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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 8-K**

**CURRENT REPORT PURSUANT TO SECTION 13 OR 15(D) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**Date of Earliest Event Reported**  
**November 16, 2009**

**Environmental Tectonics Corporation**

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation of organization)

1-10655

(Commission File Number)

23-1714256

(IRS Employer Identification Number)

County Line Industrial Park  
Southampton, Pennsylvania

(Address of principal executive offices)

18966

(Zip Code)

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

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## **TABLE OF CONTENTS**

[Item 1.01. Entry into a Material Definitive Agreement](#)

[Item 9.01. Financial Statements and Exhibits](#)

[SIGNATURES](#)

### **Item 1.01. Entry into a Material Definitive Agreement.**

#### **Line of Credit Agreement with PNC Bank**

On November 16, 2009, Environmental Tectonics Corporation (“ETC” or the “Company”) and PNC Bank, National Association (“PNC Bank”) entered into a Letter Agreement, Reimbursement Agreement, Pledge Agreement, and Amendment to Subordination Agreement (collectively, the “Line of Credit Agreement”), pursuant to which the Company has received a committed line of credit in the amount of \$5,422,405 (the “Line of Credit”) which the Company may use to satisfy performance bond and repayment guarantee requirements in a contract with an existing customer.

H.F. Lenfest has guaranteed the Company’s obligations under the Line of Credit Agreement, and, in connection with this guarantee, has pledged to PNC Bank two million seven hundred eleven thousand dollars (\$2,711,000) in certificated securities, documents or instruments.

#### **Incorporation by Reference**

The foregoing description of the Line of Credit Agreement is qualified in its entirety by reference to such Agreement. The Line of Credit Agreement is filed as Exhibits 1.1 to Exhibit 1.4 hereto and incorporated herein by reference.

### **Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits.

The following exhibits are filed herewith:

- 1.1 Letter Agreement;
- 1.2 Reimbursement Agreement;
- 1.3 Pledge Agreement; and
- 1.4 Amendment to Subordination Agreement.

SIGNATURES

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

ENVIRONMENTAL TECTONICS CORPORATION  
Registrant

Date: November 20, 2009

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

November 16, 2009

Environmental Tectonics Corporation  
125 James Way  
Southampton, PA 18966  
Attention: Duane Deaner

Re: \$5,422,405 Line of Credit for Letters of Credit

Dear Duane:

We are pleased to inform you that PNC Bank, National Association (the "**Bank**") has approved your request for a committed line of credit to Environmental Tectonics Corporation (the "**Borrower**") for the issuance of two specified letters of credit.

1. Facility and Use of Proceeds. This is a committed line of credit in the amount of \$5,422,405 (the "**Line of Credit**") under which the Borrower may request and the Bank, subject to the terms and conditions of this letter, will issue a standby letter of credit in the face amount of \$4,220,000 having an expiration date not later than the Expiration Date (the "**Performance Bond Letter of Credit**") and a stand by letter of credit in the face amount of \$1,202,405 having an expiration date not later than October 31, 2014 (the "**Repayment Letter of Credit**") and together with the Performance Bond Letter of Credit, each individually a "**Letter of Credit**" and collectively the "**Letters of Credit**"). The "**Expiration Date**" means June 30, 2015, or such later date as may be designated by the Bank by written notice to the Borrower.

The availability under the Line of Credit shall be permanently reduced by the face amount of each Letter of Credit issued and outstanding (whether or not drawn). The Letters of Credit shall be governed by the terms of this letter and by a reimbursement agreement, in form and content satisfactory to the Bank, executed by the Borrower in favor of the Bank (the "**Reimbursement Agreement**"). Each request for the issuance of a Letter of Credit must be accompanied by the Borrower's execution of an application on the Bank's standard forms (each, an "**Application**"), together with all supporting documentation. Each Letter of Credit will be issued in the Bank's sole discretion and in a form acceptable to the Bank. The Borrower shall pay to the Bank fees on the face amount of each Letter of Credit for the period from and excluding the date of issuance of same to and including the date of expiration or termination, equal to the average daily face amount of each outstanding Letter of Credit multiplied by 3.00% per annum, such fees to be calculated on the basis of a 360-day year for the actual number of days elapsed and to be payable quarterly in arrears on the first day of each fiscal quarter and on the Expiration Date, provided that in no event shall such fees for any Letter of Credit be less than the standard minimum amount charged for letters of credit issued by the Bank from time to time for its customers, together with such other customary issuance fees, commissions and expenses therefor as shall be required by the Bank. This letter is not a pre-advice for the issuance of a letter of credit and is not irrevocable.

2. Loan Documents. This letter (the "**Letter Agreement**"), the Reimbursement Agreement, the Guaranty, the Guarantor Pledge Agreement, the Borrower

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Pledge Agreement, the Subordination Agreement and the other agreements and documents executed and/or delivered pursuant hereto, as each may be amended, modified, extended or renewed from time to time, will constitute the **“Loan Documents.”** Capitalized terms not defined herein shall have the meaning ascribed to them in the Loan Documents.

3. Security. The Borrower must cause to be executed and delivered to the Bank, in form and content satisfactory to the Bank as security for the Line of Credit, a guaranty agreement, under which H. F. Lenfest (the **“Guarantor”**) will unconditionally guarantee the due and punctual payment of the indebtedness owed to the Bank by the Borrower under the Line of Credit (the **“Guaranty”**), and a pledge agreement, under which the Guarantor will grant to the Bank a security interest in certain investment property (the **“Guarantor Pledge Agreement”**) as collateral for Guarantor’s obligations under the Guaranty. The Borrower must also cause to be executed and delivered to the Bank, in form and content satisfactory to the Bank, a pledge agreement under which the Borrower will grant to the Bank a security interest in a certain Bank deposit account as security for the Line of Credit (the **“Borrower Pledge Agreement”**).

4. Senior Indebtedness. The Borrower must cause to be executed and delivered to the Bank, in form and content satisfactory to the Bank, an amendment to that certain Second Amended and Restated Subordination and Intercreditor Agreement dated April 23, 2009 among the Bank, the Guarantor and the Borrower to (as heretofore and as so amended by such amendment, the **“Subordination Agreement”**), which amendment shall subordinate the Borrower’s indebtedness to Guarantor to the Obligations hereunder.

5. Covenants. Unless compliance is waived in writing by the Bank, until the termination or expiration of the Letters of Credit and the payment in full of all of the obligations of the Borrower in respect of the Letters of Credit:

(a) The Borrower will promptly submit to the Bank such information as the Bank may reasonably request relating to the Borrower’s affairs (including but not limited to annual Financial Statements (as hereinafter defined) and tax returns for the Borrower and/or any security for the Line of Credit.

(b) The Borrower will not make or permit any change in its form of organization or any material change in the nature of its business as carried on as of the date of this Letter Agreement.

(c) The Borrower will notify the Bank in writing of the occurrence of any Event of Default or an act or condition which, with the passage of time, the giving of notice or both might become an Event of Default.

(d) The Borrower will comply with the financial and other covenants included in Exhibit “A” hereto.

