

Item 1.01. Entry into a Material Definitive Agreement.

On September 28, 2012, Environmental Tectonics Corporation (“ETC” or the “Company”) entered into transactions (the “2012 Restructuring”) that provided for, among other things, the following:

- (i) The Company’s credit facility with PNC Bank, National Association (“PNC Bank”) was reduced from \$20,000,000 to \$15,000,000 (the “Line of Credit”). However, the term of the Line of Credit was extended twenty-eight (28) months, from June 30, 2013 to October 31, 2015.
- (ii) PNC Bank provided to the Company a five-year term loan of \$15,000,000 (the “Term Loan”). The Company used \$10,000,000 of the proceeds from the Term Loan to repurchase and retire 10,000 shares of its Series D and Series E Preferred Stock owned by H.F. Lenfest, a major shareholder and member of our Board of Directors (“Lenfest”), at the stated price of \$1,000 per share. The remaining \$5,000,000 was used to repay indebtedness currently outstanding to PNC Bank and to pay Lenfest \$417,220 of interest due under the Lenfest Pledge (as defined below under Item 1.02), in cash, in lieu of Series D Preferred Stock.
- (iii) The Line of Credit will no longer be guaranteed by Lenfest. Instead, the Line of Credit and Term Loan will be secured by substantially all of the Company’s assets. In addition, the Term Loan will be guaranteed by Lenfest for a period of thirty months, (*i.e.*, until March 31, 2015), after which the guarantee will be removed.
- (iv) Following the close of the transactions, the dividend rate on the Series D and Series E Preferred Stock will be reduced from ten percent (10%) to four percent (4%), subject to approval of the Company’s shareholders at the Company’s next Annual Meeting of Stockholders after the October 18, 2012 meeting.

The material agreements providing for these transactions are described below:

Loan Agreement

Effective September 28, 2012, ETC and PNC Bank entered into a Loan Agreement , which included ETC executing a Term Note and the Line of Credit Note (as defined below).

As set forth in the Loan Agreement, the Company’s Line of Credit was reduced from \$20,000,000 to \$15,000,000. However, the term of the Line of Credit was extended twenty-eight (28) months, from June 30, 2013 to October 31, 2015.

PNC Bank also provided to the Company a Term Loan of \$15,000,000. The Company used \$10,000,000 of the proceeds from the Term Loan to repurchase and retire 10,000 shares of the Series D and Series E Preferred Stock owned by Lenfest, at the stated price of \$1,000 per share (as described in more detail below under the heading “Preferred Stock Repurchase Agreement”). The remaining \$5,000,000 was used to repay indebtedness currently outstanding to PNC Bank and to pay Lenfest \$417,220 of interest due under the Lenfest Pledge, in cash, in lieu of Series D Preferred Stock.

The Line of Credit will no longer be guaranteed by Lenfest. Instead both the Line of Credit and the Term Loan will be secured by substantially all of the Company's assets, including a mortgage on the Company's headquarters in Southampton, Pennsylvania .

The Term Loan will be guaranteed by Lenfest for a period of thirty months, (*i.e.*, until March 31, 2015), after which the guarantee will be removed. The Company's obligation to repay the Term Loan is set forth in a Term Note (the "Term Note"). The interest rate on the Term Note will be based on the PNC LIBOR rate (currently 2.7185%) plus a margin of 2.25% to 2.75% depending on the Operating Leverage Ratio (currently 2.75%).

Borrowings under the Line of Credit will be available for working capital and other general business purposes and for issuances of letters of credit. Amounts borrowed under the Line of Credit may be borrowed, repaid and re-borrowed from time to time until October 31, 2015. The Company's obligation to repay the advances under the Line of Credit is set forth in the Amended and Restated Committed Line of Credit Note (the "Line of Credit Note"). At the Company's option, the interest rate on the Line of Credit Note will be based on either (i) the PNC Base Rate (currently 3.00%) plus a margin of 0.25% to 0.25% depending on the Company's Operating Leverage Ratio (currently 0.25%) or (ii) the PNC LIBOR rate (currently 2.7185%) plus a margin of 2.25% to 2.75% depending on the Operating Leverage Ratio (currently 2.75%). The Company will also be obligated to pay a fee of 0.25% for unused but available funds under the Line of Credit.

As security for repayment of the Line of Credit Note and the Term Note as noted above, the Company also concurrently entered into the Third Amended and Restated Reimbursement Agreement for Letters of Credit between ETC and PNC Bank dated September 28, 2012, a Security Agreement between ETC and PNC Bank dated September 28, 2012, a Pledge Agreement executed by ETC on September 28, 2012 in favor of PNC Bank ("Pledge Agreement"), an Amended and Restated Guaranty and Suretyship Agreement executed by Lenfest on September 28, 2012 in favor of PNC Bank, and an Open-End Mortgage and Security Agreement between ETC and PNC Bank dated September 28, 2012. Pursuant to the Pledge Agreement, the Company pledged to PNC as collateral the Company's ownership interest in certain subsidiaries of the Company.

The Loan Agreement contains affirmative and negative covenants that are customary for transactions of this type, including net worth, earnings before interest, taxes, depreciation, and amortization ("EBITDA"), and limitations with respect to indebtedness, liens, investments, distributions, dispositions of assets, change of business and transactions with affiliates. The financial covenants in the Loan Agreement are as follows:

- ETC must maintain a minimum Tangible Net Worth of \$15,000,000.
- ETC must maintain an Operating Leverage Ratio (i.e., ratio of Senior Funded Debt to EBITDA) of less than 3.25 to 1. This ratio will reduce at the end of the first fiscal year to 3.00 to 1 and after the second fiscal year to 2.9 to 1, and will remain at that level at all times thereafter.
- ETC must maintain as of the end of each fiscal quarter, on a rolling four quarters basis, a Fixed Charge Coverage Ratio of at least 1.10 to 1.

The Loan Agreement provides for customary events of default, 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 certain judgments and the liquidation of ETC. Upon an event of default under the Loan Agreement, including the non-payment of principal or interest, the obligations of the Company under the Loan Agreement may be accelerated and the assets securing the obligations secured.

Preferred Stock Repurchase Agreement

Effective September 28, 2012, ETC and Lenfest entered into a Preferred Stock Repurchase and Financial Restructuring Agreement.

Immediately following the closing of the Loan Agreement with PNC Bank, the Company purchased from Lenfest, at the stated price of \$1,000 per share, (i) 386 shares of Series D Preferred Stock, representing all of the Company's issued and outstanding shares of Series D Preferred Stock, and (ii) 9,614 shares of Series E Preferred Stock, representing a portion of the Company's issued and outstanding Series E Preferred Stock. Lenfest is the only holder of the outstanding Series E Preferred Stock, and 12,127 shares of Series E Preferred Stock remain outstanding.

Following the execution of the Preferred Stock Repurchase and Financial Restructuring Agreement, the dividend rate on the Series D and Series E Preferred Stock was reduced from ten percent (10%) to four percent (4%). The reduction of the Preferred Stock dividend will require the approval of the Company's shareholders at the Company's next Annual Meeting of Stockholders after the October 18, 2012 meeting, and until that time Lenfest has agreed that all dividends on the outstanding Series E Preferred Stock will be paid at the rate of 4% per year.

Audit Committee Approval

Lenfest is a member of ETC's Board of Directors and a significant shareholder of the Company. As Lenfest is a related person, as defined by SEC regulations, ETC's Audit Committee, comprised of independent directors, approved and recommended to the Board of Directors the terms and conditions of the Loan Agreement and the Preferred Stock Repurchase Agreement. Following the Audit Committee's approval, the full ETC Board of Directors (excluding Lenfest) approved the Loan Agreement and the Preferred Stock Repurchase Agreement and related agreements. The Board of Directors engaged an independent valuation firm to perform a fairness review of the 2012 Restructuring.

Incorporation by Reference

The foregoing description of the Loan Agreement (with the Term Note and Line of Credit Note), Security Agreement, Pledge Agreement, Open-End Mortgage and Security Agreement, and Third Amended and Restated Reimbursement Agreement for Letters of Credit are qualified in their entirety by reference to such agreements, which are filed as Exhibits 10.1, 10.2, 10.3, 10.4, 10.5 and 10.7 hereto and, are incorporated herein by reference.

The foregoing description of the Preferred Stock Repurchase and Financial Restructuring Agreement is qualified in its entirety by reference to such agreement, which is filed as Exhibit 10.6 hereto and is incorporated herein by reference.

Item 1.02. Termination of a Material Definitive Agreement

On September 28, 2012, upon the execution of the Preferred Stock Repurchase and Financial Restructuring Agreement described in Item 1.01 above, the following prior agreements between ETC and Lenfest were terminated: (i) Secured Credit Facility and Warrant Purchase Agreement between the Company and Lenfest, dated as of April 24, 2009; (ii) the Security Agreement, dated February 18, 2009, by the Company in favor of Lenfest; (iii) the Security Agreement, dated April 24, 2009, among the Company, Entertainment Technology Corporation, a Pennsylvania corporation and a wholly-owned subsidiary of the Company ("ETC Entertainment"), and Lenfest; (iv) the Guaranty, dated April 24, 2009, by ETC Entertainment in favor of Lenfest; and (v) the Amended and Restated Open-End Mortgage and Security Agreement, dated April 24, 2009, by the Company in favor of Lenfest. These Agreements were entered into as part of, or directly related to, the "2009 Lenfest Financing Transaction" that generally provided, at the time, for the following: (i) a \$7,500,000 credit facility provided by Lenfest to ETC; (ii) the exchange of a 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 Series E Preferred Stock of ETC; and (iii) the guarantee by Lenfest of all of ETC's obligations to PNC Bank in connection with an increase of the then-existing \$15,000,000 revolving line of credit with PNC Bank to \$20,000,000, and (iv) the pledge by Lenfest to PNC Bank of \$10,000,000 in marketable securities as security for the Line of Credit ("Lenfest Pledge"). As part of the 2012 Restructuring, this pledge by Lenfest of \$10,000,000 in marketable securities has been returned to Lenfest and the Lenfest Pledge has been terminated.

The warrants ETC issued to Lenfest as part of the "2009 Lenfest Financing Transaction" are not terminated.

Item 2.03. Creation of a Direct Financial Obligations

On September 28, 2012, the Company entered into the Loan Agreement, Preferred Stock Repurchase Agreement and certain related agreements, which are described in Item 1.01 above, which information is incorporated by reference into this Item 2.03.

Item 7.01.Regulation FD Disclosure.

On September 28, 2012, the Company issued a press release regarding the 2012 Restructuring, which is attached as Exhibit 99.1 hereto and incorporated by reference in its entirety to this Item 7.01.

In accordance with General Instruction B.2 of Form 8-K, the information in Item 7.01 of this Current Report on Form 8-K, including the exhibits hereto, shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. The information in Item 7.01 of this Current Report shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

The following exhibits are furnished or filed in accordance with Item 601 of Regulation S-K:

<u>10.1</u>	Loan Agreement, dated September 28, 2012, between Registrant and PNC Bank, with the Term Note and the Line of Credit Note (each as defined in such Loan Agreement) attached thereto.
<u>10.2</u>	Security Agreement by the Registrant in favor of PNC Bank, dated as of September 28, 2012.
<u>10.3</u>	Pledge Agreement between the Registrant and PNC Bank, dated as of September 28, 2012.
<u>10.4</u>	Open-End Mortgage and Security Agreement by the Registrant in favor of PNC Bank, dated as of September 28, 2012.
<u>10.5</u>	Third Amended and Restated Reimbursement Agreement for Letters of Credit between the Registrant and PNC Bank, dated as of September 28, 2012.
<u>10.6</u>	Preferred Stock Repurchase and Financial Restructuring Agreement between the Registrant and H.F. Lenfest, dated September 28, 2012.
<u>10.7</u>	Amended and Restated Guaranty Agreement, dated September 28, 2012, by H.F. Lenfest in favor of PNC Bank.
<u>99.1</u>	Press Release dated September 28, 2012

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: October 2, 2012

By: /s/ Robert L. Laurent, Jr.

Robert L. Laurent, Jr.
Chief Financial Officer

Loan Agreement



THIS LOAN AGREEMENT (the “**Agreement**”), is entered into as of September 28, 2012, between **ENVIRONMENTAL TECTONICS CORPORATION** (the “**Borrower**”), a Pennsylvania corporation with an address at 125 James Way, Southampton, PA 18966, and **PNC BANK, NATIONAL ASSOCIATION** (the “**Bank**”), with an address at 1000 Westlakes Drive, Suite 200, Berwyn, PA 19312.

The Borrower and the Bank, with the intent to be legally bound, agree as follows:

1. **Loan.** The Bank has made or may make one or more loans to the Borrower subject to the terms and conditions and in reliance upon the representations and warranties of the Borrower set forth in this Agreement.

1.1 **Revolving Line of Credit.** The first credit facility under this Agreement is a committed revolving line of credit under which the Bank, subject to the terms and conditions of this Agreement and the other Loan Documents (as defined below), will from time to time make advances to the Borrower and the Borrower may borrow, repay and reborrow until the Expiration Date, in an amount in the aggregate at any time outstanding not to exceed \$15,000,000 (the “**Line of Credit**”). The “**Expiration Date**” means October 31, 2015, or such later date as may be designated by the Bank by written notice to the Borrower. The obligation of the Borrower to repay the advances under the Line of Credit shall be evidenced by a promissory note of the Borrower (the “**Line of Credit Note**”). Advances under the Line of Credit will be used by the Borrower to refinance existing debt and for working capital and other general business purposes.

The Borrower may request that the Bank, in lieu of cash advances under the Line of Credit, issue standby letters of credit (individually, each a “**Letter of Credit**” and collectively the “**Letters of Credit**”) having expiration dates not later than one year after the Expiration Date; provided, however, that if the expiration date for any Letter of Credit requested by the Borrower is later than the Expiration Date, the Borrower shall on or before the day ten (10) days prior to the Expiration Date deposit with the Bank as collateral for the Obligations (as hereinafter defined) related to each such Letter of Credit, cash or marketable securities (acceptable to the Bank and margined in accordance with the Bank’s customary requirements) in an amount equal to 105% of the maximum amount available to be drawn at such time (determined without regard to whether any conditions to drawing could be met at such time) under each such Letter of Credit, and the Borrower hereby pledges to the Bank, and grants to the Bank a security interest in, all such cash and securities as security for the Obligations. The existing letters of Credit heretofore issued by the Bank and listed on the Addendum hereto (the “**Existing Letters of Credit**”) shall constitute Letters of Credit for all purposes hereunder. The availability of advances under the Line of Credit shall be reduced by the face amount of each Letter of Credit issued and outstanding (whether or not drawn). Each payment by the Bank under a Letter of Credit shall in the Bank’s discretion constitute an advance of principal under the Line of Credit and shall be evidenced by the Line of Credit Note. The Letters of Credit shall be governed by the terms of this Agreement 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 (including, effective as of the date hereof, Existing Letters of Credit) multiplied by the Applicable Margin for LIBOR Loans (as hereinafter defined) (plus, if an Event of Default exists, an additional three percent (3%) 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 calendar quarter and on the Expiration Date, together with such other customary issuance fees, commissions and expenses therefor as shall be required by the Bank. This Agreement is not a pre-advice for the issuance of a letter of credit and is not irrevocable.

Beginning on October 1, 2012 and continuing on the first day of each calendar quarter thereafter and on the Expiration Date, the Borrower shall pay a commitment fee to the Bank, in arrears for the immediately preceding quarter then ended (or in the case of the period ending September 30, 2012 or the Expiration Date, such shorter period then ended), at the rate of one-quarter percent (0.25%) per annum multiplied by the average daily amount of the Unused Line of Credit (as defined herein) during the calendar quarter then ended (or, in the case of September 30, 2012 or the Expiration Date, as the case may be, such shorter period then ended). The commitment fee shall be computed on the basis of a year of 360 days and paid on the actual number of days elapsed. The “**Unused Line of Credit**” shall mean, at any time, an amount equal to (a) the maximum principal amount of the Line of Credit at such time less (b) the sum of (i) the unpaid principal amount of the advances outstanding at such time under the Line of Credit, (ii) the maximum amount available to be drawn under all Letters of Credit outstanding at such time and (iii) the aggregate amount of all drawings under the Letters of Credit which have not been reimbursed pursuant to the Reimbursement Agreement at such time.

1.2 Term Loan. The second credit facility under this Agreement is a term loan in the amount of \$15,000,000 to the Borrower (the “**Term Loan**” and collectively with the Line of Credit, the “**Loans**”). The obligation of Borrower to repay the Term Loan shall be evidenced by a term note of the Borrower (the “**Term Note**”). The proceeds of the Term Loan will be used by the Borrower to redeem up to \$10,000,000 of Borrower’s preferred stock from H.F. Lenfest (the “**Lenfest Redemption**”) and repay \$5,000,000 of indebtedness currently outstanding to the Bank.

The Line of Credit Note and the Term Note (collectively, the “**Notes**”) set forth the interest rate, repayment and other provisions of the Loans, the terms of which are incorporated into this Agreement by reference; provided however, that the definition of the term “Applicable Margin” used to determine the interest rates referred to in the Notes is set forth on the Addendum hereto.

2. **Security.** The security for repayment of the Loans shall be as set forth in that certain Security Agreement dated as of even date herewith between the Borrower and the Bank (the “**Security Agreement**”), that certain Pledge Agreement dated as of even date herewith executed by the Borrower in favor of the Bank (the “**Pledge Agreement**”), that certain Amended and Restated Guaranty and Suretyship Agreement executed by H.F. Lenfest in favor of the Bank dated as of even date herewith (the “**Lenfest Guaranty**”), that certain Open-End Mortgage Agreement dated as of even date herewith executed by the Borrower in favor of the Bank (the “**Mortgage**”) covering the real property located at 125 James Way, Southampton, PA 18966 (the “**Real Property**”), those certain Landlord’s and Warehouseman’s Waivers made by certain third party landlords and warehouseman in favor of the Bank (collectively, the “**Landlord’s Waivers**”), that certain Pledge Agreement between the Borrower and the Bank dated November 16, 2009 (as amended, the “**Cash Collateral Pledge Agreement**”) and the other documents heretofore, contemporaneously or hereafter executed and delivered to the Bank (together with the Security Agreement, the Pledge Agreement, the Lenfest Guaranty, the Mortgage, the Landlord’s Waivers and the Cash Collateral Pledge Agreement, collectively the “**Security Documents**”). The Security Documents shall secure repayment of the Loans, the Notes and all other loans, advances, debts, liabilities, obligations, covenants and duties owing by the Borrower to the Bank or to any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, whether or not (i) evidenced by any note, guaranty or other instrument, (ii) arising under any agreement, instrument or document, (iii) for the payment of money, (iv) arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, (v) under any interest or currency swap, future, option or other interest rate protection or similar agreement, (vi) under or by reason of any foreign currency transaction, forward, option or other similar transaction providing for the purchase of one currency in exchange for the sale of another currency, or in any other manner, or (vii) arising out of overdrafts on deposit or other accounts or out of electronic funds transfers (whether by wire transfer or through automated clearing houses or otherwise) or out of the return unpaid of, or other failure of the Bank to receive final payment for, any check, item, instrument, payment order or other deposit or credit to a deposit or other account, or out of the Bank’s non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository or other similar arrangements; and any amendments, extensions, renewals and increases of or to any of the foregoing, and all costs and expenses of the Bank 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**”). Unless expressly provided to the contrary in documentation for any other loan or loans or the applicable Security Document, it is the express intent of the Bank and the Borrower that all Obligations including those included in the Loans be cross-collateralized and cross-defaulted, such that collateral securing any of the Obligations shall secure repayment of all Obligations and a default under any Obligation shall be a default under all Obligations.

This Agreement, the Notes, the Reimbursement Agreement, the Security Documents, and all other agreements and documents executed and/or delivered pursuant hereto, as each may be amended, modified, extended or renewed from time to time, are collectively referred to as the “**Loan Documents.**” Capitalized terms not defined herein shall have the meanings ascribed to them in the Loan Documents.

3. **Representations and Warranties.** The Borrower hereby makes the following representations and warranties, which shall be continuing in nature and remain in full force and effect until the Obligations are paid in full and which shall be true and correct except as otherwise set forth on the Addendum attached hereto and incorporated herein by reference (the “**Addendum**”):

3.1 **Existence, Power and Authority.** The Borrower and each Subsidiary Guarantor (as hereafter defined) (individually, each a “**Loan Party**” and, collectively, the “**Loan Parties**”) is duly organized, validly existing and in good standing under the laws of the State of its incorporation or organization 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. Each Loan Party 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, except where its failure to be so qualified, licensed or in good standing would not have a material adverse effect on such Loan Party or its business. Each Loan Party is duly authorized to execute and deliver the Loan Documents to which it is party, all necessary action to authorize the execution and delivery of the Loan Documents has been properly taken by each Loan Party, and the Borrower is, and will continue to be until all Obligations have been paid in full, duly authorized to borrow under this Agreement and to perform all of the other terms and provisions of the Loan Documents.

3.2 **Financial Statements.** The Borrower has delivered or caused to be delivered to the Bank its most recent consolidated balance sheet, income statement and statement of cash flows (as applicable, the “**Historical Financial Statements**”). The Historical Financial Statements are true, complete and accurate in all material respects and fairly present the financial condition, assets and liabilities of the Borrower, whether accrued, absolute, contingent or otherwise, and the results of the Borrower’s operations for the period specified therein, in each case on a consolidated basis. The Historical Financial Statements have been prepared in accordance with generally accepted accounting principles (“**GAAP**”) consistently applied from period to period, subject in the case of interim statements to normal year end adjustment.

3.3 **No Material Adverse Change.** Since the date of the most recent Financial Statements (as hereinafter defined) delivered by the Borrower hereunder, the Borrower and each of the other Loan Parties (taken as a whole) have not suffered any material damage, destruction or loss, and no event or condition has occurred or exists, which has resulted or could result in a material adverse change in the business, assets, operations, condition (financial or otherwise) or results of operation of the Loan Parties (taken as a whole).

3.4 **Binding Obligations.** Each Loan Party has full power and authority to enter into the transactions to be entered into by it under this Agreement and the other applicable Loan Documents and has been duly authorized to do so by appropriate action of its Board of Directors or otherwise as may be required by law, charter, or other organizational documents or agreements. The Loan Documents, when executed and delivered by the Loan Parties party thereto, will constitute the legal, valid and binding obligations of the Loan Parties party thereto enforceable in accordance with their terms, except to the extent that enforceability is limited by principles of equity or creditors’ rights generally.

3.5 No Defaults or Violations. There does not exist any Event of Default under this Agreement or any default or violation by any Loan Party of or under any of the terms, conditions or obligations of: (i) its articles or certificate of incorporation, regulations or bylaws; (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, ordinance, regulation, ruling, order, injunction, decree, condition or other requirement applicable to or imposed upon it by any law, the action of any court or any governmental authority or agency, except, in the case of clauses (ii) or (iii), for defaults or violations that are immaterial; and the consummation of this Agreement and the transactions set forth herein will not result in any such default or violation or Event of Default.

3.6 Title to Assets. Each Loan Party has good and marketable title to the assets reflected on the most recent Financial Statements, free and clear of all liens and encumbrances, except for (i) current taxes and assessments not yet due and payable, (ii) assets disposed of by such Loan Party in the ordinary course of business since the date of the most recent Financial Statements, and (iii) those liens or encumbrances, if any, specified on the Addendum.

3.7 Litigation. There are no actions, suits, proceedings or governmental investigations pending or, to the knowledge of the Borrower, threatened against any Loan Party, which could result in a material adverse change in any Loan Party's business, assets, operations, condition (financial or otherwise) or results of operations and there is no basis known to the Borrower for any action, suit, proceeding or investigation which could result in such a material adverse change. All litigation that is pending or has been threatened in writing against any Loan Party is listed on the Addendum.

3.8 Tax Returns. Except as set forth on the Addendum, each Loan Party has filed all returns and reports that are required to be filed by it (subject to applicable extensions) in connection with any federal, state or local tax, duty or charge levied, assessed or imposed upon it or its property or withheld by it, including income, 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.

3.9 Employee Benefit Plans. Each employee benefit plan as to which any Loan Party may have any liability complies in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974 (as amended from time to time, "**ERISA**"), including minimum funding requirements, and (i) no Prohibited Transaction (as defined under ERISA) has occurred with respect to any such plan, (ii) no Reportable Event (as defined under Section 4043 of ERISA) has occurred with respect to any such plan which would cause the Pension Benefit Guaranty Corporation to institute proceedings under Section 4042 of ERISA, (iii) no Loan Party has withdrawn from any such plan or initiated steps to do so, and (iv) no steps have been taken to terminate any such plan.

3.10 Environmental Matters. Each Loan Party is in compliance, in all material respects, with all Environmental Laws (as hereinafter defined), including, without limitation, all Environmental Laws in jurisdictions in which such Loan Party owns or operates, or has owned or operated, a facility or site, stores Collateral, arranges or has arranged for disposal or treatment of hazardous substances, solid waste or other waste, accepts or has accepted for transport any hazardous substances, solid waste or other wastes or holds or has held any interest in real property or otherwise. Except as otherwise disclosed on the Addendum, no litigation or proceeding arising under, relating to or in connection with any Environmental Law is pending or, to the best of the Borrower's knowledge, threatened against any Loan Party, any real property in which any Loan Party holds or has held an interest or any past or present operation of any Loan Party. No release, threatened release or disposal of hazardous waste, solid waste or other wastes is occurring, or to the best of the Borrower's knowledge has occurred, on, under or to any real property in which any Loan Party holds or has held any interest or performs or has performed any of its operations, in violation of any Environmental Law. As used in this Section, "**litigation or proceeding**" means any demand, claim notice, suit, suit in equity, action, administrative action, investigation or inquiry whether brought by a governmental authority or other person, and "**Environmental Laws**" means all provisions of laws, statutes, ordinances, rules, regulations, permits, licenses, judgments, writs, injunctions, decrees, orders, awards and standards promulgated by any governmental authority concerning health, safety and protection of, or regulation of the discharge of substances into, the environment.

3.11 Intellectual Property. Each Loan Party owns or is licensed to use all patents, patent rights, trademarks, trade names, service marks, copyrights, intellectual property, technology, know-how and processes necessary for the conduct of its business as currently conducted that are material to the condition (financial or otherwise), business or operations of such Loan Party.

3.12 Regulatory Matters. No part of the proceeds of the Loans will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time in effect or for any purpose which violates the provisions of the Regulations of such Board of Governors.

3.13 Solvency. As of the date hereof and after giving effect to the transactions contemplated by the Loan Documents, (i) the aggregate value of each Loan Party's assets will exceed its liabilities (including contingent, subordinated, unmatured and unliquidated liabilities), (ii) each Loan Party will have sufficient cash flow to enable it to pay its debts as they become due, and (iii) no Loan Party will have unreasonably small capital for the business in which it is engaged.

3.14 Disclosure. None of the Loan Documents contains or will contain any untrue statement of material fact or omits or will omit to state a material fact necessary in order to make the statements contained in this Agreement or the Loan Documents not misleading. There is no fact known to the Borrower which materially adversely affects or, so far as the Borrower can now foresee, might reasonably be expected to materially adversely affect the business, assets, operations, condition (financial or otherwise) or results of operations of the Loan Parties and which has not otherwise been fully set forth in this Agreement or in the Loan Documents.

