ETC 2020 Annual Report

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LETTER TO THE SHAREHOLDERS

ETC entered fiscal 2020

with a backlog of $42.2 million and a strong international pipeline. We are pleased to have completed, during fiscal 2020, the delivery and acceptance of an ATFS 400 - 25 human centrifuge to a long-time Asian customer. Incoming orders were weak during the year as orders from a continuing strong international pipeline were delayed due to geopolitical circumstances outside our control. Net sales for the year of $40.6 million, were down $7.8 million or 16.2% from the prior year. The decrease is primarily a reflection of lower sales within Aeromedical Training Solutions, offset in part, by an increase in the Sterilizer and Environmental System Solutions business unit sales.

This decrease in net sales, combined with an unfavorable change in product and customer mix, had a negative effect on profitability, after four consecutive years of sales increases. Gross profit decreased to $9.0 million, or 22.1% of net sales, compared to 35.9% of net sales in fiscal 2019. Decreased net sales and gross profit resulted in operating profit decreasing from $5.3 million in fiscal 2019, to an operating loss of $2.7 million in fiscal 2020.

AEROSPACE SOLUTIONS

We are pleased to report that operational availability for the USAF centrifuge, which has been operational for over a year and a half, has been exemplary at over 99%. We are also pleased that on September 16, 2020 the USAF accepted the research altitude chambers, which will result in the collection of $7.2 million.

Fiscal 2020 net sales for the Aerospace Solutions segment decreased 38.8%, down to $21.7 million from $35.4 million in fiscal 2019. Backlog at year end in Aerospace Solutions of $14.2 million was down from the prior year end of $27.2 million as a large percentage of those contracts were completed, while new orders are delayed.

During fiscal 2020, we developed and delivered a GAT-III for the University of North Dakota, John D. Odegard School of Aviation Sciences. This first of its kind, GAT-III, is designed for basic spatial disorientation training. ETC has also continued to advance its Night Vision and Night Vision Goggle Training Systems to provide this important capability within its fixed and rotary wing Spatial Disorientation trainers. We continue to see significant international opportunities for our Aircrew Training Systems ("ATS"), where the international community is investing in high performance aircraft that then requires an investment in aeromedical and other forms of training for pilots to fly safely. During the year, ATS entered into a contract to deliver an IPT-II with five different interchangeable fixed and rotary wing cockpits. ETC's Integrated Logistic Support has contracted for another year supporting U.S. Government equipment; Army, Navy, Air Force, and FAA as well as supporting ETC equipment internationally.

ETC'S NEW GAT-III
UNIVERSITY OF NORTH OF DAKOTA'S JOHN D. ODEGARD SCHOOL OF AVIATION SCIENCES

PHOTO PROVIDED BY UND AEROSPACE

DRIVER STATION
ADMS VEHICLE SIMULATOR

ETC Simulation sales decreased 10.8% in fiscal 2020. ETC Simulation delivered multiple Command Training Systems and Vehicle Simulators to new customers during the year, along with upgrades and expansions supporting existing customers. This business unit has further developed the product range and capabilities for both product lines. These systems can be linked for advanced training requirements. Command capabilities of the Advanced Disaster Management Simulator ("ADMS") platform were expanded greatly towards large scale Police operations including crowd control. New versions of the Emergency Response Driving Simulator and an Aerial Ladder Tactical Simulator with VR-glasses were also developed.

COMMERCIAL/ INDUSTRIAL SYSTEMS

Commercial/Industrial Systems had a strong backlog entering fiscal 2020, which helped increase sales to $18.9 million, or an increase of 45.3%, over fiscal 2019 sales. ETSS and Sterilizer business units drove the increase in sales.

During fiscal 2020, the Sterilizer business unit built, tested, and shipped, three 100% EO chambers with newly developed automated, pneumatic material handling conveyor systems. These chambers are currently being installed and tested at customer locations in Taiwan and Dominican Republic.

The ETSS division is in the process of completing start-up and commissioning of four low temperature air handling units and fluid conditioning skids that will provide conditioning for a heavy duty test, medium duty test, and soak chambers for a U.S. manufacturer of heavy duty transmissions. ETSS is also completing factory testing on a combustion air supply ("CAS") system combined with a road air speed simulator for a manufacturer of motorcycles.

Our Service and Spare Parts business has been very strong, with ETC providing control upgrades to both ETC sterilizers and sterilizers produced by competition.

Fiscal 2020 was a challenging year as future projects were delayed and that challenge continued as ETC entered fiscal 2021 in the early stages of a global pandemic. ETC has remained open throughout, continues to develop products in each of its business units, and is working diligently with its customers to convert a solid pipeline into purchase orders. I'd like to thank our team of dedicated employees for their passion and pursuit of excellence, and the continued loyalty of our employees, suppliers, and customers.

Robert L. Laurent, Jr.

Robert L. Laurent, Jr.
Chief Executive Officer and President

FINANCIAL REVIEW

(in thousands, except per share information)

	Fiscal year ended	
	February 28, 2020	**February 22, 2019**
Net sales	$ 40,580	$ 48,424
Gross profit	8,957	17,397
Operating (loss) income	(2,721)	5,333
Net (loss) income attributable to ETC	(4,018)	3,147
Per share information:		
Basic (loss) earnings per common and participating share:		
Distributed earnings per share:		
Common	$ -	$ -
Preferred	$ 0.08	$ 0.08
Undistributed (loss) earnings per share:		
Common	$ (0.29)	$ 0.17
Preferred	$ (0.29)	$ 0.17
Diluted (loss) earnings per share	$ (0.29)	$ 0.17
Working capital	$ 17,979	$ 13,673
Total long-term debt obligations	20,078	12,359
Total assets	48,817	45,412
Total shareholders' equity	8,023	12,537
Weighted average common and participating shares:		
Basic	15,569	15,559
Diluted	15,569	15,561

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Discussions of some of the matters contained in this Annual Report to Shareholders include forward-looking statements that may involve risks and uncertainties. Some of these discussions are contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations". We have based these forward-looking statements on our current expectations and projections about future events or future financial performance, which include implementing our business strategy, developing and introducing new technologies, obtaining, maintaining and expanding market acceptance of the technologies we offer, and competition in our markets. 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.

These forward-looking statements include statements with respect to the Company's vision, mission, strategies, goals, beliefs, plans, objectives, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance, and business of the Company, including, but not limited to, (i) projections of revenues, costs of materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, capital structure, other financial items, and the effects of foreign currency fluctuations, (ii) statements of our plans and objectives of the Company or its management or the Company's Board of Directors (the "Board of Directors"), including the introduction of new products, or estimates or predictions of actions of customers, suppliers, competitors, or regulatory authorities, (iii) statements of future economic performance, (iv) statements of assumptions and other statements about the Company or its business, (v) statements made about the possible outcomes of litigation involving the Company, (vi) statements regarding the Company's ability to obtain financing to support its operations and other expenses, and (vii) statements preceded by, followed by, or, that include, words 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.

The Company's primary Standard Industrial Classification Code is 3569. The Company's fiscal year is the fifty-two week or fifty three week annual accounting period ending the last Friday in February. References to fiscal 2020 are references to the fifty-three week period ended February 28, 2020. References to fiscal 2019 are references to the fifty-two week period ended February 22, 2019. Certain amounts from prior consolidated financial statements have been reclassified to conform to the presentation in fiscal 2020.

Overview

ETC was incorporated in 1969 in Pennsylvania. For over five decades, we have provided our customers with products, services, and support. Innovation, continuous technological improvement and enhancement, and product quality are core values that are critical to our success. We are a significant supplier and innovator in the following areas: (i) software driven products and services used to create and monitor the physiological effects of flight, including high performance jet tactical flight simulation, fixed and rotary wing upset prevention and recovery and spatial disorientation, and both suborbital and orbital commercial human spaceflight, collectively, Aircrew Training Systems ("ATS"); (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); (iv) Advanced Disaster Management Simulators ("ADMS"); (v) steam and gas (ethylene oxide) sterilizers; (vi) environmental testing and simulation systems ("ETSS"); and (vii) hyperbaric (100% oxygen) chambers for one person (monoplace chambers). On November 27, 2019, the Company entered into an asset purchase agreement to sell substantially all of its rights, title, and interest in and to the assets related to monoplace chambers. We operate in two primary business segments, Aerospace Solutions ("Aerospace") and Commercial/Industrial Systems ("CIS").

Aerospace encompasses the design, manufacture, and sale of: (i) ATS products; (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); and (iv) ADMS, as well as integrated logistics support ("ILS") for customers who purchase these products or similar products manufactured by other parties. These products and services provide customers with an offering of comprehensive solutions for improved readiness and reduced operational costs. Sales of our Aerospace products are made principally to U.S. and foreign government agencies and to civil aviation organizations.

Specific products within Aerospace include:

- Aeromedical Centers;
- Authentic Tactical Fighting System ("ATFS") Motion Platforms;
  - ATFS-400-31 High Performance Human Centrifuge
  - ATFS-400-25 High Performance Human Centrifuge
- Interchangeable Cockpit Modules;
- G-LAB Human Centrifuge and G Trainer;
- GYROLAB GL-6000 KRAKEN Advanced Spatial Disorientation Training and Research Device;
- GYROLAB GL-4000;
- GYROLAB GL-1500;
- GYRO IPT-III eFOV;
- GYRO IPT-II Fixed Wing Spatial Disorientation Trainer;
- GH-200 Rotary Wing Spatial Disorientation Trainer;
- GAT-III Fixed Wing Aviation Trainer;
- GH-100 Rotary Wing Aviation Trainer;
- Night Vision Training System ("NVTS");
- Night Vision Goggle Training System ("NVGTS");
- FALCON Altitude (Hypobaric) Chambers;
- Multiplace Hyperbaric Chambers;
- Ejection Seat Simulator ("ESS");
- Pilot Selection System ("PSS");
- Water Survival Training equipment;
- Vestibular Illusion Demonstrator ("VID");
- Interactive motion based simulation and virtual reality equipment designed for the education/ entertainment industry; and our
- ADMS line of products (primarily AIRBASE, COMMAND, CONTROL, DRIVE, FIRE, and the Aircraft Rescue and Firefighting ("ARFF") Vehicle Simulator).

Specific services within Aerospace include:

- Tactical flight training;
- High-G training;
- Hypoxia training;
- Situational awareness and spatial disorientation training;
- Aeromedical training;
- Suborbital and orbital commercial human spaceflight training;
- Upset prevention and recovery training ("UPRT");
- Crew resource management ("CRM") training;
- Advanced pilot training;
- Basic pilot training;
- Pilot selection;
- Emergency response training; and
- Integrated logistics support.

CIS encompasses the design, manufacture, and sale of:

- Steam and gas (ethylene oxide) sterilizers;
- Environmental testing and simulation systems ("ETSS");
- Hyperbaric (100% oxygen) chambers for one person (monoplace chambers); and
- Parts and service support.

Net sales, operating (loss) income, identifiable assets, and other financial information regarding our segments may be found in Note 8 – Business Segment Information.

ETC-PZL Aerospace Industries Sp. z o.o. ("ETC-PZL"), our 95%-owned subsidiary in Warsaw, Poland, is currently our only operating subsidiary. ETC-PZL manufactures certain simulators and provides software to support products manufactured domestically within our Aerospace segment.

We utilize both employees and independent representatives to market our products and services. As of February 28, 2020, approximately twenty (20) employees were committed to sales and marketing functions. In addition to our one operating subsidiary, we have employees stationed in the United Kingdom, the Netherlands, Egypt, Turkey, Qatar, the United Arab Emirates, India, and Malaysia. In certain countries outside the United States, we have relationships with independent sales representatives and distributors.

We sell integrated products and training services. Some of our products are customized using our proprietary software based on specifications provided by our customers. Some of our products take more than one year to manufacture and deliver to the customer.

In the Aerospace segment, we offer integrated ATS products to commercial, governmental, and military defense agencies, and training devices, including altitude (hypobaric) and multiplace chambers ("Chambers"), to governmental and military defense agencies and civil aviation organizations both in the United States and internationally. We sell our ADMS line of products to governmental organizations both in the United States and internationally, original equipment manufacturers in the global special fire truck market (including ARFF vehicles), fire and emergency training schools, universities, and airports. We also provide ILS for customers who purchase these products or similar products manufactured by other parties.

In the CIS segment, we sell our sterilizers to medical device manufacturers, pharmaceutical manufacturers, and universities. We sell ETSS primarily to commercial automotive and heating, ventilation, and air conditioning ("HVAC") manufacturers. Prior to the asset sale on November 27, 2019, we sold our monoplace chambers to hospitals and wound care clinics. We also provide upgrade, maintenance, and repair services for our products and similar products manufactured by other parties.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements requires the use of judgments and estimates. Our critical accounting policies are described below to provide a better understanding of how we develop our assumptions and judgments about future events and related estimates, and how they can impact our consolidated financial statements. A critical accounting estimate is one that requires our most difficult, subjective, or complex estimates and assessments, and is fundamental to our results of operations. We identified our most critical accounting estimates (not in any specific order) to be:

- estimating budget costs for large, multi-year contracts that involve significant engineering and software development;
- inventory valuation and reserves;
- valuations of long-lived assets, including equipment housed within our National Aerospace Training and Research Center (the "NASTAR Center") and intangible assets such as capitalized software;
- legal reserves and contingencies; and
- forecasting our effective income tax rate, including our future ability to value and utilize tax credits and to realize the deferred tax assets, and providing for uncertain tax positions.

We base our estimates on historical experience, and on various other assumptions we believe to be reasonable according to the current facts and circumstances; the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We believe the following are the critical accounting policies used in the preparation of our consolidated financial statements, as well as the significant estimates and judgments affecting the application of these policies. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in this Annual Report to Shareholders.

We have discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the disclosures presented below.

Revenue Recognition

The majority of our net sales are generated from long-term contracts with U.S. and foreign government agencies (including foreign military sales ("FMS") contracted through the U.S. Government) for the research, design, development, manufacture, integration, and sustainment of ATS products, including Chambers and the simulators manufactured and sold through ETC-PZL, collectively, Aeromedical Training Solutions. The Company also enters into long-term contracts with domestic customers for the sale of sterilizers and ETSS. Net sales of ADMS and monoplace chambers are generally much shorter term in nature and vary between domestic and international customers. We generally provide our products and services under fixed-price contracts.