(e) The Borrower shall no later than March 31, 2010 have applied for, and provided evidence thereof satisfactory to the Bank, all necessary export licenses that are or will be required in connection with its performance and completion of Contract No. KFX-

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DAPA-94AA59199 with the Defense Acquisition Program Administration of the Republic of Korea relating to Airborne Crew Flight Environment Adaptation Equipment for the Republic of Korea Air Force, which is the transaction in connection with which the Letters of Credit are being issued. The Borrower will, from time to time upon the request of the Bank, provide the Bank with information as to the then current status of such application process. The Borrower agrees to promptly notify the beneficiary of the Letters of Credit and the Bank in writing of the receipt or denial of any such required export license. Notwithstanding any other provision in any of the Loan Documents, the Borrower's failure to comply with any of its obligations under this Section 5(e) shall constitute an immediate Event of Default hereunder and under the other Loan Documents.

6. Representations and Warranties. To induce the Bank to extend the Line of Credit and upon the issuance of any Letter of Credit under the Line of Credit, the Borrower represents and warrants as follows:

(a) The Borrower's latest Financial Statements provided to the Bank are true, complete and accurate in all material respects and fairly present the financial condition, assets and liabilities, whether accrued, absolute, contingent or otherwise, and the results of the Borrower's operations for the period specified therein. The Borrower's Financial Statements have been prepared in accordance with generally accepted accounting principles consistently applied from period to period subject, in the case of interim statements, to normal year-end adjustments. Since the date of the latest Financial Statements provided to the Bank, the Borrower has not suffered any damage, destruction or loss which has materially adversely affected its business, assets, operations, financial condition or results of operations.

(b) Except as disclosed on Borrower's Form 10-Q filed with the SEC on October 13, 2009, there are no actions, suits, proceedings or governmental investigations pending or, to the knowledge of the Borrower, threatened against the Borrower which could result in a material adverse change in its business, assets, operations, financial condition or results of operations and there is no basis known to the Borrower or its officers, directors or shareholders for any such action, suit, proceedings or investigation.

(c) The Borrower has filed all returns and reports that are required to be filed by it in connection with any federal, state or local tax, duty or charge levied, assessed or imposed upon the Borrower or its property, including unemployment, social security and similar taxes and all of such taxes have been either paid or adequate reserve or other provision has been made therefor.

(d) The Borrower is duly organized, validly existing and in good standing under the laws of the state of its incorporation and has the power and authority to own and operate its assets and to conduct its business as now or proposed to be carried on, and is duly qualified, licensed and in good standing to do business in all jurisdictions where its ownership of property or the nature of its business requires such qualification or licensing.

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(e) The Borrower has full power and authority to enter into the transactions provided for in this Letter Agreement and has been duly authorized to do so by all necessary and appropriate action and when executed and delivered by the Borrower, this Letter Agreement and the other Loan Documents will constitute the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their terms.

(f) There does not exist any default or violation by the Borrower of or under any of the terms, conditions or obligations of: (i) its organizational documents; (ii) any indenture, mortgage, deed of trust, franchise, permit, contract, agreement, or other instrument to which it is a party or by which it is bound; or (iii) any law, regulation, ruling, order, injunction, decree, condition or other requirement applicable to or imposed upon the Borrower by any law or by any governmental authority, court or agency.

7. Expenses. The Borrower shall reimburse the Bank for the Bank's expenses (including the reasonable fees and expenses of the Bank's outside and in-house counsel) in documenting and closing this transaction, in connection with any amendments, modifications or renewals of the Line of Credit, and in connection with the collection of all of the Borrower's Obligations to the Bank, including but not limited to enforcement actions relating to the Line of Credit.

8. Depository. The Borrower will establish and maintain at the Bank the Borrower's primary depository account.

9. Additional Provisions. Before issuance of any Letter of Credit, the Borrower shall execute and deliver to the Bank an Application for each Letter of Credit, the Reimbursement Agreement, and the other required Loan Documents and such other instruments and documents as the Bank may reasonably request, such as certified resolutions, incumbency certificates or other evidence of authority. The Bank will not be obligated to issue any Letter of Credit under the Line of Credit if any Event of Default or event which with the passage of time, provision of notice or both would constitute an Event of Default shall have occurred and be continuing.

Prior to execution of the final Loan Documents, the Bank may terminate this Letter Agreement if a material adverse change occurs with respect to the Borrower, the Guarantor, or any other person or entity connected in any way with the Line of Credit, or if the Borrower fails to comply with any of the terms and conditions of this Letter Agreement, or if the Bank reasonably determines that any of the conditions cannot be met.

This Letter Agreement is governed by the laws of the Commonwealth of Pennsylvania. No modification, amendment or waiver of any of the terms of this Letter Agreement, nor any consent to any departure by the Borrower therefrom, will be effective unless made in a writing signed by the party to be charged, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. When accepted, this Letter Agreement and the other Loan Documents will constitute the entire agreement between the Bank and the Borrower concerning the Line of Credit.

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Environmental Tectonics Corporation

November 15, 2009

Page 5

To accept these terms, please sign the enclosed copy of this Letter Agreement as set forth below and the Loan Documents and return them to the Bank within thirty (30) days from the date of this Letter Agreement, or this Letter Agreement may be terminated at the Bank's option without liability or further obligation of the Bank.

Very truly yours,

PNC BANK, NATIONAL ASSOCIATION

By: /s/ John M. DiNapoli

Title: Senior Vice President

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**EXHIBIT A  
TO LETTER AGREEMENT  
DATED NOVEMBER 16, 2009**

**A. FINANCIAL REPORTING COVENANTS:**

(1) The Borrower will deliver to the Bank:

(a) Financial Statements for its fiscal year, within 90 days after fiscal year end, audited and certified without qualification by a certified public accountant acceptable to the Bank.

(b) Financial Statements for each of the first three fiscal quarters, within 60 days after the quarter end, together with year-to-date and comparative figures for the corresponding periods of the prior year, certified as true and correct by its chief financial officer.

(c) With each delivery of Financial Statements, a certificate of the Borrower's chief financial officer as to the Borrower's compliance with the financial covenants set forth below for the period then ended and whether any Event of Default exists, and, if so, the nature thereof and the corrective measures the Borrower proposes to take. This certificate shall set forth all detailed calculations necessary to demonstrate such compliance.

(2) Within 45 days after fiscal year end the Borrower will deliver to the Bank financial projections for the current fiscal year in a form reasonably satisfactory to the Bank.

**"Financial Statements"** means the consolidated balance sheet and statements of income and cash flows prepared in accordance with generally accepted accounting principles in effect from time to time ("**GAAP**") applied on a consistent basis (subject in the case of interim statements to normal year-end adjustments).

**B. FINANCIAL COVENANTS:**

(1) The Borrower will maintain as of the end of each fiscal quarter a Consolidated Tangible Net Worth of at least \$10,000,000.

(2) (a) The Borrower will maintain as of the end of each fiscal quarter ending during the periods indicated a minimum EBITDA for such quarter as set forth below:

<u>Period</u>	<u>EBITDA</u>
June 1, 2009 through August 31, 2009	\$ 1,200,000
September 1, 2009 through November 30, 2009	\$ 1,000,000

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(b) Beginning with the last day of the first fiscal quarter ending after December 1, 2009, and as of the last day of each fiscal quarter ending thereafter, the Borrower will maintain a minimum aggregate EBITDA of \$4,000,000 for the four fiscal quarter period then ending, including the fiscal quarter then ending and the three immediately preceding fiscal quarters.”