3.15 Subsidiaries. Part A of Section 3.15 of the Addendum hereto sets forth a complete and accurate list of the Subsidiaries of each Loan Party as of the date hereof showing the percentage of such Loan Party's ownership of the outstanding stock, membership interests or partnership interests, as applicable, of such Subsidiaries. Each Subsidiary of the Borrower listed in Part B of Section 3.15 of the Addendum (each, an "**Inactive Subsidiary**") has no material assets or operations. Part C of Section 3.15 of the Addendum contains a list of all Subsidiaries of the Borrower guaranteeing the Obligations as of the date hereof (each such Subsidiary, together with any other Subsidiaries now or hereafter executing a Guaranty and Suretyship Agreement pursuant to this Agreement, referred to herein individually as a "**Subsidiary Guarantor**" and collectively as the "**Subsidiary Guarantors**"). As used herein, the term "**Subsidiary**" as to any entity, shall mean a corporation, partnership, limited partnership, limited liability company or other entity of which shares of stock or other ownership interests having voting power to elect a majority of the board of directors or other managers of such entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such entity. Unless otherwise qualified, all references to a "**Subsidiary**" or to "**Subsidiaries**" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

4. Affirmative Covenants. The Borrower agrees that from the date of execution of this Agreement until all Obligations have been paid in full, no Letter of Credit remains outstanding and all commitments of the Bank to the Borrower have been terminated, the Borrower will, and will (except in the case of Sections 4.2, 4.3, 4.4 and 4.15) cause each of its Subsidiaries to:

4.1 Books and Records. Maintain books and records in accordance with GAAP and give representatives of the Bank access thereto at all reasonable times, including permission to examine, copy and make abstracts from any of such books and records and such other information as the Bank may from time to time reasonably request, and the Borrower will make available to the Bank for examination copies of any reports, statements and returns which a Loan Party may make to or file with any federal, state or local governmental department, bureau or agency.

4.2 Interim Financial Statements. Furnish to the Bank the Borrower's Financial Statements for each of the first three fiscal quarters, within sixty (60) days after the applicable quarter end, in reasonable detail, certified by an authorized officer of the Borrower and prepared in accordance with GAAP consistently applied from period to period (except to the extent of any changes in GAAP which may take effect after the date hereof). As used in this Agreement, "**Financial Statements**" means the Borrower's consolidated balance sheets, income statements and statements of cash flows for the year or quarter together with year-to-date figures and comparative figures for the corresponding periods of the prior year.

4.3 Annual Financial Statements. Furnish the Borrower's Financial Statements for the fiscal year to the Bank within one hundred five (105) days after the end of each fiscal year. Those Financial Statements will be prepared on an audited basis in accordance with GAAP by an independent certified public accountant selected by the Borrower and reasonably satisfactory to the Bank. Audited Financial Statements shall contain the unqualified opinion of an independent certified public accountant, and all accountant examinations shall have been made in accordance with GAAP consistently applied from period to period.

4.4 Compliance Certificates. With each delivery of Financial Statements, deliver a certificate as to (a) the Borrower's compliance with applicable financial covenants (containing detailed calculations of all financial covenants) for the period then ended (b) and whether any Event of Default exists, and, if so, the nature thereof and the corrective measures the Borrower proposes to take (each, a "**Compliance Certificate**"). Each Compliance Certificate shall set forth all detailed calculations necessary to demonstrate such compliance.

4.5 Financial Projections. Within sixty (60) days after each fiscal year end, deliver to the Bank financial projections for the current fiscal year in a form reasonably satisfactory to the Bank.

4.6 Quarterly Reports. Within sixty (60) days after the end of each fiscal quarter, deliver to the Bank accounts payable and accounts receivables aging reports, inventory reports, and contract backlog reports for such quarter.

4.7 Payment of Taxes and Other Charges. Pay and discharge when due all indebtedness for borrowed money and all taxes, assessments, charges, levies and other liabilities imposed by a governmental authority upon a Loan Party, its income, profits, property or business, except those which currently are being contested in good faith by appropriate proceedings and for which such Loan Party shall have set aside adequate reserves or made other adequate provision with respect thereto acceptable to the Bank in its sole discretion.

4.8 Maintenance of Existence, Operation and Assets. Do all things necessary to (i) maintain, renew and keep in full force and effect its organizational existence and all rights, permits and franchises necessary to enable it to continue its business as currently conducted; (ii) continue in operation in substantially the same manner as at present; (iii) keep its properties in good operating condition and repair; and (iv) make all necessary and proper repairs, renewals and replacements thereof.

4.9 Insurance. Maintain, with financially sound and reputable insurers, insurance with respect to its property and business against such casualties and contingencies, of such types and in such amounts, as is customary for established companies engaged in the same or similar business and similarly situated. In the event of a conflict between the provisions of this Section and the terms of any Security Documents relating to insurance, the provisions in the Security Documents will control.

4.10 Compliance with Laws. Comply in all material respects with all laws applicable to each Loan Party and to the operation of its business (including without limitation any statute, ordinance, rule or regulation relating to employment practices, pension benefits or environmental, occupational and health standards and controls).

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

4.12 Financial Covenants. Comply with all of the financial and other covenants, if any, set forth on the Addendum.

4.13 Additional Reports. Provide prompt written notice to the Bank of the occurrence of any of the following (together with a description of the action which the Borrower proposes to take with respect thereto): (i) any Event of Default or any event, act or condition which, with the passage of time or the giving of notice, or both, would constitute an Event of Default (a “**Default**”), (ii) any litigation filed by or against any Loan Party having an amount in controversy in excess of \$100,000, (iii) any Reportable Event or Prohibited Transaction with respect to any Employee Benefit Plan(s) (as defined in ERISA), (iv) any event which would be reasonably likely to result in a material adverse change in the business, assets, operations, condition (financial or otherwise) or results of operation of any Loan Party and (v) any change in the Borrower’s executive officers (defined as those persons filing statements under Section 16(a) of the Securities Exchange Act of 1934, as amended).

4.14 Notice and Joinder of New Subsidiaries. Notify the Bank as soon as practicable after acquiring or creating a new Subsidiary, and cause:

(a) any new Domestic Subsidiary to execute and deliver to the Bank (i) a Guaranty Agreement (or Joinder in a form reasonably acceptable to the Bank, as determined by the Bank) pursuant to which such domestic Subsidiary shall guaranty all of the Obligations and (ii) a Subsidiary Security Agreement (or Joinder in a form reasonably acceptable to the Bank, as determined by the Bank) pursuant to which such Domestic Subsidiary shall grant a security interest to the Bank in its assets as additional collateral for the Obligations.

(b) any Domestic Subsidiary that is the owner of any new Domestic Subsidiary to execute and deliver to the Bank a Pledge Agreement (or Joinder as determined by the Bank) in form and substance reasonably acceptable to the Bank pursuant to which one hundred percent (100%) of the issued and outstanding Capital Stock of such new Domestic Subsidiary that is owned by such Domestic Subsidiary shall be pledged to the Bank as collateral for the Obligations.

(c) any Domestic Subsidiary that is the owner of any new first-tier Foreign Subsidiary to execute and deliver to the Bank a Pledge Agreement (or Joinder as determined by the Bank) in form and substance reasonably acceptable to the Bank pursuant to which sixty-five percent (65%) of the issued and outstanding voting Capital Stock and one hundred percent (100%) of the issued and outstanding non-voting Capital Stock of such Foreign Subsidiary that is owned by such Domestic Subsidiary shall be pledged to the Bank as collateral for the Obligations.

(d) in connection with any such Guaranty Agreements, Subsidiary Security Agreements, Pledge Agreements and/or Joinders, the Borrower and/or the applicable Subsidiary or Subsidiaries to execute and deliver or cause to be executed and/or delivered, as applicable, such additional documentation as the Bank shall reasonably require, including without limitation, certificates similar to those referred to in Section 7.1, opinions, lien searches and stock certificates (together with undated stock powers endorsed in blank).

As used herein, the following terms shall have the following meanings:

“Domestic Subsidiary”: any Subsidiary other than a Foreign Subsidiary.

“Foreign Subsidiary”: any Subsidiary not organized under the laws of the United States, any State thereof or the District of Columbia.

“Guaranty Agreement”: a Guaranty and Suretyship Agreement in a form acceptable to the Bank, as amended, supplemented or otherwise modified from time to time.

“Subsidiary Security Agreement”: a Security Agreement in substantially the same form as the Security Agreement executed on the date hereof, as amended, supplemented or otherwise modified from time to time.

4.15 Swap. On or within two business days of the date hereof, enter into, and maintain at all times until the maturity date of the Term Loan, one or more interest rate swap agreements having an aggregate notional principal amount equal to at least thirty-three percent (33%) of the then-outstanding principal of the Term Loan.

4.16 Mandatory Prepayment. Upon the expiration or reduction in face amount of any letter of credit secured by the Cash Collateral Pledge Agreement, the Borrower shall prepay the Term Loan in an amount equal to the face amount of the then-expired letter of credit or the amount by which the such letter of credit was reduced.

4.17 Inactive Subsidiaries. The Borrower (a) shall cause each Inactive Subsidiary not to have assets with a fair market value in excess of \$10,000 at any time and (b) shall, and shall cause each Inactive Subsidiary to, make such filings and take such other actions as may be necessary or advisable to cause each Inactive Subsidiary to dissolve, liquidate and wind up its affairs. The Borrower shall cause each such dissolution, liquidation and winding up to commence within 30 days after the date hereof and shall diligently pursue such dissolution, liquidation and winding up to completion, and shall give the Bank prompt notice of the completion thereof.

4.18 Pledge of Foreign Interests. The Borrower shall within thirty (30) days after the date hereof, (a) deliver to the Bank any certificated securities, documents or instruments, accompanied by duly executed blank stock or bond powers or assignments as applicable, evidencing the equity interests in non-United States entities pledged to the Bank pursuant to the Pledge Agreement and (b) execute and deliver to the Bank all other documentation necessary for the Bank to obtain and maintain perfection of its security interests in such Collateral.

5. Negative Covenants. The Borrower covenants and agrees that from the date of this Agreement until all Obligations have been paid in full, no Letter of Credit remains outstanding and all commitments of the Bank to the Borrower have been terminated, except as set forth in the Addendum, the Borrower will not, nor will it permit any Subsidiary to, without the Bank’s prior written consent:

5.1 Indebtedness. Create, incur, assume or suffer to exist any indebtedness for borrowed money other than: (i) the Loans and any subsequent indebtedness to the Bank; and (ii) open account trade debt incurred in the ordinary course of business and not more than sixty (60) days past due; (iii) indebtedness of the Borrower in respect of capital lease obligations and purchase money financing in connection with the acquisition of personal property in an aggregate principal amount not to exceed \$500,000 and any refinancings thereof; provided that the amount of the refinancing indebtedness is not more than the outstanding principal amount of the refinanced indebtedness, and the terms of the refinancing indebtedness are no more favorable to the lender than the terms of the refinanced indebtedness; (iv) obligations under any foreign currency swap or hedge contracts, interest rate swap, cap, collar or floor agreement or other interest rate management device entered into with the Bank or a third party pursuant to Section 4.15; and (v) indebtedness for borrowed money incurred by the Borrower's Polish Subsidiary, ETC-PZL Aerospace Industries, in an amount up to the dollar equivalent of \$500,000 in principal outstanding at any one time.

5.2 Liens and Encumbrances. Except as provided in Section 3.6, create, assume, incur or permit 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 subject to any conditional sales or other title retention agreement, except:

(a) 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;

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

(c) liens securing purchase money indebtedness permitted pursuant to Section 5.1. above; provided that the principal amount of the indebtedness so secured does not exceed the purchase price of the related property;

(d) carriers', warehousemen's and mechanics' liens, statutory landlord's liens, and other liens arising by operation of law; and

(e) liens or security interests in favor of the Bank (collectively, the "**Permitted Liens**").

5.3 Guarantees. Guarantee, endorse or become contingently liable for the obligations of any person, firm, corporation or other entity, except (a) in connection with the endorsement and deposit of checks in the ordinary course of business for collection and (b) the guarantees by the Borrower of its Subsidiaries' obligations set forth in Section 5.3 of the Addendum.

5.4 Loans or Advances. Purchase or hold beneficially any stock, other securities or evidences of indebtedness of, or make or have outstanding, any loans or advances to, or otherwise extend credit to, or make any investment or acquire any interest whatsoever in, any other person, firm, corporation or other entity, except investments (a) permitted pursuant to Section 5.7, (b) in marketable securities or cash equivalents in an aggregate amount of \$1,000,000 outstanding at any one time, (c) disclosed on the Borrower's Historical Financial Statements or (d) acceptable to the Bank in its sole discretion.

5.5 Merger or Transfer of Assets. Except solely to the extent set forth in Section 4.17, liquidate or dissolve, or merge or consolidate with or into any person, firm, corporation or other entity, or sell, lease, transfer or otherwise dispose of all or any substantial part of its property, assets, operations or business, whether now owned or hereafter acquired, except (a) any Subsidiary of the Borrower may be merged or consolidated with or into the Borrower, provided that the Borrower shall be the continuing or surviving corporation; (b) any Subsidiary of the Borrower may be merged or consolidated with or into any Subsidiary Guarantor, provided that a Subsidiary Guarantor shall be the continuing or surviving corporation; (c) any Subsidiary of the Borrower may sell, lease, transfer or otherwise dispose of any or all of its assets to the Borrower; and (d) any Subsidiary of the Borrower may sell, lease, transfer or otherwise dispose of any or all of its assets to a Subsidiary Guarantor that has entered into a Subsidiary Security Agreement.

5.6 Change in Business or Management. Make or permit any change in its form of organization, the nature of its business as carried on as of the date hereof, or that would result in a person other than William F. Mitchell being President and CEO of Borrower during his lifetime.

5.7 Acquisitions; Joint Ventures. Make acquisitions of all or substantially all of the property or assets of any person, firm, corporation or make any investment in a joint venture, except for acquisitions and investments for which the purchase price or amount invested, together with all other acquisitions and joint venture investments made between the date hereof and the date the Obligations are paid in full, does not exceed \$750,000 in the aggregate.

6. Events of Default. The occurrence of any of the following will be deemed to be an **Event of Default**:

6.1 Covenant Default. The Borrower shall default in the performance of any of the covenants or agreements contained in (a) Sections 4.2 through 4.6, 4.12, 4.15 and 4.16 and Section 5 of this Agreement, or (b) any other Section of this Agreement and such default shall not be cured within thirty (30) days after the occurrence thereof.

6.2 Breach of Warranty. Any Financial Statement, representation, warranty or certificate made or furnished by the Borrower or any other Loan Party to the Bank in connection with this Agreement shall be false, incorrect or incomplete in any material respect when made.

6.3 Other Default. The occurrence of an event of default as defined in the Notes or any of the Loan Documents.

Upon the occurrence of an Event of Default, the Bank will have all rights and remedies specified in the Notes and the Loan Documents and all rights and remedies (which are cumulative and not exclusive) available under applicable law or in equity.

7. **Conditions.**

7.1 **Initial Advance.** The Bank's obligation to make the initial advance under the Loans is subject to the conditions that as of the date of such initial advance:

(a) **No Event of Default.** No Event of Default or Default shall have occurred and be continuing;

(b) **Receipt of Loan Documents.** The Bank shall have received the Loan Documents and such other instruments and documents which the Bank may reasonably request in connection with the transactions provided for in this Agreement;

(c) **Corporate Proceedings.** The Bank shall have received a certificate of the Secretary or Chief Financial Officer of each Loan Party dated as of the date hereof certifying (a) that attached thereto is a true and complete copy of the resolutions, in form and substance satisfactory to the Bank, of the such Loan Party's Board of Directors authorizing the execution, delivery and performance of this Agreement, the Notes and each of the other Loan Documents to which it is a party and that such resolutions have not been amended, modified, revoked or rescinded in any manner and are in full force and effect, (b) that attached thereto is a true and complete copy of its Articles or Certificate of Incorporation certified by the Secretary of State of the state in which such Loan Party is incorporated or formed, and Bylaws, and that such organizational documents have not been amended, modified, revoked or rescinded and are in full force and effect, (c) as to the incumbency and specimen signatures of each officer executing the Loan Documents on behalf of such Loan Party, and (d) that the representations made by it in the Loan Documents to which it is a party are true and correct, that such Loan Party is in compliance with all the covenants contained in the Loan Documents to which it is a party and there exists no Default or Event of Default after giving effect to the initial advances hereunder;

(d) **Good Standing.** The Bank shall have received certificates of good standing, subsistence and/or status dated a recent date from the Secretary of State taxing or other authorities in the jurisdiction of incorporation of each Loan Party and in other locations requested by the Bank;

(e) **Opinion of Counsel.** The Bank shall have received a written opinion of the Loan Parties' counsel addressed to the Bank and covering such matters as the Bank may require;

(f) **Insurance.** The Bank shall have received certificates evidencing to its satisfaction that the Loan Parties have obtained insurance of the type required by Section 4.9 hereof, the Security Agreement and the Mortgage, with the appropriate additional insured, lender loss payee and mortgagee endorsements;

(g) **Material Adverse Change.** There shall have been no material adverse change in the condition (financial or otherwise), operations, properties, assets or prospects of the Borrower since the date of the Historical Financial Statements;

(h) **Material Litigation or Contingent Obligations.** There shall be no (i) material actions, suits, proceedings or government investigations pending or threatened against any Loan Party, or (ii) material contingent obligations of any Loan Party that are not set forth on the Addendum;

(i) **Security Interest.** The Bank shall have received to its satisfaction evidence, including without limitation UCC, tax and judgment lien searches, that the Bank will have a first priority lien in the Collateral (as defined in the Security Documents), subject only to Permitted Liens;

(j) **Filings.** The Bank shall have evidence satisfactory to it that all necessary actions to perfect and protect the security interests created by the Security Documents, including, without limitation, the filing of UCC financing statements and the Mortgage in the appropriate jurisdictions, have been taken;

(k) **Lenfest Indebtedness.** The Bank shall have received evidence in form and substance satisfactory to it that the Loan Parties' credit facilities with H.F. Lenfest have been terminated, all indebtedness thereunder has been paid in full, all guarantors have been released and all liens securing such indebtedness have been released, including a payoff letter, UCC-3 termination statements and a duly executed mortgage satisfaction piece relating to the Real Property (the "**Lenfest Mortgage Satisfaction**");

(l) **Title Search.** The Bank shall have received a title search for the Real Property, evidencing that the Bank will have a first priority lien in the Real Property after recordation of the Lenfest Mortgage Satisfaction;

(m) **Flood Certificate.** The Bank shall have received and reviewed to its satisfaction flood plain searches with respect to the Real Property;

(n) **Environmental Report.** The Bank shall have received, in form and substance satisfactory to it, evidence, including, without limitation, an environmental questionnaire or a Phase I environmental assessment of the Real Property, demonstrating that the Real Property is in compliance with all Environmental Laws in all material respects; and

(o) **Fees and Expenses.** The Borrower shall have reimbursed the Bank for the Bank's costs and expenses pursuant to Section 8, including the reasonable fees and expenses of the Bank's counsel.

7.2 **Subsequent Advances.** The Bank's obligation to make any extension of credit under the Line of Credit, including any advance or the issuance, amendment or extension of any Letter of Credit, including in each case on the date hereof, is subject to the conditions that as of the date of each such extension of credit:

(a) **Representations and Warranties.** Each of the representations and warranties (i) made by the Loan Parties under this Agreement or any other Loan Document or (ii) which are contained in any certificate, document, financial or other statement furnished at any time in connection with the Loan Documents, shall be true and correct in all respects on and as of such date as if made on and as of such date (except to the extent stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all respects as of such date);

(b) **No Event of Default.** No Event of Default or Default shall have occurred and be continuing; and

(c) **Additional Matters.** All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement and the other Loan Documents shall be reasonably satisfactory in form and substance to the Bank, and the Bank shall have received such other documents in respect of any aspect or consequence of the transactions contemplated hereby or thereby as it shall reasonably request (including without limitation, the Bank shall have received a completed appraisal by an appraisal firm selected by and acceptable to the Bank of the Real Property in form and substance satisfactory to it).

8. **Expenses.** The Borrower agrees to pay the Bank, upon the execution of this Agreement, and otherwise on demand, all costs and expenses incurred by the Bank in connection with the preparation, negotiation and delivery of this Agreement and the other Loan Documents, and any modifications thereto, and the collection of all of the Obligations, including but not limited to enforcement actions, relating to the Loans, whether through judicial proceedings or otherwise, or in defending or prosecuting any actions or proceedings arising out of or relating to this Agreement, including reasonable fees and expenses of counsel (which may include costs of in-house counsel), expenses for auditors, appraisers and environmental consultants, lien searches, recording and filing fees and taxes.

9. **Increased Costs.** On written demand, together with written evidence of the justification therefor, the Borrower agrees to pay the Bank all direct costs incurred and any losses suffered or payments made by the Bank as a consequence of making the Loans or extending any Letter of Credit by reason of any change in law or regulation, or the interpretation thereof, imposing any reserve, deposit, allocation of capital or similar requirement (including without limitation, Regulation D of the Board of Governors of the Federal Reserve System) on the Bank, its holding company or any of their respective assets; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines, interpretations or directives thereunder or issued in connection therewith (whether or not having the force of law) and (y) all requests, rules, regulations, guidelines, interpretations or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities (whether or not having the force of law), in each case pursuant to Basel III, shall in each case be deemed to be a change in law regardless of the date enacted, adopted, issued, promulgated or implemented.

10. Miscellaneous.

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

10.2 Preservation of Rights. 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 a waiver of any such right or power, nor will the Bank’s action or inaction impair any such right or power. The Bank’s rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity.

10.3 Illegality. If any provision contained in this 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 of this Agreement.

10.4 Changes in Writing. No modification, amendment or waiver of, or consent to any departure by the Borrower from, any provision of this Agreement 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. No notice to or demand on the Borrower will entitle the Borrower to any other or further notice or demand in the same, similar or other circumstance.

10.5 Entire Agreement. This 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 parties with respect to the subject matter hereof.

10.6 Counterparts. This Agreement may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart. Any party so executing this Agreement by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

10.7 Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the Borrower and the Bank and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Borrower may not assign this Agreement in whole or in part without the Bank’s prior written consent and the Bank at any time may assign this Agreement in whole or in part.

10.8 Interpretation; Changes in GAAP. In this Agreement, unless the Bank and the Borrower otherwise agree in writing, the singular includes the plural and the plural the singular; words importing any gender include the other genders; 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”; references to articles, sections (or subdivisions of sections) or exhibits are to those of this Agreement; 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 Agreement. Section headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. Unless otherwise specified in this Agreement, all accounting terms shall be interpreted and all accounting determinations shall be made in accordance with GAAP. Notwithstanding the foregoing, if either party notifies the other that it wishes to amend any covenant in the Addendum of this Agreement or any related definition to eliminate the effect of any change in GAAP occurring after the date hereof on the operation of such covenant, then the Loan Parties’ compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant or definition is amended in a manner satisfactory to the Borrower and the Bank, and the Borrower shall provide to the Bank, when it delivers its financial statements pursuant to Section 4.2 and 4.3 of this Agreement, such reconciliation statements as shall be reasonably requested by the Bank. If this Agreement is executed by more than one party as Borrower, the obligations of such persons or entities will be joint and several.

10.9 No Consequential Damages, Etc. The Bank will not be responsible for any damages, consequential, incidental, special, punitive or otherwise, that may be incurred or alleged by any person or entity, including the Borrower and any Guarantor, as a result of this Agreement, the other Loan Documents, the transactions contemplated hereby or thereby, or the use of the proceeds of the Loan.

10.10 Assignments and Participations. At any time, without any notice to the Borrower, the Bank may sell, assign, transfer, negotiate, grant participations in, or otherwise dispose of all or any part of the Bank’s interest in the Loan. The Borrower hereby authorizes the Bank to provide, without any notice to the Borrower, any information concerning the Borrower, including information pertaining to the Borrower’s financial condition, business operations or general creditworthiness, to any person or entity which may succeed to or participate in all or any part of the Bank’s interest in the Loan.

10.11 Governing Law and Jurisdiction. This Agreement has been delivered to and accepted by the Bank and will be deemed to be made in the Commonwealth of Pennsylvania. **This Agreement will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the Commonwealth of Pennsylvania excluding its conflict of laws rules.** The Borrower hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the county or judicial district where the Bank’s office indicated 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 rights against the Borrower individually, against any security or against any property of the Borrower within any other county, state or other foreign or domestic jurisdiction. The Bank and the Borrower agree that the venue provided above is the most convenient forum for both the Bank and the Borrower. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Agreement.

10.12 WAIVER OF JURY TRIAL. EACH OF THE BORROWER AND THE BANK 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 AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE BORROWER AND THE BANK ACKNOWLEDGE THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

10.13 Amendment and Restatement. This Agreement amends, restates and replaces (but does not constitute a novation of) the existing letter agreement dated July 2, 2009 between the Bank and the Borrower.

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

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

ATTEST

ENVIRONMENTAL TECTONICS CORPORATION

By: _____
(SEAL)

Print Name: _____

Print Name: _____

Title: _____

Title : _____

PNC BANK, NATIONAL ASSOCIATION

By: _____
(SEAL)

Print Name: _____

Title : _____

ADDENDUM to that certain Loan Agreement dated September 28, 2012 between Environmental Tectonics Corporation as the Borrower and PNC Bank, National Association, as the Bank. Capitalized terms used in this Addendum and not otherwise defined shall have the meanings given them in the Agreement. Section numbers below refer to the sections of the Agreement.

1.1 Existing Letters of Credit.

L/C Number	Description	Amount	Open Date	Exp. Date
18117636-00-00	Bid Bond	\$100,000.00	07/13/12	10/09/12
18117729-00-00	ADMS	72,320.00	07/10/12	10/19/12
S262405PHL	Maintenance	47,560.00	11/25/03	11/09/12
S259738PHL	C-130 Repairs	43,190.00	08/08/03	12/30/12
18104493-00-00	Sterilizer	249,600.00	04/12/07	02/28/13
18109685-00-00	Maintenance	37,051.52	06/04/08	08/12/13
18110104-00-00	ADMS	286,250.00	07/22/08	08/30/13
18113665-00-00	Maintenance	40,612.72	08/23/10	05/12/14
Total		\$876,584.24		

3.6 Title to Assets. Describe additional liens and encumbrances below:

Liens in favor of Canon Financial Services, Inc. with respect to the equipment and related assets referred to in UCC Financing Statement File no. 2008073104930 filed with the Secretary of the Commonwealth of Pennsylvania on July 31, 2008.

3.7 Litigation. Describe pending and threatened litigation, investigations, proceedings, etc. below:

On August 8, 2012, ETC filed a claim against the US Government Force before the Armed Services Board of Contract Appeals (ASBCA Docket No 58278). This claim seeks compensation for work which ETC believes is outside the scope of a contract between ETC and the Government.

3.8 Tax Returns.

None.

3.15 Subsidiaries.

Part A: Subsidiaries Owned by the Borrower:

Name	Jurisdiction	Ownership
ETC-PZL Aerospace Industries	Poland	95%
Environmental Tectonics Corporation (Europe) Limited	Great Britain	99%
Entertainment Technology Corporation	Delaware	100%
ETC Delaware, Inc.	Delaware	100%
ETC International Corporation	Barbados	100%
NASTAR Center Holdings Corporation	Delaware	100%
NASTAR Center LLC	Delaware	100%
ETC Environmental Tectonics Corporation Information System Bilgi Islem Teknoloji Anonim Şirketi	Turkey	48%

Part B: Inactive Subsidiaries:

Name	Jurisdiction	Ownership
Entertainment Technology Corporation	Delaware	100%
ETC Delaware, Inc.	Delaware	100%
ETC International Corporation	Barbados	100%
NASTAR Center Holdings Corporation	Delaware	100%
NASTAR Center LLC	Delaware	100%

Part C: Subsidiary Guarantors:

None of the foregoing Subsidiaries is a Subsidiary Guarantor hereunder.