Under fixed-price contracts, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss. Some fixed-price contracts have a performance-based component under which we may incur financial penalties based on our performance, such as liquidated damages for delayed delivery.

We account for a contract after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable.

We assess each contract at its inception to determine whether it should be combined with other contracts. When making this determination, we consider factors such as whether two or more contracts were negotiated and executed at or near the same time or were negotiated with an overall profit objective. If combined, we treat the combined contracts as a single contract for revenue recognition purposes.

We evaluate the products or services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The majority of the Company's contracts with customers are accounted for as one performance obligation, as the majority of products and services is part of a single project or capability. In limited cases, our contracts have more than one distinct performance obligation, which occurs when we perform activities that are not interrelated or involve different product lifecycles. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit recorded in a given period. distinct performance obligation, which occurs when we perform activities that are not interrelated or involve different product lifecycles. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit recorded in a given period.

We determine the transaction price for each contract based on the consideration we expect to receive for the products or services being provided under the contract, net of all sales and similar taxes collected from customers. For contracts where a portion of the price may vary, we estimate variable consideration at the most likely amount, which is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. We analyze the risk of a significant revenue reversal, and if necessary, constrain the amount of variable consideration recognized in order to mitigate this risk.

At the inception of a contract, we estimate the transaction price based on our current rights and do not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Contracts are often subsequently modified to include changes in specifications, requirements, or price, which may create new or change existing enforceable rights and obligations. Depending on the nature of the modification, we consider whether to account for the modification as an adjustment to the existing contract or as a separate contract. Generally, modifications to our contracts are not distinct from the existing contract due to the significant integration and interrelated tasks provided in the context of the contract; therefore, such modifications are accounted for as if they were part of the existing contract and recognized as a cumulative adjustment to revenue. Contract claims and disputes related to customer caused delays, errors in specifications and designs, and other unanticipated causes for amounts in excess of contract value may increase the transaction price if it is probable that the claim will result in an increase in the contract value and if the increase can be reliably estimated; however, the resulting revenue recorded on a contract claim cannot exceed the incurred contract costs related to that claim. Claims are subject to negotiation, dispute resolution, and audit by the customer or governmental agency.

For contracts with multiple performance obligations, we allocate the transaction price to each performance obligation based on the estimated standalone selling price of the product or service underlying each performance obligation. The standalone selling price represents the amount we would sell the product or service to a customer on a standalone basis (i.e., not bundled with any other products or services). Our contracts with the U.S. Government, including FMS contracts, are subject to the Federal Acquisition Regulations ("FAR") and the price is typically based on estimated or actual costs plus a reasonable profit margin. As a result of these regulations, the standalone selling price of products or services in our contracts with the U.S. Government and FMS contracts are typically equal to the selling price stated in the contract; therefore, we typically do not need to allocate (or reallocate) the transaction price to multiple performance obligations.

For non-U.S. Government contracts with multiple performance obligations, we evaluate whether the stated selling prices for the products or services represent their standalone selling prices. We primarily sell customized solutions unique to a customer's specifications. When it is necessary to allocate the transaction price to multiple performance obligations, we typically use the expected cost plus a reasonable profit margin to estimate the standalone selling price of each product or service. We occasionally sell standard products or services with observable standalone sales transactions. In these situations, the observable standalone sales transactions are used to determine the standalone selling price.

We recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. In determining when performance obligations are satisfied, we consider factors such as contract terms, payment terms, and whether there is an alternative future use of the product or service. Substantially all of our revenue is recognized over a period of time as we perform under the contract because control of the work in process transfers continuously to the customer. For contracts with the U.S. Government and FMS contracts, this continuous transfer of control of the work in process to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit, and take control of any work in process. Our non-U.S. Government contracts, primarily domestic and international direct commercial contracts, typically do not include termination for convenience provisions; however, continuous transfer of control to our customer is supported as, if our customer were to terminate the contract for reasons other than our non-performance, we would have the right to recover damages that would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to us.

For performance obligations to deliver products with continuous transfer of control to the customer, revenue is recognized by means of an input measure based on the extent of progress towards completion of the performance obligation, generally using the percentage-of-completion cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer as we incur costs on our contracts. Under the percentage-of-completion cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation(s).

For performance obligations in which control does not continuously transfer to the customer, we recognize revenue at the point in time in which each performance obligation is fully satisfied. This coincides with the point in time the customer obtains control of the product or service, which typically occurs upon customer acceptance or receipt of the product or service, given that we maintain control of the product or service until that point.

The Company also offers one to three year (and in limited cases fifteen year) maintenance and support agreements for many of its products, especially within the Aerospace segment. The specific terms and conditions of these agreements vary depending upon the product sold and country in which the product was sold. Revenue is recognized on such agreements over a period of time on a straight-line basis over the term of the maintenance and support services or the right to invoice method (in situations where the value transferred matches our billing rights) as our customer receives and consumes the benefits. The standalone selling price is determined based on the price charged when sold separately or upon renewal.

Sales backlog (i.e., unfulfilled or remaining performance obligations) represents the sales we expect to recognize for our products and services for which control has not yet transferred to the customer. The estimated consideration is determined at the outset of the contract and considers the risks related to the technical, schedule, and cost impacts to complete the contract and an estimate of any variable consideration. We review these risks on a quarterly basis and may increase or decrease backlog accordingly. As the risks on such contracts are successfully retired, the estimated consideration from customers may be reduced, resulting in a reduction of backlog without a corresponding recognition of sales.

For arrangements with the U.S. Government and FMS contracts, we generally do not begin work on contracts until funding is appropriated by the customer. Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. Typical payment terms under fixed-price contracts with the U.S. Government provide that the customer pays either performance-based payments based on the achievement of contract milestones or progress payments based on a percentage of costs we incur. For the majority of our domestic and international direct commercial contracts, we typically receive advance payments prior to commencement of work, as well as milestone payments that are paid in accordance with the terms of our contract as we perform. We recognize a liability for payments in excess of revenue recognized, which is presented as a contract liability on the balance sheet. The portion of payments that may be retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer from our failure to adequately complete some or all of the obligations under the contract. Payments received from customers in advance of revenue recognition are not considered to be significant financing components because they are used to meet working capital demands that can be higher in the early stages of a contract. We present revenues recognized in excess of billings as contract assets on the balance sheet. Amounts billed and due from our customers are classified as receivables on the balance sheet.

Significant estimates and assumptions are made in estimating contract sales and costs, including the profit booking rate. At the outset of a long-term contract, we identify and monitor risks to the achievement of the technical, schedule, and cost aspects of the contract, as well as variable consideration, and assess the effects of those risks on our estimates of sales and total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events), and costs (e.g., material, labor, subcontractor, overhead, and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule, and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and cost aspects of the contract, which decreases the estimated total costs to complete the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase or our estimates of variable consideration we expect to receive decrease. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. When estimates of total costs to be incurred on a contract exceed total estimates of the transaction price, a provision for the entire loss is determined at the contract level and is recorded in the period in which the loss is determined.

Comparability of our segment sales, operating income, and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts for which we recognize revenue over a period of time using the percentage-of-completion cost-to-cost method to measure progress towards completion. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs to fulfill the performance obligations that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate, resulting in an increase in the estimated total costs to fulfill the performance obligations and a reduction in the profit booking rate. Increases or decreases in profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes.

The aggregate impact of adjustments in contract estimates to net (loss) income attributable to ETC are presented below (in thousands):

Net (loss) income attributable to ETC

	Fiscal 2020	Fiscal 2019
Aerospace	$ (1,326)	$ 223
CIS	(1,114)	(282)
Total	**$ (2,440)**	**$ (59)**

Inventory

We periodically evaluate our inventory, which affects gross margin, to ensure that it is carried at the lower of cost or net realizable value. Cost includes appropriate overhead. Overhead allocated to inventory cost includes only costs directly related to our manufacturing activities. These include, but are not limited to, general supervision, utilities, supplies, and depreciation and software amortization expense. Where necessary, provision is made for obsolete, slow-moving, or damaged inventory. This provision represents the difference between the cost of the inventory and its estimated market value based on the future demand of our products. To the extent that future events affect the salability of inventory, these provisions could vary significantly.

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes, as well as the valuation of net operating loss ("NOL") carryforwards and research and development tax credits. Valuation allowances are reviewed each fiscal period to determine whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax asset. Deferred tax assets and liabilities are offset and presented as a single non-current asset.

Results of Operations

Because of the nature of our business, we have historically experienced significant variability in our quarterly revenue, earnings, and other operating results, and our performance may fluctuate significantly in the future.

FISCAL 2020 VERSUS FISCAL 2019

(in thousands, except per share information)

	Summary Table of Results			
	Fiscal 2020	**Fiscal 2019**	**Variance ($)**	**Variance (%)**
Net sales:				
Domestic sales	$ 9,900	$ 10,981	$ (1,081)	(9.8)
U.S. Government sales	1,377	1,916	(539)	(28.1)
International sales	29,303	35,527	(6,224)	(17.5)
Net sales total	40,580	48,424	(7,844)	(16.2)
Gross profit	8,957	17,397	(8,440)	(48.5)
Gross profit margin %	22.1%	35.9%	-13.8%	-38.4%
Operating expenses:				
Selling and marketing	4,240	5,121	(881)	(17.2)
General and administrative	5,546	5,625	(79)	(1.4)
Research and development	1,892	1,318	574	43.6
Operating expenses total	11,678	12,064	(386)	(3.2)
Operating (loss) income	(2,721)	5,333	(8,054)	
Operating margin %	-6.7%	11.0%	-17.7%	
Interest expense, net	779	1,003	(224)	(22.3)
Other expense, net	497	434	63	14.5
(Loss) income before income taxes	(3,997)	3,896	(7,893)	
Pre-tax margin %	-9.8%	8.0%	-17.8%	
Income tax provision	12	698	(686)	(98.3)
Net (loss) income	(4,009)	3,198	(7,207)	
Income attributable to non-controlling interest	(9)	(51)	42	(82.4)
Net (loss) income attributable to ETC	**$ (4,018)**	**$ 3,147**	**$ (7,165)**	
Per share information:				
Basic (loss) earnings per common and participating share:				
Distributed earnings per share:				
Common	$ -	$ -	$ -	
Preferred	$ 0.08	$ 0.08	$ -	0.0
Undistributed (loss) earnings per share:				
Common	$ (0.29)	$ 0.17	$ (0.46)	
Preferred	$ (0.29)	$ 0.17	$ (0.46)	
Diluted (loss) earnings per share	**$ (0.29)**	**$ 0.17**	**$ (0.46)**	

Net (loss) income attributable to ETC

Net (loss) attributable to ETC was $4.0 million, or $0.29 diluted loss per share, in fiscal 2020, compared to $3.1 million during fiscal 2019, equating to $0.17 diluted earnings per share. The $7.1 million variance is due to the combined effect of an $8.4 million decrease in gross profit, offset, in part, by a $0.7 million decrease in income tax provision, a $0.4 million decrease in operating expenses, and a $0.2 million decrease in interest expense.

Net sales

The following schedule presents the Company's net sales (in thousands) by segment, business unit, and geographic area:

	Fiscal 2020				Fiscal 2019			
	Domestic	U.S. Gov't	International	Total	Domestic	U.S. Gov't	International	Total
Aerospace Solutions								
Aeromedical Training Solutions	$ 386	$ 1,362	$ 17,173	$ 18,921	$ 407	$ 1,751	$ 30,176	$ 32,334
Simulation (ADMS)	953	15	1,761	2,729	516	165	2,379	3,060
Subtotal	1,339	1,377	18,934	21,650	923	1,916	32,555	35,394
Commercial/Industrial Systems								
Sterilizers	2,889	-	3,617	6,506	5,389	-	510	5,899
Environmental (ETSS)	3,087	-	5,350	8,437	2,100	-	502	2,602
Hyperbaric Chambers	176	-	1,402	1,578	790	-	1,960	2,750
Service and Spares	2,409	-	-	2,409	1,779	-	-	1,779
Subtotal	8,561	-	10,369	18,930	10,058	-	2,972	13,030
Net sales total	**$ 9,900**	**$ 1,377**	**$ 29,303**	**$ 40,580**	**$ 10,981**	**$ 1,916**	**$ 35,527**	**$ 48,424**

Type of Revenue	Fiscal 2020	Fiscal 2019
Products	77.6%	86.4%
Maintenance and support agreements	13.8%	5.2%
Services	6.8%	6.7%
Spare parts	1.8%	1.7%
Total	**100.0%**	**100.0%**

Net sales for fiscal 2020 were $40.6 million, a decrease of $7.8 million, or 16.2%, compared to fiscal 2019 net sales of $48.4 million. The decrease reflects lower International sales within Aeromedical Training Solutions and of Sterilizers to Domestic customers, offset, in part, by an increase in International sales within the Sterilizers and Environmental business units of our CIS segment.

In fiscal 2020, two International customers, one within the Aerospace segment and one within the CIS segment, represented 10.0% or more of total net sales, and sales to these two customers totaling $11.7 million represented 28.9% of total net sales. In fiscal 2019, two different customers, both International and each within the Aerospace segment, represented 10.0% or more of total net sales, and sales to these two customers totaling $16.1 million represented 33.2% of total net sales.

Within the Company's February 28, 2020 sales backlog of $17.1 million, two contracts, each with International customers within the Aerospace segment, represented at least 10% of the total sales backlog and constituted $6.6 million, or 38.6%, of the total sales backlog. As of February 28, 2020, only one business unit, Aeromedical Training Solutions, represented 10.0% or more of total sales backlog and constituted $12.4 million, or 72.9%, of the total sales backlog. We expect to recognize approximately 83% of the total sales backlog as of February 28, 2020 over the next twelve (12) months and approximately 87% over the next twenty-four (24) months as revenue, with the remainder recognized thereafter. Given the Company's sales backlog as of February 28, 2020, it is anticipated that ETC will generate the majority of its sales from International Aeromedical Training Solutions contracts.

We have historically experienced significant variability in our sales performance. This reflects the existing sales backlog, product mix, nature of contracts (size and performance time), manufacturing cycle, installation time, customer acceptance, and certain factors not in our control such as customer delays and the time required to obtain U.S. Government export approvals. A small number of contracts may account for a substantial percentage of our net sales in any period.