“**Consolidated Tangible Net Worth**” means as of any date of determination, the sum of (a) the aggregate amount of all assets of the Borrower and its subsidiaries on a consolidated basis at such date as may be properly classified as such in accordance with GAAP, excluding such other assets as are properly classified as intangible assets under GAAP, (b) minus the aggregate amount of all liabilities of the Borrower and its subsidiaries and minority interests in the Borrower or any of its subsidiaries on a consolidated basis at such date, as may be properly classified as such in accordance with GAAP, plus (c) Subordinated Debt.

“**EBITDA**” means net income plus interest expense plus income tax expense plus amortization plus depreciation.

“**Subordinated Debt**” means indebtedness that has been subordinated to the Borrower’s indebtedness to the Bank pursuant to a subordination agreement in form and content satisfactory to the Bank.

### **C. NEGATIVE COVENANTS:**

(1) The Borrower will not liquidate, or dissolve, or merge or consolidate with any person, firm, corporation or other entity, or sell, lease, transfer or otherwise dispose of all or substantially all of its property or assets, whether now owned or hereafter acquired.

(2) The Borrower will not create, assume, incur or suffer to exist any mortgage, pledge, encumbrance, security interest, lien or charge of any kind upon any of its property, now owned or hereafter acquired, or acquire or agree to acquire any kind of property under conditional sales or other title retention agreements; provided, however, that the foregoing restrictions shall not prevent the Borrower from:

(a) incurring liens for taxes, assessments or governmental charges or levies which shall not at the time be due and payable or can thereafter be paid without penalty or are being contested in good faith by appropriate proceedings diligently conducted and with respect to which it has created adequate reserves; or

(b) making pledges or deposits to secure obligations under workers’ compensation laws or similar legislation; or

(c) granting purchase money security interests in personal property of the Borrower existing or created when such property is acquired, provided that the principal amount of the indebtedness secured by each such security interest does not exceed the purchase price of the related property; or

- (d) granting subordinate liens or security interests to secure future Subordinated Debt to H.F. Lenfest; or
- (e) granting liens or security interests in favor of the Bank.

## Reimbursement Agreement for Letters of Credit



**THIS REIMBURSEMENT AGREEMENT FOR LETTERS OF CREDIT** (this “**Agreement**”) is made as of this 16<sup>th</sup> day of November, 2009, by **ENVIRONMENTAL TECTONICS CORPORATION** (the “**Obligor**”), with an address at 125 James Way, Southampton, PA 18966 in favor of **PNC BANK, NATIONAL ASSOCIATION** (the “**Bank**”), with an address at 500 First Avenue, Third Floor, Pittsburgh, PA 15219. From time to time by submitting an application in a form approved by the Bank (an “**Application**”), the Obligor or any of its subsidiaries or affiliates has requested the Bank to issue two letters of credit (each, a “**Credit**”). The Bank may issue any such Credit, but the Bank shall have no obligation to do so unless otherwise agreed in writing. The Obligor agrees that the following terms and conditions shall apply to any Credit:

**1. Definitions and Interpretation.** (a) In addition to terms defined elsewhere in this Agreement: “**Bank Affiliate**” means any direct or indirect subsidiary of The PNC Financial Services Group, Inc.; “**Base Rate**” means a fluctuating rate per annum equal to the highest of (A) the Prime Rate, (B) the sum of the Federal Funds Open Rate plus fifty (50) basis points (0.50%), and (C) the sum of the Daily LIBOR Rate plus one hundred (100) basis points (1.0%), so long as a Daily LIBOR Rate is offered, ascertainable and not unlawful. “**Business Day**” means any day other than a Saturday, Sunday or other day on which banks in Pittsburgh, Pennsylvania, or any other city of which the Bank may give the Obligor notice from time to time, are authorized or required by law to close; “**Daily LIBOR Rate**” means for any day, the rate per annum determined by the Bank by dividing (x) the Published Rate by (y) a number equal to 1.00 minus the LIBOR Reserve Percentage; “**Dollar Equivalent**” means, with respect to an amount in any currency other than U.S. dollars, as of any date, the amount of U.S. dollars into which such amount in such currency may be converted at the spot rate at which U.S. dollars are offered by the Bank in Pittsburgh for such currency at approximately 11:00 a.m., Prevailing Time, on such date, *plus* all actual costs of settlement, including amounts incurred by the Bank to comply with currency exchange requirements of any Governmental Authority; “**Federal Funds Open Rate**” means for any day, the rate per annum (based on a year of 360 days and actual days elapsed) which is the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as set forth on the Bloomberg Screen BTMM for that day opposite the caption “OPEN” (or on such other substitute Bloomberg Screen that displays such rate), or as set forth on such other recognized electronic source used for the purpose of displaying such rate as selected by the Bank (an “Alternate Source”) (or if such rate for such day does not appear on the Bloomberg Screen BTMM (or any substitute screen) or on any Alternate Source, or if there shall at any time, for any reason, no longer exist a Bloomberg Screen BTMM (or any substitute screen) or any Alternate Source, a comparable replacement rate determined by the Bank at such time (which determination shall be conclusive absent manifest error); provided however, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the “open” rate on the immediately preceding Business Day; “**Governmental Authority**” means any *de facto* or *de jure* domestic or foreign government, court, tribunal, agency, or other purported authority; “**ISP98**” means the International Standby Practices 1998, and any subsequent official revision thereof; “**LIBOR Reserve Percentage**” means the maximum effective percentage in effect on such day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including, without limitation, supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as “Eurocurrency liabilities”); “**Prevailing Time**” means the prevailing time in Pittsburgh, Pennsylvania (or any other city of which the Bank may have given the Obligor notice) on the date in question; “**Prime Rate**” means the interest rate per annum announced from time to time by the Bank as its then prime rate, which rate may not be the lowest rate then being charged commercial borrowers by the Bank; “**Published Rate**” means the rate of interest published each Business Day in the Wall Street Journal “Money Rates” listing under the caption “London Interbank Offered Rates” for a one month period (or, if no such rate is published therein for any reason, then the Published Rate shall be the eurodollar rate for a one month period as published in another publication selected by the Bank); “**Taxes**” means all taxes, fees, duties, levies, imposts, deductions, charges or withholdings of any kind (other than taxes on the Bank’s net income); and “**UCP**” means the Uniform Customs and Practice for

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Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, and any subsequent official revision thereof.

(b) If this Agreement is signed by more than one Obligor, each shall be deemed to make to the Bank all the representations, warranties and covenants contained herein, and each shall be jointly and severally liable hereunder. Any reference herein to this Agreement, an Application, a Credit, or any other instrument, agreement or document related hereto or thereto shall be deemed to refer to all amendments, modifications, extensions and renewals hereof and thereof. Determinations made by the Bank pursuant to the terms hereof shall be conclusive absent manifest error.