5.3 Guarantees. Describe guarantees of Subsidiary obligations:

None.

7.1 Contingent Obligations. None.

CONTINUATION OF ADDENDUM

FINANCIAL COVENANTS

- (1) The Borrower will maintain at all times a minimum Consolidated Tangible Net Worth of \$15,000,000.
- (2) The Borrower will maintain as of the end of each fiscal quarter, an Operating Leverage Ratio not greater than the ratio set forth in the table below opposite the period then ended:

<u>Period Ending</u>	<u>Ratio</u>
Date hereof to February 21, 2013	3.25 to 1.0
February 22, 2013 through February 27, 2014	3.00 to 1.0
February 28, 2014 and thereafter	2.90 to 1.0

- (3) The Borrower will maintain as of the end of each fiscal quarter a Fixed Charge Coverage Ratio of at least 1.10 to 1.0.

As used herein:

“**Applicable Margin**” means for any LIBOR Loan or Base Rate Loan on any date, the percentage per annum set forth below opposite the Operating Leverage Ratio shown on the Compliance Certificate most recently delivered by the Borrower to the Bank pursuant to Section 4.2 or Section 4.3, as the case may be, prior to such date:

<u>Level</u>	<u>Operating Leverage Ratio</u>	<u>Applicable Margin for LIBOR Loans</u>	<u>Applicable Margin for Base Rate Loans</u>
I	Less than or equal to 1.75 to 1.0	2.25%	-0.25%
II	Greater than 1.75 to 1.0 but less than or equal to 2.75 to 1.0	2.50%	0.00%
III	Greater than 2.75 to 1.0	2.75%	0.25%

; provided, however, that (a) adjustments, if any, to the Applicable Margin resulting from a change in the Operating Leverage Ratio shall be effective on the due date for such Compliance Certificate pursuant to Section 4.2 or Section 4.3, as the case may be, (b) in the event that no Compliance Certificate has been delivered for a fiscal quarter prior to the last date on which it can be delivered without violation of Section 4.2 or Section 4.3, as the case may be, the Applicable Margin from such date until such Compliance Certificate is actually delivered shall be that applicable under Level III, (c) in the event that the actual Operating Leverage Ratio for any fiscal quarter is subsequently determined to be greater than that set forth in the Compliance Certificate for such fiscal quarter, the Applicable Margin shall be recalculated for the applicable period based upon such actual Operating Leverage Ratio and (d) anything in this definition to the contrary notwithstanding, until receipt by the Bank of the unaudited Financial Statements, together with a Compliance Certificate, for the fiscal quarter ending November 23, 2012, the Applicable Margin shall be that applicable under Level III. Any additional interest on the Loans resulting from the operation of clause (c) above shall be payable by the Borrower to the Bank within five (5) days after receipt of a written demand therefor from the Bank.

“Base Rate Loan” means each loan or advance bearing interest at a rate determined by reference to the Base Rate or the Prime Rate (as each such term is defined in the applicable Note).

“Consolidated Tangible Net Worth” means stockholders’ equity in the Borrower less all items properly classified as intangibles less any Subordinated Debt that is classified as equity and constitutes original issue discount.

“Current Maturities” means the scheduled payments of principal on all indebtedness for borrowed money having an original term of more than one year (including but not limited to amortization of capitalized lease obligations), but excluding advances under the Line of Credit.

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

“Fixed Charge Coverage Ratio” means (i) EBITDA, divided by (ii) the sum of Current Maturities plus cash interest expense plus cash taxes paid plus cash dividends plus stock repurchases and redemptions (excluding the Lenfest Redemption) less stock issued or sold (provided that the value of stock issued or sold subtracted for purposes of this definition shall not exceed the value of stock repurchases and redemptions in the applicable period) plus Unfunded Capital Expenditures, in each case, as determined for the four consecutive fiscal quarters ending on such date.

“LIBOR Loan” means each loan or advance bearing interest at a rate determined by reference to LIBOR (as defined in the applicable Note).

“Operating Leverage Ratio” means as of any date of determination (i) Senior Funded Debt as of such date divided by (ii) EBITDA for the four consecutive fiscal quarters then ended.

“Senior Funded Debt” means all indebtedness for borrowed money, including but not limited to capitalized lease obligations, reimbursement obligations in respect of letters of credit, and guaranties of any such indebtedness, but excluding open account trade debt incurred and paid in the ordinary course of business, Subordinated Debt and any reimbursement obligations regarding stand-alone letters of credit issued by the Bank that are fully cash collateralized.

“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.

“Unfunded Capital Expenditures” means capital expenditures made from the Borrower’s funds other than funds borrowed as term debt to finance such capital expenditures.

All of the above financial covenants shall be computed and determined in accordance with GAAP applied on a consistent basis (except to the extent of any changes in GAAP, which shall apply in accordance with Section 10.8), subject to normal year-end adjustments.

Term Note

(LIBOR ONLY – DESIGNATED RATE RESET)



\$15,000,000

September 28, 2012

FOR VALUE RECEIVED, ENVIRONMENTAL TECTONICS CORPORATION (the “**Borrower**”), a Pennsylvania corporation with an address at 125 James Way, Southampton, PA 18966, promises to pay to the order of **PNC BANK, NATIONAL ASSOCIATION** (the “**Bank**”), in lawful money of the United States of America in immediately available funds at its offices located at 1000 Westlakes Drive, Suite 200, Berwyn, PA 19312, or at such other location as the Bank may designate from time to time, the principal sum of **FIFTEEN MILLION DOLLARS** (\$15,000,000) (the “**Facility**”), together with interest accruing on the outstanding principal balance from the date hereof, all as provided below.

Rate of Interest. Amounts outstanding under this Note will bear interest at a rate per annum equal to the sum of (A) LIBOR in effect on each Reset Date plus (B) the Applicable Margin for LIBOR Loans (as defined in the Loan Agreement referred to below). Interest hereunder will be calculated based on the actual number of days that principal is outstanding over a year of 360 days. In no event will the rate of interest hereunder exceed the maximum rate allowed by law.

For purposes hereof, the following terms shall have the following meanings:

“**Business Day**” shall mean any day other than a Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in New York, New York.

“**LIBOR**” shall mean, for each Reset Date, the interest rate per annum determined by the Bank by dividing (i) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which US dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by the Bank which has been approved by the British Bankers’ Association as an authorized information vendor for the purpose of displaying rates at which US dollar deposits are offered by leading banks in the London interbank deposit market (an “**Alternate Source**”), at approximately 11:00 a.m., London time, two (2) Business Days prior to such Reset Date, as the one (1) month London interbank offered rate for U.S. Dollars commencing on such Reset Date (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternate Source, a comparable replacement rate determined by the Bank at such time (which determination shall be conclusive absent manifest error)), by (ii) a number equal to 1.00 minus the LIBOR Reserve Percentage.

“**LIBOR Reserve Percentage**” shall mean 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**”).

“Reset Date” shall mean (i) the date of this Note, and (ii) subject to the proviso below, the 28th day of every month thereafter, provided that: (a) if any such day is not a Business Day, then the first succeeding day that is a Business Day shall instead apply, unless that day falls in the next succeeding calendar month, in which case the next preceding day that is a Business Day shall instead apply, and (b) if any such day is a day of a calendar month for which there is no numerically corresponding day in certain other months (each, a **“Non-Conforming Month”**), then any Reset Date that falls within a Non-Conforming Month shall be the last day of such Non-Conforming Month.

LIBOR shall be adjusted on and as of (a) each Reset Date, and (b) the effective date of any change in the LIBOR Reserve Percentage. The Bank shall give prompt notice to the Borrower of LIBOR as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

If the Bank determines (which determination shall be final and conclusive) that, by reason of circumstances affecting the eurodollar market generally, deposits in dollars (in the applicable amounts) are not being offered to banks in the eurodollar market for the selected term, or adequate means do not exist for ascertaining LIBOR, then the Bank shall give notice thereof to the Borrower. Thereafter, until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, (a) the availability of LIBOR shall be suspended, and (b) the interest rate for all amounts outstanding under this Note shall be converted on the next succeeding Reset Date to a rate of interest per annum equal to (A) the Prime Rate plus (B) the Applicable Margin for Base Rate Loans (as defined in the Loan Agreement) (the **“Base Rate”**). For purposes hereof, the term **“Prime Rate”** shall mean the rate publicly announced by the Bank from time to time as its prime rate. The Prime Rate is determined from time to time by the Bank as a means of pricing some loans to its borrowers. The Prime Rate is not tied to any external rate of interest or index, and does not necessarily reflect the lowest rate of interest actually charged by the Bank to any particular class or category of customers. If and when the Prime Rate changes, the rate of interest with respect to any amounts hereunder to which the Base Rate applies will change automatically without notice to the Borrower, effective on the date of any such change.

In addition, if, after the date of this Note, the Bank shall determine (which determination shall be final and conclusive) that any enactment, promulgation or adoption of or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by a governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any guideline, request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for the Bank to make or maintain or fund loans based on LIBOR, the Bank shall notify the Borrower. Upon receipt of such notice, until the Bank notifies the Borrower that the circumstances giving rise to such determination no longer apply, (a) the availability of LIBOR shall be suspended, and (b) the interest rate on all amounts outstanding under this Note shall be converted to the Base Rate either (i) on the next succeeding Reset Date if the Bank may lawfully continue to maintain or fund loans based on LIBOR to such day, or (ii) immediately if the Bank may not lawfully continue to maintain or fund loans based on LIBOR.

Payment Terms. Principal shall be due and payable in sixty (60) equal consecutive monthly installments in the amount of \$250,000 each, commencing on the first Reset Date after the date of this Note, and continuing on each succeeding Reset Date thereafter. Interest shall be payable at the same times as the principal payments. Any outstanding principal and accrued interest shall be due and payable in full on September 28, 2017 (the “**Maturity Date**”).

If any payment under this Note shall become due on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing interest in connection with such payment. The Borrower hereby authorizes the Bank to charge the Borrower’s deposit account at the Bank for any payment when due hereunder. Payments received will be applied to charges, fees and expenses (including attorneys’ fees), accrued interest and principal in any order the Bank may choose, in its sole discretion.

Late Payments; Default Rate. If the Borrower fails to make any payment of principal, interest or other amount coming due pursuant to the provisions of this Note within fifteen (15) calendar days of the date due and payable, the Borrower also shall pay to the Bank a late charge equal to the lesser of five percent (5%) of the amount of such payment or \$100.00 (the “**Late Charge**”). Such fifteen (15) day period shall not be construed in any way to extend the due date of any such payment. Upon maturity, whether by acceleration, demand or otherwise, and at the Bank’s option upon the occurrence of any Event of Default (as hereinafter defined) and during the continuance thereof, amounts outstanding under this Note shall bear interest at a rate per annum (based on the actual number of days that principal is outstanding over a year of 360 days) which shall be three percentage points (3%) in excess of the interest rate then in effect until the next succeeding Reset Date, and three percentage points (3%) in excess of the Base Rate at all times thereafter (or in the case of an Event of Default, until such time that such Event of Default has been cured by the Borrower or waived by the Bank), but in any such event not more than the maximum rate allowed by law (the “**Default Rate**”). The Default Rate shall continue to apply whether or not judgment shall be entered on this Note. Both the Late Charge and the Default Rate are imposed as liquidated damages for the purpose of defraying the Bank’s expenses incident to the handling of delinquent payments, but are in addition to, and not in lieu of, the Bank’s exercise of any rights and remedies hereunder, under the other Loan Documents or under applicable law, and any fees and expenses of any agents or attorneys which the Bank may employ. In addition, the Default Rate reflects the increased credit risk to the Bank of carrying a loan that is in default. The Borrower agrees that the Late Charge and Default Rate are reasonable forecasts of just compensation for anticipated and actual harm incurred by the Bank, and that the actual harm incurred by the Bank cannot be estimated with certainty and without difficulty.

Prepayment. The Borrower shall have the right to prepay any amount hereunder at any time and from time to time, in whole or in part; subject, however, to payment of any break funding indemnification amounts owing pursuant to paragraph 5 below.

Yield Protection; Break Funding Indemnification. The Borrower shall pay to the Bank on receipt of written demand therefor, together with written evidence of the Bank's justification therefor, all direct costs incurred, losses suffered or payments made by the Bank by reason of any Change in Law or imposing any reserve, deposit, allocation of capital, or similar requirement (including without limitation, Regulation D of the Board of Governors of the Federal Reserve System) on the Bank, its holding company or any of their respective assets relative to the Facility. "**Change in Law**" means the occurrence, after the date of this Note, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any governmental authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any governmental authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines, interpretations or directives thereunder or issued in connection therewith (whether or not having the force of law) and (y) all requests, rules, regulations, guidelines, interpretations or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities (whether or not having the force of law), in each case pursuant to Basel III, shall in each case be deemed to be a change in law regardless of the date enacted, adopted, issued, promulgated or implemented. In addition, the Borrower agrees to indemnify the Bank against any liabilities, losses or expenses (including, without limitation, loss of margin, any loss or expense sustained or incurred in liquidating or employing deposits from third parties, and any loss or expense incurred in connection with funds acquired to effect, fund or maintain any amounts hereunder (or any part thereof) bearing interest based on LIBOR) which the Bank sustains or incurs as a consequence of either (i) the Borrower's failure to make a payment on the due date thereof, (ii) the Borrower's revocation (expressly, by later inconsistent notices or otherwise) in whole or in part of any notice given to the Bank to request, convert, renew or prepay any amounts bearing interest based on LIBOR, or (iii) the Borrower's payment or prepayment (whether voluntary, after acceleration of the maturity of this Note or otherwise) or conversion of any amounts bearing interest based on LIBOR on a day other than the regularly scheduled due date therefor. A notice as to any amounts payable pursuant to this paragraph given to the Borrower by the Bank shall, in the absence of manifest error, be conclusive and shall be payable upon demand. The Borrower's indemnification obligations hereunder shall survive the payment in full of all amounts payable hereunder.

Other Loan Documents. This Note is issued in connection with a loan agreement between the Borrower and the Bank, dated as of the date hereof (as amended, modified or renewed from time to time, the "**Loan Agreement**"), and the other agreements and documents executed and/or delivered in connection therewith or referred to therein, the terms of which are incorporated herein by reference (as amended, modified or renewed from time to time, collectively the "**Loan Documents**"), and is secured by the property (if any) described in the Loan Documents and by such other collateral as previously may have been or may in the future be granted to the Bank to secure this Note.

Events of Default. The occurrence of any of the following events will be deemed to be an “**Event of Default**” under this Note: (i) the nonpayment of any principal when due, or the nonpayment of any interest or other indebtedness under this Note within three (3) days of when due; (ii) the occurrence of any event of default or any default and the lapse of any notice or cure period under or contained in any Loan Document or any other agreement or instrument now or in the future evidencing or securing any debt, liability or obligation of any Obligor to the Bank; (iii) the filing by or against any Obligor of any proceeding in bankruptcy, receivership, insolvency, reorganization, liquidation, conservatorship or similar proceeding (and, in the case of any such proceeding instituted against any Obligor, such proceeding is not dismissed or stayed within 60 days of the commencement thereof, provided that the Bank shall not be obligated to advance additional funds hereunder during such period); (iv) any assignment by any Obligor for the benefit of creditors, or any levy, garnishment, attachment or similar proceeding is instituted against any property of any Obligor held by or deposited with the Bank; (v) a default with respect to any other indebtedness of any Obligor for borrowed money having a then-outstanding principal amount in excess of \$100,000, if the effect of such default is to cause or permit the acceleration of such debt; (vi) the commencement of any foreclosure or forfeiture proceeding, execution or attachment against any collateral securing the obligations of any Obligor to the Bank; (vii) the entry of a final, non-appealable judgment or judgments, that individually or in the aggregate exceed \$100,000, against any Obligor and the failure of such Obligor to discharge the judgment within thirty (30) days of the entry thereof; (viii) any material adverse change in any Obligor’s business, assets, operations, financial condition or results of operations; (ix) any Obligor ceases doing business as a going concern; (x) any representation or warranty made or furnished by any Obligor to the Bank in connection with any Loan Document is false, incorrect or incomplete in any material respect when made; (xi) the termination or attempted termination, in whole or in part, of any guarantee by any Obligor (unless such guarantee specifies therein an expiration date and such termination is after such specified expiration date has occurred); or (xii) the death, incarceration, indictment or legal incompetency of any individual Obligor or, if any Obligor is a partnership or limited liability company, the death, incarceration, indictment or legal incompetency of any individual general partner; provided that no event described in clause (xii) hereof shall constitute an Event of Default if within sixty (60) days of such event the Borrower shall provide to the Bank a confirmation from such individual’s estate of its liability for the Obligor’s obligations or cash collateral in an amount equal to the amount of credit support provided by such Obligor. As used herein, the term “**Obligor**” means any Borrower and any guarantor of, or any pledgor, mortgagor or other person or entity providing collateral support for, the Borrower’s obligations to the Bank existing on the date of this Note or arising in the future.

Upon the occurrence of an Event of Default: (a) the Bank shall be under no further obligation to make advances hereunder; (b) if an Event of Default specified in clause (iii) or (iv) above shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder shall be immediately due and payable without demand or notice of any kind; (c) if any other Event of Default shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder, at the Bank’s option and without demand or notice of any kind, may be accelerated and become immediately due and payable; (d) at the Bank’s option, this Note will bear interest at the Default Rate from the date of the occurrence of the Event of Default; and (e) the Bank may exercise from time to time any of the rights and remedies available under the Loan Documents or under applicable law. The Bank shall notify the Borrower promptly of any acceleration pursuant to subclause (c), provided that the failure to give such notice shall not affect the validity of such acceleration.

Power to Confess Judgment. The Borrower hereby empowers any attorney of any court of record, after the occurrence of any Event of Default hereunder, to appear for the Borrower and, with or without complaint filed, confess judgment, or a series of judgments, against the Borrower in favor of the Bank or any holder hereof for the entire principal balance of this Note, all accrued interest and all other amounts due hereunder, together with costs of suit and an attorney's commission of the greater of 10% of such principal and interest or \$1,000 added as a reasonable attorney's fee, and for doing so, this Note or a copy verified by affidavit shall be a sufficient warrant. The Borrower hereby forever waives and releases all errors in said proceedings and all rights of appeal and all relief from any and all appraisal, stay or exemption laws of any state now in force or hereafter enacted. Interest on any such judgment shall accrue at the Default Rate.

No single exercise of the foregoing power to confess judgment, or a series of judgments, shall be deemed to exhaust the power, whether or not any such exercise shall be held by any court to be invalid, voidable, or void, but the power shall continue undiminished and it may be exercised from time to time as often as the Bank shall elect until such time as the Bank shall have received payment in full of the debt, interest and costs. Notwithstanding the attorney's commission provided for in the preceding paragraph (which is included in the warrant for purposes of establishing a sum certain), the amount of attorneys' fees that the Bank may recover from the Borrower shall not exceed the actual attorneys' fees incurred by the Bank.

Right of Setoff. In addition to all liens upon and rights of setoff against the Borrower's money, securities or other property given to the Bank by law, the Bank shall have, with respect to the Borrower's obligations to the Bank under this Note and to the extent permitted by law, a contractual possessory security interest in and a contractual right of setoff against, and the Borrower hereby grants the Bank a security interest in, and hereby collaterally assigns, conveys, delivers, pledges and transfers to the Bank, all of the Borrower's right, title and interest in and to, all of the Borrower's deposits, moneys, securities and other property now or hereafter in the possession of or on deposit with, or in transit to, the Bank or any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., whether held in a general or special account or deposit, whether held jointly with someone else, or whether held for safekeeping or otherwise, excluding, however, all IRA, Keogh, and trust accounts. Every such security interest and right of setoff may be exercised without demand upon or notice to the Borrower. Every such right of setoff shall be deemed to have been exercised 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.

Anti-Money Laundering/International Trade Law Compliance. The Borrower represents and warrants to the Bank, as of the date of this Note, the date of each advance of proceeds under the Facility, the day of any renewal, extension or modification of the Facility, and at all times until the Facility has been terminated and all amounts thereunder have been indefeasibly paid in full, that: (a) no Covered Entity (i) is a Sanctioned Person; (ii) has any of its assets in a Sanctioned Country or in the possession, custody or control of a Sanctioned Person; or (iii) does business in or with, or derives any of its operating income from investments in or transactions with, any Sanctioned Country or Sanctioned Person in violation of any law, regulation, order or directive enforced by any Compliance Authority; (b) the proceeds of the Facility will not be used to fund any operations in, finance any investments or activities in, or, make any payments to, a Sanctioned Country or Sanctioned Person in violation of any law, regulation, order or directive enforced by any Compliance Authority; (c) the funds used to repay the Facility are not derived from any unlawful activity; and (d) each Covered Entity is in compliance with, and no Covered Entity engages in any dealings or transactions prohibited by, any Anti-Terrorism Laws. Borrower covenants and agrees that it shall immediately notify the Bank in writing upon the occurrence of a Reportable Compliance Event.

As used herein: “**Anti-Terrorism Laws**” means any laws of the United States relating to terrorism, trade sanctions programs and embargoes, import/export licensing, money laundering, or bribery, all as amended, supplemented or replaced from time to time; “**Compliance Authority**” means each and all of the (a) U.S. Treasury Department/Office of Foreign Assets Control, (b) U.S. Treasury Department/Financial Crimes Enforcement Network, (c) U.S. State Department/Directorate of Defense Trade Controls, (d) U.S. Commerce Department/Bureau of Industry and Security, (e) U.S. Internal Revenue Service/Criminal Investigation, Large Business and International Divisions, (f) U.S. Justice Department, and (g) U.S. Securities and Exchange Commission; “**Covered Entity**” means the Borrower, its affiliates and subsidiaries, all guarantors, pledgors of collateral, all owners of such affiliates, subsidiaries and pledgors, and all brokers and other agents of the Borrower acting in any capacity in connection with the Facility; “**Reportable Compliance Event**” means that any Covered Entity becomes a Sanctioned Person, or is indicted, arraigned, investigated or custodially detained, or receives an inquiry from regulatory or law enforcement officials, in connection with any Anti-Terrorism Law or any predicate crime to any Anti-Terrorism Law, or self-discovers facts or circumstances implicating any aspect of its operations with the actual or possible violation of any Anti-Terrorism Law; “**Sanctioned Country**” means a country subject to a sanctions program maintained by any Compliance Authority; and “**Sanctioned Person**” means any individual person, group, regime, entity or thing listed or otherwise recognized as a specially designated, prohibited, sanctioned or debarred person or entity, or subject to any limitations or prohibitions (including but not limited to the blocking of property or rejection of transactions), under any order or directive of any Compliance Authority or otherwise subject to, or specially designated under, any sanctions program maintained by any Compliance Authority.

Indemnity. The Borrower agrees to indemnify each of the Bank, each legal entity, if any, who controls, is controlled by or is under common control with the Bank, and each of their respective directors, officers and employees (the “**Indemnified Parties**”), and to defend and 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 and 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 Borrower), in connection with or arising out of or relating to the matters referred to in this Note or in the other Loan Documents or the use of any advance hereunder, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Borrower, 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 any 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 Note, payment of any amounts hereunder and the assignment of any rights hereunder. The Borrower may participate at its expense in the defense of any such action or claim.

Miscellaneous. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder (“Notices”) must be in writing (except as may be agreed otherwise above with respect to borrowing requests) and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party’s address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this paragraph. 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 a waiver of any such right or power, nor will the Bank’s action or inaction impair any such right or power. The Bank’s rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity. No modification, amendment or waiver of, or consent to any departure by the Borrower from, any provision of this Note 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. The Borrower agrees to pay on demand, to the extent permitted by law, all costs and expenses incurred by the Bank in the enforcement of its rights in this Note and in any security therefor, including without limitation reasonable fees and expenses of the Bank’s counsel. If any provision of this Note is found to be invalid, illegal or unenforceable in any respect by a court, all the other provisions of this Note will remain in full force and effect. The Borrower and all other makers and indorsers of this Note hereby forever waive presentment, protest, notice of dishonor and notice of non-payment. The Borrower also waives all defenses based on suretyship or impairment of collateral. If this Note is executed by more than one Borrower, the obligations of such persons or entities hereunder will be joint and several. This Note shall bind the Borrower and its heirs, executors, administrators, successors and assigns, and the benefits hereof shall inure to the benefit of the Bank and its successors and assigns; provided, however, that the Borrower may not assign this Note in whole or in part without the Bank’s written consent and the Bank at any time may assign this Note in whole or in part.

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

USA PATRIOT Act Notice. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each Borrower that opens an account. What this means: when the Borrower opens an account, the Bank will ask for the business name, business address, taxpayer identifying number and other information that will allow the Bank to identify the Borrower, such as organizational documents. For some businesses and organizations, the Bank may also need to ask for identifying information and documentation relating to certain individuals associated with the business or organization.

WAIVER OF JURY TRIAL. The Borrower irrevocably waives any and all rights the Borrower may have to a trial by jury in any action, proceeding or claim of any nature relating to this Note, any documents executed in connection with this Note or any transaction contemplated in any of such documents. The Borrower acknowledges that the foregoing waiver is knowing and voluntary .

The Borrower acknowledges that it has read and understood all the provisions of this Note, including the confession of judgment and 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.

ATTEST

ENVIRONMENTAL TECTONICS CORPORATION

By: _____

(SEAL)

Print Name: _____

Print Name: _____

Title: _____

Title : _____

Disclosure for Confession of Judgment

Undersigned: **Environmental Tectonics Corporation**
125 James Way
Southampton, PA 18966

Lender: **PNC Bank, National Association**
1000 Westlakes Drive, Suite 200
Berwyn, PA 19312

The undersigned has executed, and/or is executing, on or about the date hereof, a Term Note in the principal amount of \$15,000,000, under which the undersigned is obligated to repay monies to Lender.

A. The undersigned acknowledges and agrees that the above documents contain provisions under which Lender may enter judgment by confession against the undersigned. Being fully aware of its rights to prior notice and a hearing on the validity of any judgment or other claims that may be asserted against it by Lender thereunder before judgment is entered, the undersigned hereby freely, knowingly and intelligently waives these rights and expressly agrees and consents to Lender’s entering judgment against it by confession pursuant to the terms thereof.

B. The undersigned also acknowledges and agrees that the above documents contain provisions under which Lender may, after entry of judgment and without either notice or a hearing, foreclose upon, attach, levy, take possession of or otherwise seize property of the undersigned in full or partial payment of the judgment. Being fully aware of its rights after judgment is entered (including the right to move to open or strike the judgment), the undersigned hereby freely, knowingly and intelligently waives its rights to notice and a hearing and expressly agrees and consents to Lender’s taking such actions as may be permitted under applicable state and federal law without prior notice to the undersigned.

C. The undersigned certifies that a representative of Lender specifically called the confession of judgment provisions in the above documents to the attention of the undersigned, and/or that the undersigned was represented by legal counsel in connection with the above documents.

D. The undersigned hereby certifies: that its annual income exceeds \$10,000; that all references to “the undersigned” above refer to all persons and entities signing below; and that the undersigned received a copy hereof at the time of signing.

Dated: _____

ENVIRONMENTAL TECTONICS CORPORATION

By: _____ (SEAL)

Print Name _____
Title _____

**Amended and Restated Committed
Line Of Credit Note
(Multi-Rate Options)**



\$15,000,000

September 28, 2012

FOR VALUE RECEIVED, ENVIRONMENTAL TECTONICS CORPORATION (the “**Borrower**”), a Pennsylvania corporation with an address at 125 James Way, Southampton, PA 18966, promises to pay to the order of **PNC BANK, NATIONAL ASSOCIATION** (the “**Bank**”), in lawful money of the United States of America in immediately available funds at its offices located at 1000 Westlakes Drive, Suite 200, Berwyn, PA 19312 or at such other location as the Bank may designate from time to time, the principal sum of **FIFTEEN MILLION DOLLARS** (\$15,000,000) (the “**Facility**”) or such lesser amount as may be advanced to or for the benefit of the Borrower hereunder, together with interest accruing on the outstanding principal balance from the date hereof, all as provided below.