Domestic sales

Domestic sales in fiscal 2020 were $9.9 million, a decrease of $1.1 million, or 9.8%, compared to fiscal 2019, and represented 24.4% of total net sales in fiscal 2020 compared to 22.7% in fiscal 2019. The decrease in Domestic sales is comprised of a $2.5 million decrease in sales of Sterilizers and a $0.6 million decrease in sales of monoplace chambers, offset, in part, by a $1.0 million increase in sales within the ETSS business unit, a $0.6 million increase in sales of Service and Spares, and a $0.4 million increase in sales of ADMS.

U.S. Government sales

U.S. Government sales in fiscal 2020 were $1.4 million, a decrease of $0.5 million, or 28.1%, from fiscal 2019 primarily as a result of the completion of several U.S. Government contracts in fiscal 2019, with only the maintenance portion continuing into fiscal 2020. The $0.5 million decrease was comprised almost entirely of sales within our Aerospace segment. U.S. Government sales represented 3.4% of total net sales in fiscal 2020 compared to 4.0% in fiscal 2019.

International sales

International sales in fiscal 2020, including those of ETC-PZL, were $29.3 million, a decrease of $6.2 million, or 17.5%, compared to fiscal 2019. The decrease in International sales is a result of a $13.0 million decrease in sales within Aeromedical Training Solutions and a $0.6 million decrease in sales of both ADMS and monoplace chambers, offset, in part, by a $4.9 million increase in sales within ETSS and a $3.1 million increase in sales of Sterilizers. In aggregate, International sales represented 72.2% of the Company's total net sales in fiscal 2020 compared to 73.3% in fiscal 2019. In both fiscal 2020 and fiscal 2019, International sales totaling at least $500 thousand were made to customers in eleven (11) different countries.

Segment sales

Aerospace sales were $21.7 million in fiscal 2020, a decrease of $13.7 million, or 38.8%, from sales of $35.4 million in fiscal 2019. This decrease was primarily due to lower International sales within Aeromedical Training Solutions. Due to the completion and delivery of two (2) significant International ATS contracts during fiscal 2019, sales of Aerospace products accounted for only 53.4% of our total net sales in fiscal 2020 versus 73.1% in fiscal 2019. Sales in our CIS segment increased $5.9 million, or 45.3%, and constituted 46.6% of our total net sales in fiscal 2020 compared to 26.9% in fiscal 2019. The increase was primarily due to higher sales within ETSS, especially Internationally, higher International sales of Sterilizers, and higher sales of Service and Spares; offset, in part, by a decrease in Domestic sales of Sterilizers and an overall decrease in monoplace chambers resulting from the asset purchase agreement the Company entered into on November 27, 2019 to substantially sell all of its rights, title, and interest in and to the assets related to monoplace chambers.

Gross profit

Gross profit for fiscal 2020 was $9.0 million compared to $17.4 million in fiscal 2019, a decrease of $8.4 million, or 48.2%. The decrease in gross profit was due to the combination of lower net sales and a lower blended gross profit margin as a percentage of net sales, which decreased to 22.1% in fiscal 2020 compared to 35.9% in fiscal 2019. The decrease in gross profit margin as a percentage of net sales was due to the completion and delivery of two (2) significant International ATS contracts during fiscal 2019, which resulted in the Company entering fiscal 2020 with a lower backlog comprised of contracts with comparably lower estimated profit booking rates, coupled with increases in the estimated total costs to fulfill performance obligations associated with several contracts, which resulted in a reduction to the profit booking rates. The shift in concentration of net sales from International sales within the Aerospace segment in fiscal 2019 to sales within the CIS segment in fiscal 2020 also contributed to the decrease in gross profit margin as a percentage of net sales.

Selling and marketing expenses

Selling and marketing expenses for fiscal 2020 of $4.2 million decreased by $0.9 million, or 17.2%, from $5.1 million in fiscal 2019. The decrease in selling and marketing expenses was due primarily to a decrease in commission expense based on a lower concentration of International sales related to ATS products, and a reduction in headcount of four (4) employees who were committed to sales and marketing functions. As a percentage of net sales, selling and marketing expenses decreased slightly to 10.4% in fiscal 2020 compared to 10.6% in fiscal 2019.

General and administrative expenses

General and administrative expenses for fiscal 2020 of $5.5 million decreased by $0.1 million, or 1.4%, from $5.6 million in fiscal 2019. The decrease in general and administrative expenses was due primarily to a reduction in both incentive and bad debt expense, and a decrease in Board of Directors fees now that it is comprised of five (5) members as compared to seven (7) members, offset, in part, by an increase in legal fees associated with the claim litigation pertaining to a firm fixed-price contract dated June 14, 2010 to build a suite of research altitude chambers at the Wright-Patterson Air Force Base (the "RAC Contract"). As a percentage of net sales, general and administrative expenses increased to 13.7% in fiscal 2020 compared to 11.6% in fiscal 2019.

Research and development expenses

Research and development expenses include spending for potential new products and technologies, and work performed internationally under government grant programs. This spending, net of reimbursements from the Polish and Turkish governments, totaled $1.9 million for fiscal 2020 compared to $1.3 million in fiscal 2019, an increase of $0.6 million, or 43.6%. The increase is primarily the result of a lower backlog and more research and development employees being assigned to development projects versus customer contracts; thus, expenses related to these employees were excluded from cost of sales in fiscal 2020. The most noteworthy of these development projects being a new general aviation trainer – the GAT-III Fixed Wing Aviation Trainer, which includes significant improvements and technological upgrades over its predecessor – the GAT-II. Most of the Company's research and development efforts, which were and continue to be a significant cost of its business, are included in cost of sales for applied research for specific contracts, as well as research for feasibility and technology updates. As a percentage of net sales, research and development expenses increased to 4.7% in fiscal 2020 compared to 2.7% in fiscal 2019.

Operating (loss) income

Operating loss in fiscal 2020 was $2.7 million compared to operating income of $5.3 million in fiscal 2019. The $8.0 million variance was due to the combination of lower net sales and a lower blended gross profit margin as a percentage of net sales, offset, in part, by a slight decrease in operating expenses.

On a segment basis, Aerospace posted an operating loss of $1.5 million for fiscal 2020, an $8.3 million variance compared to operating income of $6.9 million in fiscal 2019. Aerospace's operating loss is due primarily to the completion and delivery of two (2) significant International ATS contracts during fiscal 2019, which resulted in the Company entering fiscal 2020 with a lower backlog comprised of contracts with comparably lower estimated profit booking rates, coupled with increases in the estimated total costs to fulfill performance obligations associated with several contracts, which resulted in a reduction to the profit booking rates. CIS posted an operating loss of $0.1 million for fiscal 2020, a $0.4 million improvement compared to an operating loss of $0.5 million in fiscal 2019. The increase in International sales within ETSS was the primary contributing factor in improving the profitability of the CIS segment. These segment operating results were offset, in part, by unallocated corporate expenses.

Interest expense, net

Interest expense, net, for fiscal 2020 was $0.8 million compared to $1.0 million in fiscal 2019, a decrease of $0.2 million, or 22.3%, due to the combination of an overall lower level of bank borrowing and a decrease in interest rates.

Other expense, net

Other expense, net, for fiscal 2020 was $0.5 million compared to $0.4 million in fiscal 2019, an increase of $0.1 million, or 14.3%, due primarily to the net effect of assets related to monoplace chambers being written off against the value of the asset purchase agreement. Other expense, net generally consists of bank and letter of credit fees, as well as realized foreign currency exchange gains and losses.

Income taxes

As of February 28, 2020, the Company reviewed the components of its deferred tax assets and determined, based upon all available information, that it is more likely than not that deferred tax assets relating to its federal and state NOL carryforwards and research and development tax credits will not be realized primarily due to uncertainties related to our ability to utilize them before they expire. Accordingly, we have established a $6.8 million valuation allowance for such deferred tax assets that we do not expect to realize. If there is a change in our ability to realize our deferred tax assets for which a valuation allowance has been established, then our tax valuation allowance may decrease in the period in which we determine that realization is more likely than not.

An income tax provision of $12 thousand was recorded in fiscal 2020 compared to an income tax provision of $0.7 million recorded in fiscal 2019. Effective tax rates were -0.3% and 17.9% for fiscal 2020 and fiscal 2019, respectively. The decrease in the effective tax rate for fiscal 2020 as compared to fiscal 2019 was driven primarily by the operating loss incurred in fiscal 2020 and the offsetting valuation allowance that was recorded against the increase in deferred tax assets relating primarily to federal NOL carryforwards.

Liquidity and Capital Resources

On June 10, 2016, the Company received a waiver as of the fiscal quarter ended February 26, 2016 for failing to exceed the permitted minimum Consolidated Tangible Net Worth. The waiver also provided that ETC was to maintain at all times a minimum Consolidated Tangible Net Worth of $7.5 million; further, commencing with the fiscal quarter ended May 26, 2017, ETC was to have maintained as of the end of each fiscal quarter a Fixed Charge Coverage Ratio of at least 1.00 to 1. This ratio was to increase to 1.10 to 1 on August 25, 2017, and was to remain at that level at all times thereafter. The waiver extended the maturity date of the PNC Line of Credit to August 10, 2016, during which time the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank, National Association ("PNC Bank") that provided for, among other things, the following:

(i) The PNC Line of Credit and the Term Loan were consolidated into a $21.0 million Revolving Line of Credit (the "Revolving Line of Credit"), under which amounts may be borrowed, repaid, and re-borrowed until the maturity date.

(ii) The existing Committed Line of Credit (the "Committed Line of Credit") is capped at $8.6 million, an amount equivalent to the total outstanding standby letters of credit under which the Committed Line of Credit covered as of May 27, 2016. All outstanding standby letters of credit covered by the Committed Line of Credit were either returned or expired as of June 30, 2020.

(iii) A new $1.0 million FX Equivalent Line of Credit (the "FX Equivalent Line of Credit") for potential future foreign exchange obligations.

(iv) The Revolving Line of Credit, the Committed Line of Credit, and the FX Equivalent Line of Credit (collectively, the "2016 PNC Credit Facilities") had an original maturity date of December 31, 2017, which on May 26, 2017 was extended to June 30, 2018.

(v) The interest rate on the 2016 PNC Credit Facilities will be based on the PNC Daily LIBOR Rate (0.50% as of January 5, 2021, the date of our most current Revolving Line of Credit statement) plus a margin of 3.00%.

(vi) The 2016 PNC Credit Facilities were collateralized by a combination of the Company's pledged restricted cash held by PNC ($5.8 million as of February 28, 2020), substantially all of the Company's additional assets, and the pledged cash collateral of the estate of H.F. Lenfest ("Mr. Lenfest"), a major shareholder and director of ETC since 2003, who passed away on August 5, 2018

On April 9, 2018, subsequent to the end of fiscal 2018, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The Revolving Line of Credit was increased from $21.0 million to $25.0 million.

(ii) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2018 to June 30, 2019.

(iii) The interest rate margin on the 2016 PNC Credit Facilities was lowered from 3.00% to 2.75%.

On June 28, 2019, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that extended the maturity date of the 2016 PNC Credit Facilities from June 30, 2019 to June 30, 2020.

On January 22, 2020, the Company received a waiver for failing to maintain the minimum Fixed Charge Coverage Ratio as of the fiscal quarter ended November 29, 2019; going forward, the waiver also eliminates the Fixed Charge Coverage Ratio covenant.

On June 26, 2020, subsequent to the end of fiscal 2020, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The elimination of the Committed Line of Credit component of the 2016 PNC Credit Facilities.

(ii) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2020 to June 30, 2021.

(iii) The elimination of the Consolidated Tangible Net Worth, which was the last remaining financial covenant; going forward, there are no financial covenants contained within the amended loan agreement.

(iv) The release of the mortgage on the property located at 125 James Way, Southampton, PA.

As of February 28, 2020, the Company's availability under the Revolving Line of Credit was $2.2 million. This reflected cash borrowings of $20.1 million and net outstanding standby letters of credit not covered by the Committed Line of Credit of approximately $2.7 million. As of January 5, 2021, the date of our most current Revolving Line of Credit statement, the Company's availability under the Revolving Line of Credit was approximately $3.6 million. The Company had working capital of $18.6 million as of February 28, 2020 compared to working capital of $13.7 million as of February 22, 2019. The increase in working capital was primarily the result of an increase in accounts receivable. With unused availability under the Company's various current lines of credit, the conversion of contract assets into cash, the collection of milestone payments associated with several International contracts, and expected deposits on fiscal 2021 bookings, the Company anticipates its sources of liquidity will be sufficient to fund its operating activities, anticipated capital expenditures, and debt repayment obligations throughout fiscal 2021.

Cash flows from operating activities

Cash flows from operations are driven by income from the sale of our products and services and changes in operating assets and liabilities, which primarily depend on the timing of receipts, offset by payments, in the ordinary course of business.

During fiscal 2020, due primarily from the net losses incurred, the increase in accounts receivable and contract assets, and the decrease in contract liabilities, offset, in part, by the increase in accounts payable and other accrued liabilities, the Company used $9.3 million of cash for operating activities compared to generating $13.3 million in fiscal 2019.

Cash flows from investing activities

Cash used for investing activities primarily relates to funds used for capital expenditures in property, plant, and equipment and software development. The Company's fiscal 2020 and fiscal 2019 investing activities used $0.3 million, which consisted primarily of equipment and software enhancements for our ATFS and ADMS technologies, and costs to upgrade existing information technology systems and enhance our manufacturing and ETSS testing capabilities.

Cash flows from financing activities

During fiscal 2020, the Company's financing activities provided $7.7 million of cash from borrowings under the Company's various lines of credit. During fiscal 2019, the Company's financing activities used $8.5 million of cash for repayments under the Company's various lines of credit.

Outlook

We expect to use our cash, cash equivalents, and credit facilities for working capital and general corporate purposes, products, technologies, property, plant, and equipment, the payment of contractual and other legal obligations, including scheduled interest payments on credit facilities and dividends on Preferred Stock and/or the purchase, redemption, or retirement of our credit facilities and Preferred Stock. We expect that net sales of our currently marketed products and services, combined with the current and anticipated future availability under our various lines of credit, the conversion of contract assets into cash, the collection of milestone payments associated with several International contracts, and expected deposits on fiscal 2021 bookings, should continue to provide us sufficient funds for fiscal 2021. At this time, however, we cannot accurately predict the effect of certain developments on our anticipated results in fiscal 2022 and beyond because of factors such as the degree of market acceptance, the impact of competition, the effectiveness of our sales and marketing efforts, the outcome of our efforts to develop new products, and the changing trends and overall global economic disruption caused by COVID-19.