**2. Payments.** (a) The Obligor will pay to the Bank the amount to be paid by the Bank with respect to each draft or other payment demand made under a Credit no later than 10 a.m., Prevailing Time, on the date such payment is to be made by the Bank, or such earlier time as the Bank may reasonably require. If a Credit calls for the delivery by the Bank of an item other than money, the Obligor shall deliver or cause to be delivered such item to the Bank at such time, in advance of the time the Bank is to deliver such item, as the Bank may reasonably require.

(b) The Obligor agrees to be primarily liable for payment to the Bank with respect to any Credit issued by the Bank at the request of any subsidiary or affiliate of the Obligor. The Obligor authorizes the Bank to accept Applications from the Obligor's subsidiaries and affiliates.

(c) The Obligor will pay to the Bank upon receipt of the Bank's invoice therefor (i) interest on all amounts payable to the Bank hereunder from the date due to the date of payment, at the Daily LIBOR Rate *plus* 3.00%; provided that in no event shall the Obligor pay interest in excess of the maximum rate permitted by applicable law; (ii) the Bank's fees as separately agreed to by the Obligor and the Bank, as well as the customary commissions and other charges regularly charged by the Bank for letters of credit; and (iii) all charges and expenses paid or incurred by the Bank or any of its correspondents in connection with this Agreement or any Credit, including all reasonable legal fees and expenses, whether of internal or external counsel to the Bank. All periodic interest, fees and commissions shall be calculated on the basis of the actual days elapsed in a 360 day year, and interest shall continue to accrue at the applicable rate set forth herein whether or not a default exists or a judgment has been entered.

(d) All amounts payable hereunder by the Obligor shall be paid to the Bank at its address set forth above or at such other place as the Bank may give notice from time to time, in immediately available funds in the currency specified by the Bank, without set off, defense, recoupment, deduction, cross-claim or counterclaim of any kind; and free and clear of, and without deduction for, any present or future Taxes. If the Bank or the Obligor pays any Taxes, whether or not correctly or legally assessed, the amounts payable hereunder shall be increased so that, after the payment of such Taxes, the Bank shall have received an amount equal to the sum the Bank would have received had no such Taxes been paid. If any amount payable hereunder is denominated in a currency other than U.S. dollars, the Obligor shall make payment in such currency or, at the Bank's option, shall pay the Dollar Equivalent thereof. To effect any payment due hereunder, the Bank may debit any account that the Obligor may have with the Bank or any Bank Affiliate.

**3. Nature of Obligations.** (a) The Obligor's obligations to the Bank under this Agreement are absolute, unconditional and irrevocable, and shall be paid and performed in accordance with the terms hereof irrespective of any act, omission, event or condition, including, without limitation (i) the form of, any lack of power or authority of any signer of, or the lack of validity, sufficiency, accuracy, enforceability or genuineness of (or any defect in or forgery of any signature or endorsement on) any draft, demand, document, certificate or instrument presented in connection with any Credit, or any fraud or alleged fraud in connection with any Credit or any obligation underlying any Credit, in each case, even if the Bank or any of its correspondents have been notified thereof; (ii) any claim of breach of warranty that might be made by the Obligor or the Bank against any beneficiary of a Credit, or the existence of any claim, set off, recoupment, counterclaim, cross-claim, defense, or other right that the Obligor may at any time have against any beneficiary, any successor beneficiary, any

transferee or assignee of the proceeds of a Credit, the Bank or any correspondent or agent of the Bank, or any other person, however arising; (iii) any acts or omissions by, or the solvency of, any beneficiary of any Credit, or any other person having a role in any transaction or obligation relating to a Credit; (iv) any failure by the Bank to issue any Credit in the form requested by the Obligor, *unless* the Bank receives written notice from the Obligor of such failure within three Business Days after the Bank shall have furnished the Obligor (by facsimile transmission or otherwise) a copy of such Credit and such error is material; and (v) any action or omission (including failure or compulsion to honor a presentation under any Credit) by the Bank or any of its correspondents in connection with a Credit, draft or other demand for payment, document, or any property relating to a Credit, and resulting from any censorship, law, regulation, order, control, restriction, or the like, rightfully or wrongfully exercised by any Governmental Authority, or from any other cause beyond the reasonable control of the Bank or any of its correspondents, or for any loss or damage to the Obligor or to anyone else, or to any property of the Obligor or anyone else, resulting from any such action or omission.

(b) The Bank is authorized to honor any presentation under a Credit without regard to, and without any duty on the Bank's part to inquire into, any transaction or obligation underlying such Credit, or any disputes or controversies between the Obligor and any beneficiary of a Credit, or any other person, notwithstanding that the Bank may have assisted the Obligor in the preparation of the wording of any Credit or documents required to be presented thereunder or that the Bank may be aware of any underlying transaction or obligation or be familiar with any of the parties thereto.

(c) The Obligor agrees that any action or omission by the Bank or any of its correspondents in connection with any Credit or presentation thereunder shall be binding on the Obligor and shall not result in any liability of the Bank or any of its correspondents to the Obligor in the absence of the gross negligence or willful misconduct of the Bank. Without limiting the generality of the foregoing, the Bank and each of its correspondents (i) may rely on any oral or other communication believed in good faith by the Bank or such correspondent to have been authorized or given by or on behalf of the Obligor; (ii) may honor any presentation if the documents presented appear on their face substantially to comply with the terms and conditions of the relevant Credit; (iii) may honor a previously dishonored presentation under a Credit, whether such dishonor was pursuant to a court order, to settle or compromise any claim of wrongful dishonor, or otherwise, and shall be entitled to reimbursement to the same extent as if such presentation had initially been honored, together with any interest paid by the Bank; (iv) may honor any drawing that is payable upon presentation of a statement advising negotiation or payment, upon receipt of such statement (even if such statement indicates that a draft or other document is being separately delivered), and shall not be liable for any failure of any such draft or other document to arrive, or to conform in any way with the relevant Credit; and (v) may pay any paying or negotiating bank claiming that it rightfully honored under the laws or practices of the place where such bank is located. In no event shall the Bank be liable to the Obligor for any indirect, consequential, incidental, punitive, exemplary or special damages or expenses (including without limitation attorneys' fees), or for any damages resulting from any change in the value of any property relating to a Credit.

(d) If the Obligor or any other person seeks to delay or enjoin the honor by the Bank of a presentation under a Credit, the Bank shall have no obligation to delay or refuse to honor the presentation until validly so ordered by a court of competent jurisdiction.

**4. Set Off and Security.** As collateral security for the due payment and performance of the Obligor's obligations to the Bank hereunder and otherwise, whether such obligations are absolute or contingent and exist now or arise after the date hereof, the Obligor grants to the Bank a contractual possessory security interest in, an unqualified right to possession and disposition of, and a contractual right of set off against, in each case, to the fullest extent permitted by law (a) all property relating to any Credit, and all drafts, payment demands, transport documents, warehouse receipts, documents of title, policies or certificates of insurance and other documents relating to any Credit; (b) property in the possession of, on deposit with, or in transit to, the Bank or any Bank Affiliate, now or hereafter, regardless of how obtained or held (whether in a general or special account or deposit, jointly or with someone else, in safekeeping, or otherwise); and (c) the proceeds (including insurance proceeds) of each of the above (collectively, the "**Collateral**"). The Bank's rights with respect to the Collateral

may be exercised without demand on or notice to the Obligor. The Bank shall be deemed to have exercised its right of set off immediately upon the occurrence of an Event of Default hereunder without any action of the Bank, although the Bank may enter such setoff on its books and records at a later time. The Obligor agrees from time to time to deliver to the Bank, on demand, such further agreements and instruments, and such additional security, as the Bank may require to secure, or further secure, the Obligor's obligations hereunder.