Advances. The Borrower may request advances, repay and request additional advances hereunder until the Expiration Date (as defined in the Loan Agreement referred to below), subject to the terms and conditions of this Note and the Loan Documents (as hereinafter defined). The Borrower acknowledges and agrees that in no event will the Bank be under any obligation to extend or renew the Facility or this Note beyond the Expiration Date. The Borrower may request advances hereunder upon giving oral or written notice to the Bank by 11:00 a.m. (Philadelphia, Pennsylvania time) (a) on the day of the proposed advance, in the case of advances to bear interest under the Base Rate Option (as hereinafter defined) and (b) three (3) Business Days prior to the day of the proposed advance, in the case of advances to bear interest under the LIBOR Option (as hereinafter defined), followed promptly thereafter by the Borrower’s written confirmation to the Bank of any such oral notice. The aggregate unpaid principal amount of advances under this Note at any one time shall not exceed the face amount of this Note.

Rate of Interest. Each advance outstanding under this Note will bear interest at a rate or rates per annum as may be selected by the Borrower from the interest rate options set forth below (each, an “**Option**”):

Base Rate Option. A rate of interest per annum which is at all times equal to (A) the Base Rate plus (B) the Applicable Margin for Base Rate Loans (as defined in the Loan Agreement). If and when the Base Rate (or any component thereof) changes, the rate of interest with respect to any advance to which the Base Rate Option applies will change automatically without notice to the Borrower, effective on the date of any such change. There are no required minimum interest periods for advances bearing interest under the Base Rate Option.

LIBOR Option. A rate per annum equal to (A) LIBOR plus (B) the Applicable Margin for LIBOR Loans (as defined in the Loan Agreement), for the applicable LIBOR Interest Period.

For purposes hereof, the following terms shall have the following meanings:

“**Base Rate**” shall mean the highest of (A) the Prime Rate, and (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**” shall mean any day other than a Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in Philadelphia, Pennsylvania.

“**Daily LIBOR Rate**” shall mean, 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.

“**Federal Funds Open Rate**” shall mean, 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. The rate of interest charged shall be adjusted as of each Business Day based on changes in the Federal Funds Open Rate without notice to the Borrower.

“**LIBOR**” shall mean, with respect to any advance to which the LIBOR Option applies for the applicable LIBOR Interest Period, the interest rate per annum determined by the Bank by dividing (the resulting quotient rounded upwards, at the Bank’s discretion, to the nearest 1/100th of 1%) (i) the rate of interest determined by the Bank in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the eurodollar rate two (2) Business Days prior to the first day of such LIBOR Interest Period for an amount comparable to such advance and having a borrowing date and a maturity comparable to such LIBOR Interest Period by (ii) a number equal to 1.00 minus the LIBOR Reserve Percentage.

“**LIBOR Interest Period**” shall mean, as to any advance to which the LIBOR Option applies, the period of one (1), two (2), three (3) or six (6) months as selected by the Borrower in its notice of borrowing or notice of conversion, as the case may be, commencing on the date of disbursement of an advance (or the date of conversion of an advance to the LIBOR Option, as the case may be) and each successive period selected by the Borrower thereafter; provided that, (i) if a LIBOR Interest Period would end on a day which is not a Business Day, it shall end on the next succeeding Business Day unless such day falls in the next succeeding calendar month in which case the LIBOR Interest Period shall end on the next preceding Business Day, (ii) the Borrower may not select a LIBOR Interest Period that would end on a day after the Expiration Date, and (iii) any LIBOR Interest Period that begins on the last Business Day of a calendar month (or a day for which there is no numerically corresponding day in the last calendar month of such LIBOR Interest Period) shall end on the last Business Day of the last calendar month of such LIBOR Interest Period.

“**LIBOR Reserve Percentage**” shall mean 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”).

“**Prime Rate**” shall mean the rate publicly announced by the Bank from time to time as its prime rate. The Prime Rate is determined from time to time by the Bank as a means of pricing some loans to its borrowers. The Prime Rate is not tied to any external rate of interest or index, and does not necessarily reflect the lowest rate of interest actually charged by the Bank to any particular class or category of customers.

“**Published Rate**” shall mean 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).

LIBOR and the Daily LIBOR Rate shall be adjusted with respect to any advance to which the LIBOR Option or Base Rate Option applies, as applicable, on and as of the effective date of any change in the LIBOR Reserve Percentage. The Bank shall give prompt notice to the Borrower of LIBOR or the Daily LIBOR Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

If the Bank determines (which determination shall be final and conclusive) that, by reason of circumstances affecting the eurodollar market generally, deposits in dollars (in the applicable amounts) are not being offered to banks in the eurodollar market for the selected term, or adequate means do not exist for ascertaining LIBOR, then the Bank shall give notice thereof to the Borrower. Thereafter, until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, (a) the availability of the LIBOR Option shall be suspended, and (b) the interest rate for all advances then bearing interest under the LIBOR Option shall be converted at the expiration of the then current LIBOR Interest Period(s) to the Base Rate Option.

In addition, if, after the date of this Note, the Bank shall determine (which determination shall be final and conclusive) that any enactment, promulgation or adoption of or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by a governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any guideline, request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for the Bank to make or maintain or fund loans based on LIBOR, the Bank shall notify the Borrower. Upon receipt of such notice, until the Bank notifies the Borrower that the circumstances giving rise to such determination no longer apply, (a) the availability of the LIBOR Option shall be suspended, and (b) the interest rate on all advances then bearing interest under the LIBOR Option shall be converted to the Base Rate Option either (i) on the last day of the then current LIBOR Interest Period(s) if the Bank may lawfully continue to maintain advances based on LIBOR to such day, or (ii) immediately if the Bank may not lawfully continue to maintain advances based on LIBOR.

The foregoing notwithstanding, it is understood that the Borrower may select different Options to apply simultaneously to different portions of the advances and may select up to four (4) different interest periods to apply simultaneously to different portions of the advances bearing interest under the LIBOR Option. Interest hereunder will be calculated based on the actual number of days that principal is outstanding over a year of 360 days. In no event will the rate of interest hereunder exceed the maximum rate allowed by law.

Interest Rate Election. Subject to the terms and conditions of this Note, at the end of each interest period applicable to any advance, the Borrower may renew the Option applicable to such advance or convert such advance to a different Option; provided that, during any period in which any Event of Default (as hereinafter defined) has occurred and is continuing, any advances bearing interest under the LIBOR Option shall, at the Bank's sole discretion, be converted at the end of the applicable LIBOR Interest Period to the Base Rate Option and the LIBOR Option will not be available to Borrower with respect to any new advances (or with respect to the conversion or renewal of any existing advances) until such Event of Default has been cured by the Borrower or waived by the Bank. The Borrower shall notify the Bank of each election of an Option, each conversion from one Option to another, the amount of the advances then outstanding to be allocated to each Option and where relevant the interest periods therefor. In the case of converting to the LIBOR Option, such notice shall be given at least three (3) Business Days prior to the commencement of any LIBOR Interest Period. If no interest period is specified in any such notice for which the resulting advance is to bear interest under the LIBOR Option, the Borrower shall be deemed to have selected a LIBOR Interest Period of one month's duration. If no notice of election, conversion or renewal is timely received by the Bank with respect to any advance, the Borrower shall be deemed to have elected the Base Rate Option. Any such election shall be promptly confirmed in writing by such method as the Bank may require.

Advance Procedures. A request for advance made by telephone or electronic mail must be promptly confirmed in writing by such method as the Bank may require. The Borrower authorizes the Bank to accept telephonic and electronic mail requests for advances, and the Bank shall be entitled to rely upon the authority of any person providing such instructions. The Borrower hereby indemnifies and holds the Bank harmless from and against any and all damages, losses, liabilities, costs and expenses (including reasonable attorneys' fees and expenses) which may arise or be created by the acceptance of such telephone and electronic mail requests or the making of such advances. The Bank will enter on its books and records, which entry when made will be presumed correct, the date and amount of each advance, the interest rate and interest period applicable thereto, as well as the date and amount of each payment.

Payment Terms. The Borrower shall pay accrued interest on the unpaid principal balance of this Note in arrears: (a) for the portion of advances bearing interest under the Base Rate Option, on the first day of each month during the term hereof, (b) for the portion of advances bearing interest under the LIBOR Option, on the last day of the respective LIBOR Interest Period for such advance, (c) if any LIBOR Interest Period is longer than three (3) months, then also on the three (3) month anniversary of the commencement of such interest period and every three (3) months thereafter, and (d) for all advances, at maturity, whether by acceleration of this Note or otherwise, and after maturity, on demand until paid in full. All outstanding principal and accrued interest hereunder shall be due and payable in full on the Expiration Date.

If any payment under this Note shall become due on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing interest in connection with such payment. The Borrower hereby authorizes the Bank to charge the Borrower's deposit account at the Bank for any payment when due hereunder. Payments received will be applied to charges, fees and expenses (including attorneys' fees), accrued interest and principal in any order the Bank may choose, in its sole discretion.

Late Payments; Default Rate. If the Borrower fails to make any payment of principal, interest or other amount coming due pursuant to the provisions of this Note within fifteen (15) calendar days of the date due and payable, the Borrower also shall pay to the Bank a late charge equal to the lesser of five percent (5%) of the amount of such payment or \$100.00 (the "**Late Charge**"). Such fifteen (15) day period shall not be construed in any way to extend the due date of any such payment. Upon maturity, whether by acceleration, demand or otherwise, and at the Bank's option upon the occurrence of any Event of Default (as hereinafter defined) and during the continuance thereof, each advance outstanding under this Note shall bear interest at a rate per annum (based on the actual number of days that principal is outstanding over a year of 360 days) which shall be three percentage points (3%) in excess of the interest rate in effect from time to time under this Note but not more than the maximum rate allowed by law (the "**Default Rate**"). The Default Rate shall continue to apply whether or not judgment shall be entered on this Note. Both the Late Charge and the Default Rate are imposed as liquidated damages for the purpose of defraying the Bank's expenses incident to the handling of delinquent payments, but are in addition to, and not in lieu of, the Bank's exercise of any rights and remedies hereunder, under the other Loan Documents or under applicable law, and any fees and expenses of any agents or attorneys which the Bank may employ. In addition, the Default Rate reflects the increased credit risk to the Bank of carrying a loan that is in default. The Borrower agrees that the Late Charge and Default Rate are reasonable forecasts of just compensation for anticipated and actual harm incurred by the Bank, and that the actual harm incurred by the Bank cannot be estimated with certainty and without difficulty.

Prepayment. The Borrower shall have the right to prepay any advance hereunder at any time and from time to time, in whole or in part; subject, however, to payment of any break funding indemnification amounts owing pursuant to paragraph 8 below.

Yield Protection; Break Funding Indemnification. The Borrower shall pay to the Bank on receipt of written demand therefor, together with written evidence of the Bank's justification therefor, all direct costs incurred, losses suffered or payments made by the Bank by reason of any Change in Law imposing any reserve, deposit, allocation of capital, or similar requirement (including without limitation, Regulation D of the Board of Governors of the Federal Reserve System) on the Bank, its holding company or any of their respective assets relative to the Facility. "**Change in Law**" means the occurrence, after the date of this Note, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any governmental authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any governmental authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines, interpretations or directives thereunder or issued in connection therewith (whether or not having the force of law) and (y) all requests, rules, regulations, guidelines, interpretations or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities (whether or not having the force of law), in each case pursuant to Basel III, shall in each case be deemed to be a Change in Law regardless of the date enacted, adopted, issued, promulgated or implemented. In addition, the Borrower agrees to indemnify the Bank against any liabilities, losses or expenses (including, without limitation, loss of margin, any loss or expense sustained or incurred in liquidating or employing deposits from third parties, and any loss or expense incurred in connection with funds acquired to effect, fund or maintain any advance (or any part thereof) bearing interest under the LIBOR Option) which the Bank sustains or incurs as a consequence of either (i) the Borrower's failure to make a payment on the due date thereof, (ii) the Borrower's revocation (expressly, by later inconsistent notices or otherwise) in whole or in part of any notice given to the Bank to request, convert, renew or prepay any advance bearing interest under the LIBOR Option, or (iii) the Borrower's payment or prepayment (whether voluntary, after acceleration of the maturity of this Note or otherwise) or conversion of any advance bearing interest under the LIBOR Option on a day other than the last day of the applicable LIBOR Interest Period. A notice as to any amounts payable pursuant to this paragraph given to the Borrower by the Bank shall, in the absence of manifest error, be conclusive and shall be payable upon demand. The Borrower's indemnification obligations hereunder shall survive the payment in full of the advances and all other amounts payable hereunder.

Other Loan Documents. This Note is issued in connection with a loan agreement between the Borrower and the Bank, dated as of the date hereof (as amended, modified or renewed from time to time, the "**Loan Agreement**"), and the other agreements and documents executed and/or delivered in connection therewith or referred to therein, the terms of which are incorporated herein by reference (as amended, modified or renewed from time to time, collectively the "**Loan Documents**"), and is secured by the property (if any) described in the Loan Documents and by such other collateral as previously may have been or may in the future be granted to the Bank to secure this Note.

Events of Default. The occurrence of any of the following events will be deemed to be an “**Event of Default**” under this Note: (i) the nonpayment of any principal when due, or the nonpayment of any interest or other indebtedness under this Note within three (3) days of when due; (ii) the occurrence of any event of default or any default and the lapse of any notice or cure period, under or contained in any Loan Document or any other agreement or instrument now or in the future evidencing or securing any debt, liability or obligation of any Obligor to the Bank; (iii) the filing by or against any Obligor of any proceeding in bankruptcy, receivership, insolvency, reorganization, liquidation, conservatorship or similar proceeding (and, in the case of any such proceeding instituted against any Obligor, such proceeding is not dismissed or stayed within 60 days of the commencement thereof, provided that the Bank shall not be obligated to advance additional funds hereunder during such period); (iv) any assignment by any Obligor for the benefit of creditors, or any levy, garnishment, attachment or similar proceeding is instituted against any property of any Obligor held by or deposited with the Bank; (v) a default with respect to any other indebtedness of any Obligor for borrowed money having a then-outstanding principal amount in excess of \$100,000, if the effect of such default is to cause or permit the acceleration of such debt; (vi) the commencement of any foreclosure or forfeiture proceeding, execution or attachment against any collateral securing the obligations of any Obligor to the Bank; (vii) the entry of a final, non-appealable judgment or judgments, that individually or in the aggregate exceed \$100,000, against any Obligor and the failure of such Obligor to discharge the judgment within thirty (30) days of the entry thereof; (viii) any material adverse change in any Obligor’s business, assets, operations, financial condition or results of operations; (ix) any Obligor ceases doing business as a going concern; (x) any representation or warranty made or furnished by any Obligor to the Bank in connection with any Loan Document is false, incorrect or incomplete in any material respect when made; (xi) the termination or attempted termination, in whole or in part, of any guarantee by any Obligor (unless such guarantee specifies therein an expiration date and such termination is after such specified expiration date has occurred); or (xii) the death, incarceration, indictment or legal incompetency of any individual Obligor or, if any Obligor is a partnership or limited liability company, the death, incarceration, indictment or legal incompetency of any individual general partner or member; provided that no event described in clause (xii) hereof shall constitute an Event of Default if within sixty (60) days of such event the Borrower shall provide to the Bank a confirmation from such individual’s estate of its liability for the Obligor’s obligations or cash collateral in an amount equal to the amount of credit support provided by such Obligor. As used herein, the term “**Obligor**” means any Borrower and any guarantor of, or any pledgor, mortgagor or other person or entity providing collateral support for, the Borrower’s obligations to the Bank existing on the date of this Note or arising in the future.

Upon the occurrence of an Event of Default: (a) the Bank shall be under no further obligation to make advances hereunder; (b) if an Event of Default specified in clause (iii) or (iv) above shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder shall be immediately due and payable without demand or notice of any kind; (c) if any other Event of Default shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder, at the Bank’s option and without demand or notice of any kind, may be accelerated and become immediately due and payable; (d) at the Bank’s option, this Note will bear interest at the Default Rate from the date of the occurrence of the Event of Default; and (e) the Bank may exercise from time to time any of the rights and remedies available under the Loan Documents or under applicable law. The Bank shall notify the Borrower promptly of any acceleration pursuant to subclause (c), provided that the failure to give such notice shall not affect the validity of such acceleration.

Power to Confess Judgment. The Borrower hereby empowers any attorney of any court of record, after the occurrence of any Event of Default hereunder, to appear for the Borrower and, with or without complaint filed, confess judgment, or a series of judgments, against the Borrower in favor of the Bank or any holder hereof for the entire principal balance of this Note, all accrued interest and all other amounts due hereunder, together with costs of suit and an attorney's commission of the greater of 10% of such principal and interest or \$1,000 added as a reasonable attorney's fee, and for doing so, this Note or a copy verified by affidavit shall be a sufficient warrant. The Borrower hereby forever waives and releases all errors in said proceedings and all rights of appeal and all relief from any and all appraisal, stay or exemption laws of any state now in force or hereafter enacted. Interest on any such judgment shall accrue at the Default Rate .

No single exercise of the foregoing power to confess judgment, or a series of judgments, shall be deemed to exhaust the power, whether or not any such exercise shall be held by any court to be invalid, voidable, or void, but the power shall continue undiminished and it may be exercised from time to time as often as the Bank shall elect until such time as the Bank shall have received payment in full of the debt, interest and costs. Notwithstanding the attorney's commission provided for in the preceding paragraph (which is included in the warrant for purposes of establishing a sum certain), the amount of attorneys' fees that the Bank may recover from the Borrower shall not exceed the actual attorneys' fees incurred by the Bank.

Right of Setoff. In addition to all liens upon and rights of setoff against the Borrower's money, securities or other property given to the Bank by law, the Bank shall have, with respect to the Borrower's obligations to the Bank under this Note and to the extent permitted by law, a contractual possessory security interest in and a contractual right of setoff against, and the Borrower hereby grants the Bank a security interest in, and hereby collaterally assigns, conveys, delivers, pledges and transfers to the Bank, all of the Borrower's right, title and interest in and to, all of the Borrower's deposits, moneys, securities and other property now or hereafter in the possession of or on deposit with, or in transit to, the Bank or any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., whether held in a general or special account or deposit, whether held jointly with someone else, or whether held for safekeeping or otherwise, excluding, however, all IRA, Keogh, and trust accounts. Every such security interest and right of setoff may be exercised without demand upon or notice to the Borrower. Every such right of setoff shall be deemed to have been exercised 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.

Anti-Money Laundering/International Trade Law Compliance. The Borrower represents and warrants to the Bank, as of the date of this Note, the date of each advance of proceeds under the Facility, the date of any renewal, extension or modification of the Facility, and at all times until the Facility has been terminated and all amounts thereunder have been indefeasibly paid in full, that: (a) no Covered Entity (i) is a Sanctioned Person; (ii) has any of its assets in a Sanctioned Country or in the possession, custody or control of a Sanctioned Person; or (iii) does business in or with, or derives any of its operating income from investments in or transactions with, any Sanctioned Country or Sanctioned Person in violation of any law, regulation, order or directive enforced by any Compliance Authority; (b) the proceeds of the Facility will not be used to fund any operations in, finance any investments or activities in, or, make any payments to, a Sanctioned Country or Sanctioned Person in violation of any law, regulation, order or directive enforced by any Compliance Authority; (c) the funds used to repay the Facility are not derived from any unlawful activity; and (d) each Covered Entity is in compliance with, and no Covered Entity engages in any dealings or transactions prohibited by, any Anti-Terrorism Laws. Borrower covenants and agrees that it shall immediately notify the Bank in writing upon the occurrence of a Reportable Compliance Event.

As used herein: “**Anti-Terrorism Laws**” means any laws of the United States relating to terrorism, trade sanctions programs and embargoes, import/export licensing, money laundering, or bribery, all as amended, supplemented or replaced from time to time; “**Compliance Authority**” means each and all of the (a) U.S. Treasury Department/Office of Foreign Assets Control, (b) U.S. Treasury Department/Financial Crimes Enforcement Network, (c) U.S. State Department/Directorate of Defense Trade Controls, (d) U.S. Commerce Department/Bureau of Industry and Security, (e) U.S. Internal Revenue Service/Criminal Investigation, Large Business and International Divisions, (f) U.S. Justice Department, and (g) U.S. Securities and Exchange Commission; “**Covered Entity**” means the Borrower, its affiliates and subsidiaries, all guarantors, pledgors of collateral, all owners of such affiliates, subsidiaries and pledgors, and all brokers or other agents of the Borrower acting in any capacity in connection with the Facility; “**Reportable Compliance Event**” means that any Covered Entity becomes a Sanctioned Person, or is indicted, arraigned, investigated or custodially detained, or receives an inquiry from regulatory or law enforcement officials, in connection with any Anti-Terrorism Law or any predicate crime to any Anti-Terrorism Law, or self-discovers facts or circumstances implicating any aspect of its operations with the actual or possible violation of any Anti-Terrorism Law; “**Sanctioned Country**” means a country subject to a sanctions program maintained by any Compliance Authority; and “**Sanctioned Person**” means any individual person, group, regime, entity or thing listed or otherwise recognized as a specially designated, prohibited, sanctioned or debarred person or entity, or subject to any limitations or prohibitions (including but not limited to the blocking of property or rejection of transactions), under any order or directive of any Compliance Authority or otherwise subject to, or specially designated under, any sanctions program maintained by any Compliance Authority.

Indemnity. The Borrower agrees to indemnify each of the Bank, each legal entity, if any, who controls, is controlled by or is under common control with the Bank, and each of their respective directors, officers and employees (the “**Indemnified Parties**”), and to defend and 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 and 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 Borrower), in connection with or arising out of or relating to the matters referred to in this Note or in the other Loan Documents or the use of any advance hereunder, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Borrower, 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 any 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 Note, payment of any advance hereunder and the assignment of any rights hereunder. The Borrower may participate at its expense in the defense of any such action or claim.

Miscellaneous. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder (“Notices”) must be in writing (except as may be agreed otherwise above with respect to borrowing requests) and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party’s address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this paragraph. 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 a waiver of any such right or power, nor will the Bank’s action or inaction impair any such right or power. The Bank’s rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity. No modification, amendment or waiver of, or consent to any departure by the Borrower from, any provision of this Note 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. The Borrower agrees to pay on demand, to the extent permitted by law, all costs and expenses incurred by the Bank in the enforcement of its rights in this Note and in any security therefor, including without limitation reasonable fees and expenses of the Bank’s counsel. If any provision of this Note is found to be invalid, illegal or unenforceable in any respect by a court, all the other provisions of this Note will remain in full force and effect. The Borrower and all other makers and indorsers of this Note hereby forever waive presentment, protest, notice of dishonor and notice of non-payment. The Borrower also waives all defenses based on suretyship or impairment of collateral. If this Note is executed by more than one Borrower, the obligations of such persons or entities hereunder will be joint and several. This Note shall bind the Borrower and its heirs, executors, administrators, successors and assigns, and the benefits hereof shall inure to the benefit of the Bank and its successors and assigns; provided, however, that the Borrower may not assign this Note in whole or in part without the Bank’s written consent and the Bank at any time may assign this Note in whole or in part.

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

USA PATRIOT Act Notice. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each Borrower that opens an account. What this means: when the Borrower opens an account, the Bank will ask for the business name, business address, taxpayer identifying number and other information that will allow the Bank to identify the Borrower, such as organizational documents. For some businesses and organizations, the Bank may also need to ask for identifying information and documentation relating to certain individuals associated with the business or organization.

WAIVER OF JURY TRIAL. The Borrower irrevocably waives any and all rights the Borrower may have to a trial by jury in any action, proceeding or claim of any nature relating to this Note, any documents executed in connection with this Note or any transaction contemplated in any of such documents. The Borrower acknowledges that the foregoing waiver is knowing and voluntary .

Amendment and Restatement. This Note amends and restates, and is in substitution for, that certain Amended and Restated Committed Line of Credit Note dated July 2, 2009 in the original principal amount of \$20,000,000 payable to the Bank (the “Existing Note”). However, subject to the fact that the Borrower’s obligations under this Note and the Existing Note shall be without duplication, this Note shall in no way extinguish, cancel or satisfy Borrower’s unconditional obligation to repay all indebtedness evidenced by the Existing Note or constitute a novation of the Existing Note

The Borrower acknowledges that it has read and understood all the provisions of this Note, including the confession of judgment and the waiver of jury trial, and has been advised by counsel as necessary or appropriate.

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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.

ATTEST

ENVIRONMENTAL TECTONICS CORPORATION

By: _____

(SEAL)

Print Name: _____

Print Name: _____

Title: _____

Title : _____

Disclosure for Confession of Judgment

Undersigned: **Environmental Tectonics Corporation**
125 James Way
Southampton, PA 18966

Lender: **PNC Bank, National Association**
1000 Westlakes Drive, Suite 200
Berwyn, PA 19312

The undersigned has executed, and/or is executing, on or about the date hereof, an Amended and Restated Committed Line of Credit Note in the principal amount of \$15,000,0000 under which the undersigned is obligated to repay monies to Lender.

A. The undersigned acknowledges and agrees that the above documents contain provisions under which Lender may enter judgment by confession against the undersigned. Being fully aware of its rights to prior notice and a hearing on the validity of any judgment or other claims that may be asserted against it by Lender thereunder before judgment is entered, the undersigned hereby freely, knowingly and intelligently waives these rights and expressly agrees and consents to Lender’s entering judgment against it by confession pursuant to the terms thereof.

B. The undersigned also acknowledges and agrees that the above documents contain provisions under which Lender may, after entry of judgment and without either notice or a hearing, foreclose upon, attach, levy, take possession of or otherwise seize property of the undersigned in full or partial payment of the judgment. Being fully aware of its rights after judgment is entered (including the right to move to open or strike the judgment), the undersigned hereby freely, knowingly and intelligently waives its rights to notice and a hearing and expressly agrees and consents to Lender’s taking such actions as may be permitted under applicable state and federal law without prior notice to the undersigned.

C. The undersigned certifies that a representative of Lender specifically called the confession of judgment provisions in the above documents to the attention of the undersigned, and/or that the undersigned was represented by legal counsel in connection with the above documents.

D. The undersigned hereby certifies: that its annual income exceeds \$10,000; that all references to “the undersigned” above refer to all persons and entities signing below; and that the undersigned received a copy hereof at the time of signing.

Dated: _____

ENVIRONMENTAL TECTONICS CORPORATION

By: _____ (SEAL)

Print Name: _____

Title : _____

Security Agreement



THIS SECURITY AGREEMENT (this “**Agreement**”), dated as of September 28, 2012, is made by **ENVIRONMENTAL TECTONICS CORPORATION** (“**Borrower**” and together with any other entity joined hereto in such capacity, each a “**Grantor**” and, collectively, the “**Grantors**”), each with an address at 125 James Way, Southampton, PA 18966, in favor of **PNC BANK, NATIONAL ASSOCIATION** (the “**Bank**”), with an address at 1000 Westlakes Drive, Suite 200, Berwyn, PA 19312.

Recitals

Pursuant to the Loan Agreement, dated as of even date herewith, between the Borrower and the Bank (as amended, supplemented or modified from time to time, the “**Loan Agreement**”; capitalized terms used in this Agreement without definition shall have the meaning given in the Loan Agreement), the Bank has made extensions of credit to the Borrower (collectively, the “**Loans**”).

