenfest Equity Agreement") with Lenfest. The Lenfest Equity Agreement permitted ETC to unilaterally draw down up to $15 million in exchange for shares of the Company's Series B Cumulative Convertible Preferred Stock ("Series B Preferred Stock"). The Preferred Stock provides for a dividend equal to 6% per annum. On August 23, 2007, the dividend was amended to 10% per annum, effective from August 23, 2007. The Preferred Stock is convertible, at Lenfest's request, into ETC common shares at a conversion price (the "Conversion Price") which was set on the day of each draw down. The Conversion Price will be equal to the closing price of the Company's common stock on the trading day immediately preceding the day in which the draw down occurs, subject to a floor price of $4.95 per common share. Drawdowns were not permitted on any day when the Conversion Price would be less than this floor price. On the sixth anniversary of the Lenfest Equity Agreement, any issued and outstanding Preferred Stock will be mandatorily converted into ETC common stock at each set Conversion Price. The Preferred Stock will vote with the ETC common stock on an as converted basis.

In connection with the execution of the Lenfest Equity Agreement, the Company drew down $3 million by issuing 3,000 shares of Preferred Stock with a Conversion Price equal to $4.95 per share. Additionally, on July 31, 2006, the Company drew down an additional $3 million by issuing 3,000 shares of Preferred Stock at a conversion price equal to $6.68 per common share. The Lenfest Equity Agreement was terminated on July 31, 2007 upon execution of the credit agreement with PNC Bank.

By way of a letter dated March 29, 2007, Lenfest agreed to allow the Company to defer until April 6, 2012, or earlier if demanded, the payment of accruing dividends on the Series B Preferred Stock issued under the Lenfest Equity Agreement.

Preferred Stock

On August 23, 2007, the Company entered into the Series C Preferred Stock Purchase Agreement (the "Series C Purchase Agreement") with Lenfest, pursuant to which, among other things, ETC issued and sold 3,300 shares of its newly-created class of Series C Preferred Stock to Lenfest for $3,300,000. The proceeds from the issuance of the Series C Preferred Stock were restricted solely for use to partially fund a settlement with the U.S. Navy. The proceeds are presented in the accompanying February 27, 2008 Consolidated Balance Sheet as Restricted Cash.

The Series C Preferred Stock is convertible by Lenfest at any time into shares of ETC's common stock at a conversion price of $3.03 per share based on the closing price for ETC's common stock on August 22, 2007, the trading day immediately prior to the issuance. The Series C Preferred Stock votes with ETC's common stock on an as-converted basis and is fully convertible into 1,089,108 shares of ETC common stock. The Series C Preferred Stock automatically converts into ETC common shares on the fifth anniversary of the Acquisition. It carries an annual dividend rate of ten percent (10%).

ETC granted Lenfest certain demand and “piggy back” registration rights pursuant to a Registration Rights Agreement with respect to the shares of common stock issuable upon conversion of the Series C Preferred Stock.

In connection with Lenfest’s investment in the Series C Preferred Stock, ETC agreed to amend the terms of ETC’s Series B Preferred Stock to (i) increase the annual dividend rate to 10%, (ii) provide for immediate conversion into common stock at the option of Lenfest, and (iii) to remove ETC’s right to redeem the Series B Preferred Stock.

As allowed in the Series C Purchase Agreement, the Company is accruing dividends for the outstanding Preferred Stock but has deferred payment of these dividends until a subsequent date, up to and including August 23, 2012. As of February 27, 2009, the total of accrued dividends under both the Series B and Series C Preferred Stock was $1,847,000.

The Company has classified the Series B and C Preferred Stock (the “instruments”) as mezzanine. The classification is due to the preferential redemption feature of the instruments, which provides that a change in ownership would result in a forced liquidation. A forced liquidation is considered outside the control of the Company. Therefore, the preferential treatment upon an act outside the control of the Company precluded equity treatment under the Securities and Exchange Commission Accounting Series Release (“ASR”) 268 and Topic D98.

Due to the Company’s accumulated deficit, all dividends accruing for the Series B and Series C Preferred Stock have been recorded in the accompanying financial statements as a reduction in additional paid-in capital.