**5. Representations, Warranties, Covenants.** The Obligor represents, warrants, and covenants that (a) if not a natural person, the Obligor is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and duly qualified to do business in those jurisdictions in which its ownership of property or the nature of its business activities makes such qualification necessary; (b) the Obligor has the requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder; and all such action has been duly authorized by all necessary proceedings on the Obligor's part, and neither now nor hereafter shall contravene or result in a breach of any organizational document of the Obligor, any agreement, document, or instrument binding on the Obligor or its property, or any law, treaty, regulation, or order of any Governmental Authority, or require any notice, filing, or other action to or by any Governmental Authority; (c) all financial statements and other information received from the Obligor by the Bank prior to the date hereof fairly and accurately present its financial condition in accordance with generally accepted accounting principles, and no material adverse change has occurred in the Obligor's financial condition or business operations since the date thereof; (d) except as disclosed on Obligor's Form 10-Q filed with the SEC on October 13, 2009, there are no actions, suits, proceedings or governmental investigations pending or, to the knowledge of the Obligor, threatened against the Obligor which could result in a material adverse change in its financial condition or business operations; (e) the Obligor will promptly submit to the Bank such information relating to the Obligor's affairs (including but not limited to annual financial statements) as the Bank may reasonably request; and (f) the Obligor and each transaction and obligation underlying each Credit are and shall remain in compliance with all laws, treaties, rules, and regulations of any Governmental Authority, including, without limitation, foreign exchange control, United States foreign assets control, and currency reporting laws and regulations, now or hereafter applicable.

**6. Events of Default.** The occurrence of any of the following is an "Event of Default" hereunder: (a) the Obligor's failure to pay when due any obligation to the Bank or any Bank Affiliate under this Agreement or otherwise; (b) the Obligor's failure to perform or observe any other term or covenant of this Agreement; (c) any representation or warranty contained in this Agreement or in any document given now or hereafter by the Obligor in connection herewith is materially false, erroneous, or misleading; (d) the occurrence of any event of default or default and the lapse of any notice or cure period under any other debt, liability or obligation of the Obligor to the Bank or any Bank Affiliate; (e) the failure to pay or perform any material obligation to any other person if such failure may cause any such obligation to be due or performable immediately; (f) any levy, garnishment, attachment, or similar proceeding is instituted against the Obligor's property in possession of, on deposit with, or in transit to, the Bank; (g) the Obligor's dissolution or termination, or the institution by or against the Obligor or any of its property of any proceeding relating to bankruptcy, receivership, insolvency, reorganization, liquidation, conservatorship, foreclosure, execution, attachment, garnishment, levy, assignment for the benefit of creditors, relief of debtors, or similar proceeding (and, in the case of any such proceeding instituted against the Obligor, such proceeding is not dismissed or stayed within 30 days of the commencement thereof); (h) the entry of a material final judgment against the Obligor and the failure of the Obligor to discharge the judgment within 10 days of the final entry thereof; (i) any material adverse change in the Obligor's business, assets, operations, financial condition or results of operations; (j) the death, incarceration, indictment, or legal incompetency of an individual Obligor or, if the Obligor is a partnership or limited liability company, the death, incarceration, indictment, or legal incompetency of any individual general partner or member; (k) the occurrence of any of the above events with respect to any person which has now or hereafter guaranteed or provided any collateral for any of the Obligor's obligations hereunder; or (l) any guarantee, or any document, instrument or agreement purporting to provide the Bank security for the Obligor's obligations hereunder shall be challenged, repudiated, or unenforceable for any reason.



**7. Remedies.** Upon the occurrence of any Event of Default (a) the amount of each Credit, together with any additional amounts payable hereunder, shall, at the Bank's option, become due and payable immediately without demand upon or notice to the Obligor; (b) the Bank may exercise from time to time any of the rights and remedies available to the Bank under this Agreement, under any other documents now or in the future evidencing or securing obligations of the Obligor to the Bank, or under applicable law, and all such remedies shall be cumulative and not exclusive; and (c) upon request of the Bank, the Obligor shall promptly deliver to the Bank in immediately available funds, as collateral for any and all obligations of the Obligor to the Bank, an amount equal to 105% of the maximum aggregate amount then or at any time thereafter available to be drawn under all outstanding Credits, and the Obligor hereby pledges to the Bank and grants to the Bank a security interest in all such funds as security for such obligations, acknowledges that the Bank shall at all times have control of such funds and shall be authorized to give entitlement orders (as defined in the UCC) with respect to such funds, without further consent of the Obligor or any other person, and agrees promptly to do all further things that the Bank may deem necessary in order to grant and perfect the Bank's security interest in such funds. The Obligor waives presentment, protest, dishonor, notice of dishonor, demand, notice of protest, notice of non-payment, and notice of acceptance of this Agreement, and any other notice or demand of any kind from the Bank.

**8. Subrogation.** The Bank, at its option, shall be subrogated to the Obligor's rights against any person who may be liable to the Obligor on any transaction or obligation underlying any Credit, to the rights of any holder in due course or person with similar status against the Obligor, and to the rights of any beneficiary or any successor or assignee of any beneficiary.

**9. Indemnification.** The Obligor agrees to indemnify the Bank and each Bank Affiliate and each of their respective officers, directors, shareholders, employees and agents (each, an "**Indemnified Party**") and to hold each Indemnified Party harmless from and against any and all claims, liabilities, losses, damages, Taxes, penalties, interest, judgments, costs and expenses (including reasonable legal fees and costs, whether of internal or external counsel to the Bank and all expenses of litigation or preparation therefor), which may be incurred by or awarded against any Indemnified Party, and which arise out of or in connection with (a) any Credit, this Agreement, or 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 Agreement or any Credit (and irrespective of who may be the prevailing party); (b) any payment or action taken in connection with any Credit, including, without limitation, any action or proceeding seeking to restrain any drawing under a Credit or to compel or restrain any payment or any other action under a Credit or this Agreement (and irrespective of who may be the prevailing party); (c) the enforcement of this Agreement or the collection or sale of any property or collateral; and (d) any act or omission of any Governmental Authority or other cause beyond the Bank's reasonable control; except, in each case, to the extent such claim, liability, loss, damage, Tax, penalty, interest, judgment, cost or expense is found by a final judgment of a court of competent jurisdiction to have resulted from the Bank's gross negligence or willful misconduct.