Under the terms hereof, the Bank desires to obtain and the Grantors desire to grant the Bank security for all of the Obligations (as hereinafter defined).

NOW, THEREFORE, the Grantors and the Bank, intending to be legally bound, hereby agree as follows:

1. Definitions.

(a) “**Collateral**” shall include all personal property of each Grantor, including the following, all whether now owned or hereafter acquired or arising and wherever located: (i) accounts (including health-care-insurance receivables and credit card receivables); (ii) securities entitlements, securities accounts, commodity accounts, commodity contracts and investment property; (iii) deposit accounts; (iv) instruments (including promissory notes); (v) documents (including warehouse receipts); (vi) chattel paper (including electronic chattel paper and tangible chattel paper); (vii) inventory, including raw materials, work in process, or materials used or consumed in any Grantor’s business, items held for sale or lease or furnished or to be furnished under contracts of service, sale or lease, goods that are returned, reclaimed or repossessed; (viii) goods of every nature, including stock-in-trade, goods on consignment, standing timber that is to be cut and removed under a conveyance or contract for sale, the unborn young of animals, crops grown, growing, or to be grown, manufactured homes, computer programs embedded in such goods and farm products; (ix) equipment, including machinery, vehicles and furniture; (x) fixtures; (xi) agricultural liens; (xii) as-extracted collateral; (xiii) commercial tort claims, if any, described on Exhibit “A” hereto; (xiv) letter of credit rights; (xv) general intangibles, of every kind and description, including payment intangibles, software, computer information, source codes, object codes, records and data, all existing and future customer lists, choses in action, claims (including claims for indemnification or breach of warranty), books, records, patents and patent applications, copyrights, trademarks, tradenames, tradestyles, trademark applications, goodwill, blueprints, drawings, designs and plans, trade secrets, contracts, licenses, license agreements, formulae, tax and any other types of refunds, returned and unearned insurance premiums, rights and claims under insurance policies; (xvi) all supporting obligations of all of the foregoing property; (xvii) all property of each Grantor now or hereafter in the Bank’s possession or in transit to or from, or under the custody or control of, the Bank or any affiliate thereof; (xviii) all cash and cash equivalents thereof; and (xix) all cash and noncash proceeds (including insurance proceeds) of all of the foregoing property, all products thereof and all additions and accessions thereto, substitutions therefor and replacements thereof; provided, however, that the collateral consisting of equity interests in a Grantor’s Subsidiaries shall be as set forth in, and subject to the limitations of, the Pledge Agreement. The Collateral shall also include any and all other tangible or intangible property that is described as being part of the Collateral pursuant to one or more Riders to Security Agreement that may be attached hereto or delivered in connection herewith, including the Rider to Security Agreement – Copyrights, the Rider to Security Agreement - Patents, and the Rider to Security Agreement – Trademarks.

(b) **“Obligations”** shall include the Loans, the Notes, and all other loans, advances, debts, liabilities, obligations, covenants and duties owing by any Grantor to the Bank or to any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to any Grantor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, whether or not (i) evidenced by any note, guaranty or other instrument, (ii) arising under any agreement, instrument or document, (iii) for the payment of money, (iv) arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, (v) under any interest or currency swap, future, option or other interest rate protection or similar agreement, (vi) under or by reason of any foreign currency transaction, forward, option or other similar transaction providing for the purchase of one currency in exchange for the sale of another currency, or in any other manner, (vii) arising out of overdrafts on deposit or other accounts or out of electronic funds transfers (whether by wire transfer or through automated clearing houses or otherwise) or out of the return unpaid of, or other failure of the Bank to receive final payment for, any check, item, instrument, payment order or other deposit or credit to a deposit or other account, or out of the Bank’s non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository or other similar arrangements; and any amendments, extensions, renewals and increases of or to any of the foregoing, and all costs and expenses of the Bank incurred in the documentation, negotiation, modification, enforcement, collection and otherwise in connection with any of the foregoing, including reasonable attorneys’ fees and expenses.

(c) **“UCC”** means the Uniform Commercial Code, as adopted and enacted and as in effect from time to time in the Commonwealth of Pennsylvania. Terms used herein which are defined in the UCC and not otherwise defined herein shall have the respective meanings ascribed to such terms in the UCC. To the extent the definition of any category or type of collateral is modified by any amendment, modification or revision to the UCC, such modified definition will apply automatically as of the date of such amendment, modification or revision.

2. **Grant of Security Interest.** To secure the Obligations, each Grantor, as debtor, hereby assigns and grants to the Bank, as secured party, a continuing lien on and security interest in the Collateral.

3. **Change in Name or Locations.** Each Grantor hereby agrees that if the location of the Collateral changes from the locations listed on Exhibit “A” hereto and made part hereof, or if any Grantor changes its name, its type of organization, its state of organization (if such Grantor is a registered organization), its chief executive office (if such Grantor is a general partnership or non-registered organization) or establishes a name in which it may do business that is not listed as a tradename on Exhibit “A” hereto, the Grantors will immediately notify the Bank in writing of the additions or changes.

4. **Representations and Warranties.** Each Grantor represents, warrants and covenants to the Bank that: (a) all information, including its type of organization, jurisdiction of organization and chief executive office are as set forth on Exhibit “A” hereto and are true and correct on the date hereof; (b) the Grantors have good, marketable and indefeasible title to the Collateral, have not made any prior sale, pledge, encumbrance, assignment or other disposition of any of the Collateral, and the Collateral is free from all encumbrances and rights of setoff of any kind except, in each case, the lien in favor of the Bank created by this Agreement and Permitted Liens (as defined in the Loan Agreement); (c) except as herein provided, no Grantor will hereafter without the Bank’s prior written consent sell, pledge, encumber, assign or otherwise dispose of any of the Collateral (except for sales of inventory and collections of accounts in such Grantor’s ordinary course of business) or permit any right of setoff, lien or security interest to exist thereon except liens to the Bank and Permitted Liens; (d) the Grantors will defend the Collateral against all claims and demands of all persons at any time claiming the same or any interest therein; (e) each account and general intangible, if included in the definition of Collateral, is genuine and enforceable in accordance with its terms (subject to allowances for doubtful accounts) and the Grantors will defend the same against all claims, demands, setoffs and counterclaims at any time asserted; and (f) at the time any account or general intangible becomes subject to this Agreement, such account or general intangible will be a good and valid account representing a bona fide sale of goods or services by a Grantor and such goods will have been shipped to the respective account debtors or the services will have been performed for the respective account debtors. .

5. **Grantors' Covenants.** Each Grantor covenants that it shall:

(a) from time to time and at all reasonable times allow the Bank, by or through any of its officers, agents, attorneys, or accountants, to examine or inspect the Collateral, and obtain valuations and audits of the Collateral, at the Grantors' expense, wherever located. Each Grantor shall do, obtain, make, execute and deliver all such additional and further acts, things, deeds, assurances and instruments as the Bank may require to vest in and assure to the Bank its rights hereunder and in or to the Collateral, and the proceeds thereof, including waivers from landlords, warehousemen and mortgagees. Each Grantor agrees that the Bank has the right to notify (on invoices or otherwise) account debtors and other obligors or payors on any Collateral of (i) its assignment to the Bank, and (ii) that all payments thereon should be made directly to the Bank, and that the Bank has full power and authority to collect, compromise, endorse, sell or otherwise deal with the Collateral in its own name or that of any Grantor at any time upon an Event of Default;

(b) keep the Collateral in good order and repair at all times, ordinary wear and tear excepted, and immediately notify the Bank of any event causing a material loss or decline in value of the Collateral, whether or not covered by insurance, and the amount of such loss or depreciation;

(c) only use or permit the Collateral to be used in accordance with all applicable federal, state, county and municipal laws and regulations; and

(d) have and maintain insurance at all times with respect to all Collateral against risks of fire (including so-called extended coverage), theft, sprinkler leakage, and other risks (including risk of flood if any Collateral is maintained at a location in a flood hazard zone) as the Bank may require, in such form, in such amount, for such period and written by such companies as may be satisfactory to the Bank in its sole discretion. Each such casualty insurance policy shall contain a standard Lender's Loss Payable Clause issued in favor of the Bank under which all losses thereunder shall be paid to the Bank as the Bank's interests may appear. Such policies shall expressly provide that the requisite insurance cannot be altered or canceled without at least thirty (30) days prior written notice to the Bank and shall insure the Bank notwithstanding the act or neglect of any Grantor. Upon the Bank's demand, each Grantor shall furnish the Bank with duplicate original policies of insurance or such other evidence of insurance as the Bank may require. In the event of failure to provide insurance as herein provided, the Bank may, at its option, obtain such insurance and the Grantors shall pay to the Bank, on demand, the cost thereof. Proceeds of insurance may be applied by the Bank to reduce the Obligations or to repair or replace Collateral, all in the Bank's reasonable discretion.

6. **Negative Pledge: No Transfer.** No Grantor will sell or offer to sell or otherwise transfer or grant or allow the imposition of a lien or security interest upon the Collateral (except for Permitted Liens and sales of inventory and collections of accounts in the Grantors' ordinary course of business), allow any third party to gain control of all or any part of the Collateral, nor use any portion thereof in any manner inconsistent with this Agreement or with the terms and conditions of any policy of insurance thereon.

7. **Covenants for Accounts.**

(a) Each Grantor will, on the Bank's demand, make notations on its books and records showing the Bank's security interest and make available to the Bank shipping and delivery receipts evidencing the shipment of the goods that gave rise to an account, completion certificates or other proof of the satisfactory performance of services that gave rise to an account, a copy of the invoice for each account and copies of any written contract or order from which an account arose. Each Grantor shall promptly notify the Bank if an account becomes evidenced or secured by an instrument or chattel paper and upon the Bank's request, will promptly deliver any such instrument or chattel paper to the Bank, including any letter of credit delivered to a Grantor to support a shipment of inventory by a Grantor.

(b) Each Grantor will promptly advise the Bank whenever an account debtor refuses to retain or returns any goods from the sale of which an account in excess of \$500,000 arose and will comply with any instructions that the Bank may give regarding the sale or other disposition of such returns. From time to time with such frequency as the Bank may request, each Grantor will report to the Bank all credits in excess of \$500,000 given to account debtors on all accounts.

(c) Each Grantor will immediately notify the Bank if any account arises out of contracts with the United States or any department, agency or instrumentality thereof that, in the aggregate with other amounts payable to such Grantor under such contract, exceeds \$500,000, and will execute any instruments and take any steps required by the Bank so that all monies due and to become due under such contract shall be assigned to the Bank and notice of the assignment given to and acknowledged by the appropriate government agency or authority under the Federal Assignment of Claims Act; provided that the Bank shall not exercise its remedies under such assignments except pursuant to Section 10.

(d) At any time after the occurrence of an Event of Default, and without notice to any Grantor, the Bank may direct any persons who are indebted to a Grantor on any Collateral consisting of accounts or general intangibles to make payment directly to the Bank of the amounts due. The Bank is authorized to collect, compromise, endorse and sell any such Collateral in its own name or in any Grantor's name and to give receipts to such account debtors for any such payments and the account debtors will be protected in making such payments to the Bank. Upon the Bank's written request, each Grantor will establish with the Bank and maintain a lockbox account ("**Lockbox**") with the Bank and a depository account(s) ("**Cash Collateral Account**") with the Bank subject to the provisions of this subparagraph and such other related agreements as the Bank may require, and each Grantor shall notify its account debtors to remit payments directly to the Lockbox. Thereafter, funds collected in the Lockbox shall be transferred to the Cash Collateral Account, and funds in the Cash Collateral Account shall be applied by the Bank, daily, to reduce the outstanding Obligations.

8. **Further Assurances.** By its signature hereon, each Grantor hereby irrevocably authorizes the Bank to execute (on behalf of such Grantor) and file against such Grantor one or more financing, continuation or amendment statements pursuant to the UCC in form satisfactory to the Bank, and the Grantors will pay the cost of preparing and filing the same in all jurisdictions in which such filing is deemed by the Bank to be necessary or desirable in order to perfect, preserve and protect its security interests. If required by the Bank, each Grantor will execute all documentation necessary for the Bank to obtain and maintain perfection of its security interests in the Collateral. At the Bank's request, each Grantor will execute, in form satisfactory to the Bank, a Rider to Security Agreement - Copyrights (if any Collateral consists of registered or unregistered copyrights), a Rider to Security Agreement - Patents (if any Collateral consists of patents or patent applications), a Rider to Security Agreement - Trademarks (if any Collateral consists of trademarks, tradenames, tradestyles or trademark applications). If any Collateral consists of letter of credit rights, electronic chattel paper, deposit accounts or supporting obligations not maintained with the Bank or one of its affiliates, or any securities entitlement, securities account, commodities account, commodities contract or other investment property, then at the Bank's request the applicable Grantor will execute, and will cause the depository institution or securities intermediary upon whose books and records the ownership interest of such Grantor in such Collateral appears, to execute such Pledge Agreements, Notification and Control Agreements or other agreements as the Bank deems necessary in order to perfect, prioritize and protect its security interest in such Collateral, in each case in a form satisfactory to the Bank.

9. Events of Default. Each Grantor shall, at the Bank's option, be in default under this Agreement upon the happening of any of the following events or conditions (each, an "**Event of Default**"): (a) any Event of Default (as defined in any of the Obligations); (b) 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; (c) the failure by any Grantor to perform any of its obligations under this Agreement, which failure is not cured within thirty (30) days after its occurrence; (d) any written warranty, representation or statement in connection with this Agreement when made or furnished to the Bank by or on behalf of any Grantor shall be false, incorrect or incomplete in any material respect; (e) an uninsured material loss, theft, damage, or destruction to any of the Collateral, (f) the entry of a final, non-appealable judgment or judgments, that individually or in the aggregate exceed \$100,000, against any Grantor and the failure of such Grantor to discharge the judgment within thirty (30) days of the entry thereof, (g) the entry of any lien (other than a Permitted Lien) against the Collateral, (h) the making of any levy, seizure or attachment of or on the Collateral; (i) the failure of the Bank to have a perfected first priority security interest in the Collateral (subject to Permitted Liens); or (j) any evidence received by the Bank that any Grantor has directly or indirectly been engaged in any type of activity which, in the Bank's discretion, would reasonably be expected to result in the forfeiture of any property of any Grantor to any governmental entity, federal, state or local.

10. Remedies. Upon the occurrence of any such Event of Default and at any time thereafter, the Bank may declare all Obligations secured hereby immediately due and payable and shall have, in addition to any remedies provided herein or by any applicable law or in equity, all the remedies of a secured party under the UCC. The Bank's remedies include, but are not limited to, the right to (a) peaceably by its own means or with judicial assistance enter the Grantors' premises and take possession of the Collateral without prior notice to any Grantor or the opportunity for a hearing, (b) render the Collateral unusable, (c) dispose of the Collateral on any Grantor's premises, (d) require the Grantors to assemble the Collateral and make it available to the Bank at a place designated by the Bank, (e) notify the United States Postal Service to send each Grantor's mail to the Bank and (f) exercise its rights under all assignments made under the Federal Assignment of Claims Act. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Bank will give the Grantors reasonable notice of the time and place of any public sale thereof or of the time after which any private sale or any other intended disposition thereof is to be made. The requirements of commercially reasonable notice shall be met if such notice is sent to the Borrower at least ten (10) days before the time of the intended sale or disposition. Expenses of retaking, holding, preparing for disposition, disposing or the like shall include the Bank's reasonable attorneys' fees and legal expenses, incurred or expended by the Bank to enforce any payment due it under this Agreement either as against any Grantor, or in the prosecution or defense of any action, or concerning any matter growing out of or connection with the subject matter of this Agreement and the Collateral pledged hereunder. Each Grantor waives all relief from all appraisal or exemption laws now in force or hereafter enacted.

- 11. Power of Attorney.** Each Grantor does hereby make, constitute and appoint any officer or agent of the Bank as such Grantor's true and lawful attorney-in-fact, with power to (a) endorse the name of such Grantor or any of such Grantor's officers or agents upon any notes, checks, drafts, money orders, or other instruments of payment or Collateral that may come into the Bank's possession in full or part payment of any Obligations; (b) sue for, compromise, settle and release all claims and disputes with respect to, the Collateral; and (c) sign, for such Grantor, such documentation required by the UCC, or supplemental intellectual property security agreements; granting to such Grantor's said attorney full power to do any and all things necessary to be done in and about the premises as fully and effectually as such Grantor might or could do. Each Grantor hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney is coupled with an interest, and is irrevocable.
- 12. Payment of Expenses.** At its option, the Bank may discharge taxes, liens, security interests or such other encumbrances as may attach to the Collateral, may pay for required insurance on the Collateral and may pay for the maintenance, appraisal or reappraisal, and preservation of the Collateral, as determined by the Bank to be necessary. Each Grantor will reimburse the Bank on demand for any payment so made or any expense incurred by the Bank pursuant to the foregoing authorization, and the Collateral also will secure any advances or payments so made or expenses so incurred by the Bank.
- 13. Notices.** All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ("**Notices**") must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party's address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this section.
- 14. Preservation of Rights.** 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 a waiver of any such right or power, nor will the Bank's action or inaction impair any such right or power. The Bank's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity.
- 15. Illegality.** If any provision contained in this 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 of this Agreement.
- 16. Changes in Writing.** No modification, amendment or waiver of, or consent to any departure by any Grantor 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. No notice to or demand on any Grantor will entitle such Grantor or any other Grantor to any other or further notice or demand in the same, similar or other circumstance.
- 17. Entire Agreement.** This 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 parties with respect to the subject matter hereof.
- 18. Counterparts.** This Agreement may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of signature page to this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart. Any party so executing this Agreement by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

19. **Successors and Assigns.** This Agreement will be binding upon and inure to the benefit of each Grantor and the Bank and their respective heirs, executors, administrators, successors and assigns; provided, however, that no Grantor may assign this Agreement in whole or in part without the Bank's prior written consent and the Bank at any time may assign this Agreement in whole or in part.

20. **Interpretation.** In this Agreement, unless the Bank and the Grantors otherwise agree in writing, the singular includes the plural and the plural the singular; words importing any gender include the other genders; 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"; references to articles, sections (or subdivisions of sections) or exhibits are to those of this Agreement; 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 Agreement. Section headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. Unless otherwise specified in this Agreement, all accounting terms shall be interpreted and all accounting determinations shall be made in accordance with GAAP. If this Agreement is executed by more than one Grantor, the obligations of such persons or entities will be joint and several.

21. **Indemnity.** Each Grantor agrees to indemnify each of the Bank, each legal entity, if any, who controls the Bank and each of their respective directors, officers and employees (the "**Indemnified Parties**") and to defend and 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 and 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 any Grantor), in connection with or arising out of or relating to the matters referred to in this Agreement or the Obligations, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by any Grantor, 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 any 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 Agreement, payment of the Obligations and assignment of any rights hereunder. Each Grantor may participate at its expense in the defense of any such claim.

22. **Governing Law and Jurisdiction.** This Agreement has been delivered to and accepted by the Bank and will be deemed to be made in the Commonwealth of Pennsylvania. **This Agreement will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the Commonwealth of Pennsylvania, except that the laws of the State where any Collateral is located (if not the Commonwealth of Pennsylvania) shall govern the creation, perfection and foreclosure of the liens created hereunder on such property or any interest therein.** Each Grantor hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the county or judicial district where the Bank's office indicated 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 rights against any Grantor individually, against any security or against any property of any Grantor within any other county, state or other foreign or domestic jurisdiction. The Bank and each Grantor agree that the venue provided above is the most convenient forum for both the Bank and the Grantors. Each Grantor waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Agreement.

23. WAIVER OF JURY TRIAL. EACH OF THE GRANTORS AND THE BANK 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 AGREEMENT ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. EACH GRANTOR AND THE BANK ACKNOWLEDGE THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

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

[Signature Page to Follow]

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

ATTEST

ENVIRONMENTAL TECTONICS CORPORATION

Print Name: _____
Title: _____

By: _____
Name: _____ (SEAL)
Title: _____

PNC BANK, NATIONAL ASSOCIATION

By: _____
(SEAL)

Print Name: _____
Title: _____

EXHIBIT "A"

TO SECURITY AGREEMENT

1. 1. Grantor's form of organization (i.e., corporation, partnership, limited liability company): Corporation.
 2. Grantor's State of organization, if a registered organization (i.e., corporation, limited partnership or limited liability company) : Pennsylvania
 3. Grantor's principal residence, if a natural person or general partnership: Not applicable
 4. Address of Grantor's chief executive office, including the county: 125 James Way, Southampton, PA 18966
 5. Grantor's EIN: 23-1714256
 6. Grantor's organizational ID# (if any exists): 111590
 7. Address for books and records, if different: 125 James Way, Southampton, PA 18966
 8. Addresses of other Collateral locations, including counties, for the past five (5) years:

Premises:	2100 North Alafaya Trail, Suite 900, Orlando, FL 32826 (Orlando office)
Landlord:	Alafaya Corporate Center, LC, 20 North Orange Avenue, Suite 605, Orlando, FL 32801
Premises:	1125 Industrial Highway, Southampton, Pennsylvania 18966-4008
Landlord:	Ruskel Company, Inc. (a PA corporation), 1125 Industrial Highway, Southampton, Pennsylvania 18966-4008
 9. Name and address of landlord or owner if location is not owned by the Grantor:

See above.
 10. Other names or tradenames now or formerly used by the Grantor:

ETC

Environmental Technology Corporation

See also the trademarks disclosed on the Rider to Security Agreement – Trademarks attached to this Agreement.
 11. List of all existing Commercial Tort Claims (by case title with court and brief description of claim):

None.
-

Pledge Agreement



THIS PLEDGE AGREEMENT, dated as of September 28, 2012, is made by **ENVIRONMENTAL TECTONICS CORPORATION** (the “**Pledgor**”), a Pennsylvania corporation 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 investment property and other assets described in Exhibit A attached hereto and made a part hereof, and all security entitlements of the Pledgor with respect thereto, whether now owned or hereafter acquired, together with all additions, substitutions, replacements and proceeds thereof and all income, interest, dividends and other distributions thereon (collectively, the “**Collateral**”); provided, however, that the Collateral shall not include more than sixty-five percent (65%) of the issued and outstanding voting equity interests of any Person not organized under the laws of the United States of America, any State thereof or the District of Columbia (a “**Foreign Subsidiary**”). If the Collateral includes certificated securities, documents or instruments, such certificates are herewith delivered to the Secured Party accompanied by duly executed blank stock or bond powers or assignments as applicable, except as set forth in Section 4.18 of that certain Loan Agreement between the Secured Party and the Pledgor dated as of the date hereof (as amended, modified or supplemented from time to time, the “**Loan Agreement**”). The Pledgor hereby authorizes the transfer of possession of all certificates, instruments, documents and other evidence of the Collateral to the Secured Party.

2. Obligations Secured. The Collateral secures payment of all loans, advances, debts, liabilities, obligations, covenants and duties owing by the Pledgor to the Secured Party or to any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Pledgor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, whether or not (i) evidenced by any note, guaranty or other instrument, (ii) arising under any agreement, instrument or document, (iii) for the payment of money, (iv) arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, (v) under any interest or currency swap, future, option or other interest rate protection or similar agreement, (vi) under or by reason of any foreign currency transaction, forward, option or other similar transaction providing for the purchase of one currency in exchange for the sale of another currency, or in any other manner, or (vii) arising out of overdrafts on deposit or other accounts or out of electronic funds transfers (whether by wire transfer or through automated clearing houses or otherwise) or out of the return unpaid of, or other failure of the Secured Party to receive final payment for, any check, item, instrument, payment order or other deposit or credit to a deposit or other account, or out of the Secured Party’s non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository or other similar arrangements; and any amendments, extensions, renewals and increases of or to any of the foregoing, and all costs and expenses of the Secured Party incurred in the documentation, negotiation, modification, enforcement, collection and otherwise in connection with any of the foregoing, including reasonable attorneys’ fees and expenses (hereinafter referred to collectively as the “**Obligations**”).

3. **Representations and Warranties.** The Pledgor represents and warrants to the Secured Party as follows:

3.1 There are no restrictions on the pledge or transfer of any of the Collateral, other than restrictions referenced on the face of any certificates evidencing the Collateral.

3.2 The Pledgor is the legal owner of the Collateral, which is registered in the name of the Pledgor.

3.3 The Collateral is free and clear of any security interests, pledges, liens, encumbrances, charges, agreements, claims or other arrangements or restrictions of any kind, except as referenced in Section 3.1 above and Permitted Liens (as defined in the Loan Agreement); and the Pledgor will not incur, create, assume or permit to exist any pledge, security interest, lien, charge or other encumbrance of any nature whatsoever on any of the Collateral or assign, pledge or otherwise encumber any right to receive income from the Collateral, other than in favor of the Secured Party or a Permitted Lien.

3.4 The Pledgor has the right to transfer the Collateral free of any encumbrances and the Pledgor will defend the Pledgor's title to the Collateral against the claims of all persons, and any registration with, or consent or approval of, or other action by, any federal, state or other governmental authority or regulatory body which was or is necessary for the validity of the pledge of and grant of the security interest in the Collateral has been obtained (other than, with regard to the pledge of investment property in a Foreign Subsidiary, governmental authorities or regulatory bodies of such Foreign Subsidiaries' jurisdiction of organization).

3.5 The pledge of and grant of the security interest in the Collateral is effective to vest in the Secured Party a valid and perfected first priority security interest, superior to the rights of any other person, in and to the Collateral as set forth herein.

4. **Covenants.**

4.1 If all or part of the Collateral constitutes "margin stock" within the meaning of Regulation U of the Federal Reserve Board, the Pledgor agrees to execute and deliver Form U-1 to the Secured Party and, unless otherwise agreed in writing between the Pledgor and the Secured Party, no part of the proceeds of the Obligations may be used to purchase or carry margin stock.

5. **Default.**

5.1 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) unsatisfied demand by the Secured Party under any of the Obligations that have a demand feature, (iv) the failure by the Pledgor to perform any of its obligations hereunder, (v) any written warranty, representation or statement made or furnished to the Secured Party by or on behalf of the Pledgor in connection with this Pledge Agreement shall be false, incorrect or incomplete in any material respect when made, (vi) the failure of the Secured Party to have a perfected first priority security interest in the Collateral, unless such failure results solely from any action or omission by the Secured Party or (vii) any restriction is imposed on the pledge or transfer of any of the Collateral after the date of this Agreement without the Secured Party's prior written consent, then the Secured Party is authorized in its discretion to declare any or all of the Obligations to be immediately due and payable without demand or notice, which are expressly waived, and may exercise any one or more of the rights and remedies granted pursuant to this Pledge Agreement or given to a secured party under the Uniform Commercial Code of the applicable state, as it may be amended from time to time, or otherwise at law or in equity, including without limitation the right to sell or otherwise dispose of any or all of the Collateral at public or private sale, with or without advertisement thereof, upon such terms and conditions as it may deem advisable and at such prices as it may deem best. The Secured Party shall notify the Pledgor promptly of any acceleration of the Obligations pursuant to this Section 5.1, provided that the failure to give such notice shall not affect the validity of such acceleration.