On April 24, 2009, the Company authorized issuance of newly-created classes of Convertible Preferred Stock, Series D and Series E. Shares of these will be issued in connection with the Lenfest Financing Transaction discussed in Note 1 — Subsequent Events, Refinancing Transaction. Upon its review of EITF Topic No. D-98, “Classification and Measurement of Redeemable Securities”, and EITF Topic No. D-109, “Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No. 133”, the Company has determined that both the Series D and Series E Preferred Stock will be accounted for as permanent equity.

Subordinated Convertible Debt

In connection with the financing provided by PNC on February 19, 2003, the Company entered into a Convertible Note and Warrant Purchase Agreement with Lenfest, pursuant to which the Company issued to Lenfest (i) a senior subordinated convertible promissory note in the original principal amount of $10,000,000 and (ii) warrants to purchase 803,048 shares of the Company’s common stock. Upon the occurrence of certain events, the Company will be obligated to issue additional warrants to Lenfest. The Subordinated Note accrues interest at the rate of 10% per annum (Lenfest reduced the rate to 8% per annum for the period December 1, 2004 through November 30, 2009). On March 11, 2008, ETC entered into Amendment No. 1 to Convertible Note and Warrant Purchase Agreement (the “Purchase Agreement Amendment”) and First Amendment to Senior Subordinated Convertible Note (the “Note Amendment”) with Lenfest with respect to the Convertible Note and Warrant Purchase Agreement. Under the terms of the Purchase Agreement Amendment, ETC and Lenfest agreed to amend the financial covenants set forth in the Convertible Note and Warrant Purchase Agreement so that they are the same as the financial covenants contained in ETC’s credit agreement with PNC, dated as of July 31, 2007. Under the terms of the Note Amendment, the maturity date of the convertible promissory note in the principal amount of $10,000,000 issued by ETC to Lenfest pursuant to the Convertible Note and Warrant Purchase Agreement was extended from February 18, 2009 to March 1, 2010. The effective date of the Purchase Agreement Amendment and the Note Amendment is February 19, 2008.

The Subordinated Note entitles Lenfest to convert all or a portion of the outstanding principal of, and accrued and unpaid interest on, the note into shares of ETC common stock at a conversion price of $6.05 per share. The warrants may be exercised into shares of ETC common stock at an exercise price equal to the lesser of $4.00 per share or two-thirds of the average of the high and low sale prices of the ETC common stock for the 25 consecutive trading days immediately preceding the date of exercise. At the Company's option, the quarterly interest payments may be deferred and added to the outstanding principal. As of February 27, 2009, a total of $2,323,000 in accrued interest was due under the Note.

The obligations of the Company to Lenfest under the Subordinated Note are secured by a second lien on all of the assets of the Company, junior in rights to the lien in favor of PNC Bank, including all real property owned by the Company.

Subordinated Convertible Debt Discount

During fiscal 2003, the Company had recorded $2,609,000 in additional paid-in capital representing an allocation of the proceeds from the convertible debt element of its financing with PNC and Lenfest. This allocation represents the value assigned to the beneficial conversion option of the promissory note executed in favor of Lenfest and the value of the associated warrants issued in connection with the 2003 Refinancing. Such values were derived pursuant to an independent appraisal of these financial instruments obtained by the Company. Accreted interest expense related to the beneficial conversion option and the warrants was $298,000 and $536,000 in fiscal 2009 and fiscal 2008, respectively.

The following table summarizes the subordinated convertible debt as of February 27, 2009:

	(In thousands)
Face Value	$ 10,000
Less value of conversion feature	(1,400)
Less value of warrants	(1,209)
	7,391
Accretion 2009	298
Accretion 2008	536
Accretion prior years	1,439
Carrying value at February 27, 2009	$ 9,664

The following table lists the long-term debt and other long-term obligations of the Company as of February 27, 2009.

	Total	Less Than 1 Year	1-3 Years	After 4 Years
Long-term debt, including current maturities	$22,081	$ 9	$22,072	$ —
Operating leases	407	135	254	18
Total	$22,488	$ 144	$22,326	$ 18

Long-term debt is reported net of unamortized discount of $336,000 on the Company's subordinated debt.