Off-Balance Sheet Arrangements

There were no unconsolidated legal entities, "special purpose" entities, or other off-balance sheet arrangements during either fiscal 2020 or fiscal 2019 other than disclosed in Note 10 – Commitments and Contingencies that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to our shareholders.

Board of Directors Actions

Effective June 18, 2019, Ms. Joy Tartar, a director since 2018, has exited the Board of Directors. Ms. Tartar's exit from the Board was not based on any disagreement with the Company on any matter relating to the Company's operations, policies, or practices. On June 20, 2019, Michael D. Malone, Vice Admiral, USN (Ret.), a director of ETC since 2012 and Vice Chairman of the Board of Directors since 2015, passed away. At the present time, replacements for Ms. Tartar and Mr. Malone have not been named. Ms. Tartar's seat on the Board of Directors is reserved for nomination by the holder of ETC's Series E Preferred Stock.

MANAGEMENT'S REPORT

Management is responsible for the preparation as well as the integrity and objectivity of the accompanying consolidated financial statements of Environmental Tectonics Corporation. These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and necessarily include amounts that represent the best estimates and judgments of management.

Environmental Tectonics Corporation maintains an accounting system of internal controls to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for preparing financial statements and maintaining accountability for assets. Reasonable assurance recognizes that the cost of a system of internal controls should not exceed its benefits and that the evaluation of these factors requires estimates and judgments by management. The internal control system includes the selection and training of management and supervisory personnel; an organizational structure providing for delegation of authority and establishment of responsibilities; communication of requirements for compliance with approved accounting control and business practices throughout the organization; and business planning and review.

RSM US LLP, our independent auditor, is engaged to audit and report on these consolidated financial statements. Their audit is conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

The Audit Committee of the Board of Directors meets regularly with management and the independent auditors to review matters relating to financial reporting, internal controls, and auditing. Management and the independent auditors each have direct and confidential access to this committee.

Robert L. Laurent, Jr. Chief Executive Officer and President	Mark Prudenti Chief Financial Officer

RSM

Independent Auditor's Report

RSM US LLP

Board of Directors
Environmental Tectonics Corporation

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Environmental Tectonics Corporation and Subsidiaries (the Company) which comprise the consolidated balance sheets as of February 28, 2020 and February 22, 2019, the related consolidated statements operations and comprehensive (loss) income, changes in shareholders' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Environmental Tectonics Corporation and Subsidiaries as of February 28, 2020 and February 22, 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Blue Bell, Pennsylvania
January 7, 2021

CONSOLIDATED BALANCE SHEETS

(in thousands, except share information)

	February 28, 2020	February 22, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 677	$ 5,061
Restricted cash	8,413	5,956
Accounts receivable, net	8,360	2,913
Contract assets	17,041	15,264
Inventories, net	1,884	2,819
Prepaid expenses and other current assets	1,229	1,378
Total current assets	37,604	33,391
Property, plant, and equipment, at cost, net	10,566	11,490
Right-of-use asset	388	-
Capitalized software development costs, net	100	90
Deferred tax assets, non-current, net	159	441
Total assets	**$ 48,817**	**$ 45,412**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 5,345	$ 3,607
Contract liabilities	3,562	6,609
Accrued taxes	515	1,703
Accrued interest and dividends	3,475	2,985
Current portion of lease obligations	187	-
Other accrued liabilities, current	6,541	4,814
Total current liabilities	19,625	19,718
Long-term debt obligations, net of debt issuance costs, less current portion:		
Credit facility payable to bank, net of debt issuance costs	20,078	12,359
Total long-term debt obligations, net of debt issuance costs, less current portion	20,078	12,359
Lease obligations, non-current	227	-
Other accrued liabilities, non-current	864	798
Total liabilities	40,794	32,875
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Cumulative convertible participating Preferred Stock, Series E, $0.05 par value, 25,000 shares authorized; 12,127 shares outstanding as of February 28, 2020 and February 22, 2019	12,127	12,127
Common Stock, $0.05 par value, 50,000,000 shares authorized; 9,443,785 shares issued and outstanding as of February 28, 2020 and February 22, 2019	472	472
Additional paid-in capital	7,662	8,105
Accumulated deficit	(11,558)	(7,540)
Accumulated other comprehensive loss	(890)	(828)
Total shareholders' equity before non-controlling interest	7,813	12,336
Non-controlling interest	210	201
Total shareholders' equity	8,023	12,537
Total liabilities and shareholders' equity	**$ 48,817**	**$ 45,412**

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(in thousands, except per share information)

	Fiscal Year Ended	
	Feb. 28, 2020	**Feb. 22, 2019**
Net sales	$ 40,580	$ 48,424
Cost of goods sold	31,623	31,027
Gross profit	8,957	17,397
Operating expenses:		
Selling and marketing	4,240	5,121
General and administrative	5,546	5,625
Research and development	1,892	1,318
Operating expenses total	11,678	12,064
Operating (loss) income	(2,721)	5,333
Other expenses:		
Interest expense, net	779	1,003
Other expense, net	497	434
Other expenses total	1,276	1,437
(Loss) income before income taxes	(3,997)	3,896
Income tax provision	12	698
Net (loss) income	(4,009)	3,198
Income attributable to non-controlling interest	(9)	(51)
Net (loss) income attributable to ETC	**(4,018)**	**3,147**
Foreign currency translation adjustment	(62)	167
Comprehensive (loss) income	$ (4,080)	$ 3,314
Preferred Stock dividends	(493)	(484)
(Loss) income attributable to common and participating shareholders	$ (4,511)	$ 2,663
Per share information:		
Basic (loss) earnings per common and participating share:		
Distributed earnings per share:		
Common	$ -	$ -
Preferred	$ 0.08	$ 0.08
Undistributed (loss) earnings per share:		
Common	$ (0.29)	$ 0.17
Preferred	$ (0.29)	$ 0.17
Diluted (loss) earnings per share	**$ (0.29)**	**$ 0.17**
Basic weighted average common and participating shares:		
Common weighted average number of shares	9,444	9,434
Participating preferred shares	6,125	6,125
Total basic weighted average common and participating shares	15,569	15,559
Diluted weighted average shares:		
Basic weighted average common and participating shares	15,569	15,559
Dilutive effect of stock options	-	2
Total diluted weighted average shares	15,569	15,561

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share information)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, February 23, 2018	$ 12,127	9,428,071	$ 471	$ 8,563	$ (10,687)	$ (995)	$ 9,629
Less: Prior year non-controlling interest	-	-	-	-	-	-	(150)
Net income attributable to ETC	-	-	-	-	3,147	-	3,147
Foreign currency translation adjustment	-	-	-	-	-	167	167
Preferred Stock dividends	-	-	-	(484)	-	-	(484)
Stock compensation expense	-	-	-	16	-	-	16
Issuance of stock for director compensation	-	15,714	1	10	-	-	11
Balance before non-controlling interest, February 22, 2019	12,127	9,443,785	472	8,105	(7,540)	(828)	12,336
Non-controlling interest	-	-	-	-	-	-	201
Balance, February 22, 2019	**$ 12,127**	**9,443,785**	**$ 472**	**$ 8,105**	**$ (7,540)**	**$ (828)**	**$ 12,537**
Less: Prior year non-controlling interest	-	-	-	-	-	-	(201)
Net loss attributable to ETC	-	-	-	-	(4,018)		(4,018)
Foreign currency translation adjustment	-	-	-	-	-	(62)	(62)
Preferred Stock dividends	-			(493)			(493)
Stock compensation expense	-	-	-	50	-	-	50
Balance before non-controlling interest, February 28, 2020	12,127	9,443,785	472	7,662	(11,558)	(890)	7,813
Non-controlling interest	-	-	-	-	-	-	210
Balance, February 28, 2020	**$ 12,127**	**9,443,785**	**$ 472**	**$ 7,662**	**$ (11,558)**	**$ (890)**	**$ 8,023**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Fiscal year ended	
	Feb. 28, 2020	**Feb. 22, 2019**
Cash flows from operating activities:		
Net (loss) income	$ (4,009)	$ 3,198
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,157	1,136
Deferred income taxes	(554)	24
Increase in valuation allowance for deferred tax assets	836	24
(Decrease) increase in allowance for doubtful accounts and inventory obsolescence	(175)	50
Stock compensation expense	50	16
Issuance of Common Stock	-	11
Changes in operating assets and liabilities:		
Accounts receivable	(5,342)	3,144
Contract assets	(1,777)	1,284
Inventories	1,005	(637)
Prepaid expenses and other assets	148	996
Accounts payable, trade	1,738	(279)
Contract liabilities	(3,047)	679
Accrued taxes	(1,188)	1,541
Accrued interest and dividends	(3)	6
Other accrued liabilities	1,819	2,184
Net cash (used in) provided by operating activities	**(9,341)**	**13,377**
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(161)	(212)
Capitalized software development costs	(82)	(64)
Net cash used in investing activities	**(243)**	**(276)**
Cash flows from financing activities:		
Borrowings (repayments) under lines of credit	7,719	(8,534)
Net cash provided by (used in) financing activities	**7,719**	**(8,534)**
Effect of exchange rate changes on cash	(62)	167
Net (decrease) increase in cash, cash equivalents, and restricted cash	(1,927)	4,734
Cash, cash equivalents, and restricted cash at beginning of period	11,017	6,283
Cash, cash equivalents, and restricted cash at end of period	**$ 9,090**	**$ 11,017**
Less: Restricted cash	(8,413)	(5,956)
Cash and cash equivalents at end of period	**$ 677**	**$ 5,061**
Supplemental schedule of cash flow information:		
Interest paid	$ 915	$ 1,102
Income taxes paid	$ 469	$ 15
Supplemental information on non-cash operating and investing activities:		
Preferred Stock dividends accrued during each respective fiscal year	$ 493	$ 484

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share information)

Description of Business

ETC was incorporated in 1969 in Pennsylvania. For over five decades, we have provided our customers with products, services, and support. Innovation, continuous technological improvement and enhancement, and product quality are core values that are critical to our success. We are a significant supplier and innovator in the following areas: (i) software driven products and services used to create and monitor the physiological effects of flight, including high performance jet tactical flight simulation, fixed and rotary wing upset prevention and recovery and spatial disorientation, and both suborbital and orbital commercial human spaceflight, collectively, Aircrew Training Systems ("ATS"); (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); (iv) Advanced Disaster Management Simulators ("ADMS"); (v) steam and gas (ethylene oxide) sterilizers; (vi) environmental testing and simulation systems ("ETSS"); and (vii) hyperbaric (100% oxygen) chambers for one person (monoplace chambers). On November 27, 2019, the Company entered into an asset purchase agreement to sell substantially all of its rights, title, and interest in and to the assets related to monoplace chambers. We operate in two primary business segments, Aerospace Solutions ("Aerospace") and Commercial/Industrial Systems ("CIS"). Net sales, operating (loss) income, identifiable assets, and other financial information regarding our segments may be found in Note 8 – Business Segment Information.

Aerospace encompasses the design, manufacture, and sale of: (i) ATS products; (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); and (iv) ADMS, as well as integrated logistics support ("ILS") for customers who purchase these products or similar products manufactured by other parties. These products and services provide customers with an offering of comprehensive solutions for improved readiness and reduced operational costs. Sales of our Aerospace products are made principally to U.S. and foreign government agencies and to civil aviation organizations. We offer integrated ATS products to commercial, governmental, and military defense agencies, and training devices, including altitude (hypobaric) and multiplace chambers ("Chambers"), to governmental and military defense agencies and civil aviation organizations both in the United States and internationally. We sell our ADMS line of products to governmental organizations both in the United States and internationally, original equipment manufacturers in the global special fire truck market (including Aircraft Rescue and Firefighting vehicles), fire and emergency training schools, universities, and airports. We also provide ILS for customers who purchase these products or similar products manufactured by other parties.

CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizers; (ii) ETSS; and (iii) hyperbaric (100% oxygen) chambers for one person (monoplace chambers), as well as parts and service support for customers who purchase these products or similar products manufactured by other parties. Sales of our CIS products are made principally to the healthcare, pharmaceutical, and automotive industries. We sell our sterilizers to medical device manufacturers, pharmaceutical manufacturers, and universities. We sell ETSS primarily to commercial automotive and heating, ventilation, and air conditioning ("HVAC") manufacturers. Prior to the asset sale on November 27, 2019, we sold our monoplace chambers to hospitals and wound care clinics. We also provide upgrade, maintenance, and repair services for our products and similar products manufactured by other parties.

The Company's primary Standard Industrial Classification Code is 3569. The Company's fiscal year is the fifty-two week or fifty-three week annual accounting period ending the last Friday in February. References to fiscal 2020 are references to the fifty-three week period ended February 28, 2020. References to fiscal 2019 are references to the fifty-two week period ended February 22, 2019. Certain amounts from prior consolidated financial statements have been reclassified to conform to the presentation in fiscal 2020.

Sales Backlog

Below is a breakdown of the Company's February 28, 2020 sales backlog (amounts in thousands, except percentages):

	Business segment			
Geographic Area	**Aerospace**	**CIS**	**Total**	**%**
Domestic	$ 290	$ 1,330	$ 1,620	9.5
U.S. Government	1,846	-	1,846	10.8
International	12,039	1,563	13,602	79.7
Total	**$ 14,175**	**$ 2,893**	**$ 17,068**	**100.0**
% of Total	83.1%	16.9%	100.0%	

Within the Company's February 28, 2020 sales backlog of $17,068, two contracts, each with International customers within the Aerospace segment, represented at least 10% of the total sales backlog and constituted $6,592, or 38.6%, of the total sales backlog. As of February 28, 2020, only one business unit, Aeromedical Training Solutions, represented 10.0% or more of total sales backlog and constituted $12,442, or 72.9%, of the total sales backlog. We expect to recognize approximately 83% of the total sales backlog as of February 28, 2020 over the next twelve (12) months and approximately 87% over the next twenty-four (24) months as revenue, with the remainder recognized thereafter. Given the Company's sales backlog as of February 28, 2020, it is anticipated that ETC will generate the majority of its sales from International Aeromedical Training Solutions contracts.