5.2 (a) At any bona fide public sale, and to the extent permitted by law, at any private sale, the Secured Party shall be free to purchase all or any part of the Collateral, free of any right or equity of redemption in the Pledgor, which right or equity is hereby waived and released. Any such sale may be on cash or credit. The Secured Party shall be authorized at any such sale (if it deems it advisable to do so) to restrict the prospective bidders or purchasers to persons who will represent and agree that they are purchasing the Collateral for their own account in compliance with Regulation D of the Securities Act of 1933 (the “Act”) or any other applicable exemption available under such Act. The Secured Party will not be obligated to make any sale if it determines not to do so, regardless of the fact that notice of the sale may have been given. The Secured Party may adjourn any sale and sell at the time and place to which the sale is adjourned. If the Collateral is customarily sold on a recognized market or threatens to decline speedily in value, the Secured Party may sell such Collateral at any time without giving prior notice to the Pledgor. Whenever notice is otherwise required by law to be sent by the Secured Party to the Pledgor of any sale or other disposition of the Collateral, ten (10) days written notice sent to the Pledgor at its address specified above will be reasonable.

(b) The Pledgor recognizes that the Secured Party may be unable to effect or cause to be effected a public sale of the Collateral by reason of certain prohibitions contained in the Act, so that the Secured Party may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among other things, to acquire the Collateral for their own account, for investment and without a view to the distribution or resale thereof. The Pledgor understands that private sales so made may be at prices and on other terms less favorable to the seller than if the Collateral were sold at public sales, and agrees that the Secured Party has no obligation to delay or agree to delay the sale of any of the Collateral for the period of time necessary to permit the issuer of the securities which are part of the Collateral (even if the issuer would agree), to register such securities for sale under the Act. The Pledgor agrees that private sales made under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner.

5.3 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.

5.4 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 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.

6. **Voting Rights and Transfer.** Prior to the occurrence of an Event of Default, the Pledgor will have the right to exercise all voting rights with respect to the Collateral. At any time after the occurrence of an Event of Default, the Secured Party may transfer any or all of the Collateral into its name or that of its nominee and may exercise all voting rights with respect to the Collateral, but no such transfer shall constitute a taking of such Collateral in satisfaction of any or all of the Obligations unless the Secured Party expressly so indicates by written notice to the Pledgor.

7. **Dividends, Interest and Premiums.** The Pledgor will have the right to receive all cash dividends, interest and premiums declared and paid on the Collateral prior to the occurrence of any Event of Default. In the event any additional shares are issued to the Pledgor as a stock dividend or in lieu of interest on any of the Collateral, as a result of any split of any of the Collateral, by reclassification or otherwise, any certificates evidencing any such additional shares will be immediately delivered to the Secured Party and such shares will be subject to this Pledge Agreement and a part of the Collateral to the same extent as the original Collateral. At any time after the occurrence of an Event of Default, the Secured Party shall be entitled to receive all cash or stock dividends, interest and premiums declared or paid on the Collateral, all of which shall be subject to the Secured Party's rights under Section 5 above.

8. **Further Assurances.** By its signature hereon, the Pledgor hereby irrevocably authorizes the Secured Party, and irrevocably appoints the Secured Party as the Pledgor's attorney in fact, 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. This limited 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.

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

10. **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 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.

11. **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.

12. **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.

13. **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.

14. **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.

15. **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.

16. **Indemnity.** The Pledgor agrees to indemnify each of the Secured Party, each legal entity, if any, who controls, is controlled by or is under common control with the Secured Party, and each of their respective directors, officers and employees (the "**Indemnified Parties**"), and to hold each Indemnified Party harmless from and against, any and all claims, damages, losses, liabilities and expenses (including all fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of litigation or preparation therefor) which any Indemnified Party may incur, or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Pledgor), in connection with or arising out of or relating to the matters referred to in this Pledge Agreement, 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.

17. 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. **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.

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

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

WITNESS the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

ATTEST

ENVIRONMENTAL TECTONICS CORPORATION

Print Name: _____
Title: _____

By: _____
Name: _____ (SEAL)
Title: _____

EXHIBIT A TO PLEDGE AGREEMENT

<u>Issuer</u>	<u>Description of Securities Owned</u>	<u>Issuer's Jurisdiction</u>	<u>Percentage of Outstanding Interests Owned</u>	<u>Percentage of Outstanding Interests Pledged</u>	<u>Cert. Number</u>
ETC-PZL Aerospace Industries	Limited Liability Company Interests	Poland	95%	65%	uncertificated
Environmental Tectonics Corporation (Europe) Limited	99 Ordinary Shares	Great Britain	99%	65%	[_____]
ETC Delaware, Inc.	100 Common Shares	Delaware	100%	100%	1
ETC Environmental Tectonics Corporation Information System Bilgi Islem Teknoloji Anonim Şirketi	864 shares	Turkey	48%	48%	uncertificated

OPEN-END MORTGAGE AND SECURITY AGREEMENT

ENVIRONMENTAL TECTONICS CORPORATION

Mortgagor

AND

PNC BANK, NATIONAL ASSOCIATION,

Mortgagee

Return to:

Ballard Spahr LLP
1735 Market Street, 51st Floor
Philadelphia, Pennsylvania 19103
Attention: Sandra Wintner

OPEN-END MORTGAGE AND SECURITY AGREEMENT

(This Mortgage Secures Future Advances)

THIS OPEN-END MORTGAGE AND SECURITY AGREEMENT (this “**Mortgage**”) is executed as of September 27, 2012 but effective as of September 28, 2012, by **ENVIRONMENTAL TECTONICS CORPORATION**, a Pennsylvania corporation (the “**Mortgagor**”), with an address at 125 James Way, Southampton, Pennsylvania 18966, in favor of **PNC BANK, NATIONAL ASSOCIATION** (the “**Mortgagee**”), with an address at 1000 Westlakes Drive, Suite 200, Berwyn, PA 19312.

WHEREAS, the Mortgagor is the owner of a certain tract or parcel of land described in Exhibit A attached hereto and made a part hereof, together with the improvements now or hereafter erected thereon; and

WHEREAS, pursuant to the terms of that certain Loan Agreement, dated as of the date hereof (as the same may be amended, supplemented or replaced from time to time) credit in an amount not to exceed Fifteen Million Dollars (\$15,000,000) (the “**Line of Credit**”) and a term loan in the original principal amount of Fifteen Million Dollars (\$15,000,000) (the “**Term Loan**” and collectively with the Line of Credit, the “**Loans**”), which Loans are evidenced by those certain notes by the Mortgagor in favor of the Mortgagee dated as of the date hereof (as the same may be amended, supplemented or replaced from time to time, collectively, the “**Notes**”); and

WHEREAS, on or about the date hereof, the Mortgagor and the Mortgagee are entering into a “Transaction” pursuant to and as defined in that certain ISDA Master Agreement between the Mortgagor and the Mortgagee dated as of August 6, 2007 (the “**Master Agreement**”) (the obligations of the Mortgagor under the Master Agreement, as supplemented by the Transaction and from time to time after the date hereof by one or more additional Transactions under the Master Agreement, being herein called the “**Hedge Obligations**”);

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

(A) the Loans, the Notes, the Hedge Obligations and all other loans, advances, debts, liabilities, obligations, covenants and duties owing by the Mortgagor to the Mortgagee or to any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Mortgagor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, whether or not (i) evidenced by any note, guaranty or other instrument, (ii) arising under any agreement, instrument or document, (iii) for the payment of money, (iv) arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, (v) under any interest or currency swap, future, option or other interest rate protection or similar agreement, (vi) under or by reason of any foreign currency transaction, forward, option or other similar transaction providing for the purchase of one currency in exchange for the sale of another currency, or in any other manner, or (vii) arising out of overdrafts on deposit or other accounts or electronic funds transfers (whether through automated clearing houses or otherwise) or out of the return unpaid of, or other failure of the Mortgagee to receive final payment for, any check, item, instrument, payment order or other deposit or credit to a deposit or other account, or out of the Mortgagee’s non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository or other similar arrangements and any amendments, extensions, renewals or increases of or to any of the foregoing, and all costs and expenses of the Mortgagee incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including reasonable attorneys’ fees and expenses.

(B) Any sums advanced by the Mortgagee or which may otherwise become due pursuant to the provisions of the Loan Agreement, the Notes or this Mortgage or pursuant to any other document or instrument at any time delivered to the Mortgagee to evidence or secure any of the Obligations or which otherwise relate to any of the Obligations (as the same may be amended, supplemented or replaced from time to time, the **“Loan Documents”**).

The Mortgagor, for good and valuable consideration, receipt of which is hereby acknowledged, and intending to be legally bound hereby, does hereby give, grant, bargain, sell, convey, assign, transfer, mortgage, hypothecate, pledge, set over and confirm unto the Mortgagee and does agree that the Mortgagee shall have a security interest in the following described property, all accessions and additions thereto, all substitutions therefor and replacements and proceeds thereof, and all reversions and remainders of such property now owned or held or hereafter acquired (the **“Property”**), to wit:

(a) All of the Mortgagor’s estate in the premises described in Exhibit A, together with all of the easements, rights of way, privileges, liberties, hereditaments, gores, streets, alleys, passages, ways, waters, watercourses, rights and appurtenances thereunto belonging or appertaining, and all of the Mortgagor’s estate, right, title, interest, claim and demand therein and in the public streets and ways adjacent thereto, either in law or in equity (the **“Land”**);

(b) All the buildings, structures and improvements of every kind and description now or hereafter erected or placed on the Land, and all facilities, fixtures, machinery, apparatus, appliances, installations, machinery and equipment, including all building materials to be incorporated into such buildings, all electrical equipment necessary for the operation of such buildings and heating, air conditioning and plumbing equipment now or hereafter attached to, located in or used in connection with those buildings, structures or other improvements (the **“Improvements”**);

(c) All rents, income, issues and profits arising or issuing from the Land and the Improvements and advantages and claims against guarantors of any Leases (defined below) (the **“Rents”**) including the Rents arising or issuing from all leases and subleases or any other use or occupancy agreement now or hereafter entered into covering all or any part of the Land and Improvements (the **“Leases”**), all of which Leases and Rents are hereby assigned to the Mortgagee by the Mortgagor. The foregoing assignment shall include all cash or securities deposited under Leases to secure performance of lessees of their obligations thereunder, whether such cash or securities are to be held until the expiration of the terms of such leases or applied to one or more installments of rent coming due prior to the expiration of such terms. The foregoing assignment extends to Rents arising both before and after the commencement by or against the Mortgagor of any case or proceeding under any Federal or State bankruptcy, insolvency or similar law, and is intended as an absolute assignment and not merely the granting of a security interest. The Mortgagor, however, shall have a license to collect, retain and use the Rents so long as no Event of Default shall have occurred and be continuing or shall exist. The Mortgagor will execute and deliver to the Mortgagee, on demand, such additional assignments and instruments as the Mortgagee may require to implement, confirm, maintain and continue the assignment of Rents hereunder;

(d) All proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims;

(e) And without limiting any of the other provisions of this Mortgage, the Mortgagor, as debtor, expressly grants unto the Mortgagee, as secured party, a security interest in all those portions of the Property (including without limitation fixtures) which may be subject to the Uniform Commercial Code provisions applicable to secured transactions under the laws of the state in which the Property is located (the **“UCC”**), and the Mortgagor will execute and deliver to the Mortgagee on demand such financing statements and other instruments as the Mortgagee may require in order to perfect and maintain such security interest under the UCC on the aforesaid collateral.

To have and to hold the same unto the Mortgagee, its successors and assigns, forever.

Provided, however, that if the Mortgagor shall pay to the Mortgagee the Obligations, and if the Mortgagor shall keep and perform each of its other covenants, conditions and agreements set forth herein and in the other Loan Documents, then, upon the termination of all obligations, duties and commitments of the Mortgagor under the Obligations and this Mortgage, and subject to the provisions of the paragraph entitled "Survival; Successors and Assigns", the estate hereby granted and conveyed shall become null and void.

This Mortgage is an "Open-End Mortgage" as set forth in 42 Pa. C.S.A. § 8143 and secures obligations up to a maximum principal amount of indebtedness outstanding at any time equal to double the face amount of the Notes, plus accrued and unpaid interest, including advances for the payment of taxes and municipal assessments, maintenance charges, insurance premiums, costs incurred for the protection of the Property or the lien of this Mortgage, expenses incurred by the Mortgagee by reason of a default or Event of Default (as hereinafter defined) by the Mortgagor under this Mortgage and advances for construction, alteration or renovation on the Property or for any other purpose, together with all other sums due hereunder or secured hereby. All notices to be given to the Mortgagee pursuant to 42 Pa. C.S.A. § 8143 shall be given as set forth in Section 18.

1. Representations and Warranties. The Mortgagor represents and warrants to the Mortgagee that (i) the Mortgagor has good and marketable title to an estate in fee simple absolute in the Land and Improvements and has all right, title and interest in all other property constituting a part of the Property, in each case free and clear of all liens and encumbrances, except as may otherwise be set forth on Exhibit B hereto and (ii) its name, type of organization, jurisdiction of organization and chief executive office are true and complete as set forth in the heading of this Mortgage. This Mortgage is a valid and enforceable first lien on the Property (except as set forth on Exhibit B) and the Mortgagee shall, subject to the Mortgagor's right of possession prior to an Event of Default, quietly enjoy and possess the Property. The Mortgagor shall preserve such title as it warrants herein and the validity and priority of the lien hereof and shall, until all of the Obligations shall have been fully paid and this Mortgage satisfied, warrant and defend the same to the Mortgagee against the claims of all persons.

2. **Affirmative Covenants**. Until all of the Obligations shall have been fully paid, satisfied and discharged the Mortgagor shall:

(a) **Payment and Performance of Obligations**. Pay or cause to be paid and perform all Obligations when due as provided in the Loan Documents.

(b) **Legal Requirements**. Promptly comply with and conform in all material respects to all present and future laws, statutes, codes, ordinances, orders and regulations and all covenants, restrictions and conditions which may be applicable to the Mortgagor or to any of the Property (the “**Legal Requirements**”).

(c) **Impositions**. Before interest or penalties are due thereon and otherwise when due, the Mortgagor shall pay all taxes of every kind and nature, all charges for any easement or agreement maintained for the benefit of any of the Property, all general and special assessments (including any condominium or planned unit development assessments, if any), levies, permits, inspection and license fees, all water and sewer rents and charges, and all other charges and liens, whether of a like or different nature, imposed upon or assessed against the Mortgagor or any of the Property (the “**Impositions**”) unless the amount thereof is being contested in good faith by the Mortgagor by appropriate proceedings with adequate reserves made for the payment thereof. Within thirty (30) days after the payment of any Imposition if requested by Mortgagee, the Mortgagor shall deliver to the Mortgagee written evidence reasonably acceptable to the Mortgagee of such payment. The Mortgagor’s obligations to pay the Impositions shall survive the Mortgagee’s taking title to (and possession of) the Property through foreclosure, deed-in-lieu or otherwise, as well as the termination of the Mortgage including, without limitation, by merger into a deed.

(d) **Maintenance of Security**. Use, and permit others to use, the Property only for its present use or such other uses as are permitted by applicable Legal Requirements and approved in writing by the Mortgagee. The Mortgagor shall keep the Property in good condition and order and will make or cause to be made, as and when necessary, all repairs, renewals, and replacements, structural and nonstructural, exterior and interior, foreseen and unforeseen, ordinary and extraordinary, provided, however, that no structural repairs, renewals or replacements in excess of \$100,000 shall be made without the Mortgagee’s prior written consent. The Mortgagor shall not remove, demolish or alter any material portion of the Property or any of the Property in a manner that materially adversely affects the same, nor commit or suffer waste with respect thereto, nor permit the Property to become deserted or abandoned. The Mortgagor covenants and agrees not to take or permit any action with respect to the Property which will in any manner impair the security of this Mortgage.

3. **Leases.** Except as permitted by the Loan Documents, the Mortgagor shall not (a) execute an assignment or pledge of the Rents or the Leases other than in favor of the Mortgagee; (b) accept any prepayment of an installment of any Rents more than 90 days prior to the due date of such installment; or (c) enter into or amend any of the terms of any of the Leases without the Mortgagee's prior written consent. Any or all leases or subleases of all or any part of the Property shall be subject in all respects to the Mortgagee's prior written consent, shall be subordinated to this Mortgage and to the Mortgagee's rights and, together with any and all rents, issues or profits relating thereto, shall be assigned at the time of execution to the Mortgagee as additional collateral security for the Obligations, all in such form, substance and detail as is satisfactory to the Mortgagee in its sole discretion.

4. **Due on Sale Clause.** The Mortgagor shall not sell, convey or otherwise transfer any interest in the Property (whether voluntarily or by operation of law), or agree to do so, without the Mortgagee's prior written consent, including (a) any sale, conveyance, encumbrance, assignment, or other transfer of (including installment land sale contracts), or the grant of a security interest in, all or any part of the legal or equitable title to the Property, except as otherwise permitted hereunder; (b) any lease of all or any portion of the Property; or (c) any sale, conveyance, encumbrance, assignment, or other transfer of, or the grant of a security interest in, any share of stock of the Mortgagor, except as otherwise permitted by the Loan Documents. Any default under this Section shall cause an immediate acceleration of the Obligations without any demand by the Mortgagee.

5. **Insurance.** The Mortgagor shall keep the Improvements continuously insured, in an amount not less than the cost to replace the Improvements or an amount not less than eighty percent (80%) of the full insurable value of the Property, whichever is greater, against loss or damage by fire, with extended coverage and against other hazards as the Mortgagee may from time to time require. With respect to any property under construction or reconstruction, the Mortgagor shall maintain builder's risk insurance. The Mortgagor shall also maintain comprehensive general public liability insurance, in an amount of not less than One Million Dollars (\$1,000,000) per occurrence and Two Million Dollars (\$2,000,000) general aggregate per location, and worker's compensation insurance. All property and builder's risk insurance shall include protection for continuation of income for a period of six (6) months, in the event of any damage caused by the perils referred to above. All policies, including policies for any amounts carried in excess of the required minimum and policies not specifically required by the Mortgagee, shall be with an insurance company or companies satisfactory to the Mortgagee, shall be in form satisfactory to the Mortgagee, shall meet all coinsurance requirements of the Mortgagee, shall be maintained in full force and effect, with premiums satisfied, as collateral security for payment of the Obligations, shall be, for property insurance policies, endorsed with a standard mortgagee clause in favor of the Mortgagee and shall provide for at least thirty (30) days notice of cancellation to the Mortgagee. Such insurance shall also name the Mortgagee as an additional insured under the comprehensive general public liability policy. If the Property is located in an area which has been identified by any governmental agency, authority or body as a flood hazard area or the like, then the Mortgagor shall maintain a flood insurance policy covering the Improvements in an amount not less than the replacement cost 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 with respect to the Property, the Mortgagee shall have the exclusive right to adjust, collect and compromise all Material Insurance Claims (as defined below), and the Mortgagor shall not adjust, collect or compromise any Material Insurance Claims under said policies without the Mortgagee's prior written consent. Each insurer is hereby authorized and directed to make payment under said policies, including return of unearned premiums, directly to the Mortgagee instead of to the Mortgagor and the Mortgagee jointly, and the Mortgagor appoints the Mortgagee as the Mortgagor's attorney-in-fact to endorse any draft therefor. All Material Insurance Claims proceeds may, at the Mortgagee's sole option, be applied to all or any part of the Obligations and in any order (notwithstanding that such Obligations may not then otherwise be due and payable) or to the repair and restoration of any of the Property under such terms and conditions as the Mortgagee may impose, provided that, if at the time of receipt of any such proceeds, no Event of Default has occurred and is continuing, such proceeds shall be released to Mortgagor to pay the costs of the repair and restoration of the Property under terms and conditions satisfactory to the Mortgagee. For purposes of this paragraph 6, the term "Material Insurance Claim" means any insurance claim which relates to the Property and which is in an amount in excess of \$500,000.

7. **Installments for Insurance, Taxes and Other Charges.** Upon the Mortgagee's request at any time following the occurrence of an Event of Default, the Mortgagor shall pay to the Mortgagee monthly, an amount equal to one-twelfth (1/12) of the annual premiums for the insurance policies referred to hereinabove and the annual Impositions and any other item which at any time may be or become a lien upon the Property (the "**Escrow Charges**"). The amounts so paid shall be used in payment of the Escrow Charges. No amount so paid to the Mortgagee shall be deemed to be trust funds, nor shall any sums paid bear interest. The Mortgagee shall have no obligation to pay any insurance premium or Imposition if at any time the funds being held by the Mortgagee for such premium or Imposition are insufficient to make such payments. If, at any time, the funds being held by the Mortgagee for any insurance premium or Imposition are exhausted, or if the Mortgagee determines, in its sole discretion, that such funds will be insufficient to pay in full any insurance premium or Imposition when due, the Mortgagor shall promptly pay to the Mortgagee, upon demand, an amount which the Mortgagee shall estimate as sufficient to make up the deficiency. The Mortgagor hereby grants to the Mortgagee a lien upon and security interest in such amounts for such purpose.

8. **Condemnation.** The Mortgagor, immediately upon obtaining knowledge of the institution of any proceedings for the condemnation or taking by eminent domain of any of the Property, shall notify the Mortgagee of the pendency of such proceedings. The Mortgagee may participate in any such proceedings and the Mortgagor shall deliver to the Mortgagee all instruments requested by it to permit such participation. Any award or compensation in excess of \$500,000 for property taken or for damage to property not taken, whether as a result of such proceedings or in lieu thereof, is hereby assigned to and shall be received and collected directly by the Mortgagee, and any such award or compensation shall be applied, at the Mortgagee's option, to any part of the Obligations and in any order (notwithstanding that any of such Obligations may not then be due and payable) or to the repair and restoration of any of the Property under such terms and conditions as the Mortgagee may impose.

9. **Environmental Matters.** (a) For purposes of this Section 9, the term “**Environmental Laws**” shall mean all federal, state and local laws, regulations and orders, whether now or in the future enacted or issued, pertaining to the protection of land, water, air, health, safety or the environment. The term “**Regulated Substances**” shall mean all substances regulated by Environmental Laws, or which are known or considered to be harmful to the health or safety of persons, or the presence of which may require investigation, notification or remediation under the Environmental Laws. The term “**Contamination**” shall mean the discharge, release, emission, disposal or escape of any Regulated Substances into the environment other than as permitted under applicable Environmental Laws.

(b) The Mortgagor represents and warrants (i) that no material Contamination is present at, on or under the Property and that no material Contamination is being or, to the best of the Mortgagor’s knowledge, has been emitted onto any surrounding property, in each case other than as permitted under applicable Environmental Laws; (ii) all operations and activities on the Property have been and are being conducted in material compliance with all Environmental Laws, and the Mortgagor has all material permits and licenses required under the Environmental Laws; (iii) no underground or aboveground storage tanks are or have been located on or under the Property; and (iv) no legal or administrative proceeding is pending or, to the best of the Mortgagor’s knowledge, threatened relating to any environmental condition, operation or activity on the Property regulated under any applicable Environmental Laws, or any violation or alleged violation of Environmental Laws. These representations and warranties shall be true as of the date hereof, and shall be deemed to be continuing representations and warranties which must remain true, correct and accurate during the entire duration of the term of this Mortgage.

(c) The Mortgagor shall ensure, at its sole cost and expense, that the Property and the conduct of all operations and activities thereon comply and continue to comply in all material respects with all Environmental Laws. The Mortgagor shall notify the Mortgagee promptly and in reasonable detail in the event that the Mortgagor becomes aware of any violation of any Environmental Laws, the presence or release of any Contamination with respect to the Property, or any governmental or third party claims under applicable Environmental Laws relating to the environmental condition of the Property or the conduct of operations or activities thereon. The Mortgagor also agrees not to permit or allow the presence of Regulated Substances on any part of the Property, except (i) to the extent such Regulated Substances are used without violating in any material respect any Environmental Laws; and (ii) for those Regulated Substances which are naturally occurring on the Property. The Mortgagor agrees not to cause, allow or permit the presence of any material Contamination on the Property.

(d) The Mortgagee shall not be liable for, and the Mortgagor shall indemnify, defend and hold the Mortgagee and the Indemnified Parties (as hereinafter defined) and all of their respective successors and assigns harmless from and against all losses, costs, liabilities, damages, fines, claims, penalties and expenses (including reasonable attorneys’, consultants’ and contractors’ fees, costs incurred in the investigation, defense and settlement of claims, as well as costs incurred in connection with the investigation, remediation or monitoring of any Regulated Substances or Contamination) that the Mortgagee or any Indemnified Party may suffer or incur (including as holder of the Mortgage, as mortgagee in possession or as successor in interest to the Mortgagor as owner of the Property by virtue of a foreclosure or acceptance of a deed in lieu of foreclosure) as a result of or in connection with (i) any Environmental Laws (including the assertion that any lien existing or arising pursuant to any Environmental Laws takes priority over the lien of the Mortgage); (ii) the breach of any representation, warranty, covenant or undertaking by the Mortgagor in this Section 9; (iii) the presence on or the migration of any Contamination or Regulated Substances on, under or through the Property; or (iv) any litigation or claim by the government or by any third party in connection with the environmental condition of the Property or the presence or migration of any Regulated Substances or Contamination on, under, to or from the Property.

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

10. Inspection of Property. The Mortgagee shall have the right to enter the Property at any reasonable hour for the purpose of inspecting the order, condition and repair of the buildings and improvements erected thereon, as well as the conduct of operations and activities on the Property. The Mortgagee may enter the Property (and cause the Mortgagee's employees, agents and consultants to enter the Property), upon reasonable prior written notice to the Mortgagor, to conduct any and all environmental testing deemed appropriate by the Mortgagee in its sole but reasonable discretion; provided that such testing shall not interfere with Mortgagor's operations. The environmental testing shall be accomplished by whatever means the Mortgagee may deem appropriate, including the taking of soil samples and the installation of ground water monitoring wells or other intrusive environmental tests. The Mortgagor shall provide the Mortgagee (and the Mortgagee's employees, agents and consultants) reasonable rights of access to the Property as well as such information about the Property and the past or present conduct of operations and activities thereon as the Mortgagee may 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 such term is defined in any of the Obligations); (b) 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 defaults; (c) the failure by the Mortgagor to perform its obligations set forth in Section 2(a) hereof; (d) the failure by the Mortgagor to perform any of its other obligations under this Mortgage or under any Environmental Indemnity Agreement executed and delivered pursuant to Section 9(e) for a period of fifteen (15) days or more; (e) any written warranty, representation or statement made or furnished by the Mortgagor to the Mortgagee in connection with this Mortgage shall be false, incorrect or incomplete in any material respect when made; (f) an uninsured material loss, theft, damage, or destruction to any of the Property, (g) the entry of a final, non-appealable judgment or judgments, that individually or in the aggregate exceed \$100,000, against the Mortgagor and the failure of the Mortgagor to discharge the judgment within thirty (30) days of the entry thereof; (h) the entry of any lien (other than a Permitted Encumbrance) against or the making of any levy, seizure or attachment of or on the Property; (i) the failure of the Mortgagee to have a mortgage lien on the Property with the priority required under Section 1; (j) any evidence received by the Mortgagee that the Mortgagor has directly or indirectly been engaged in any type of activity which, in the Mortgagee's discretion, would reasonably be expected to result in the forfeiture of any property of the Mortgagor to any governmental entity, federal, state or local; (k) 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; (l) the failure by the Mortgagor to pay any Impositions as required under Section 2(c), or to maintain in full force and effect any insurance required under Section 5; or (m) the Mortgagor or any other obligor or guarantor of any of the Obligations, shall at any time deliver or cause to be delivered to the Mortgagee a notice pursuant to 42 Pa. C.S.A. § 8143 electing to limit the indebtedness secured by this Mortgage.

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

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

(b) The Mortgagee may (i) institute and maintain an action of mortgage foreclosure against the Property and the interests of the Mortgagor therein, (ii) institute and maintain an action on any instruments evidencing the Obligations or any portion thereof, and (iii) take such other action at law or in equity for the enforcement of any of the Loan Documents as the law may allow, and in each such action the Mortgagee shall be entitled to all costs of suit and attorneys fees.