Accrued Interest and Dividends to Lenfest

Accrued interest and dividends as of February 27, 2009 and February 29, 2008 consist of the following:

	February 27, 2009	February 29, 2008
	(Amounts in thousands)	
Accrued dividends on Series B Preferred Stock	$ 1,347	$ 749
Accrued dividends on Series C Preferred Stock	500	171
Total accrued dividends	1,847	920
Accrued interest on Subordinated Debt	2,323	1,367
Other accrued interest	27	—
Total accrued interest	2,350	1,367
Total accrued interest and dividends	$ 4,197	$ 2,287

9. Leases:

Operating Leases

The Company leases certain premises and office equipment under operating leases, which expire over the next five years. Future minimum rental payments required under non-cancelable operating leases having a remaining term expiring after one fiscal year as of February 27, 2009 are $135,000 in 2010; $134,000 in 2011; $105,000 in 2012; and $33,000 in 2013 and thereafter. Total rental expense for all operating leases for the fiscal years ended February 27, 2009 and February 29, 2008 was $211,000, and $213,000, respectively.

10. Income Taxes:

The components of the provision for income taxes are as follows:

	52 Weeks Ended February 27, 2009	53 Weeks Ended February 29, 2008
	(In thousands)	
	$	$
Currently (receivable) payable		
Federal	—	—
State	—	—
Foreign (benefits) taxes	—	37
	—	37
Deferred:		
Federal	—	—
State	—	—
Foreign benefit	—	—
	$ —	$ 37

A reconciliation of the statutory federal income tax rate to the effective tax rate is as follows:

	52 Weeks Ended February 27, 2009	53 Weeks Ended February 29, 2008
Statutory income tax	(34.0)%	(34.0)%
State income tax, net of federal tax benefit	(2.5)	(3.7)
Research and experimentation and other tax credits	(7.3)	(1.0)
Benefit of foreign and foreign-source income or loss	5.5	(1.1)
Change in valuation allowance	32.8	39.7
Effect of change in effective tax rate	4.0	—
Other, net	1.5	0.4
	—%	(0.3)%

The tax effects of the primary temporary differences are as follows:

	2009	2008
	(In thousands)	
Deferred tax assets:		
Net operating loss and credits	$ 16,520	$ 13,669
Vacation reserve	74	69
Inventory reserve	676	464
Receivable reserve	135	278
Warranty reserve	63	63
Compensation and other reserves	76	58
Stock options	96	97
ETC — PZL deferred tax asset	81	43
Other, net	74	75
	17,795	14,816
Valuation Reserve	(15,364)	(13,558)
Total current deferred tax asset	$ 2,431	$ 1,258
Deferred tax liabilities:		
Amortization of capitalized software	$ 462	$ 727
Depreciation	1,888	488
Total non-current deferred tax liability	$ 2,350	$ 1,215
Net deferred tax asset	$ 81	$ 43

Reflecting the Company's significant losses in the current and prior fiscal years, the Company has approximately $39.8 million of federal net loss carry forwards available to offset future income tax liabilities, beginning to expire in 2025. However, due to the uncertain nature of their ultimate realization based on past performance, and the potential that sufficient taxable income may not be generated in the near future; the Company has established a full valuation allowance of the same amount against these carry forward benefits and will recognize these benefits only as reassessment demonstrates that they are realizable. Realization is entirely dependent upon future earnings in specific tax jurisdictions. While the need for this valuation allowance is subject to periodic review, if the allowance is reduced, the tax benefits of the carry forwards will be recorded in future operations as a reduction of the Company's income tax expense. In addition, the Company may be subject to limitation on the use of its net operating losses based on the potential ownership change that may have occurred as defined by Section 382 of the Internal Revenue Code. The Company is currently evaluating the need to undertake an ownership change study in order to conclude if a further limitation is required.

During the fiscal years ended February 27, 2009 and February 29, 2008, the Company did not have any unrecognized tax benefits and accordingly did not recognize interest expense or penalties related to unrecognized tax benefits. The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for the years before 2006.

11. Business Segment Information:

The Company primarily manufactures, under contract, various types of high-technology equipment which it has designed and developed. The Company considers its business activities to be divided into two segments: Training Services Group (TSG) and the Control Systems Group (CSG). Product categories included in TSG are pilot training and flight simulators, disaster management systems and entertainment applications. CSG includes sterilizers, environmental control devices, hyperbaric chambers along with parts and service support.