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of ETC and ETC-PZL Aerospace Industries Sp. z o.o. ("ETC-PZL"), our 95%-owned subsidiary in Warsaw, Poland. ETC-PZL manufactures certain simulators and provides software to support products manufactured domestically within our Aerospace segment. "ETC-SH" refers to the Company's corporate headquarters and main production plant located in Southampton, Pennsylvania, USA. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made when estimating budget costs for large, multi-year contracts that involve significant engineering and software development and for valuations of long-lived assets, inventory and legal reserves, and income taxes.

Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable, and bank debt approximate fair value because of the short maturity associated with each of these instruments.

Revenue Recognition

The majority of our net sales are generated from long-term contracts with U.S. and foreign government agencies (including foreign military sales ("FMS") contracted through the U.S. Government) for the research, design, development, manufacture, integration, and sustainment of ATS products, including Chambers and the simulators manufactured and sold through ETC-PZL, collectively, Aeromedical Training Solutions. The Company also enters into long-term contracts with domestic customers for the sale of sterilizers and ETSS. Net sales of ADMS and monoplace chambers are generally much shorter term in nature and vary between domestic and international customers. We generally provide our products and services under fixed-price contracts.

Under fixed-price contracts, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss. Some fixed-price contracts have a performance-based component under which we may incur financial penalties based on our performance, such as liquidated damages for delayed delivery.

We account for a contract after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable.

We assess each contract at its inception to determine whether it should be combined with other contracts. When making this determination, we consider factors such as whether two or more contracts were negotiated and executed at or near the same time or were negotiated with an overall profit objective. If combined, we treat the combined contracts as a single contract for revenue recognition purposes.

We evaluate the products or services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The majority of the Company's contracts with customers are accounted for as one performance obligation, as the majority of products and services is part of a single project or capability. In limited cases, our contracts have more than one distinct performance obligation, which occurs when we perform activities that are not interrelated or involve different product lifecycles. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit recorded in a given period.

We determine the transaction price for each contract based on the consideration we expect to receive for the products or services being provided under the contract, net of all sales and similar taxes collected from customers. For contracts where a portion of the price may vary, we estimate variable consideration at the most likely amount, which is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. We analyze the risk of a significant revenue reversal, and if necessary, constrain the amount of variable consideration recognized in order to mitigate this risk.

At the inception of a contract, we estimate the transaction price based on our current rights and do not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Contracts are often subsequently modified to include changes in specifications, requirements, or price, which may create new or change existing enforceable rights and obligations. Depending on the nature of the modification, we consider whether to account for the modification as an adjustment to the existing contract or as a separate contract. Generally, modifications to our contracts are not distinct from the existing contract due to the significant integration and interrelated tasks provided in the context of the contract; therefore, such modifications are accounted for as if they were part of the existing contract and recognized as a cumulative adjustment to revenue. Contract claims and disputes related to customer caused delays, errors in specifications and designs, and other unanticipated causes for amounts in excess of contract value may increase the transaction price if it is probable that the claim will result in an increase in the contract value and if the increase can be reliably estimated; however, the resulting revenue recorded on a contract claim cannot exceed the incurred contract costs related to that claim. Claims are subject to negotiation, dispute resolution, and audit by the customer or governmental agency.

For contracts with multiple performance obligations, we allocate the transaction price to each performance obligation based on the estimated standalone selling price of the product or service underlying each performance obligation. The standalone selling price represents the amount we would sell the product or service to a customer on a standalone basis (i.e., not bundled with any other products or services). Our contracts with the U.S. Government, including FMS contracts, are subject to the Federal Acquisition Regulations ("FAR") and the price is typically based on estimated or actual costs plus a reasonable profit margin. As a result of these regulations, the standalone selling price of products or services in our contracts with the U.S. Government and FMS contracts are typically equal to the selling price stated in the contract; therefore, we typically do not need to allocate (or reallocate) the transaction price to multiple performance obligations

For non-U.S. Government contracts with multiple performance obligations, we evaluate whether the stated selling prices for the products or services represent their standalone selling prices. We primarily sell customized solutions unique to a customer's specifications. When it is necessary to allocate the transaction price to multiple performance obligations, we typically use the expected cost plus a reasonable profit margin to estimate the standalone selling price of each product or service. We occasionally sell standard products or services with observable standalone sales transactions. In these situations, the observable standalone sales transactions are used to determine the standalone selling price.

We recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. In determining when performance obligations are satisfied, we consider factors such as contract terms, payment terms, and whether there is an alternative future use of the product or service. Substantially all of our revenue is recognized over a period of time as we perform under the contract because control of the work in process transfers continuously to the customer. For contracts with the U.S. Government and FMS contracts, this continuous transfer of control of the work in process to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit, and take control of any work in process. Our non-U.S. Government contracts, primarily domestic and international direct commercial contracts, typically do not include termination for convenience provisions; however, continuous transfer of control to our customer is supported as, if our customer were to terminate the contract for reasons other than our non-performance, we would have the right to recover damages that would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to us.

For performance obligations to deliver products with continuous transfer of control to the customer, revenue is recognized by means of an input measure based on the extent of progress towards completion of the performance obligation, generally using the percentage-of-completion cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer as we incur costs on our contracts. Under the percentage-of-completion cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation(s).

For performance obligations in which control does not continuously transfer to the customer, we recognize revenue at the point in time in which each performance obligation is fully satisfied. This coincides with the point in time the customer obtains control of the product or service, which typically occurs upon customer acceptance or receipt of the product or service, given that we maintain control of the product or service until that point.

The Company also offers one to three year (and in limited cases fifteen year) maintenance and support agreements for many of its products, especially within the Aerospace segment. The specific terms and conditions of these agreements vary depending upon the product sold and country in which the product was sold. Revenue is recognized on such agreements over a period of time on a straight-line basis over the term of the maintenance and support services or the right to invoice method (in situations where the value transferred matches our billing rights) as our customer receives and consumes the benefits. The standalone selling price is determined based on the price charged when sold separately or upon renewal.

Sales backlog (i.e., unfulfilled or remaining performance obligations) represents the sales we expect to recognize for our products and services for which control has not yet transferred to the customer. The estimated consideration is determined at the outset of the contract and considers the risks related to the technical, schedule, and cost impacts to complete the contract and an estimate of any variable consideration. We review these risks on a quarterly basis and may increase or decrease backlog accordingly. As the risks on such contracts are successfully retired, the estimated consideration from customers may be reduced, resulting in a reduction of backlog without a corresponding recognition of sales.

For arrangements with the U.S. Government and FMS contracts, we generally do not begin work on contracts until funding is appropriated by the customer. Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. Typical payment terms under fixed-price contracts with the U.S. Government provide that the customer pays either performance-based payments based on the achievement of contract milestones or progress payments based on a percentage of costs we incur. For the majority of our domestic and international direct commercial contracts, we typically receive advance payments prior to commencement of work, as well as milestone payments that are paid in accordance with the terms of our contract as we perform. We recognize a liability for payments in excess of revenue recognized, which is presented as a contract liability on the balance sheet. The portion of payments that may be retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer from our failure to adequately complete some or all of the obligations under the contract. Payments received from customers in advance of revenue recognition are not considered to be significant financing components because they are used to meet working capital demands that can be higher in the early stages of a contract. We present revenues recognized in excess of billings as contract assets on the balance sheet. Amounts billed and due from our customers are classified as receivables on the balance sheet.

Significant estimates and assumptions are made in estimating contract sales and costs, including the profit booking rate. At the outset of a long-term contract, we identify and monitor risks to the achievement of the technical, schedule, and cost aspects of the contract, as well as variable consideration, and assess the effects of those risks on our estimates of sales and total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events), and costs (e.g., material, labor, subcontractor, overhead, and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule, and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and cost aspects of the contract, which decreases the estimated total costs to complete the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase or our estimates of variable consideration we expect to receive decrease. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. When estimates of total costs to be incurred on a contract exceed total estimates of the transaction price, a provision for the entire loss is determined at the contract level and is recorded in the period in which the loss is determined.

Comparability of our segment sales, operating income, and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts for which we recognize revenue over a period of time using the percentage-of-completion cost-to-cost method to measure progress towards completion. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs to fulfill the performance obligations that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate, resulting in an increase in the estimated total costs to fulfill the performance obligations and a reduction in the profit booking rate. Increases or decreases in profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes.

The aggregate impact of adjustments in contract estimates to net (loss) income attributable to ETC are presented below:

Net (loss) income attributable to ETC

	Fiscal 2020	Fiscal 2019
Aerospace	$ (1,326)	$ 223
CIS	(1,114)	(282)
Total	**$ (2,440)**	**$ (59)**

Cash and Cash Equivalents

Cash includes short-term deposits at market interest rates with original maturities of three (3) months or less. The Company maintains cash balances at several financial institutions located in the Northeast United States and at several locations internationally. Accounts in each domestic institution are insured by the Federal Deposit Insurance Corporation up to $250. During each fiscal year, the Company may periodically have cash and cash equivalents in excess of insured amounts.

Restricted Cash

Restricted cash was $8,413 as of February 28, 2020 compared to $5,954 as of February 22, 2019. Restricted cash is comprised primarily of collateral for any obligations under our loan agreements with PNC Bank, National Association ("PNC Bank") as defined in Note 6 – Long-Term Obligations and Related Equity Arrangements. The increase in restricted cash was due primarily to prepaid research and development funding under international government grant programs.

Accounts Receivable and Concentration of Credit Risk

Accounts receivable represents our unconditional right to consideration under the contract and include amounts billed and currently due from customers. The amounts are stated at their net estimated realizable value.

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current creditworthiness. Terms are cash upon delivery, except where satisfactory open account credit is established, in which case terms are generally payment net thirty (30) days from the date of the invoice. Accounts receivable are deemed past due if payment is not received by the payment due date. Overdue payments are subject to interest penalty of the delinquent amount at the rate of one and one-half percent (1.5%) per month. The Company continuously monitors collections and payments from its customers, and maintains a provision for estimated credit losses based on historical experience and any specific customer collection issues that are identified. While credit losses have historically been within the Company's expectations and the provisions established, we cannot guarantee that the Company will continue to experience the same credit loss rates.

Additionally, as a result of the concentration of international receivables, the Company cannot predict the effect, if any, that geopolitical disputes and financial constraints will have on the ultimate collection of its international receivables. Amounts due under contracts related to agencies of a foreign government totaled $5,139, or 61.5%, of total net accounts receivable as of February 28, 2020 as compared to $291, or 10.0%, of total net accounts receivable as of February 22, 2019. As of January 7, 2021, the date of issuance of our consolidated financial statements, 53.5% of these receivables outstanding as of February 28, 2020 and 77.3% of these receivables outstanding as of February 22, 2019 have been collected, respectively. See Note 2 – Accounts Receivable for additional disclosures related to our accounts receivable.

Contract Assets

Contract assets include unbilled amounts typically resulting from sales under contracts when the percentage-of-completion cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. The amounts may not exceed their estimated net realizable value. In accordance with industry practices, contract assets are classified as current even though a portion of these amounts may not be realized within one year.

Contract Liabilities

Contract liabilities include billings in excess of revenue recognized and advance payments. In accordance with industry practices, contract liabilities are classified as current.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined principally by the first-in, first-out method ("FIFO method"). The costs of finished goods and work-in-process inventories include material, direct engineering, manufacturing labor, and overhead components. Overhead costs allocated to inventory are only those directly related to our manufacturing activities. Where necessary, provision is made for obsolete, slow-moving, or damaged inventory. This provision represents the difference between the cost of the inventory and its estimated market value. In addition, we capitalize costs to fulfill incurred in advance of contract award in inventories as work-in-process if we determine that contract award is probable.

In accordance with U.S. GAAP, the Company may capitalize certain costs of simulation equipment into property, plant, and equipment. This equipment may be used to provide training or as a demonstration device to market the technology, and may be sold as a product if appropriate.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, and are depreciated over their estimated useful lives using the straight-line method for financial reporting purposes. Buildings and building additions are depreciated over 40 years; machinery and equipment, 3 to 20 years; office furniture and equipment, 10 years; and building improvements, 5 to 10 years. The Company manufactures certain equipment that it uses primarily for both research and demonstration purposes to support its sales effort and is not listed for sale, although sales of such demonstration equipment are not precluded. The gross value of demonstration equipment was $17,029 and $16,983 as of February 28, 2020 and February 22, 2019, respectively. The net book value of demonstration equipment was $7,085 and $7,835 as of February 28, 2020 and February 22, 2019, respectively. Upon sale of such demonstration devices, their costs, net of accumulated depreciation, are transferred to cost of sales. Upon sale or retirement of property, plant, and equipment, the costs and related accumulated depreciation are eliminated from the accounts with any resulting gains or losses. In fiscal 2019, $118 of machinery and equipment, all of which was fully depreciated, was retired. There were no such retirements of assets in fiscal 2020.

Capitalized Software Development Costs

The Company capitalizes the qualifying costs of developing software contained in certain products. Capitalization of such costs commences when technological feasibility has been established in accordance with the Financial Accounting Standards Board's ("FASB") guidance on accounting for the costs of computer software to be sold, leased, or otherwise marketed. Technological feasibility is defined as the point in time when the Company has completed all planning, designing, coding, and testing activities that are necessary to establish that a software product can be produced to meet its design specifications, including functions, features, and technical performance requirements. When the software is ready for commercial release, capitalization of development costs cease and amortization commences on a straight-line basis over a period ranging from three (3) to five (5) years, depending upon the life of the product. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors including, but not limited to, anticipated future gross product revenue, estimated economic product lives, and changes in software and hardware technology. Software amortization totaled $62 and $61 in fiscal 2020 and fiscal 2019, respectively. Estimated software amortization, which is based on existing capitalized software, for each of the next five (5) fiscal years is as follows: $51 in fiscal 2021, $37 in fiscal 2022, and $12 in fiscal 2023.