**10. Miscellaneous.** All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ("**Notices**") must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing: (i) first class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices and (ii) Applications may be submitted electronically via, and in accordance with the terms and conditions of, the PINACLE Network System (or such other network system offered by the Bank), if Obligor is an authorized user of such system or by such other electronic means acceptable to the Bank. Regardless of the manner in which provided, Notices may be sent to a party's address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this section. The Bank may rely, and shall be protected in acting or refraining from acting, upon any Notice or Application believed by the Bank to be genuine and to have been given by the proper party or parties. No delay or omission on the Bank's part to exercise any right or power arising hereunder will impair any such right or power or be considered to be a waiver of any such right or power, nor will the Bank's action or inaction impair any such right or power. No modification, amendment or waiver of, or consent to any departure by the Obligor from, any provision of this Agreement, will be effective unless made in a writing signed by the Bank, and then such waiver

or consent shall be effective only in the specific instance and for the purpose for which given. If any provision of this Agreement is found to be invalid by a court, all the other provisions of the Agreement will remain in full force and effect. If this Agreement is executed by more than one Obligor, each Obligor waives any and all defenses to payment and performance hereunder based upon principles of suretyship, impairment of collateral, or otherwise and, without limiting the generality of the foregoing, each Obligor consents to: any change in the time, manner, or place of payment of or in any other term of all or any of the obligations of any other Obligor hereunder or otherwise, and any exchange or release of any property or collateral, or the release or other amendment, extension, renewal, waiver of, or consent to departure from, the terms hereof or of any guaranty or security agreement or any other agreement related hereto. This Agreement will be binding upon and inure to the benefit of the Obligor and the Bank and their respective heirs, executors, administrators, successors and assigns; *provided, however*, that the Obligor may not assign this Agreement in whole or in part without the Bank's prior written consent and the Bank may at any time assign this Agreement in whole or in part. The Obligor hereby authorizes the Bank, from time to time without notice to the Obligor, to record telephonic and other electronic communications of the Obligor and provide any information pertaining to the financial condition, business operations or creditworthiness of the Obligor to or at the direction of any Governmental Authority, to any of the Bank's correspondents, and any Bank Affiliate, and to any of its or their directors, officers, employees, auditors and professional advisors, to any person which in the ordinary course of its business makes credit reference inquiries, to any person which may succeed to or participate in all or part of the Bank's interest hereunder, and as may be necessary or advisable for the preservation of the Bank's rights hereunder. This is a continuing Agreement and shall remain in full force and effect until no obligations of the Obligor and no Credit exist hereunder; provided, however, that termination of this Agreement shall not release the Obligor from any payment or performance that is subsequently rescinded or recouped, and the obligation to make any such payment or performance shall continue until paid or performed as if no such payment or performance ever occurred. Provisions concerning payment, indemnification, increased costs, Taxes, immunity, and jurisdiction shall survive the termination of this Agreement.

**11. Waiver of Immunity.** The Obligor acknowledges that this Agreement is entered into, and each Credit will be issued, for commercial purposes and, if the Obligor now or hereafter acquires any immunity (sovereign or otherwise) from the jurisdiction of any court or from any legal process with respect to itself or any of its property, the Obligor hereby irrevocably waives such immunity.

**12. Jurisdiction.** The Obligor hereby irrevocably consents to the exclusive jurisdiction of any state or federal court for the county or judicial district in the Commonwealth of Pennsylvania where the Bank's office set forth above is located; provided that nothing contained in this Agreement will prevent the Bank from bringing any action, enforcing any award or judgment, or exercising any right against the Obligor individually, against any security, or against any property of the Obligor within any other county, state or other foreign or domestic jurisdiction. The Obligor agrees that the venue provided above is the most convenient forum for the Bank and the Obligor. The Obligor waives any objection to venue and any objection based on a more convenient forum in any action under this Agreement.

**13. WAIVER OF JURY TRIAL.** THE OBLIGOR IRREVOCABLY WAIVES ALL RIGHTS THE OBLIGOR MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS AGREEMENT, ANY CREDIT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY CREDIT, OR ANY OBLIGATION OR TRANSACTION UNDERLYING ANY OF THE FOREGOING. THE OBLIGOR ACKNOWLEDGES THAT THIS WAIVER IS KNOWING AND VOLUNTARY.

**14. Governing Law.** This Agreement and each Credit shall be interpreted, construed, and enforced according to (a) the laws of the Commonwealth of Pennsylvania, including, without limitation, the Uniform Commercial Code ("UCC;" with the definitions of Article 5 of the UCC controlling over any conflicting definitions in other UCC Articles); and (b) the UCP or the ISP98, as set forth in each Credit, which are, as applicable, incorporated herein by reference and which shall control (to the extent not prohibited by the law referred to in (a)) in the event of any inconsistent provisions of such law. In the event that a body of law other

than that set forth above is applicable to a Credit, the Obligor shall be obligated to pay and reimburse the Bank for any payment made under such Credit if such payment is, in the Bank's judgment, justified under either the law governing this Agreement or the law governing such Credit.

[signature page follows]

**ENVIRONMENTAL TECTONICS CORPORATION**

By: /s/ Duane D. Deaner  
Print Name: Duane D. Deaner  
Title: C.F.O.

**Pledge Agreement  
(Bank Deposits)**



**THIS PLEDGE AGREEMENT**, dated as of this 16<sup>th</sup> day of November, 2009, is made by **ENVIRONMENTAL TECTONICS CORPORATION** (the "**Pledgor**"), with an address at 125 James Way, Southampton, PA 18966, in favor of **PNC BANK, NATIONAL ASSOCIATION** (the "**Secured Party**"), with an address at 1000 Westlakes Drive, Suite 200, Berwyn, PA 19312.

**1. Pledge.** In order to induce the Secured Party to extend the Obligations (as defined below), the Pledgor hereby grants a security interest in and pledges to the Secured Party all of the Pledgor's right, title and interest in and to the deposit account established at the Secured Party, as more fully described on Exhibit A attached hereto and made a part hereof (the "**Account**") and any and all replacements and proceeds thereof and all income, interest and other distributions thereon maintained in the name of the Pledgor by the Secured Party (collectively, the "**Collateral**"). The Pledgor shall make additional cash deposits to the Account from time to time so that the Collateral has a fair market value of \$5,422,405 no later than nine (9) months after the date hereof.

The Pledgor agrees that (i) the Secured Party shall have the sole and exclusive right of withdrawal of the Collateral, (ii) the Pledgor shall have no right of withdrawal of the Collateral, and (iii) the Secured Party may make appropriate notations in its books and records (electronic or otherwise) to effectuate the foregoing.

**2. Obligations Secured.** The Collateral secures payment of all loans, advances, debts, liabilities, obligations, covenants and duties owing from the Pledgor to the Secured Party, of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Pledgor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, under the line of credit established under that Letter Agreement between the Pledgor and the Secured Party dated as of the date hereof (as hereafter amended, modified or supplemented, the "**Credit Agreement**"), the Reimbursement Agreement for Letters of Credit from the Pledgor in favor of the Secured Party dated as of the date hereof (as hereafter amended, modified or supplemented, the "**Reimbursement Agreement**"), the Letters of Credit (as such term is defined in the Credit Agreement) heretofore or hereafter issued pursuant thereto; and any amendments, extensions, renewals and increases of or to any of the foregoing, and all costs and expenses of the Secured Party incurred in the documentation, negotiation, modification, enforcement, collection and otherwise in connection with any of the foregoing, including reasonable attorneys' fees and expenses (hereinafter referred to collectively as the "**Obligations**").