The following segment information reflects the accrual basis of accounting.

	Training Services TSG	Control Systems CSG	Total
	(Amounts in thousands)		
Fiscal 2009			
Net sales	$ 20,608	$ 16,079	$ 36,687
Interest expense	1,161	408	1,569
Depreciation and amortization	742	1,181	1,923
Operating income (loss)	2,431	(1,497)	934
Income tax benefit	—	—	—
Identifiable assets	8,236	4,772	13,008
Expenditures for segment assets	1,881	358	2,239
Fiscal 2008			
Net sales	$ 7,844	$ 14,886	$ 22,730
Interest expense	1,171	411	1,582
Depreciation and amortization	1,380	616	1,996
Operating loss	(3,929)	(5,551)	(9,480)
Income tax benefit	37	—	37
Identifiable assets	7,369	7,669	15,038
Expenditures for segment assets	3,407	287	3,694

	2009	2008
Reconciliation to consolidated amounts:		
Segment assets	$ 13,008	$ 15,038
Corporate assets	21,920	22,587
Total assets	$ 34,928	$ 37,625
Segment operating (loss)/income	$ 934	$ (9,480)
Less interest expense	(1,569)	(1,582)
Income tax (provision) benefit	—	(37)
Total loss for segments	(635)	(11,099)
Corporate home office expense	(1,280)	(2,085)
Impairment charge	—	(455)
Other expenses	(67)	(259)
Minority interest	8	3
Net loss	$ (1,974)	$ (13,895)

Segment operating income consists of net sales less applicable costs and expenses relating to these revenues. Unallocated expenses including general corporate expenses, letter of credit fees and income taxes have been excluded from the determination of the total profit for segments. General corporate expenses are primarily central administrative office expenses. Property, plant, and equipment are not identified with specific business segments because most of these assets are used in each of the segments.

In fiscal 2009, international sales totaling at least $500,000 per country were made to customers in Saudi Arabia, Turkey, Thailand, Malaysia and Egypt. International sales in fiscal 2008 totaling at least $500,000 per country were made to customers in Indonesia, Thailand, Turkey, Japan and Saudi Arabia. Fluctuations in sales to international countries from year to year primarily reflect revenue recognition on the level and stage of development and production on multi-year long-term contracts.

In fiscal 2009, sales to one customer represented individually 10% or more of total sales, the Royal Saudi Air Force. In fiscal 2008, one customer represented individually 10% or more of total sales, General Motors, totaling $3,898,000 or 17.2% (CSG segment) of total sales.

Included in the segment information for the fiscal years ended February 27, 2009 and February 29, 2008 are export sales of $19,149,000 and $7,424,000, respectively. Sales to the U.S. government and its agencies aggregated $3,096,000 and $1,828,000 for the fiscal years ended February 27, 2009 and February 29, 2008, respectively.

12. Stock Options:

A summary of the status of the Company's Stock Option Plans as of and for the fiscal years ended:

	February 27, 2009			February 29, 2008		
	Shares	Weighted Average Exercise Price		Shares	Weighted Average Exercise Price	
Outstanding at beginning of year	371,928	$	6.70	371,928	$	6.70
Granted	—		—	—		—
Exercised	—		—	—		—
Forfeited	(214,276)		—	—		—
Outstanding at end of year	157,652		5.90	371,928		6.70
Options exercisable at year end	157,652			332,816		
Weighted average fair value of options granted during the year		$	—		$	—

The following information applies to options outstanding at February 27, 2009:

	Options Outstanding		Options Exercisable		
Range of Exercise Prices	Number Outstanding at February 27, 2009	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at February 29, 2008	Weighted Average Exercise Price
$5.12	80,000	8.0 years	$ 5.12	80,000	$ 5.12
$6.07 to $7.35	77,672	6.1 years	$ 6.71	77,672	$ 6.71
Total	157,672			157,672	

The cost for stock option compensation was $43,778 and $114,000 for the years ended February 27, 2009 and February 29, 2008, respectively.

At February 27, 2009, the Company had a stock-based compensation plan for non-employee members of the Board of Directors.