Research and Development Costs

Research and development costs, which relate primarily to the development, design, and testing of products, are expensed as incurred. The Company enters into research grants with various government entities, both in the United States and internationally. During fiscal 2020 and fiscal 2019, the Company was involved with three (3) and zero (0) such grants, respectively. Reimbursement payments received under these grants for qualified expenses are recorded as a reduction of research and development costs. Such reimbursements totaled $352 in fiscal 2020 and $0 in fiscal 2019. Research and development expenses, which totaled $2,244 in fiscal 2020 and $1,318 in fiscal 2019, include spending for potential new products and technologies and work performed under government grant programs, both in the United States and internationally. This spending, net of reimbursements from the United States, and the governments of Poland and Turkey, as detailed above, was $1,892 for fiscal 2020 compared to $1,318 for fiscal 2019.

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes, as well as the valuation of net operating loss ("NOL") carryforwards and research and development tax credits. Valuation allowances are reviewed each fiscal period to determine whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax asset. Deferred tax assets and liabilities are offset and presented as a single non-current asset.

Significant judgments and estimates are required in determining the provision for taxes, including judgments and estimates regarding the realization of deferred tax assets and the ultimate outcomes of tax-related contingencies. During the normal course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. A liability is recognized, including interest, or a tax asset is reduced, for the anticipated outcome of tax audits. These amounts are adjusted in light of changing facts and circumstances.

Long-Lived Assets

The Company reviews its property, plant, and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the net undiscounted cash flows expected to be generated by the asset. An impairment loss would be recorded for the excess of net book value over the fair value of the asset impaired. The fair value is estimated based on expected undiscounted future cash flows. The results of impairment tests are subject to management's estimates and assumptions of projected cash flows and operating results; actual results may differ. There were no impairment losses recorded in either fiscal 2020 or fiscal 2019.

Share-Based Compensation

Share-based compensation expense is measured at the stock option grant date, based on the fair value of the award, and is recorded primarily to general and administrative expense. The Company uses the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair value of share-based awards in accordance with Accounting Standards Codification ("ASC") 718, Compensation. This option-pricing model requires the input of highly subjective assumptions, including the option's expected term, the price volatility of the underlying stock, risk-free rates of return, dividend yield, and expected forfeitures. The expected term of an award is no less than the award vesting period and is based on the Company's historical experience. The expected stock price volatility is based on the Company's historical stock prices. The risk-free interest rate is approximated using rates available on U.S. Treasury securities in effect at the time of grant with a remaining term similar to the award's expected life. The Company uses a dividend yield of zero in the Black-Scholes option-pricing model as it does not anticipate paying cash dividends in the near future. The Company uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expense for only those awards that are expected to vest as the requisite service is rendered. The guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from these estimates. The Company typically issues new shares of Common Stock upon the exercise of stock options, as opposed to using treasury shares. There were 585,450 stock options granted in fiscal 2020. There were no stock options granted in fiscal 2019.

Advertising Costs

The Company expenses advertising costs, which include trade shows, as incurred. Advertising costs were $156 and $177 in fiscal 2020 and fiscal 2019, respectively.

Warranty Costs

The Company provides warranties against defects in materials and workmanship in our products. Warranty periods for our products generally range from ninety (90) days to two (2) years. The Company maintains a general provision for estimated expenses of providing service under these warranties. Non-warranty service is billed to the customer as performed. The assumptions we use to estimate warranty accruals are evaluated periodically in light of actual experience and management's estimates of future claims, and, when appropriate, the accruals are adjusted. Our determination of the appropriate level of warranty accrual is subjective and based on estimates, and actual experience may be different than our accruals.

Earnings per Share

The Company utilizes the two-class method for computing and presenting earnings per share. The Company currently has one class of Common Stock (the "Common Stock") and one class of cumulative convertible participating Preferred Stock currently outstanding, Series E (the "Preferred Stock"). Under its terms, the Preferred Stock is entitled to participate in any cash dividends on a one-for-one basis for the equivalent converted common shares if the Preferred Stock were to be converted by the holder by the dividend record date; therefore, the Preferred Stock is considered a participating security requiring the two-class method for the computation and presentation of net income per share – basic.

The two-class computation method for each period segregates basic earnings per common and participating share into two categories: distributed earnings per share (i.e., the Preferred Stock stated dividend) and undistributed earnings per share, which allocates earnings after subtracting the Preferred Stock dividend to the total of weighted average common shares outstanding plus equivalent converted common shares related to the Preferred Stock. Basic earnings per common and participating share excludes the effect of Common Stock equivalents, and is computed using the two-class computation method.

Diluted earnings per share reflects the potential dilution that could result if securities or other contracts to issue Common Stock were exercised or converted into Common Stock. Diluted earnings per share continues to be computed using the if-converted method. Diluted earnings per share assumes the exercise of stock options and warrants using the treasury stock method. If the effect of the conversion of any financial instruments would be anti-dilutive, it is excluded from the diluted earnings per share calculation.

As of both February 28, 2020 and February 22, 2019, there was $12,127 of cumulative convertible participating Series E Preferred Stock convertible at an exercise price of $1.98 per share, equating to 6,124,567 shares of Common Stock, originally issued in July 2009.

As of February 28, 2020 and February 22, 2019, there were outstanding options to purchase the Company's Common Stock totaling 1,036,450 and 507,500 shares at an average price of $0.95 and $1.24 per share, respectively. Due to the conversion price of the Common Stock options, 1,036,450 and 497,500 shares were excluded from the calculation of diluted earnings per share as of February 28, 2020 and February 22, 2019, respectively, because the effect of their conversion would be anti-dilutive.

Standards Issued and Implemented

Statements of Cash Flows

In the 2019 first quarter, we adopted Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows, and ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires a company to include in its cash and cash equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash, a reconciliation between the statement of financial position and the statement of cash flows when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents, and proper disclosure about the nature of the restrictions when the company has a material balance of amounts generally described as restricted cash and restricted cash equivalents. The impact of adoption was not material.

Leases

In February 2016, as part of its initiative to increase transparency and comparability among organizations, the FASB issued ASU 2016-02, Leases (Topic 842), which introduced a lessee model that brings most leases on the balance sheet. ASU 2016-02 is effective for our fiscal 2020, which began on February 23, 2019. Among other requirements, the transition provisions require the lessee to recognize a right-of-use asset and liability for most existing lease arrangements on the date the transition provisions are applied. We have elected to apply the transition provisions of this new standard on February 23, 2019; therefore, periods prior to the effective date of adoption will continue to be reported using ASC 840. Under ASC 840, the majority of our existing lease arrangements were classified as operating leases, and continue to be classified as operating under the new standard. Upon adoption of the new standard, we recorded a right-of-use asset and lease liability, both with an approximate balance of $595, on our balance sheet for all of our existing lease arrangements. Adoption of the new standard did not have a significant impact on our net earnings or cash flows.

The Company determines if an arrangement is a lease at the inception date. On the Consolidated Balance Sheets, operating leases are included in Right-of-use asset, with the related liabilities included in either Current portion of lease obligations or Lease obligations, non-current. Also on the Consolidated Balance Sheets, finance leases are included in Property, plant, and equipment, at cost, net, with the related liabilities included in either *Other accrued liabilities, current, or Other accrued liabilities, non-current.*

Right-of-use assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. If a lease does not implicitly state a rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Variable components of the lease payments such as fair market value adjustments, utilities, and maintenance costs are expensed as incurred and not included in determining the present value. Lease expense for minimum lease payments are recognized on a straight-line basis over the lease term.

The Company leases certain premises and office equipment under operating leases. As of February 28, 2020, these leases have remaining lease terms of three (3) months to forty (40) months, with a weighted average remaining lease term of approximately twenty-six (26) months. Maturities of operating lease liabilities are as follows:

Fiscal Year		**Amount**
Fiscal 2021	$	196
Fiscal 2022		203
Fiscal 2023		38
Fiscal 2024		2
Total lease payments		439
Less: imputed interest		(25)
Total future long-term debt obligations		414
Less: current portion		(187)
Total future long-term debt obligations, less current portion	**$**	**227**

Total operating lease expense in fiscal 2020 was $294, of which $61 was attributable to variable lease expenses. Cash payments against operating lease liabilities in fiscal 2020 totaled $235 and reclassifications of liabilities to comply with the presentation requirements of ASU 2016-02 as of February 28, 2020 was $28.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires companies to record an allowance for expected credit losses over the contractual term of financial assets, including short-term trade receivables and contract assets, and expands disclosure requirements for credit quality of financial assets. The new standard is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. The new standard will be effective for our fiscal year beginning February 25, 2023. We do not anticipate that the adoption of the new standard will have a significant impact on our financial position, results of operations, or cash flows.

2. Accounts Receivable

The components of accounts receivable are as follows:

	Feb. 28, 2020	Feb. 22, 2019
U.S. Commercial ("Domestic")	$ 1,181	$ 1,722
U.S. Government	304	371
International	6,935	985
	8,420	3,078
Less: allowance for doubtful accounts	(60)	(165)
Accounts receivable, net	**$ 8,360**	**$ 2,913**

3. Contract Assets and Contract Liabilities

The following is a summary of long-term contracts in progress:

	Feb. 28, 2020	Feb. 22, 2019
Cost incurred on uncompleted long-term contracts	$ 154,309	$ 173,183
Estimated earnings	51,890	51,932
	206,199	225,115
Less: billings to date	(192,720)	(216,460)
	$ 13,479	**$ 8,655**

Included in accompanying balance sheets under the following captions:

	Feb. 28, 2020	Feb. 22, 2019
Contract assets	$ 17,041	$15,264
Contract liabilities	(3,562)	(6,609)
	$ 13,479	**$ 8,655**

Included in contract liabilities is a provision for unexpected losses on contracts of $200 in both fiscal 2020 and fiscal 2019.

In accordance with industry practices, contract assets are classified as current even though a portion of these amounts may not be realized within one year.

4. Inventories

Inventories are valued at the lower of cost or market using the FIFO method and consist of the following:

	Feb. 28, 2020	Feb. 22, 2019
Raw materials	$ 46	$ 236
Work in process	1,478	2,132
Finished goods	360	451
Inventories, net	**$ 1,884**	**$ 2,819**

Inventory is presented net of an allowance for obsolescence of $321 (raw material $94 and work in process $227) and $391 (raw material $164 and work in process $227) as of February 28, 2020 and February 22, 2019, respectively.

In accordance with GAAP, the Company may capitalize certain costs of simulation equipment into property, plant, and equipment. This equipment may be used to provide training or as a demonstration device to market the technology, and may be sold as a product if appropriate.

5. Property, Plant, and Equipment

The following is a summary of property, plant and equipment, at cost:

	Feb. 28, 2020	Feb. 22, 2019
Land	$ 100	$ 100
Buildings and building additions	3,851	3,851
Machinery and equipment	11,263	11,211
Demonstration equipment	17,029	16,983
Office furniture and equipment	1,324	1,324
Building improvements	3,201	3,164
Construction in process	539	513
	37,307	37,146
Less: accumulated depreciation	(26,741)	(25,656)
Property, plant, and equipment, at cost, net	**$ 10,566**	**$ 11,490**

Depreciation expense for fiscal 2020 and fiscal 2019 was $1,085 and $1,075, respectively.

As of both February 28, 2020 and February 22, 2019, substantially all of the Company's long-lived assets were located in the United States of America.

6. Long-Term Obligations and Related Equity Arrangements

September 28, 2012 Loan Agreement with PNC Bank

Effective September 28, 2012, ETC and PNC Bank entered into a loan agreement (the "September 28, 2012 Loan Agreement"), which included ETC executing a Line of Credit Note and a Term Loan Note (as defined below). As set forth in the September 28, 2012 Loan Agreement, borrowings under the PNC Line of Credit were available for working capital and other general business purposes, and for issuances of letters of credit. Amounts were borrowed, repaid, and re-borrowed under the PNC Line of Credit from time to time until August 5, 2016, the date on which the Company entered into an amendment to the September 28, 2012 Loan Agreement that provided for, among other things, the consolidation of the PNC Line of Credit and the Term Loan into a $21,000 Revolving Line of Credit (the "Revolving Line of Credit"), which on April 9, 2018 was subsequently increased to $25,000; see "Recent Amendments to the September 28, 2012 Loan Agreement" below for details.

The Company's obligation to repay the advances under the Revolving Line of Credit is set forth in the Amended and Restated Committed Line of Credit Note (the "Line of Credit Note"). The Company is also obligated to pay a fee of 0.25% for unused but available funds under the Revolving Line of Credit. As of February 28, 2020, the Company's availability under the Revolving Line of Credit was $2,178. This reflected cash borrowings of $20,078 and net outstanding standby letters of credit not covered by the Committed Line of Credit of $2,744. As of January 5, 2021, the date of our most current Revolving Line of Credit statement, the Company's availability under the Revolving Line of Credit was approximately $3,642.

As security for repayment of the Line of Credit Note, as noted above, and the Term Loan Note, which set forth the Company's obligation to repay the principal on the Term Loan, including interest, on a monthly basis, 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 on September 28, 2012 in favor of PNC Bank by H.F. Lenfest ("Mr. Lenfest"), a major shareholder and director of ETC since 2003, who passed away on August 5, 2018, and an Open-End Mortgage and Security Agreement between ETC and PNC Bank dated September 28, 2012. Pursuant to the Pledge Agreement, which was subsequently amended and restated in conjunction with the Fiscal 2017 Amendment to the September 28, 2012 Loan Agreement (as defined below), the Company pledged to PNC Bank as collateral the Company's ownership interest in certain subsidiaries of the Company.

The September 28, 2012 Loan Agreement contains both affirmative and negative covenants that are customary for transactions of this type, including such financial covenants as a minimum net worth, a maximum operating leverage ratio, and a minimum fixed charge coverage ratio, as well as limitations with respect to indebtedness, liens, investments, distributions, dispositions of assets, change of business, and transactions with affiliates. The September 28, 2012 Loan Agreement also 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 September 28, 2012 Loan Agreement, including the non-payment of principal or interest, the obligations of the Company under the September 28, 2012 Loan Agreement may be accelerated and the assets securing the obligations secured. See "Fiscal 2021 Amendment to the September 28, 2012 Loan Agreement" below for current financial covenant requirements.