(c) The Mortgagee may, in its sole and absolute discretion: (i) collect any or all of the Rents, including any Rents past due and unpaid, (ii) perform any obligation or exercise any right or remedy of the Mortgagor under any Lease, or (iii) enforce any obligation of any tenant of any of the Property. The Mortgagee may exercise any right under this subsection (c), whether or not the Mortgagee shall have entered into possession of any of the Property, and nothing herein contained shall be construed as constituting the Mortgagee a "mortgagee in possession", unless the Mortgagee shall have entered into and shall continue to be in actual possession of the Property. The Mortgagor hereby authorizes and directs each and every present and future tenant of any of the Property to pay all Rents directly to the Mortgagee and to perform all other obligations of that tenant for the direct benefit of the Mortgagee, as if the Mortgagee were the landlord under the Lease with that tenant, immediately upon receipt of a demand by the Mortgagee to make such payment or perform such obligations. The Mortgagor hereby waives any right, claim or demand it may now or hereafter have against any such tenant by reason of such payment of Rents or performance of obligations to the Mortgagee, and any such payment or performance to the Mortgagee shall discharge the obligations of the tenant to make such payment or performance to the Mortgagor.

(d) The Mortgagee shall have the right, in connection with the exercise of its remedies hereunder, to the appointment of a receiver to take possession and control of the Property or to collect the Rents, without notice and without regard to the adequacy of the Property to secure the Obligations. A receiver while in possession of the Property shall have the right to make repairs and to make improvements necessary or advisable in its or his opinion to preserve the Property, or to make and keep it rentable to the best advantage, and the Mortgagee may advance moneys to a receiver for such purposes. Any moneys so expended or advanced by the Mortgagee or by a receiver shall be added to and become a part of the Obligations secured by this Mortgage.

13. **Application of Proceeds.** The Mortgagee shall apply the proceeds of any foreclosure sale of, or other disposition or realization upon, or Rents or profits from, the Property to satisfy the Obligations in such order of application as the Mortgagee shall determine in its exclusive discretion.

14. **Reserved.**

15. **Mortgagee's Right to Protect Security.** The Mortgagee is hereby authorized to do any one or more of the following, irrespective of whether an Event of Default has occurred: (a) appear in and defend any action or proceeding purporting to affect the security hereof or the Mortgagee's rights or powers hereunder if the Mortgagor fails to so defend such action or proceeding to the satisfaction of the Mortgagee; (b) purchase such insurance policies covering the Property as it may elect if the Mortgagor fails to maintain the insurance coverage required hereunder; and (c) take such action as the Mortgagee may determine to pay, perform or comply with any Impositions or Legal Requirements, to cure any Events of Default and to protect its security in the Property.

16. **Appointment of Mortgagee as Attorney-in-Fact.** The Mortgagee, or any of its officers, is hereby irrevocably appointed attorney-in-fact for the Mortgagor (without requiring any of them to act as such), such appointment being coupled with an interest, to do any or all of the following: (a) collect the Rents after the occurrence of an Event of Default; (b) settle for, collect and receive any awards payable under Section 8 from the authorities making the same; and (c) execute, deliver and file, at Mortgagor's sole cost and expense such financing, continuation or amendment statements and other instruments as the Mortgagee may require in order to perfect, protect and maintain its security interest under the Uniform Commercial Code on any portion of the Property.

17. **Certain Waivers.** The Mortgagor hereby waives and releases all benefit that might accrue to the Mortgagor by virtue of any present or future law exempting the Property, or any part of the proceeds arising from any sale thereof, from attachment, levy or sale on execution, or providing for any stay of execution, exemption from civil process or extension of time for payment or any rights of marshalling in the event of any sale hereunder of the Property, and, unless specifically required herein, all notices of the Mortgagor's default or of the Mortgagee's election to exercise, or the Mortgagee's actual exercise of any option under this Mortgage or any other Loan Document.

18. **Notices.** All notices, demands, requests, consents, approvals and other communications required or permitted hereunder must be in writing and will be effective upon receipt by the Mortgagor or the Mortgagee. Such notices and other communications may be hand-delivered, sent by facsimile transmission with confirmation of delivery and a copy sent by first-class mail, or sent by nationally recognized overnight courier service, to a party's address set forth above or to such other address as the Mortgagor or the Mortgagee may give to the other in writing for such purpose.

19. **Further Acts.** The Mortgagor will, at the cost of the Mortgagor, and without expense to the Mortgagee, do, execute, acknowledge and deliver all further acts, deeds, conveyances, mortgages, assignments, notices of assignment, transfers and assurances as the Mortgagee shall, from time to time, reasonably require for the better assuring, conveying, assigning, transferring or confirming unto the Mortgagee the property and rights hereby mortgaged, or which Mortgagor may be or may hereafter become bound to convey or assign to the Mortgagee, or for carrying out the intent of or facilitating the performance of the terms of this Mortgage or for filing, registering or recording this Mortgage. The Mortgagor grants to the Mortgagee an irrevocable power of attorney coupled with an interest for the purpose of exercising and perfecting any and all rights and remedies available to the Mortgagee under the Notes, this Mortgage, the other Loan Documents, at law or in equity, including, without limitation, the rights and remedies described in this paragraph.

20. Changes in the Laws Regarding Taxation. If any law is enacted or adopted or amended after the date of this Mortgage which deducts the Obligations from the value of the Property for the purpose of taxation or which imposes a tax, either directly or indirectly, on the Mortgagor or the Mortgagee's interest in the Property, the Mortgagor will pay such tax, with interest and penalties thereon, if any. If the Mortgagee determines that the payment of such tax or interest and penalties by the Mortgagor would be unlawful or taxable to the Mortgagee or unenforceable or provide the basis for a defense of usury, then the Mortgagee shall have the option, by written notice of not less than ninety (90) days, to declare the entire Obligations immediately due and payable.

21. Documentary Stamps. If at any time the United States of America, any State thereof or any subdivision of any such State shall require revenue or other stamps to be affixed to the Notes or this Mortgage, or impose any other tax or charge on the same, the Mortgagor will pay for the same, with interest and penalties thereon, if any.

22. Preservation of Rights. No delay or omission on the Mortgagee's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Mortgagee's action or inaction impair any such right or power. The Mortgagee's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Mortgagee may have under other agreements, at law or in equity. The Mortgagee may exercise any one or more of its rights and remedies without regard to the adequacy of its security.

23. Illegality. In case any one or more of the provisions contained in this Mortgage should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

24. Changes in Writing. No modification, amendment or waiver of any provision of this Mortgage nor consent to any departure by the Mortgagor therefrom will be effective unless made in a writing signed by the Mortgagee, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Mortgagor in any case will entitle the Mortgagor to any other or further notice or demand in the same, similar or other circumstance.

25. Entire Agreement. This Mortgage (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the Mortgagor and the Mortgagee with respect to the subject matter hereof.

26. **Survival; Successors and Assigns.** This Mortgage will be binding upon and inure to the benefit of the Mortgagor and the Mortgagee and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Mortgagor may not assign this Mortgage in whole or in part without the Mortgagee's prior written consent and the Mortgagee at any time may assign this Mortgage in whole or in part; and provided, further, that the rights and benefits under the Paragraphs entitled "Environmental Matters", "Inspection of Property" and "Indemnity" shall also inure to the benefit of any persons or entities who acquire title or ownership of the Property from or through the Mortgagee or through action of the Mortgagee (including a foreclosure, sheriffs 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; 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 Mortgage unless otherwise indicated. Section headings in this Mortgage are included for convenience of reference only and shall not constitute a part of this Mortgage for any other purpose. If this Mortgage is executed by more than one party as Mortgagor, the obligations of such persons or entities will be joint and several.

28. **Indemnity.** The Mortgagor agrees to indemnify each of the Mortgagee, each legal entity, if any, which controls, is controlled by or is under common control with the Mortgagee and each of their respective directors, officers, employees and agents (the "**Indemnified Parties**") and to defend and hold each Indemnified Party harmless from and against any and all claims, damages, losses, liabilities and expenses (including all reasonable fees and charges of internal or external counsel with whom any Indemnified Party may consult and all reasonable expenses of litigation or preparation therefor) which any Indemnified Party may incur or which may be asserted against any Indemnified Party in connection with or arising out of the matters referred to in this Mortgage or in the other Loan Documents by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Mortgagor), whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Mortgagor, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority, which arises out of or relates to this Mortgage, any other Loan Document, or the use of the proceeds of the Loans; provided, however, that the foregoing indemnity agreement shall not apply to claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Mortgage, payment of any Obligations and assignment of any rights hereunder. The Mortgagor may participate at its expense in the defense of any such action or claim.

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

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

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

WITNESS the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

ENVIRONMENTAL TECTONICS CORPORATION

ATTEST: _____

By: _____

(SEAL)

Print Name: _____

Print Name: _____

Title: _____

Title: _____

CERTIFICATE OF RESIDENCE

The undersigned certifies that the residence of the Mortgagee is 1000 Westlakes Drive, Suite 200, Berwyn, PA 19312.

On behalf of the Mortgagee

COMMONWEALTH OF PENNSYLVANIA)
) ss:
COUNTY OF)

On this, the _____ day of September, 2012, 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

EXHIBITS

- A. Legal Description
- B. Permitted Encumbrances

Exhibit A

Legal Description

ALL THAT CERTAIN 5 acres tract of land as shown on Plan made for the Southampton Corporation, Situate in the Township of Upper Southampton, County of Bucks, Commonwealth of Pennsylvania, bounded and described as follows:

BEGINNING at a point a corner on the Southeasterly curb of James Way as shown on the above mentioned plan, said beginning point being measured along the Southeasterly curb line of James Way, South 52 degrees 18 minutes West 363.31 feet from the centerline of Jaymor Road; thence from the point of beginning and along remaining land now or late of the Southampton Corporation, South 05 degrees 18 minutes West 779.66 feet to a point a corner on the Northerly side of Pennsylvania Turnpike; thence along said side North 86 degrees 06 minutes 34 seconds West 102.57 feet to a point of curve; thence by a curve to the left in a Westerly direction having a radius of 3929.83 feet and for the arc distance of 102.88 feet to a point of tangency; thence still along Pennsylvania Turnpike, South 74 degrees 38 minutes 30 seconds West 51.80 feet to a point a corner, thence by the same South 85 degrees 38 minutes 30 seconds West 18.18 feet to a point a corner of remaining land now or late of the Southampton Corporation; thence along said land, North 10 degrees 00 minutes West 501.94 feet to a point a corner on the Southerly curb line of James Way aforesaid; thence along said curb line by a curve to the left in a Northeasterly direction having a radius of 1152.00 feet and for the arc distance of 264.76 feet to a point of tangency; thence by the same North 52 degrees 18 minutes East 260.52 feet to the point and place of beginning.

CONTAINING 5.00 Acres of land.

Being County Parcel Number 48-11-4-2

Being the same premises which Bucks County Industrial Development Corporation, a Pa. Corporation by Deed dated 10/22/1987 and recorded 10/27/1987 in Bucks County in Deed Book 2783 Page 834 conveyed unto Environmental Tectonics Corporation, a Pa. Corporation, in fee.

EXHIBIT B

Permitted Encumbrances

1. Agreement as in Deed Book 1695 page 376.
 2. Rights granted to Philadelphia Electric Company as in Deed Books 1821 page 409 and 1955 page 103.
 3. Memorandum of Lease as in Deed Book 2016 page 606.
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Third Amended and Restated Reimbursement Agreement for Letters of Credit



THIS THIRD AMENDED AND RESTATED REIMBURSEMENT AGREEMENT FOR LETTERS OF CREDIT (this “**Agreement**”) is made as of this September 28, 2012, 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. The Obligor and the Bank are parties to that certain Loan Agreement dated as of the date hereof (the “**Loan Agreement**”) pursuant to which the Bank has made available to the Obligor the Line of Credit (as defined in the Loan Agreement). This Agreement amends and restates that certain Second Amended and Restated Reimbursement Agreement for Letters of Credit between the Obligor and the Bank dated as of July 2, 2009 (as heretofore amended, the “**Existing Reimbursement Agreement**”). 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 or may hereafter request the Bank to issue one or more letters of credit (each, a “**Credit**”) (including the Credits listed on Schedule I hereto (the “**Existing Credits**”) heretofore issued under the Existing Reimbursement Agreement). 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, including the Existing Credits:

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 required by a Governmental Authority (other than taxes on the Bank’s net income); and “**UCP**” means the Uniform Customs and Practice as most recently published by the International Chamber of Commerce at the time a Credit is issued.

(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 (without duplication of amounts due under the Loan Agreement or any other Loan Document (as defined in the Loan Agreement)) 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., Prevaling 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 under Section 2(a) from the date due to the date of payment, at the Base Rate *plus* the Applicable Margin for Base Rate Loans (as defined in the Loan Agreement) then in effect *plus* three percent (3%); 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 wrongly 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 (i) duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and (ii) 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, except where its failure to be so qualified would not have a material adverse effect on the Obligor or its business; (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 (i) any organizational document of the Obligor, (ii) any agreement, document, or instrument binding on the Obligor or its property, or (iii) any law, treaty, regulation, or order of any Governmental Authority, or (iv) require any notice, filing, or other action to or by any Governmental Authority, except, in the case of clauses (ii) or (iii), for violations or breaches that are immaterial; (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) there are no actions, suits, proceedings or governmental investigations pending or, to the knowledge of the Obligor, threatened against the Obligor which could reasonably be expected to 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 in all material respects 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 under this Agreement; (b) the Obligor's failure to perform or observe any other term or covenant of this Agreement which failure is not cured within thirty (30) days after it occurs; (c) any representation or warranty made or furnished by the Obligor in connection with this Agreement shall be false, incorrect or incomplete in any material respect when made; (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; (e) a default with respect to any other indebtedness of the Obligor for borrowed money having a then-outstanding principal amount in excess of \$100,000, if the effect of such default is to cause or permit the acceleration of such debt; (f) any assignment by any Obligor for the benefit of creditors, or any levy, garnishment, attachment or similar proceeding is instituted against any property of any Obligor held by or deposited with the Bank; (g) filing by or against the Obligor or any of its property of any proceeding relating to bankruptcy, receivership, insolvency, reorganization, liquidation, conservatorship, or similar proceeding (and, in the case of any such proceeding instituted against the Obligor, such proceeding is not dismissed or stayed within 60 days of the commencement thereof); (h) the entry of a final, non-appealable judgment or judgments, that individually or in the aggregate exceed \$100,000, against the Obligor and the failure of the Obligor to discharge the judgment within thirty (30) days of the 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, provided that no event described in clause (k) hereof shall constitute an Event of Default if within sixty (60) days of such event the Obligor shall provide to the Bank a confirmation from such individual's estate of its liability for the such obligations or cash collateral in an amount equal to the amount of credit support provided by such person; 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 agreements or instruments 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 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. The Bank acknowledges that Obligor is a publicly traded company and the Bank understands and will comply with its obligations under applicable securities laws with regard to material non-public information of Obligor provided hereunder to the Bank (or any other person described in the preceding sentence). This is a continuing Agreement and shall remain in full force and effect until no obligations of the Obligor and no Credits 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: _____

Print Name: _____

Title: _____

SCHEDULE I

Existing Letters of Credit

L/C Number	Description	Amount	Open Date	Exp. Date
18117636-00-00	Bid Bond	\$ 100,000.00	07/13/12	10/09/12
18117729-00-00	ADMS	72,320.00	07/10/12	10/19/12
S262405PHL	Maintenance	47,560.00	11/25/03	11/09/12
S259738PHL	C-130 Repairs	43,190.00	08/08/03	12/30/12
18104493-00-00	Sterilizer	249,600.00	04/12/07	02/28/13
18109685-00-00	Maintenance	37,051.52	06/04/08	08/12/13
18110104-00-00	ADMS	286,250.00	07/22/08	08/30/13
18113665-00-00	Maintenance	40,612.72	08/23/10	05/12/14
Total		\$ 876,584.24		

**PREFERRED STOCK REPURCHASE AND
FINANCIAL RESTRUCTURING AGREEMENT**

This Preferred Stock Repurchase and Financial Restructuring Agreement (this “**Agreement**”) is entered into as of September 28, 2012, by and between ENVIRONMENTAL TECTONICS CORPORATION, a Pennsylvania corporation, with its principal place of business at 125 James Way, Southampton, Pennsylvania 18966, fax no. 215-357-4000 (the “**Company**”), and H.F. LENFEST, an individual residing in the Commonwealth of Pennsylvania, with offices at 200 Barr Harbor Drive, Suite 450, Conshohocken, Pennsylvania 19428 (“**Lenfest**”).

Recitals

A. Lenfest owns (i) all of the issued and outstanding shares of Series D Convertible Preferred Stock of the Company, \$0.05 par value per share, with a stated value of one thousand dollars (\$1,000.00) per share (the “**Series D Preferred Stock**”), and (ii) all of the issued and outstanding shares of Series E Convertible Preferred Stock of the Company, \$0.05 par value per share, with a stated value of one thousand dollars (\$1,000.00) per share (the “**Series E Preferred Stock**”).

B. Contemporaneously herewith, the Company and Lenfest are entering into a series of agreements with PNC Bank, National Association (“**PNC**”), pursuant to which (i) the Company’s existing revolving line of credit with PNC (the “**Line of Credit**”) will be reduced from \$20,000,000 to \$15,000,000 and the expiration date for the Line of Credit will be extended from June 30, 2013 to October 31, 2015, (ii) the Company will obtain from PNC a new \$15,000,000 five-year term loan (the “**Term Loan**”), which Term Loan will be guaranteed by Lenfest only for the first 30 months of its term, (iii) the Line of Credit and the Term Loan will be secured by a first priority perfected security interest in all of the assets of the Company, including all real property owned by the Company, and (iv) all obligations of Lenfest to provide collateral to PNC in respect of the Line of Credit and the Term Loan will cease and PNC will release to Lenfest the approximately \$10,000,000 of securities collateral that PNC is currently holding (collectively, the “**PNC Debt Restructuring**”).

C. The Company desires to repurchase from Lenfest, and Lenfest desires to sell to the Company, certain shares of Series D Preferred Stock and Series E Preferred Stock held by Lenfest upon the terms and subject to the conditions set forth in this Agreement.

Terms of Agreement

NOW, THEREFORE, Lenfest and the Company, intending to be legally bound, agree as follows:

1. Preferred Stock Repurchase.

(a) Sale and Purchase. On the terms and subject to the conditions set forth in this Agreement, effective as of the closing of the PNC Debt Restructuring (the “**Effective Time**”), the Company hereby agrees to purchase and accept from Lenfest, and Lenfest agrees to sell, transfer, convey and deliver to the Company, free and clear of all liens and other encumbrances, (i) 386 shares of Series D Preferred Stock, representing all of the Company’s issued and outstanding shares of Series D Preferred Stock, and (ii) 9,614 shares of Series E Preferred Stock, representing a portion of the Company’s issued and outstanding Series E Preferred Stock (collectively, the “**Shares**”).

(b) Delivery of Shares. At the Effective Time, Lenfest shall deliver to the Company original stock certificates representing all of the Shares, duly endorsed in blank or accompanied by stock powers duly executed in blank, in form and substance satisfactory to the Company.

2. Preferred Stock Amendments.

(a) Preferred Shareholder Consent at the Effective Time. At the Effective Time, Lenfest shall, in his capacity as the sole holder of the Series D Preferred Stock and the Series E Preferred Stock, execute and deliver to the Company a written consent approving the PNC Debt Restructuring and the transactions contemplated by this Agreement, including the amendments described in Section 2(b).

(b) Shareholder Meeting to Approve Preferred Stock Amendments. The Company will take all steps necessary in accordance with applicable federal and state law and with its articles of incorporation and bylaws, to seek approval of the following actions by the Company's holders of common stock, par value \$0.05 per share (the "**Common Stock**"), at the next duly called and convened annual meeting of the holders of the Common Stock after the meeting currently scheduled for October 18, 2012 (which vote shall include the vote of the holders of the Series D Preferred Stock (if any) and the Series E Preferred Stock (if any) in accordance with the terms of such Preferred Stock) (the "**Shareholder Meeting**"):

(i) an amendment to the Statement With Respect to Shares of Series D Convertible Preferred Stock of the Company which reduces the dividend rate on the Series D Preferred from 10% to 4%; and

(ii) an amendment to the Statement With Respect to Shares of Series E Convertible Preferred Stock of the Company which reduces the dividend rate on the Series E Preferred from 10% to 4% (collectively, the "**Preferred Stock Amendments**").

(c) Lenfest Voting Agreement. At the Shareholder Meeting, Lenfest agrees to vote, or cause to be voted, in favor of each Preferred Stock Amendment all securities of the Company that are owned by Lenfest (directly or indirectly) or over which Lenfest has voting control and that have rights to vote on the Preferred Stock Amendments, including (but not limited to) all shares of Common Stock, Series D Preferred Stock and Series E Preferred Stock owned by (i) Lenfest, (ii) any entity controlled by Lenfest, and (iii) any trust of which Lenfest is trustee. The foregoing voting agreement shall be binding on Lenfest's heirs, personal representatives, successors and assigns.

(d) Amendment Filings. If the Preferred Stock Amendments are approved at the Shareholder Meeting, then, as soon as practicable following the Shareholder Meeting, the Company shall cause to be executed and filed with the Department of State of the Commonwealth of Pennsylvania, such amendments or other documents as may be necessary to give effect to the Preferred Stock Amendments (the "**Amendment Filings**").

(e) Dividends on Preferred Stock.

(i) Notwithstanding that the Preferred Stock Amendments shall not yet have been approved by the holders of Common Stock at the Shareholder Meeting, Lenfest agrees that dividends shall accrue and be paid on the Series D Preferred Stock and the Series E Preferred Stock at the reduced rate of 4% (rather than 10%) per annum from the Effective Time through the date of the Amendment Filings (the “ **Provisional Dividend Period**”), and, except as expressly provided in Section 2(e)(iii) below, Lenfest hereby waives all right to receive a full 10% dividend on the Series D Preferred Stock and the Series E Preferred Stock during the Provisional Dividend Period.

(ii) If the Preferred Stock Amendments are approved at the Shareholder Meeting by the necessary vote of the holders of Common Stock, then no additional dividends shall accrue or be paid on the Series D Preferred Stock or the Series E Preferred Stock with respect to the Provisional Dividend Period.

(iii) If the Preferred Stock Amendments are not approved at the Shareholder Meeting by the necessary vote of the holders of Common Stock, then the rate at which dividends shall accrue and be paid on the Series D Preferred Stock and the Series E Preferred Stock shall immediately revert to the previous rate of 10% per annum. In such case, the Company shall, within sixty days after the date of the Shareholder Meeting, pay to Lenfest, in a lump sum, a supplemental dividend on the Series D Preferred Stock and the Series E Preferred Stock at the rate of 6% per annum for the number of days in the Provisional Dividend Period.

3. Lenfest Credit Facility.

(a) Payment of Remaining Amount Due. At the Effective Time, the Company shall pay to Lenfest the amount of \$417,220, in cash, representing payment in lieu of the shares of Series D Preferred Stock that would have been deliverable by the Company to Lenfest under Section 2.2(a) of that certain Secured Credit Facility and Warrant Purchase Agreement dated as of April 24, 2009, between the Company, as borrower, and Lenfest, as lender (the “**2009 Loan Agreement**”), with respect to the period from the most recent issuance of Series D Preferred Stock under Section 2.2(a) of the 2009 Loan Agreement through the Effective Time. Lenfest hereby waives any right he may have to receive from the Company additional shares of Series D Preferred Stock or any other consideration under either Section 2.1(a) or Section 2.2(a) of the 2009 Loan Agreement.

(b) Termination of Lenfest Credit Agreements. Notwithstanding anything to the contrary therein, the Company and Lenfest hereby agree that the following agreements, as may have been amended from time to time (collectively, the “ **Lenfest Credit Agreements**”), shall terminate and be of no further force or effect as of the Effective Time:

- (i) the 2009 Loan Agreement;
- (ii) that certain Security Agreement, dated February 18, 2009, by the Company in favor of Lenfest;

(iii) that certain Security Agreement, dated April 24, 2009, among the Company, Entertainment Technology Corporation, a Pennsylvania corporation and a wholly-owned subsidiary of the Company (“**ETC Entertainment**”), and Lenfest;

(iv) that certain Guaranty, dated April 24, 2009, by ETC Entertainment in favor of Lenfest; and

(v) that certain Amended and Restated Open-End Mortgage and Security Agreement, dated April 24, 2009, by the Company in favor of Lenfest, as filed with the Bucks County Recorder of Deeds (the “**Mortgage**”).

(c) Surrender and Cancellation of Promissory Notes; Retention of Warrants. At the Effective Time, Lenfest shall surrender to the Company for cancellation all promissory notes of the Company issued to Lenfest under or in connection with the 2009 Loan Agreement. Nothing in this Agreement shall be construed to terminate any outstanding warrants of Lenfest, including without limitation, the warrants acquired by Lenfest pursuant to the 2009 Loan Agreement.

(d) Termination of Security Interests. Lenfest hereby authorizes the Company, from and after the Effective Time, to file or to cause to be filed such Uniform Commercial Code termination statements and other documents as may be necessary to terminate the security interests created under or in connection with the Lenfest Credit Agreements.

(e) Discharge of Mortgage. At the Effective Time, Lenfest shall execute and deliver to the Company a mortgage satisfaction piece suitable for filing with the Bucks County Recorder of Deeds to certify the discharge of the Mortgage.

(f) Mutual Release. As of the Effective Time, each party hereby releases the other party and such other party’s stockholders, directors, officers, employees, agents and all other related or affiliated persons, firms or entities (collectively, the “**Released Persons**”) of and from any claims, causes of action, demands, obligations, agreements, promises, liabilities, damages, costs and fees of any nature, known or unknown, arising out of or relating to the Lenfest Credit Agreements or the termination thereof (collectively, “**Claims**”), except for any Released Person’s obligations under this Agreement. Each party hereby agrees never to sue any Released Person for or based upon any Claim released hereunder.

4. Consideration. In consideration of the transactions contemplated hereby and in consideration of Lenfest’s participation in the PNC Debt Restructuring, the Company shall pay to Lenfest at the Effective Time (in addition to the amount due under Section 3(a)) the sum of Ten Million Dollars (\$10,000,000) in immediately available funds, by wire transfer of United States currency to an account or accounts designated by Lenfest in writing.

5. Representations and Warranties.

(a) Representations and Warranties of Lenfest. Lenfest hereby represents and warrants to the Company as follows:

(i) Lenfest is the owner of record of all right, title and interest, free and clear of all liens and other encumbrances, in and to the Shares.

(ii) Lenfest has the power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby.

(iii) This Agreement and all other instruments or documents executed by Lenfest in connection herewith (A) have been duly executed by Lenfest and constitute the legal, valid and binding obligation of Lenfest, enforceable in accordance with their respective terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, and (B) do not violate or otherwise conflict with any injunction, judgment, order, decree, ruling or charge by any governmental authority that is binding on Lenfest.

(iv) There is no agreement, commitment or understanding of any nature whatsoever to which Lenfest is a party that directly or indirectly provides any person other than Lenfest with the right to vote or control the disposition of the Shares.

(v) Lenfest has, independently and without reliance on any valuation or projections by the Company or its management, and based on such documents and information as he has deemed appropriate, made his own appraisal of the financial condition and affairs of the Company and decision to enter into this Agreement.

(b) Representations and Warranties of the Company. The Company hereby represents and warrants to Lenfest as follows:

(i) The Company is a corporation, duly organized, validly existing, and in good standing under the laws of the Commonwealth of Pennsylvania.

(ii) The Company has received approval from the Board of Directors of the Company to consummate the transactions contemplated hereby.