Employee Stock Plan:

In August 1999, the Company adopted an Incentive Stock Option Plan to replace the 1988 Incentive Stock Option Plan which expired in August 1999. The plan authorized a committee of the Board of Directors to grant options for the purchase of up to 1,000,000 shares of common stock to qualifying officers and other key employees. The plan provided that option price shall not be less than 100% (or in the case of a ten percent owner, 110%) of the current market price of the stock on the date of the grant. Depending on specific grants, options may be exercised on a cumulative basis at the rate of either 50% or 25% per year commencing one year after the date of grant and have a maximum term of 10 years. This Plan terminated on August 1, 2008.

Non-employee Director Stock Plan:

In September 2005, the Company adopted and subsequently received shareholder approval for a stock option plan which allows for the granting to non-employee members of ETC's Board of Directors of options to purchase up to 600,000 shares of common stock. The plan provides that option price shall not be less than 100% of the current market price of the stock on the date of the grant. The amount of each individual award and the vesting period are determined by the Board of Directors or its appointed committee. Granted options have a maximum term of

10 years. The Plan shall remain in effect until terminated by the Board of Directors. At February 29, 2008, there were 520,000 shares available to be granted under the Plan.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions used for grants in fiscal 2007: expected volatility of 45.4% to 53.4%; risk-free interest rate of 4.56% and 4.71%; and an expected life of 10 years. There were no grants of stock options in fiscal 2008.

13. Other Related Party Transactions

ETC purchases industrial products from Industrial Instruments Corp. which is owned by Christine and Charles Walter, the daughter and son-in-law of William F. Mitchell, ETC's President and Chief Executive Officer. During fiscal 2009, 2008 and 2007, the Company purchased $325,000, $315,000 and $265,000, respectively, from Industrial Instruments. ETC also rents office space to Industrial Instruments at ETC's corporate headquarters. During fiscal 2009, 2008 and 2007, Industrial Instruments paid to ETC rent in the amounts of $8,450, $8,450 and $7,750, respectively.

ETC purchases travel accommodations from Jet Set, a company that employs Kathleen Mahon, the daughter of Mr. Mitchell. During fiscal 2009, 2008 and 2007, ETC purchased travel through Jet Set totaling $237,000, $254,000 and $217,000, respectively, and Ms. Mahon received approximately $12,000 from her employer in each fiscal period in commissions on account of such purchases. Ms. Mahon is also engaged by ETC as a consultant to review expense reports submitted by Company employees. During fiscal 2009, 2008 and 2007, Ms. Mahon received $16,000, $11,000 and $10,000, respectively in consideration of such services.

ETC also employs William F. Mitchell, Jr., the son of Mr. Mitchell, as its Vice President, Contracts/Purchasing, and David Mitchell, the son of Mr. Mitchell, as its Business Unit Manager for Sterilizers. In fiscal 2009, William F. Mitchell, Jr., received $115,000 and David Mitchell received $112,000 in compensation from ETC.

14. Commitments and Contingencies

Mends International, Ltd.

On May 29, 2008, a Request for Arbitration was filed against the Company with the Secretariat of the International Court of Arbitration by Mends International Ltd. ("Mends"). Mends's Request for Arbitration arises out of a February 3, 1999 contract between the Company and Mends wherein Mends purchased aeromedical equipment for sale to the Nigerian Air Force. Mends asserted a claim for breach of contract and demanded $797,486.00, plus interest and costs. On September 16, 2008, Mends filed an Amended Request for Arbitration, adding tort claims for conversion and breach of fiduciary duty and seeking punitive damages. In response, the Company has asserted a counterclaim seeking damages for other disputes with Mends that have arisen under the contract that Mends has put at issue in this arbitration. On April 27, 2009 the Company participated in an arbitration hearing in the United Kingdom on this matter. The results of this hearing are not expected until June 2009. The Company is contesting this arbitration case vigorously. However, as of February 27, 2009 the Company had recorded a reserve in this matter.

Walt Disney World Co.