Recent Amendments to the Sept. 28, 2012 Loan Agreement

Fiscal 2017 Amendment to the Sept. 28, 2012 Loan Agreement

On June 10, 2016, the Company received a waiver as of the fiscal quarter ended February 26, 2016 for failing to exceed the permitted minimum Consolidated Tangible Net Worth. The waiver also provided that ETC was to maintain at all times a minimum Consolidated Tangible Net Worth of $7,500; further, commencing with the fiscal quarter ending May 26, 2017, ETC was to have maintained as of the end of each fiscal quarter a Fixed Charge Coverage Ratio of at least 1.00 to 1. This ratio was to increase to 1.10 to 1 on August 25, 2017, and was to remain at that level at all times thereafter. The waiver extended the maturity date of the PNC Line of Credit to August 10, 2016, during which time the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The PNC Line of Credit and the Term Loan were consolidated into a $21,000 Revolving Line of Credit, under which amounts may be borrowed, repaid, and re-borrowed until the maturity date.

(ii) The existing Committed Line of Credit (the "Committed Line of Credit") is capped at $8,600, an amount equivalent to the total outstanding standby letters of credit under which the Committed Line of Credit covered as of May 27, 2016. All outstanding standby letters of credit covered by the Committed Line of Credit were either returned or expired as of June 30, 2020.

(iii) A new $1,000 FX Equivalent Line of Credit (the "FX Equivalent Line of Credit") for potential future foreign exchange obligations.

(iv) The Revolving Line of Credit, the Committed Line of Credit, and the FX Equivalent Line of Credit (collectively, the "2016 PNC Credit Facilities") had an original maturity date of December 31, 2017, which on May 26, 2017 was extended to June 30, 2018.

(v) The interest rate on the 2016 PNC Credit Facilities will be based on the PNC Daily LIBOR Rate (0.50% as of January 5, 2021, the date of our most current Revolving Line of Credit statement) plus a margin of 3.00%.

(vi) The 2016 PNC Credit Facilities are collateralized by a combination of the Company's pledged restricted cash ($5,832 as of February 28, 2020), substantially all of the Company's additional assets, and the pledged cash collateral of the estate of Mr. Lenfest.

Fiscal 2019 Amendment to the Sept. 28, 2012 Loan Agreement

On April 9, 2018, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The Revolving Line of Credit was increased from $21,000 to $25,000.

(ii) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2018 to June 30, 2019.

(iii) The interest rate margin on the 2016 PNC Credit Facilities was lowered from 3.00% to 2.75%.

Fiscal 2020 Amendments to the Sept. 28, 2012 Loan Agreement

On June 28, 2019, subsequent to the end of fiscal 2019, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that extended the maturity date of the 2016 PNC Credit Facilities from June 30, 2019 to June 30, 2020

On January 22, 2020, the Company received a waiver for failing to maintain the minimum Fixed Charge Coverage Ratio as of the fiscal quarter ended November 29, 2019; going forward, the waiver also eliminates the Fixed Charge Coverage Ratio covenant.

Fiscal 2021 Amendment to the Sept. 28, 2012 Loan Agreement

On June 26, 2020, subsequent to the end of fiscal 2020, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The elimination of the Committed Line of Credit component of the 2016 PNC Credit Facilities.

(ii) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2020 to June 30, 2021.

(iii) The elimination of the Consolidated Tangible Net Worth, which was the last remaining financial covenant; going forward, there are no financial covenants contained within the amended loan agreement.

(iv) The release of the mortgage on the property located at 125 James Way, Southampton.

Preferred Stock

Presently, the Company has one class of cumulative convertible participating Preferred Stock currently outstanding, Series E (25,000 shares authorized) (the "Preferred Stock"). The Preferred Stock was authorized by the Board of Directors in April 2009 as part of the 2009 Lenfest Financing Transaction. The Preferred Stock has a par value of $0.05 per share and a stated value of $1,000 per share. The Preferred Stock is currently entitled to receive cumulative dividends at the rate of four percent (4%) per year in preference to the holders of the Company's Common Stock with respect to dividends. These dividends are payable only upon a liquidation event or when otherwise declared by the Board of Directors. The Company cannot declare or pay any dividends on its Common Stock until the dividends on the Preferred Stock have been paid. The Preferred Stock holders are entitled to receive any dividends paid with respect to the Common Stock on an "as-converted" basis. The Preferred Stock may be converted by the holder at any time and from time to time into the Company's Common Stock by dividing the stated value of the Preferred Stock by the conversion price established at the time of issuance (see "Series E Preferred Stock" below). Upon a liquidation event, the holders of the Preferred Stock would be entitled to participate in any proceeds in preference to any Common Stock holders. The Preferred Stock would also participate in any liquidation event with the Common Stock holders on an "as-converted" basis. The Preferred Stock conversion price is subject to adjustment for certain transactions including stock splits and issuance of equity securities below the conversion prices.

The Company has reviewed U.S. GAAP applicable to the Preferred Stock; specifically, the Company has reviewed both ASC 480 – Distinguishing Liabilities from Equity and ASC 815 – Derivatives and Hedging. Upon its review, the Company determined that the Preferred Stock is within the control of the Company and that the attributes of the Preferred Stock are more akin to equity than debt. The specific attributes considered by the Company include the designation of the instruments, the conversion of the instruments to the Company's Common Stock, the participation feature, the non-mandatory conversion, the voting rights, and the ability to appoint directors. Secondly, the Company determined that the Preferred Stock qualifies as permanent equity because the Preferred Stock is not mandatorily redeemable, and there is no obligation to either repurchase the instruments or issue a variable amount of common shares. Lastly, the Company determined that the conversion feature qualifies for the scope exception of ASC 815 – Derivatives and Hedging as it is clearly and closely related to the Preferred Stock instrument. Due to the Company's accumulated deficit as of February 24, 2012, all Preferred Stock dividends accruing through this date were recorded in the accompanying consolidated financial statements as a reduction of additional paid-in capital. During fiscal 2013, the Company entered into a position of retained earnings; thus, all $1,511 and $493 of dividends recorded during fiscal 2013 and fiscal 2014, respectively, were recorded as a reduction to retained earnings. Due to the accumulated deficit position entered into beginning in fiscal 2015, all $484 of dividends recorded during each of the fiscal years since ($493 in fiscal 2020 since it was a fifty-three week annual accounting period) were recorded as a reduction of additional paid-in capital.

Series E Preferred Stock

On July 2, 2009, the Company issued 23,741 shares of Series E Preferred Stock to Mr. Lenfest in connection with the 2009 Lenfest Financing Transaction. The shares of Series E Preferred Stock were convertible to Common Stock at a conversion price per share equal to $2.00 and would have converted into 11,870,391 shares of the Company's Common Stock.

On March 10, 2010, August 12, 2010, and February 9, 2011, ETC entered into three separate agreements with Mr. Lenfest to repurchase and retire a total of 2,000 shares of Series E Preferred Stock owned by Mr. Lenfest. In the three agreements, the repurchases were made at the stated price of $1,000 per share for a total of $2,000.

On September 28, 2012, as part of the 2012 Financial Restructuring and immediately following the closing of the Loan Agreement, the Company purchased from Mr. Lenfest, at the stated price of $1,000 per share, 9,614 shares of Series E Preferred Stock, representing a significant portion of the Company's issued and outstanding Series E Preferred Stock. The estate of Mr. Lenfest is the only holder of the outstanding Series E Preferred Stock, and 12,127 shares of Series E Preferred Stock remain outstanding as of both February 28, 2020 and February 22, 2019. As of both February 28, 2020 and February 22, 2019, Series E Preferred Stock was convertible at an exercise price of $1.98 per share, equating to 6,124,567 shares of Common Stock. All Series E Preferred Stock dividends accrued through February 22, 2013 have been paid in cash. Series E Preferred Stock dividends accrued during the period February 23, 2013 through February 28, 2020, which totaled $3,405, remained unpaid as of January 7, 2021, the date of issuance of our consolidated financial statements.

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

	Feb. 28, 2020	Feb. 22, 2019
Credit facility payable to bank	$ 20,078	$ 12,359
Less: debt issuance costs	-	-
Total long-term debt obligations, net of debt issuance costs	20,078	12,359
Less: current portion	-	-
Total long-term debt obligations, net of debt issuance costs, less current portion	**$ 20,078**	**$ 12,359**

The amounts of future long-term debt obligations maturing in each of the next five (5) fiscal years are as follows:

Fiscal Year	Amount
Fiscal 2021	-
Fiscal 2022	$ 20,078
Fiscal 2023	-
Fiscal 2024	-
Fiscal 2025	-
Total future long-term debt obligations	**$ 20,078**

7. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes, as well as the valuation of NOL carryforwards and research and development tax credits. Valuation allowances are reviewed each fiscal period to determine whether there is sufficient positive or negative evidence to support a change in judgment about the potential realization of the related deferred tax asset. Deferred tax assets and liabilities are offset and presented as a single non-current asset.

As of February 28, 2020, the Company reviewed the components of its deferred tax assets and determined, based upon all available information, that it is more likely than not that deferred tax assets relating to its federal and state NOL carryforwards and research and development tax credits will not be realized primarily due to uncertainties related to our ability to utilize them before they expire. Accordingly, we have established a $6,797 valuation allowance for such deferred tax assets that we do not expect to realize. If there is a change in our ability to realize our deferred tax assets for which a valuation allowance has been established, then our tax valuation allowance may decrease in the period in which we determine that realization is more likely than not.

An income tax provision of $12 was recorded in fiscal 2020 compared to $698 in fiscal 2019. Our income tax provision consists of the following:

	Fiscal year ended	
	Feb. 28, 2020	**Feb. 22, 2019**
Current tax (benefit) expense:		
U.S. Federal	$ 19	$ 92
U.S. State	(17)	(25)
Foreign	(272)	583
Total current tax (benefit) expense, net	**(270)**	**650**
Deferred tax (benefit) expense:		
U.S. Federal	$ (151)	$ 276
U.S. State	(7)	108
Foreign	440	(336)
Total deferred tax expense	**282**	**48**
Income tax provision	**$ 12**	**$ 698**

Effective tax rates were -0.3% and 17.9% for fiscal 2020 and fiscal 2019, respectively. The decrease in the effective tax rate for fiscal 2020 as compared to fiscal 2019 was driven primarily by the operating loss incurred in fiscal 2020 and the offsetting valuation allowance that was recorded against the increase in deferred tax assets relating primarily to federal NOL carryforwards.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Company is no longer subject to U.S. federal tax examinations by tax authorities for the fiscal years before and including 2017. ETC-PZL is no longer subject to tax examinations in Poland for tax periods prior to December 31, 2014. We are, however, subject to examination in various other foreign and state jurisdictions for fiscal years 2010-2020. We believe appropriate provisions for all outstanding tax issues have been made for all jurisdictions and all open years.

As of February 28, 2020, the Company had approximately $22,044 of federal NOL carryforwards available to offset future income tax liabilities, $19,958 of which will begin to expire in 2025. Under Section 382 of the Internal Revenue Code of 1986, as amended ("IRC Section 382"), a corporation that undergoes an "ownership change", as defined therein, is subject to limitations on its use of pre-change NOL carryforwards to offset future taxable income. The Company at this time has not performed a full Section 382 analysis. If we were to undergo one or more "ownership changes" within the meaning of IRC Section 382, our NOL carryforwards existing as of the date of each ownership change may be unavailable, in whole or in part, to offset U.S. federal income tax resulting from our operations, which could result in increased U.S. federal income tax liability. The Company has recorded a valuation allowance on the entire NOL carryforward as it believes that it is more likely than not that the deferred tax asset associated with the NOL carryforwards will not be realized regardless of whether an "ownership change" has occurred.

As of February 28, 2020, the Company has a net deferred tax asset of $159 compared to $441 as of February 22, 2019. Significant components of our net deferred tax asset are as follows:

	Feb. 28, 2020	Feb. 22, 2019
Deferred tax assets:		
NOL carryforwards	$ 5,413	$ 5,063
U.S. R&D tax credits	1,765	1,615
U.S. AMT credits	294	657
Foreign	123	195
Vacation accrual	146	173
Inventory reserve	71	87
Receivable reserve	13	37
Other, net	823	505
	8,648	8,332
Valuation allowance	(6,797)	(5,961)
Total deferred tax assets	**1,851**	**2,371**
Deferred tax liabilities:		
Depreciation	(1,496)	(1,691)
Amortization of capitalized software	(22)	(42)
Foreign	(38)	(43)
APB 23 liability	(136)	(154)
Total deferred tax liabilities	**(1,692)**	**(1,930)**
Total net deferred tax asset	**$ 159**	**$ 441**

As of February 28, 2020, the amounts accrued for the payment of income tax-related interest and penalties included in the consolidated financial statements were as follows: interest of $67 and penalties of $100. As of February 22, 2019, the amounts accrued for the payment of income tax-related interest and penalties included in the consolidated financial statements were as follows: interest of $59 and penalties of $89. The interest and penalties recorded during both fiscal 2020 and fiscal 2019 primarily related to domestic state tax and foreign tax issues.

As of February 28, 2020 and February 22, 2019, the total amount of unrecognized tax benefits was $855 and $782, respectively, of which $286 would affect the effective tax rate, if recognized. These amounts, which are recorded on the Company's balance sheet within other accrued liabilities, are primarily associated with U.S. federal tax issues such as the amount of research and development tax credits claimed and taxation of foreign earnings. Also included in these amounts are accruals for domestic state tax issues such as the allocation of income among various state tax jurisdictions.

8. Business Segment Information

We operate in two primary business segments, Aerospace and CIS. Aerospace encompasses the design, manufacture, and sale of: (i) ATS products; (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); and (iv) ADMS, as well as ILS for customers who purchase these products or similar products manufactured by other parties. These products and services provide customers with an offering of comprehensive solutions for improved readiness and reduced operational costs. Sales of our Aerospace products are made principally to U.S. and foreign government agencies and to civil aviation organizations. CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizers; (ii) ETSS; and (iii) hyperbaric (100% oxygen) chambers for one person (monoplace chambers), as well as parts and service support for customers who purchase these products or similar products manufactured by other parties. On November 27, 2019, the Company entered into an asset purchase agreement to sell substantially all of its rights, title, and interest in and to the assets related to monoplace chambers. Sales of our CIS products are made principally to the healthcare, pharmaceutical, and automotive industries.