**3. Representations and Warranties.** The Pledgor represents and warrants to the Secured Party that (a) no prior lien or encumbrance exists on the Collateral, and the Pledgor will not grant or suffer to exist any such lien or encumbrance in the future, other than in favor of the Secured Party, and (b) the Pledgor is the legal owner of the Collateral and has the right to pledge and grant a security interest in the Collateral without the consent of any other party other than the issuing institution, which the Pledgor has caused or will cause to execute the Acknowledgment in substantially the form attached hereto.

**4. Default.**

4.1. If any of the following occur (each an "**Event of Default**"): (i) any Event of Default (as defined in any of the Obligations), (ii) any default under any of the Obligations that does not have a defined set of "Events of Default" and the lapse of any notice or cure period provided in such Obligations with respect to such default, (iii) the failure by the Pledgor to perform any of its obligations hereunder, (iv) the falsity, inaccuracy or material breach by the Pledgor of any written warranty, representation or statement made or furnished to the Secured Party by or on behalf of the Pledgor, (v) the failure of the Secured Party to have a perfected first priority security interest in the Collateral, or (vi) any restriction is imposed on the pledge or transfer of any of the Collateral after the date of this Agreement without the Secured Party's prior written consent, then the Secured

Party is authorized in its discretion to declare any or all of the Obligations to be immediately due and payable without demand or notice, which are expressly waived, and may exercise any one or more of the rights and remedies granted pursuant to this Pledge Agreement or given to a secured party under the Uniform Commercial Code of the applicable state, as it may be amended from time to time, or otherwise at law or in equity, including without limitation the right to sell or otherwise dispose of any or all of the Collateral at public or private sale, with or without advertisement thereof, upon such terms and conditions as it may deem advisable and at such prices as it may deem best.

4.2. The Secured Party is authorized to draw the funds represented by the Collateral, in whole or in part, and to do all acts necessary to draw such funds, to apply to all Obligations secured hereby, whether declared immediately due and payable or otherwise, and the officers of the issuing institution are authorized and directed to pay the same to the Secured Party on demand.

4.3. The net proceeds arising from the disposition of the Collateral after deducting expenses incurred by the Secured Party will be applied to the Obligations in the order determined by the Secured Party. If any excess remains after the discharge of all of the Obligations, the same will be paid to the Pledgor. If after exhausting all of the Collateral there is a deficiency, the Pledgor will be liable therefor to the Secured Party; provided, however, that nothing contained herein will obligate the Secured Party to proceed against the Pledgor or any other party obligated under the Obligations or against any other collateral for the Obligations prior to proceeding against the Collateral.

4.4. If any demand is made at any time upon the Secured Party for the repayment or recovery of any amount received by it in payment or on account of any of the Obligations and if the Secured Party repays all or any part of such amount by reason of any judgment, decree or order of any court or administrative body or by reason of any settlement or compromise of any such demand, the Pledgor will be and remain liable for the amounts so repaid or recovered to the same extent as if such amount had never been originally received by the Secured Party. The provisions of this section will be and remain effective notwithstanding the release of any of the Collateral by the Secured Party in reliance upon such payment (in which case the Pledgor's liability will be limited to an amount equal to the fair market value of the Collateral determined as of the date such Collateral was released) and any such release will be without prejudice to the Secured Party's rights hereunder and will be deemed to have been conditioned upon such payment having become final and irrevocable. This Section shall survive the termination of this Pledge Agreement.

**5. Interest and Premiums.** All interest and premiums declared or paid on the Collateral shall be the property of the Pledgor but shall remain as Collateral, subject to the restrictions contained in this Agreement, unless released by the Secured Party, in its discretion, following a request from Pledgor. At any time after the occurrence of an Event of Default, the Secured Party shall be entitled to apply all interest and premiums declared or paid on the Collateral in accordance with the provisions of Section 4 above.

**6. Further Assurances.** By its signature hereon, the Pledgor hereby irrevocably authorizes the Secured Party, at any time and from time to time, to execute (on behalf of the Pledgor), file and record against the Pledgor any notice, financing statement, continuation statement, amendment statement, instrument, document or agreement under the Uniform Commercial Code that the Secured Party may consider necessary or desirable to create, preserve, continue, perfect or validate any security interest granted hereunder or to enable the Secured Party to exercise or enforce its rights hereunder with respect to such security interest. Without limiting the generality of the foregoing, the Pledgor hereby irrevocably appoints the Secured Party as the Pledgor's attorney-in-fact to do all acts and things in the Pledgor's name that the Secured Party may deem necessary or desirable. This power of attorney is coupled with an interest with full power of substitution and is irrevocable. The Pledgor hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof.

**7. Notices.** All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ( "Notices") must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party's address as set

Pledge Agreement

forth above or to such other address as either the Pledgor or the Secured Party may give to the other for such purpose in accordance with this section.

**8. Preservation of Rights.** (a) No delay or omission on the Secured Party's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Secured Party's action or inaction impair any such right or power. The Secured Party's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Secured Party may have under other agreements, at law or in equity.

(b) The Secured Party may, at any time and from time to time, without notice to or the consent of the Pledgor unless otherwise expressly required pursuant to the terms of the Obligations, and without impairing or releasing, discharging or modifying the Pledgor's liabilities hereunder, (i) change the manner, place, time or terms of payment or performance of or interest rates on, or other terms relating to, any of the Obligations; (ii) renew, substitute, modify, amend or alter, or grant consents or waivers relating to any of the Obligations, any other pledge or security agreements, or any security for any Obligations; (iii) apply any and all payments by whomever paid or however realized including any proceeds of any collateral, to any Obligations of the Pledgor in such order, manner and amount as the Secured Party may determine in its sole discretion; (iv) deal with any other person with respect to any Obligations in such manner as the Secured Party deems appropriate in its sole discretion; (v) substitute, exchange or release any security or guaranty; or (vi) take such actions and exercise such remedies hereunder as provided herein. The Pledgor hereby waives (a) presentment, demand, protest, notice of dishonor and notice of non-payment and all other notices to which the Pledgor might otherwise be entitled, and (b) all defenses based on suretyship or impairment of collateral.

**9. Illegality.** In case any one or more of the provisions contained in this Pledge Agreement should be invalid, illegal or unenforceable in any respect, it shall not affect or impair the validity, legality and enforceability of the remaining provisions in this Pledge Agreement.

**10. Changes in Writing.** No modification, amendment or waiver of, or consent to any departure by the Pledgor from, any provision of this Pledge Agreement will be effective unless made in a writing signed by the Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Pledgor in any case will entitle the Pledgor to any other or further notice or demand in the same, similar or other circumstance.

**11. Entire Agreement.** This Pledge Agreement (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the Pledgor and the Secured Party with respect to the subject matter hereof.

**12. Successors and Assigns.** This Pledge Agreement will be binding upon and inure to the benefit of the Pledgor and the Secured Party and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Pledgor may not assign this Pledge Agreement in whole or in part without the Secured Party's prior written consent and the Secured Party at any time may assign this Pledge Agreement in whole or in part.

**13. Interpretation.** In this Pledge Agreement, unless the Secured Party and the Pledgor otherwise agree in writing, the singular includes the plural and the plural the singular; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; and references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent such amendments and other modifications are not prohibited by the terms of this Pledge Agreement. Section headings in this Pledge Agreement are included for convenience of reference only and shall not constitute a part of this Pledge Agreement for any other purpose. If this Pledge Agreement is executed by more than one party as Pledgor, the obligations of such persons or entities will be joint and several.