In June 2003, Entertainment Technology Corporation ("EnTCo"), our wholly owned subsidiary, filed suit against Walt Disney World Co. and other entities ("Disney") in the United States District Court for the Eastern District of Pennsylvania, alleging breach of contract for, among other things, failure to pay all amounts due under a contract for the design and production of the amusement park ride "Mission: Space" located in Disney's Epcot Center. In response, in August 2003, Disney filed counterclaims against both EnTCo and us (under a guarantee) for, among other things, alleged failures in performance and design in the contract. Disney alleged damages ranging from approximately $36 million to $63 million plus punitive damages (collectively, the "2003 Litigation"). In

December 2005, the Company and EnTCo filed a second lawsuit against Disney, alleging breach of contract and unfair competition (the “2005 Litigation”).

In January 2009, the Company entered into a settlement agreement and release with Disney which resolved both the 2003 Litigation and the 2005 Litigation. The financial impact of the settlement did not have a material effect on the Company’s financial position or results of operation.

Settlement with U.S. Navy

History of the Claim Receivable

In May 2003, the Company filed a certified claim with the Department of the Navy (the “Government”) seeking costs totaling in excess of $5.0 million in connection with a contract for submarine rescue decompression chambers.

In accordance with accounting principles generally accepted in the United States of America, recognizing revenue on contract claims and disputes related to customer caused delays, errors in specifications and designs, and other unanticipated causes, and for amounts in excess of contract value, is generally appropriate if it is probable that the claim will result in additional contract revenue and if the Company can reliably estimate the amount of additional contract revenue the Company may receive. However, revenue recorded on a contract claim cannot exceed the incurred contract costs related to that claim. Since 2004, the Company had a claim receivable recorded for $3,004,000. The Company’s Form 10-K as originally filed for February 23, 2007 included this claim receivable. This claim receivable was subsequently deemed to be impaired and reserved in full (see below).

Litigation of the Certified Claim

On July 22, 2004, the Navy’s contracting officer issued a final decision denying the claim in full. In July 2005, the Company converted this claim into a complaint which the Company filed in the United States Court of Federal Claims. On June 14, 2007, the Government amended its filings to add counterclaims pursuant to the anti-fraud provisions of the Contract Disputes Act, the False Claims Act, and the forfeiture statute.

Settlement of Litigation and Subsequent Funding

On June 27, 2007, the Company and the Government filed a Joint Motion to Dismiss with prejudice all of the Company’s claims against the Government, which was granted on June 28, 2007. Additionally, the Company agreed to pay to the Government $3.55 million to reimburse the Government for estimated work to complete the chambers and for litigation expenses ($3.3 million recorded in the first quarter of fiscal 2008 and $250,000 recorded in the second quarter of fiscal 2008) and transfer the submarine rescue decompression chambers to the Navy. As of May 14, 2008, the Company had made all payments required under this settlement agreement and had transferred the chambers to the Government.

On October 2, 2007, the Company was suspended by the Department of the Navy from soliciting work for the federal government pursuant to the Federal Acquisition Regulation. Effective December 12, 2007, the Department of the Navy lifted the Company’s suspension pursuant to the execution by the Company and the Department of the Navy of an Administrative Agreement. In accordance with the Administrative Agreement, the Company has established and implemented a program of compliance reviews, audits and reports.

Other Matters

Certain other claims, suits, and complaints arising in the ordinary course of business have been filed or are pending against us. In the event that the Company is unable to meet its delivery schedules on certain of its contracts, the Company may be subject to penalties, which may have an adverse impact on its business. In our opinion, after consultation with legal counsel handling these specific maters, all such matters are reserved for or adequately covered by insurance or, if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect on our financial position or results of operations if disposed of unfavorably.

15. Employee Benefit Plan:

The Company maintains a retirement savings 401(k) plan for eligible employees. The Company's contributions to the plan are based on a percentage of the employees' qualifying contributions. The Company's contributions totaled $145,000 and $144,000 in fiscal 2009 and fiscal 2008, respectively.

The Company has an Employee Stock Purchase Plan, which was adopted by the Board of Directors on November 3, 1987. All employees meeting service requirements, except officers, directors and 10% shareholders, are eligible to voluntarily purchase common stock through payroll deductions up to 10% of salary. The Company makes a matching contribution of 20% of the employee's contribution. The Company has reserved 270,000 shares for issuance under the plan.