(iii) The person signing this Agreement on behalf of the Company has all requisite power and authority to execute and deliver this Agreement in the name and on behalf of the Company.

(iv) This Agreement and all other instruments or documents executed by the Company in connection herewith (A) have been duly executed by the Company, and constitute the legal, valid and binding obligation of the Company, enforceable in accordance with their respective terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, and (B) do not violate or otherwise conflict with any injunction, judgment, order, decree, ruling or charge by any governmental authority that is binding on the Company.

6. Further Assurances. Each party hereby agrees, following the Effective Time, without further consideration, to execute and deliver such other agreements, instruments and documents and to take such other actions as the other party or its counsel may reasonably request in order to carry out the provisions hereof and the transactions contemplated hereby, including to put the Company in possession of, and to vest in the Company, good and valid title to the Shares in accordance with this Agreement.

7. Miscellaneous.

(a) Survival of Representations and Covenants. All of the representations and warranties in this Agreement and in any instruments executed and delivered in fulfillment of the requirements of this Agreement shall survive the consummation of the transactions contemplated hereby. All covenants which by their terms are required to be performed following the Effective Time shall survive until performed in accordance with their terms.

(b) Counsel. This Agreement was prepared by counsel for the Company, and such counsel does not represent the interests of Lenfest, which may conflict with those of the Company. Lenfest (i) understands and agrees that this Agreement contains legally binding provisions and has certain financial and tax consequences for Lenfest, (ii) has had the opportunity to consult with an independent lawyer regarding such provisions and consequences, and (iii) has either consulted such a lawyer or consciously decided not to consult such a lawyer.

(c) Interpretation. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of the provisions of this Agreement.

(d) Expenses. The parties shall, except as otherwise specifically provided herein, bear their respective expenses incurred in connection with the preparation, execution and performance of this Agreement and the transactions contemplated hereby, including, without limitation, all fees and expenses of agents, representatives, counsel and accountants.

(e) Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, sent by facsimile or sent by certified, registered or express mail, postage prepaid, to a party at its address set forth in the first paragraph of this Agreement. Any such notice shall be deemed given upon receipt. Any party may by notice given in accordance with this Section to the other party designate another address for receipt of notices hereunder.

(f) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

(g) Entire Agreement, Amendment; Waivers. This Agreement constitutes the entire agreement between the Company and Lenfest with respect to the transaction contemplated hereby, supersedes all prior or contemporaneous negotiations, communications, discussions and correspondence concerning the subject matter hereof (other than that certain Amended and Restated Registration Rights Agreement, dated as of April 24, 2009, between the Company and Lenfest), and may be amended or modified only with the written consent of the Company and Lenfest. A failure of any party hereto to insist on strict compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision hereof.

(h) Severability. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement; provided, that the repurchase of the Shares under Section 1 and the termination of the Lenfest Credit Agreements under Section 3 are of the essence of this Agreement and shall not be severable.

(i) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to its principles of conflicts of laws.

(j) **Waiver of Jury Trial**. **EACH PARTY HEREBY AGREES TO WAIVE TRIAL BY JURY IN ANY ACTION ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT.**

(k) Counterparts. This Agreement may be executed in separate counterparts, each of which, when so executed, shall be deemed to be an original and all of which, when taken together, shall constitute but one and the same agreement.

(l) Variations in Pronouns. All pronouns and any variations thereof used herein refer to the masculine, feminine or neuter, singular or plural, as the context may require.

(m) Interpretation. All references herein to Sections, subsections and clauses shall be deemed references to such parts of this Agreement, unless the context shall otherwise require.

(n) Headings. The headings in this Agreement are for reference only, and shall not affect the interpretation of this Agreement.

[Remainder of Page Intentionally Blank; Signature Page Follows]

Execution

WITH THE INTENT TO BE LEGALLY BOUND HEREBY, the above terms and conditions are hereby agreed to and accepted as of the day and year first written above.

ENVIRONMENTAL TECTONICS CORPORATION

By: _____
Name:
Title:

H.F. LENFEST

The undersigned hereby execute and deliver this Agreement solely to evidence their consent to the termination of the Lenfest Credit Agreements to which they are party:

ENVIRONMENTAL TECTONICS CORPORATION

By: _____
Name:
Title:

ETC DELAWARE, INC.

By: _____
Name:
Title:

Amended and Restated Guaranty Agreement



THIS AMENDED AND RESTATED GUARANTY AGREEMENT (this “**Guaranty**”) is made and entered into as of this September 28, 2012, by **H.F. LENFEST**, an individual (the “**Guarantor**”), with an address at 300 Barr Harbor Drive, Suite 460, West Conshohocken, PA 19428, in consideration of the extension of credit by **PNC BANK, NATIONAL ASSOCIATION** (the “**Bank**”), with an address at 1000 Westlakes Drive, Suite 200, Berwyn, PA 19312, to **ENVIRONMENTAL TECTONICS CORPORATION**, a Pennsylvania corporation (the “**Borrower**”), and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged. This Guaranty amends, restates and replaces (but does not constitute a novation of) the existing Amended and Restated Guaranty Agreement from the Guarantor to the Bank dated as of July 2, 2009.

1. **Guaranty of Obligations.** The Guarantor hereby unconditionally guarantees, as a primary obligor, and becomes surety for, the prompt payment and performance of all loans, advances, debts, liabilities, reimbursement and other obligations, covenants and duties owing by the Borrower to the Bank 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 Borrower, 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 Term Loan as defined in and established under that certain Loan Agreement between the Borrower and the Bank dated as of the date hereof (as hereafter amended, modified or supplemented, the “**Loan Agreement**”) and the Term Loan Note, and all costs and expenses of the Bank incurred in the 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**”). (For the avoidance of doubt, the Obligations (a) shall reduce with each principal payment made on the Term Loan and (b) shall not include any amount owing with respect to the Line of Credit Note or under the other Loan Documents, as each such term is defined in the Loan Agreement.) If the Borrower defaults under any Obligations, the Guarantor will pay the amount due to the Bank.

2. **Nature of Guaranty; Waivers.** This is a guaranty of payment and not of collection and the Bank shall not be required, as a condition of the Guarantor’s liability, to make any demand upon or to pursue any of its rights against the Borrower, or to pursue any rights which may be available to it with respect to any other person who may be liable for the payment of the Obligations.

This is an absolute, unconditional, irrevocable and continuing guaranty and will remain in full force and effect until the earlier of (a) the date all of the Obligations have been indefeasibly paid in full, or (b) provided that no demand has been made hereunder and no Event of Default has occurred and is continuing, the date that is thirty (30) months after the date hereof (as applicable, the “**Expiration Date**”). This Guaranty will not be affected by any surrender, exchange, acceptance, compromise or release by the Bank of any other party, or any other guaranty or any security held by it for any of the Obligations, by any failure of the Bank to take any steps to perfect or maintain its lien or security interest in or to preserve its rights to any security or other collateral for any of the Obligations or any guaranty, or by any irregularity, unenforceability or invalidity of any of the Obligations or any part thereof or any security or other guaranty thereof. The Guarantor’s obligations hereunder shall not be affected, modified or impaired by any counterclaim, set-off, recoupment, deduction or defense based upon any claim the Guarantor may have (directly or indirectly) against the Borrower or the Bank, except payment or performance of the Obligations.

Notice of acceptance of this Guaranty, notice of extensions of credit to the Borrower from time to time, notice of default, diligence, presentment, notice of dishonor, protest, demand for payment, and any defense based upon the Bank's failure to comply with the notice requirements under Sections 9-611 and 9-612 of the Uniform Commercial Code as in effect from time to time are hereby waived. The Guarantor waives all defenses based on suretyship or impairment of collateral.

The Bank at any time and from time to time, without notice to or the consent of the Guarantor, and without impairing or releasing, discharging or modifying the Guarantor's liabilities hereunder, may (a) 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; (b) renew, substitute, modify, amend or alter, or grant consents or waivers relating to any of the Obligations, any other guaranties, or any security for any Obligations or guaranties; (c) apply any and all payments by whomever paid or however realized including any proceeds of any collateral, to any Obligations of the Borrower in such order, manner and amount as the Bank may determine in its sole discretion; (d) settle, compromise or deal with any other person, including the Borrower or the Guarantor, with respect to any Obligations in such manner as the Bank deems appropriate in its sole discretion; (e) substitute, exchange or release any security or guaranty; or (f) take such actions and exercise such remedies hereunder as provided herein.

3. **Repayments or Recovery from the Bank.** If any demand is made at any time upon the Bank for the repayment or recovery of any amount received by it in payment or on account of any of the Obligations and if the Bank 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 Guarantor will be and remain liable hereunder for the amount so repaid or recovered to the same extent as if such amount had never been received originally by the Bank. The provisions of this section will be and remain effective notwithstanding any contrary action which may have been taken by the Guarantor in reliance upon such payment, and any such contrary action so taken will be without prejudice to the Bank's rights hereunder and will be deemed to have been conditioned upon such payment having become final and irrevocable. This Section 3 survives the Expiration Date.

4. **Financial Statements.** Unless compliance is waived in writing by the Bank or until the Expiration Date, the Guarantor will promptly submit to the Bank such information relating to the Guarantor's affairs (including, but not limited to, semi-annual investment statements for the Guarantor within 60 days following each June 30 and December 31 and tax returns for the Guarantor within 30 days following the filing thereof) or any security for the Guaranty at any time provided by the Guarantor as the Bank may reasonably request.

5. **Enforceability of Obligations.** No modification, limitation or discharge of the Obligations arising out of or by virtue of any bankruptcy, reorganization or similar proceeding for relief of debtors under federal or state law will affect, modify, limit or discharge the Guarantor's liability in any manner whatsoever and this Guaranty will remain and continue in full force and effect and will be enforceable against the Guarantor to the same extent and with the same force and effect as if any such proceeding had not been instituted. The Guarantor waives all rights and benefits which might accrue to it by reason of any such proceeding and will be liable to the full extent hereunder, irrespective of any modification, limitation or discharge of the liability of the Borrower that may result from any such proceeding.

6. **Events of Default.** The occurrence of any of the following shall be an “Event of Default”: (i) any Event of Default (as defined in the Term Loan Note); (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 Obligation with respect to such default, (iii) the Guarantor’s failure to perform any of his material obligations hereunder; (iv) any written warranty, representation or statement when made or furnished to the Bank by or on behalf of the Guarantor in connection with this Guaranty shall be false, incorrect or incomplete in any material respect when made; (v) the termination or attempted termination of this Guaranty by the Guarantor prior to the Expiration Date; (vi) the Guarantor shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency or relief of debtors, seeking to have an order for relief entered with respect to him, or seeking to adjudicate him a bankrupt or insolvent, or seeking arrangement, adjustment, winding-up, liquidation, composition or other relief with respect to him or his debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for him or for all or any substantial part of his assets, or the Guarantor shall make a general assignment for the benefit of his creditors; or (vii) there shall be commenced against the Guarantor any case, proceeding or other action of a nature referred to in clause (vi) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days. Upon the occurrence of any Event of Default, (a) the Guarantor shall pay to the Bank the amount of the Obligations; or (b) on demand of the Bank, the Guarantor shall immediately deposit with the Bank, in U.S. dollars, all amounts due or to become due under the Obligations, and the Bank may at any time use such funds to repay the Obligations; or (c) the Bank in its discretion may exercise with respect to any collateral any one or more of the rights and remedies provided a secured party under the applicable version of the Uniform Commercial Code; or (d) the Bank in its discretion may exercise from time to time any other rights and remedies available to it at law, in equity or otherwise.

7. **Right of Setoff.** In addition to all liens upon and rights of setoff against the Guarantor’s money, securities or other property given to the Bank by law, the Bank shall have, with respect to the Guarantor’s obligations to the Bank under this Guaranty and to the extent permitted by law, until the Expiration Date, a contractual possessory security interest in and a contractual right of setoff against, and the Guarantor hereby grants Bank a security interest in, and hereby collaterally assigns, conveys, delivers, pledges and transfers to the Bank all of the Guarantor’s right, title and interest in and to, all of the Guarantor’s deposits, moneys, securities and other property now or hereafter in the possession of or on deposit with, or in transit to, the Bank or any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., whether held in a general or special account or deposit, whether held jointly with someone else, or whether held for safekeeping or otherwise, excluding, however, all IRA, Keogh, and trust accounts. Every such security interest and right of setoff may be exercised without demand upon or notice to the Guarantor. Every such right of setoff shall be deemed to have been exercised 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 (but not later than the Expiration Date).

8. **Collateral.** This Guaranty shall be secured by such collateral, if any, as may in the future be granted to the Bank to secure any obligations of the Guarantor to the Bank.

9. **Costs.** To the extent that the Bank incurs any costs or expenses in protecting or enforcing its rights under the Obligations or this Guaranty, including reasonable attorneys’ fees and the costs and expenses of litigation, such costs and expenses will be due on demand, will be included in the Obligations and will bear interest from the incurring or payment thereof at the default interest rate provided under the Loan Agreement.

10. **Postponement of Subrogation.** Until the Obligations are indefeasibly paid in full, expire, are terminated and are not subject to any right of revocation or rescission, the Guarantor postpones and subordinates in favor of the Bank or its designee (and any assignee or potential assignee) any and all rights which the Guarantor may have to (a) assert any claim whatsoever against the Borrower based on subrogation, exoneration, reimbursement, or indemnity or any right of recourse to security for the Obligations with respect to payments made hereunder, and (b) any realization on any property of the Borrower, including participation in any marshalling of the Borrower’s assets.

11. **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 Bank and the Guarantor 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 addresses for the Bank and the Guarantor as set forth above or to such other address as either may give to the other for such purpose in accordance with this section.

12. **Preservation of Rights.** 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 a waiver of any such right or power, nor will the Bank’s action or inaction impair any such right or power. The Bank’s rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity. The Bank may proceed in any order against the Borrower, the Guarantor or any other obligor of, or collateral securing, the Obligations.

13. **Illegality.** If any provision contained in this Guaranty should be invalid, illegal or unenforceable in any respect, it shall not affect or impair the validity, legality and enforceability of the remaining provisions of this Guaranty.

14. **Changes in Writing.** No modification, amendment or waiver of, or consent to any departure by the Guarantor from, any provision of this Guaranty 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. No notice to or demand on the Guarantor will entitle the Guarantor to any other or further notice or demand in the same, similar or other circumstance.

(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 Guarantor and the Bank with respect to the subject matter hereof. This Guaranty supersedes any other guarantees previously made by the Guarantor to the Bank with regard to the Borrower.

16. **Successors and Assigns.** This Guaranty will be binding upon and inure to the benefit of the Guarantor and the Bank and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Guarantor may not assign this Guaranty in whole or in part without the Bank’s prior written consent and the Bank at any time may assign this Guaranty in whole or in part.

17. **Interpretation.** In this Guaranty, unless the Bank and the Guarantor 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 sections or exhibits are to those of this Guaranty. Section headings in this Guaranty are included for convenience of reference only and shall not constitute a part of this Guaranty for any other purpose. If this Guaranty is executed by more than one party as Guarantor, the obligations of such persons or entities will be joint and several.

18. **Anti-Money Laundering/International Trade Law Compliance.** The Guarantor represents and warrants to the Bank, as of the date of this Guaranty, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any loan, and at all times any Obligations exist that: (A) the Guarantor (i) is not listed or otherwise recognized as a specially designated, prohibited, sanctioned or debarred person or entity, or subject to any limitations or prohibitions (including but not limited to the blocking of property or rejections of transactions) under any order or directive of any Compliance Authority; (ii) does not have any of his assets in a Sanctioned Country or in the possession, custody or control of a Sanctioned Person; or (iii) does not do business in or with, or derive any of his operating income from investments in or transactions with, any Sanctioned Person or Sanctioned Country in violation of any law or regulation enforced by any Compliance Authority; (B) the proceeds of any loan will not be used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Country; and (C) Guarantor is in compliance with, and Guarantor does not engage in any dealings or transactions prohibited by, any Anti-Terrorism Laws. As used herein: “Anti-Terrorism Laws” means any laws of the United States relating to terrorism, trade sanctions programs and embargoes, import/export licensing, money laundering, or bribery, all as amended, supplemented or replaced from time to time; “Compliance Authority” means each and all of the (a) U.S. Department of the Treasury’s Office of Foreign Asset Control; (b) U.S. Treasury Department/Financial Crimes Enforcement Network; (c) U.S. State Department/Directorate of Defense Trade Controls; (d) U.S. Commerce Department/Bureau of Industry and Security; (e) U.S. Internal Revenue Service/ Criminal Investigation, Large Business and International Divisions; (f) U.S. Justice Department; and (g) U.S. Securities and Exchange Commission. “Sanctioned Country” means a country subject to a sanctions program maintained by any Compliance Authority. “Sanctioned Person” means any individual person, a group, regime, entity or thing subject to, or specially designated under, any sanctions program maintained by any Compliance Authority.

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

20. **Equal Credit Opportunity Act.** If the Guarantor is not an “applicant for credit” under Section 202.2 (e) of the Equal Credit Opportunity Act of 1974 (“**ECOA**”), the Guarantor acknowledges that (i) this Guaranty has been executed to provide credit support for the Obligations, and (ii) the Guarantor was not required to execute this Guaranty in violation of Section 202.7(d) of ECOA.

21. **Authorization to Obtain Credit Reports.** By signing below, the Guarantor provides written authorization to the Bank or its designee (and any assignee or potential assignee) to obtain the Guarantor’s personal credit profile from one or more national credit bureaus. Such authorization shall solely extend to obtaining a credit profile in considering this Guaranty and subsequently for the purposes of update, renewal or extension of such credit or additional credit and for reviewing or collecting the resulting account.

22. Waiver of Jury Trial. The Guarantor irrevocably waives any and all right the Guarantor may have to a trial by jury in any action, proceeding or claim of any nature relating to this Guaranty, any documents executed in connection with this Guaranty or any transaction contemplated in any of such documents. The Guarantor acknowledges that the foregoing waiver is knowing and voluntary.

The Guarantor acknowledges that it has read and understood all the provisions of this Guaranty, 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.

WITNESS:

Print Name: _____

H.F. Lenfest (SEAL)

Acknowledged and accepted:

PNC BANK NATIONAL ASSOCIATION

By: _____
Title: _____



For Immediate Release

ETC Announces Financial Restructuring to Improve Earnings and Cash Flow

Southampton, PA, September 28, 2012: Environmental Tectonics Corporation ("ETC" or the "Company") (OTCQB: ETCC) today announced a financial restructuring, made possible by continued positive results and a strengthening balance sheet, to reduce its annual net cash payments for dividends and interest by approximately \$1.5 million per year. The restructuring also reduces the number of participating preferred shares in the amount equivalent to 5,032,091 shares of Common Stock, or nearly 25% of the total outstanding common and participating shares, and is expected to have a positive impact on the Company's earnings.

As part of this restructuring, the Company's revolving line of credit with PNC Bank was reduced from \$20 million to \$15 million, while the term of the revolving line was extended twenty eight months to October 31, 2015. PNC Bank also provided a five-year term loan of \$15 million. ETC used \$10 million of the proceeds from the term loan to repurchase and retire 10,000 shares of 10% Preferred Stock, which was convertible to 5,032,091 shares of Common Stock. The revolving line of credit will no longer be guaranteed by H.F. Lenfest, one of the Company's Directors and largest shareholder, and will instead be secured by substantially all of the Company's assets. Mr. Lenfest will provide a guarantee on the new \$15 million term-loan for a period of thirty months, after which his guarantee will be removed.

Following the close of the transaction, the dividends on the remaining Series E Preferred Stock will be reduced from ten percent (10%) to four percent (4%), subject to shareholder approval.

"Today's announcement represents a major accomplishment for ETC," said William F. Mitchell, Sr., ETC's President and CEO. "This financial restructuring, including the repurchase and retirement of the Preferred Stock, is an indication of ETC's growing financial strength over the last few years. This restructuring benefits our common shareholders by increasing income attributable to them and by significantly reducing the dilutive effect of the Preferred Stock being retired. We are very grateful for the support we have received from Mr. Lenfest over the last decade, and for his sharing of our vision for ETC's technologies. Without Mr. Lenfest's support it is unlikely that ETC would now be the leader it is in motion-based flight simulation. Once we complete our restructuring, we believe we will be in an excellent position to leverage the strength of the ETC brand, our deep customer relationships, and reputation for industry leading products to take advantage of improving market conditions and global growth opportunities."

About ETC

ETC designs, manufactures and sells 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 training systems, sterilizers (steam and gas), environmental testing products and hyperbaric chambers and other products and services that involve similar manufacturing techniques and engineering technologies. ETC's unique ability to offer complete systems, designed and produced to high technical standards, sets it apart from its competition. ETC is headquartered in Southampton, PA. For more information about ETC, visit <http://www.etcusa.com/>.

Forward-looking Statements

Discussions of some of the matters contained in this press release may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, and, as such, may involve risks and uncertainties. ETC based these forward-looking statements on its current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about ETC 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. Accordingly, ETC cautions you not to place undue reliance on the forward-looking statements in this press release.

These forward-looking statements include statements with respect to the Company's expectations, anticipations, and intentions, including, but not limited to, (i) projections of revenues, income, or loss, (ii) statements made about the benefits of the financial restructuring, future market conditions, and growth opportunities, and (iii) statements preceded by, followed by, or, that include, terminology such as 'may,' 'will,' 'should,' 'expect,' 'plan,' 'anticipate,' 'believe,' 'estimate,' 'future,' 'predict,' 'potential,' 'intend,' or 'continue,' and similar expressions. These forward-looking statements involve risks and uncertainties that 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. Shareholders are urged to carefully review these risks and the risks discussed in the Company's Annual Report on Form 10-K for the fiscal year ended February 24, 2012 under the caption 'Item 1A. Risk Factors' prior to making an investment in the Company's Common Stock. The Company cautions that the foregoing list of factors that could affect forward-looking statements by ETC 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.

Contact: Bob Laurent, CFO
Phone: 215-355-9100 (Ext. 1550)
E-mail: rlaurent@etcusa.com

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- Financial Statements Follow -

Pro Forma Financial Statements

Following are a pro forma summary of results for fiscal 2012 and fiscal 2013 first quarter, and a pro forma balance sheet as of May 25, 2012. The pro forma results for fiscal 2012 and fiscal 2013 Q1 are presented as though the refinancing and stock purchase transactions took place on February 26, 2011. The pro forma balance sheet is presented as though the transactions occurred on May 25, 2012.

Table A

ENVIRONMENTAL TECTONICS CORPORATION SUMMARY TABLE OF RESULTS (amounts in thousands, except per share information)

	Fiscal 2012		Fiscal 2013 Q1	
	As reported	Pro forma	As reported	Pro forma
Net sales	\$ 66,294	\$ 66,294	\$ 16,070	\$ 16,070
Cost of goods sold	42,763	42,763	9,622	9,622
Gross profit	\$ 23,531	\$ 23,531	\$ 6,448	\$ 6,448
<i>Gross profit margin %</i>	35.5%	35.5%	40.1%	40.1%
Selling and marketing expenses	5,481	5,481	1,340	1,340
General and administrative expenses	8,513	8,513	1,883	1,883
Research and development expenses	1,400	1,400	310	310
Operating expenses	15,394	15,394	3,533	3,533
Operating income	\$ 8,137	\$ 8,137	\$ 2,915	\$ 2,915
<i>Operating margin %</i>	12.3%	12.3%	18.1%	18.1%
Interest expense, net	734	954	214	269
Other (income) expense, net	(85)	(85)	(3)	(3)
Income before income taxes	\$ 7,488	\$ 7,268	\$ 2,704	\$ 2,649
<i>Pre-tax income margin %</i>	11.3%	11.0%	16.8%	16.5%
Provision for income taxes	2,620	2,543	1,014	993
Net income	\$ 4,868	\$ 4,725	\$ 1,690	\$ 1,656
Expense (income) attributable to non-controlling interest	5	5	5	5
Net income attributable to ETC	\$ 4,873	\$ 4,730	\$ 1,695	\$ 1,661
Preferred Stock dividend	(2,208)	(484)	(552)	(121)
Income applicable to common and participating shareholders	\$ 2,665	\$ 4,246	\$ 1,143	\$ 1,540
Basic earnings per common and participating share:				
Distributed earnings per share:				
Common	\$ -	\$ -	\$ -	\$ -
Preferred	\$ 0.20	\$ 0.08	\$ 0.05	\$ 0.02
Undistributed earnings per share:				
Common	\$ 0.13	\$ 0.28	\$ 0.06	\$ 0.10
Preferred	\$ 0.13	\$ 0.28	\$ 0.06	\$ 0.10
Diluted earnings per share	\$ 0.13	\$ 0.27	\$ 0.06	\$ 0.10
Total basic weighted average common and participating shares	20,209	15,177	20,231	15,199
Total diluted weighted average shares	20,497	15,465	20,381	15,349

The pro forma results reflect increased interest expense related to the new financing, offset in part, by lower fees paid on collateral and reduced taxes. They also reflect lower dividends as a result of fewer participating preferred shares outstanding and a reduction of dividends from 10% to 4% on the remaining participating preferred shares outstanding.

Table B

ENVIRONMENTAL TECTONICS CORPORATION
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share information)

	May 25, 2012 <u>(As reported)</u>	May 25, 2012 <u>(Pro forma)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,344	\$ 3,344
Restricted cash	6,158	6,158
Accounts receivable, net	6,124	6,124
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	23,247	23,247
Inventories, net	5,517	5,517
Deferred tax assets, current	4,206	4,206
Prepaid expenses and other current assets	1,121	1,121
Total current assets	<u>49,717</u>	<u>49,717</u>
Property, plant, and equipment, net	14,967	14,967
Capitalized software development costs, net	609	609
Deferred tax assets, non-current, net	3,194	3,194
Other assets	14	14
Total assets	<u>\$ 68,501</u>	<u>\$ 68,501</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt obligations	\$ 108	\$ 3,108
Accounts payable, trade	5,151	5,151
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	3,399	3,399
Customer deposits	4,526	4,526
Accrued taxes	394	394
Accrued interest and dividends	997	647
Other accrued liabilities	3,630	3,630
Total current liabilities	<u>18,205</u>	<u>20,855</u>
Long-term debt obligations, less current portion:		
Credit facility payable to bank	18,141	13,491
Other long-term debt	-	12,000
Total long-term debt obligations, less current portion	<u>18,141</u>	<u>25,491</u>
Total liabilities	<u>36,346</u>	<u>46,346</u>
Commitments and contingencies		
Shareholders' equity:		
Cumulative convertible participating Preferred Stock, Series D, \$0.05 par value, 11,000 shares authorized; 386 and 0 shares outstanding as reported and pro forma, respectively	386	-
Cumulative convertible participating Preferred Stock, Series E, \$0.05 par value, 25,000 shares authorized; 21,741 and 12,127 shares outstanding as reported and pro forma, respectively	21,741	12,127
Common Stock, \$0.05 par value, 50,000,000 shares authorized; 9,142,296 shares issued and outstanding as reported and pro forma	457	457
Additional paid-in capital	9,884	9,884
Accumulated other comprehensive loss	(349)	(349)
Retained earnings	-	-
Total shareholders' equity before non-controlling interest	<u>32,119</u>	<u>22,119</u>
Non-controlling interest	36	36
Total shareholders' equity	<u>32,155</u>	<u>22,155</u>
Total liabilities and shareholders' equity	<u>\$ 68,501</u>	<u>\$ 68,501</u>

Pro forma balance sheet adjustments include (a) reduced borrowings under revolving credit facility by \$5 million, (b) increasing debt (\$3 million current and \$12 million long-term) to reflect the new term loan, and (c) a reduction of Preferred Stock by \$10 million.