**14. Indemnity.** The Pledgor agrees to indemnify each of the Secured Party, each legal entity, if any, who controls, is controlled by or is under common control with the Secured Party, and each of their respective

Pledge Agreement

directors, officers and employees (the “**Indemnified Parties**”), and to hold each Indemnified Party harmless from and against, any and all claims, damages, losses, liabilities and expenses (including all fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of litigation or preparation therefor) which any Indemnified Party may incur, or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Pledgor), in connection with or arising out of or relating to the matters referred to in this Pledge Agreement, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Pledgor, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority; provided, however, that the foregoing indemnity agreement shall not apply to claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party’s gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Pledge Agreement. The Pledgor may participate at its expense in the defense of any such action or claim.

**15. Governing Law and Jurisdiction.** This Pledge Agreement has been delivered to and accepted by the Secured Party and will be deemed to be made in the Commonwealth of Pennsylvania where the Secured Party’s office indicated above is located. **This Pledge Agreement will be interpreted and the rights and liabilities of the Pledgor and the Secured Party determined in accordance with the laws of the Commonwealth of Pennsylvania, excluding its conflict of laws rules.** The Pledgor hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the county or judicial district where the Secured Party’s office indicated above is located; provided that nothing contained in this Pledge Agreement will prevent the Secured Party from bringing any action, enforcing any award or judgment or exercising any rights against the Pledgor individually, against any security or against any property of the Pledgor within any other county, state or other foreign or domestic jurisdiction. The Pledgor acknowledges and agrees that the venue provided above is the most convenient forum for both the Secured Party and the Pledgor. The Pledgor waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Pledge Agreement.

**16. WAIVER OF JURY TRIAL, THE PLEDGOR IRREVOCABLY WAIVES ANY AND ALL RIGHT THE PLEDGOR MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS PLEDGE AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS PLEDGE AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE PLEDGOR ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.**

**The Pledgor acknowledges that it has read and understood all the provisions of this Pledge Agreement, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.**

Pledge Agreement



**WITNESS** the due execution hereof as a document under seal, as of the date first written above.

ENVIRONMENTAL TECTONICS CORPORATION

By: /s/ Duane D. Deaner

Print Name: Duane D. Deaner

(SEAL)

Title: C.F.O.

Pledge Agreement

**EXHIBIT A  
TO PLEDGE AGREEMENT**

Account No. 31700343665 at PNC Bank, National Association.

A-1

**AMENDMENT TO SUBORDINATION AGREEMENT**

THIS AMENDMENT TO SUBORDINATION AGREEMENT (this "Amendment"), dated as of November 16, 2009, is between PNC BANK, NATIONAL ASSOCIATION (the "Bank"), H. F. LENFEST (the "Subordinated Lender") and ENVIRONMENTAL TECTONICS CORPORATION, a Pennsylvania corporation ("Company").

**B A C K G R O U N D:**

A. The Bank, the Subordinated Lender and the Company entered into that certain Second Amended and Restated Subordination and Intercreditor Agreement dated as of April 23, 2009 (the "Subordination Agreement") to subordinate the Company's indebtedness and liens granted to the Subordinated Lender to the Company's indebtedness and liens granted to the Bank.

B. The Company has requested that the Bank provide a new secured line of credit for the issuance of letters of credit.

C. The Bank, the Subordinated Lender and the Company wish to amend the Subordination Agreement to confirm the subordination of the Company's indebtedness and liens granted to the Subordinated Lender to the Company's indebtedness and liens granted to the Bank under the new line of credit.

**NOW, THEREFORE**, in consideration of the foregoing and for other consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

**1. Defined Terms.** Unless otherwise defined herein, capitalized terms used herein, including in the foregoing Background section, and defined in the Subordination Agreement are used herein as therein defined.

**2. Amendment to the Subordination Agreement.**

(a) Section 1 of the Subordination Agreement is hereby amended by inserting the new defined terms "July 2009 Loan Agreement", "July 2009 Loan Documents", "November 2009 Loan Agreement" and "November 2009 Loan Documents." reading in full as follows:

"July 2009 Loan Agreement" shall mean the amended and restated Letter Agreement, dated July 2, 2009, between Company and Bank, as the same may be amended, supplemented, modified or restated from time to time."

"July 2009 Loan Documents" shall have the meaning given to the term 'Loan Documents' in the July 2009 Loan Agreement."

"November 2009 Loan Agreement" shall mean the Letter Agreement, dated November \_\_\_\_ 2009, between Company and Bank, as the same may be amended, supplemented, modified or restated from time to time."

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“November 2009 Loan Documents’ shall have the meaning given to the term ‘Loan Documents’ in the November 2009 Loan Agreement.”

(b) Section 1 of the Subordination Agreement is hereby amended by amending and restating the defined terms “ Loan Agreement” and “Senior Lending Agreements” to read in full as follows:

“Loan Agreement’ shall mean the July 2009 Loan Agreement and the November 2009 Loan Agreement collectively.

“Senior Lending Agreements’ shall mean collectively the July 2009 Loan Agreement, the July 2009 Loan Documents, the November 2009 Loan Agreement and the November 2009 Loan Documents, together with any other agreements, documents and instruments at any time evidencing, securing or related to the Senior Indebtedness, each as from time to time in effect.”

(c) Section 1 of the Subordination Agreement is hereby amended by deleting the amount “\$20,000,000” in the defined term “Senior Indebtedness” and substituting in lieu thereof the amount “\$25,442,405.”

**3. Ratification; References; No Waiver.** Except as expressly amended by this Amendment, the Subordination Agreement shall continue to be, and shall remain, unaltered and in full force and effect in accordance with its terms. This Amendment does not and shall not be deemed to constitute a waiver by the Bank of any of the Bank’s rights or remedies.

#### **4. Miscellaneous.**

(a) **Expenses.** The Company agrees to pay all of the Bank’s reasonable out-of-pocket expenses incurred in connection with the preparation, negotiation and execution of this Amendment including, without limitation, the reasonable fees and expenses of Ballard Spahr LLP.

(b) **Governing Law.** This Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

(c) **Successor and Assigns.** The terms and provisions of this Amendment shall be binding upon and shall inure to the benefit of the Bank and the Subordinated Lender and their respective heirs, successors and assigns.

(d) **Counterparts.** This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, and all of which shall constitute one and the same instrument.

(e) **Headings.** The headings of any paragraph of this Amendment are for convenience only and shall not be used to interpret any provision hereof.

(f) **Modifications.** No modification hereof or any agreement referred to herein shall be binding or enforceable unless in writing and signed on behalf of the party against whom enforcement is sought.

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be duly executed and delivered as of the day and year first above written.

PNC BANK, NATIONAL ASSOCIATION

By: /s/ John M. DiNapoli  
Name: John M Dinapoli  
Title: Senior Vice President

H. F. LENFEST

By: /s/ H.F. Lenfest  
Name: H.F. Lenfest

ENVIRONMENTAL TECTONICS  
CORPORATION

By: /s/ Duane D. Deaner  
Name: Duane D. Deaner  
Title: C.F.O.