16. Quarterly Consolidated Financial Information (Unaudited):

Financial data for the interim periods of fiscal 2009 and 2008 were as follows (amounts in thousands):

	Quarter Ended			
Fiscal Year 2009	**May 30, 2008**	**August 29, 2008**	**November 28, 2008**	**February 27, 2009**
Net sales	$9,975	$ 8,724	$ 8,706	$ 9,282
Gross profit	2,495	2,042	2,957	4,364
Operating (loss) profit	(1,113)	(1,117)	276	1,608
(Loss) profit before minority interest	(1,488)	(1,601)	(114)	1,221
Minority interest	3	(8)	1	(4)
Net (loss) income	(1,491)	(1,593)	(113)	1,223
(Loss) income per common share:				
Basic	$ (0.19)	$ (0.20)	$ (0.04)	$ 0.11
Diluted	$ (0.19)	$ (0.20)	$ (0.04)	$ 0.11

	Quarter Ended			
Fiscal Year 2008	**May 25, 2007**	**August 24, 2007**	**November 23, 2007**	**February 29, 2008**
Net sales	$ 4,347	$ 4,247	$ 6,701	$ 7,435
Gross profit	939	588	1,267	1,586
Operating loss	(5,347)	(2,579)	(1,627)	(2,490)
Loss before minority interest	(5,731)	(2,976)	(2,094)	(3,060)
Minority interest	(6)	(6)	4	5
Net loss	(5,725)	(2,970)	(2,098)	(3,102)
Loss per common share:				
Basic	$ (0.64)	$ (0.34)	$ (0.26)	$ (0.37)
Diluted	$ (0.64)	$ (0.34)	$ (0.26)	$ (0.37)

ENVIRONMENTAL TECTONICS CORPORATION AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Period	Charges / (Credits) to Costs or Expenses	Reductions	Balance at End of Period
		(In thousands)		
Fiscal year ended February 27, 2009				
Valuation and qualifying accounts related to:				
Accounts receivable	$ 746	$ 16	$ 398	$ 364
Inventory	1,222	819	221	1,820
Property, plant and equipment	13,437	837	—	14,274
Software development costs	12,162	943	—	13,105
Fiscal year ended February 29, 2008				
Valuation and qualifying accounts related to:				
Accounts receivable	$ 3,372	$ 378	$ 3,004	$ 746
Inventory	991	808	577	1,222
Property, plant and equipment	12,760	677	—	13,437
Software development costs	10,949	1,213	—	12,162

EXHIBIT 21

List of Subsidiaries

Name	Jurisdiction	% Ownership
Entertainment Technology Corporation	Pennsylvania	100%
ETC International Corporation	Barbados	100%
ETC-PZL Aerospace Industries	Poland	95%
ETC-Europe	Great Britain	99%
ETC-Delaware	Delaware	100%
NASTAR Center Holdings Corporation	Delaware	100%
NASTAR Center LLC	Delaware	100%

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements Form S-8 (File No. 333-131322, effective January 27, 2006, File No. 333-65469, effective October 8, 1998 and File No. 33-44219, effective July 6, 1988) of Environmental Tectonics Corporation and Subsidiaries, of our report, dated May 12, 2009 relating to the consolidated financial statements, which appear in this Form 10-K.

/s/ Friedman LLP

East Hanover, New Jersey
May 12, 2009

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, William F. Mitchell, certify that:

1. I have reviewed this Annual Report on Form 10-K of Environmental Tectonics Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ William F. Mitchell
William F. Mitchell
President and Chief Executive Officer

Date: May 12, 2009

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Duane D. Deaner, certify that:

1. I have reviewed this Annual Report on Form 10-K of Environmental Tectonics Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Duane D. Deaner
Duane D. Deaner
Chief Financial Officer

Date: May 12, 2009

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Environmental Tectonics Corporation (the “Company”) for the fiscal year ended February 27, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William F. Mitchell, Chief Executive Officer of the Company, and I, Duane D. Deaner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ William F. Mitchell
William F. Mitchell
Chief Executive Officer

/s/ Duane D. Deaner
Duane D. Deaner
Chief Financial Officer

May 12, 2009

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed to be filed by the Company for purpose of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.