Segment operating (loss) income consists of net sales less applicable costs and expenses relating to these sales. Unallocated expenses including general corporate expenses, letter of credit fees, and income taxes have been excluded from the determination of the total profit for segments. For presentation purposes, income, expenses, and assets not specifically identifiable to an individual business group or applicable to all groups and general corporate expenses, primarily central administrative office expenses, are reflected in the Corporate category. Property, plant, and equipment associated with our National Aerospace Training and Research Center (the "NASTAR Center") are included in the Aerospace segment; the remaining property, plant, and equipment are not identified with specific business segments because most of these assets are used in each of the segments.

In fiscal 2020, two International customers, one within the Aerospace segment and one within the CIS segment, represented 10.0% or more of total net sales, and sales to these two customers totaling $11,737 represented 28.9% of total net sales. In fiscal 2019, two different customers, both International and each within the Aerospace segment, represented 10.0% or more of total net sales, and sales to these two customers totaling $16,092 represented 33.2% of total net sales.

Included in the segment information for fiscal 2020 and fiscal 2019 are export sales of $29,303 and $35,527, respectively. In both fiscal 2020 and fiscal 2019, International sales totaling at least $500 were made to customers in eleven (11) different countries. Sales to the U.S. Government and its agencies aggregated to $1,377 and $1,916 for fiscal 2020 and fiscal 2019, respectively.

The following segment information reflects the accrual basis of accounting:

	Aerospace	CIS	Corporate	Company Total
Fiscal 2020:				
Net sales	$ 21,650	$ 18,930	$ -	$ 40,580
Interest expense, net	416	363	-	779
Depreciation and amortization	1,083	18	56	1,157
Operating loss	(1,536)	(129)	(1,056)	(2,721)
Income tax provision	-	-	12	12
Identifiable assets	34,262	2,820	11,735	48,817
Expenditures for segment assets	136	23	84	243
Fiscal 2019:				
Net sales	$ 35,394	$ 13,030	$ -	$ 48,424
Interest expense, net	733	270	-	1,003
Depreciation and amortization	990	90	56	1,136
Operating income (loss)	6,912	(503)	(1,076)	5,333
Income tax provision	-	-	698	698
Identifiable assets	27,781	3,954	13,677	45,412
Expenditures for segment assets	224	67	(15)	276

Reconciliation to consolidated net (loss) income attributable to ETC	Fiscal 2020	Fiscal 2019
Operating (loss) income	$ (2,721)	$ 5,333
Interest expense, net	(779)	(1,003)
Other expense, net	(497)	(434)
Income tax provision	(12)	(698)
Income attributable to non-controlling interest	(9)	(51)
Net (loss) income attributable to ETC	**$(4,018)**	**$ 3,147**

9. Stock Option Plans

The following is a summary of the status of the Company's stock option plans:

	Fiscal year ended			
	Feb. 28, 2020		Feb. 22, 2019	
	Shares	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**
Outstanding at beginning of year	507,500	$ 1.24	509,500	$ 1.24
Granted	585,450	$ 0.71	-	$ -
Exercised	-	$ -	-	$ -
Forfeited	(56,500)	$ 1.06	(2,000)	$ 1.25
Outstanding at end of year	**1,036,450**	**$ 0.95**	**507,500**	**$ 1.24**
Options exercisable at fiscal year end	458,000		497,500	
Weighted average fair value of options granted during the fiscal year		$ 0.48		$ -

The following information applies to options outstanding as of February 28, 2020:

	Options outstanding			Options exercisable	
Exercise price	**Number outstanding as of Feb. 28, 2020**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number exercisable at Feb. 28, 2020**	**Weighted average exercise price**
$ 0.71 - $ 0.72	578,450	9.48	$ 0.71	-	
$ 1.25	458,000	4.70	$ 1.25	458,000	$ 1.25
Total	**1,036,450**			**458,000**	

The Company uses the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair value of share-based awards in accordance with ASC 718, Compensation. This option-pricing model requires the input of highly subjective assumptions, including the option's expected term, the price volatility of the underlying stock, risk-free rates of return, dividend yield, and expected forfeitures. The expected term of an award (10 years) is no less than the award vesting period and is based on the Company's historical experience. The expected stock price volatility (71.5% for the 239,000 options granted at $0.72 and 49.6% for the 346,450 options granted at $0.71) is based on the Company's historical stock prices. The risk-free interest rate (2.4% for the 239,000 options granted at $0.72 and 1.7% for the 346,450 options granted at $0.71) is approximated using rates available on U.S. Treasury securities in effect at the time of grant with a remaining term similar to the award's expected life. The Company uses a dividend yield of zero in the Black-Scholes option-pricing model as it does not anticipate paying cash dividends in the near future. The Company is required to estimate forfeitures at the time of grant, and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expense for only those awards that are expected to vest as the requisite service is rendered. The guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from these estimates. The Company typically issues new shares of Common Stock upon the exercise of stock options, as opposed to using treasury shares. There were 585,450 options granted in fiscal 2020. There were no stock options granted in fiscal 2019. Stock option compensation expense was $50 and $16 in fiscal 2020 and fiscal 2019, respectively.

Entering fiscal 2020, the Company had two stock-based compensation plans:

Employee, Director and Consultant Stock Plan

In July 2009, the Company adopted the 2009 Employee, Director and Consultant Stock Plan. This Plan authorizes the Board of Directors (or a committee appointed under the Board of Directors) to grant option awards for the purchase of Common Stock or Common Stock awards of up to 1,000,000 shares of Common Stock to employees, officers, directors, consultants, and advisors of the Company and its Subsidiaries. The Plan allows for the establishment of an exercise price at the time each option is granted. The exercise price shall not be less than the fair market value, or in the case of a ten percent (10%) owner, one-hundred and ten percent (110%), of a share of the Company's Common Stock on the date of grant of such option. The plan also allows the Board of Directors or its appointed committee to establish the exercise period(s) of any option awards. Granted options have a maximum term of ten (10) years. This Plan was approved by the shareholders on July 2, 2009. No awards are to be granted under this Plan after July 2, 2019.

Non-employee Director Stock Plan

In September 2005, the Company adopted a stock option plan that allows for the granting to non-employee members of the Board of Directors of options to purchase up to 600,000 shares of Common Stock. The Plan provides that the exercise price shall not be less than one-hundred percent (100%) of the current market price of the stock on the date of the grant. The amount of each individual award and the vesting period are determined by the Board of Directors or its appointed committee. Granted options have a maximum term of ten (10) years. The Plan shall remain in effect until terminated by the Board of Directors. As of February 28, 2020, there were 34,048 shares available to be granted under this Plan.

10. Commitments and Contingencies

Legal Proceedings

US Air Force Research Altitude Chamber Contract

The Company is a party to a contract with the USAF, namely a firm fixed-price contract dated June 14, 2010, to build a suite of research altitude chambers at the Wright-Patterson Air Force Base (the "RAC Contract"). Under the RAC Contract, the Company believes that the USAF has made changes to the scope and terms of said Contract that increased cost and resulted in delay to the program schedule. The Company has made objection and claims with respect to these changes. Subsequent to the end of fiscal 2020, the parties executed a modification to the RAC Contract which, among other things, provided for the USAF's final acceptance, resulted in an addition to the RAC Contract base price of approximately two percent (2%), and resolved all potential claims regarding RAC Contract changes and program delay. As of January 7, 2021, the date of issuance of our consolidated financial statements, all amounts owed pertaining to the RAC Contract have been collected.

International Aeromedical Center Contract

The Company is party to a contract with an international military customer to supply aeromedical training equipment and to provide certain equipment upgrades. The value of the contract is $14,700. Due to delay in delivering the equipment required by the contract, the Company was notified that it was subject to liquidated damages of ten percent (10%) of the contract value. As of January 7, 2021, the date of issuance of our consolidated financial statements, the parties have agreed to a $230 reduction in the contract value and have signed a mutually agreeable document to amend the contract value and delivery schedule accordingly.

Other Matters

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

11. Employee Benefit Plans

The Company maintains a 401(k) retirement savings plan for eligible employees. The Company contributes one-hundred percent (100%) to the plan based on the first four percent (4%) of the employees' qualifying contributions plus an additional fifty percent (50%) of the next two percent (2%) of the employees' qualifying contributions. The Company's contributions totaled $487 and $480 in fiscal 2020 and fiscal 2019, respectively.

12. Subsequent Events

The Company has evaluated subsequent events through January 7, 2021, the date of issuance of its consolidated financial statements, and determined that there were no material subsequent events other than disclosed below requiring adjustment to, or disclosure in, the consolidated financial statements for the fiscal year ended February 28, 2020.

On April 16, 2020, the Company was granted a loan from PNC Bank in the aggregate amount of $2,447 pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

On June 26, 2020, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that, among other things, extended the maturity date of the 2016 PNC Credit Facilities from June 30, 2020 to June 30, 2021. See Note 6 – Long-Term Obligations and Related Equity Arrangements for further details regarding the Company's loan agreements with PNC Bank.

On September 16, 2020, the acceptance milestone was achieved on the RAC Contract. See Note 10 – Commitments and Contingencies for further details regarding the settlement of this contract.

FIVE YEAR SUMMARY
(in thousands, except per share information)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Net sales	$ 39,632	$ 39,834	$ 48,086	$ 48,424	$ 40,580
Gross profit	11,592	13,279	16,127	17,397	8,957
Gross profit margin %	29.2%	33.3%	33.5%	35.9%	22.1%
Operating (loss) income	(2,375)	555	3,087	5,333	(2,721)
Operating margin %	-6.0%	1.4%	6.4%	11.0%	-6.7%
(Loss) income before income taxes	(4,140)	(731)	1,766	3,896	(3,997)
Pre-tax margin %	-10.4%	-1.8%	3.7%	8.0%	-9.8%
Income tax provision (benefit)	6,620	161	(662)	698	12
Net (loss) income	(10,760)	(892)	2,428	3,198	(4,009)
Income attributable to non-controlling interest	(23)	(31)	(51)	(51)	(9)
Net (loss) income attributable to ETC	$ (10,783)	$ (923)	$ 2,377	$ 3,147	$ (4,018)
Preferred Stock dividends	(484)	(484)	(484)	(484)	(493)
(Loss) income attributable to common and participating shareholders	$ (11,267)	$ (1,407)	$ 1,893	$ 2,663	$ (4,511)
Diluted (loss) earnings per share	$ (0.74)	$ (0.09)	$ 0.12	$ 0.17	$ (0.29)
Working capital	$ 1,720	$ 13,242	$ 18,306	$ 13,673	$ 17,979
Total long-term debt obligations	19,439	17,940	20,893	12,359	20,078
Total assets	44,249	44,538	46,423	45,412	48,817
Total shareholders' equity	9,111	7,976	9,629	12,537	8,023
Capital expenditures	1,244	702	465	276	243
Depreciation and amortization	1,645	1,360	1,265	1,136	1,157
Interest expense, net	920	559	857	1,003	779
EBITDA *	**$ (1,428)**	**$ 1,301**	**$ 4,149**	**$ 6,062**	**$ (2,011)**

* In addition to disclosing financial results that are determined in accordance with U.S. GAAP, we also disclose Earnings Before Income Taxes, Depreciation, and Amortization ("EBITDA"). The presentation of a non-U.S. GAAP financial measure such as EBITDA is intended to enhance the usefulness of financial information by providing a measure that management uses internally to evaluate our expenses and operating performance and factors into several of our financial covenant calculations.

A reader may find this item important in evaluating our performance. Management compensates for the limitations of using non-U.S GAAP financial measures by using them only to supplement our U.S. GAAP results to provide a more complete understanding of the factors and trends affecting our business.

SUPPLEMENTAL INFORMATION

Company Affiliates and Locations

The consolidated financial statements include the accounts of ETC and our 95%-owned subsidiary ETC-PZL. ETC does not have any unconsolidated legal entities, "special purpose" entities, or other off-balance sheet arrangements other than disclosed in Note 10 – Commitments and Contingencies that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to our shareholders. As of February 28, 2020, we had 234 full-time employees, compared to 270 full-time employees as of February 22, 2019, of which 5 were employed in executive positions, 95 were engineers, engineering designers, or draftspersons, 48 were administrative (sales, sales support, accounting, or general administrative) or clerical personnel, and 86 were engaged principally in production, operations, or field support. A total of 100 employees were stationed at ETC-SH in Southampton, Pennsylvania, a northern suburb of Philadelphia, Pennsylvania.

We are an ISO 9001 certified manufacturer. We operate in four major locations consisting of manufacturing facilities, product development, and administration. A summary of square footage and current use as of February 28, 2020 is presented below.

The NASTAR Center, which is included in the Company's Southampton, Pennsylvania owned property, includes the following aerospace training and research equipment:

- ATFS-400-25 High Performance Human Centrifuge;
- GYROLAB GL-2000 Advanced Spatial Disorientation Trainer;
- Altitude (Hypobaric) Chamber;
- Ejection Seat Simulator; and
- Night Vision Training System and
Night Vision Goggle Training System.

Location	Approximate Square Footage	Function	Owned/ Leased	Segment
ETC Global Headquarters 125 James Way Southampton, PA 18966 USA +1.215.355.9100	83,800	Manufacturing (36,000 sq. ft), NASTAR Center (22,100 sq. ft.), and Corporate Headquarters (25,700 sq. ft.)	Owned	Aerospace CIS
ETC Simulation Training Systems 2100 N. Alafaya Trail, Suite 900 Orlando, FL 32826 USA +1.407.282.3378	8,700	Product development and administration	Leased	Aerospace
ETC-PZL Aerospace Industries Sp. z o.o. Al. Krakowska 110/114, P.O. Box 22 02-256 Warszawa, Poland (+48.22) 846.54.17	28,000	Manufacturing, product development, and administration	Leased	Aerospace
ETC-Turkey ODTU Teknokent, Gumus Bloklar A Blok Zemin Kay Bati Cephe Suite 1 06531 ODTU Ankara, Turkey (+90) 312.210.17.80	5,700	Software development	Leased	Aerospace CIS
Total	**126,200**			

Corporate Governance

The Board of Directors is currently comprised of five (5) members, four (4) of whom who are considered "independent" directors (not an employee, not affiliated with the Company's auditors, and not part of an interlocking directorate). Directors are nominated based on their individual qualifications and experience, the overall balance of the Board of Directors' background and experience, and each individual's willingness to fulfill their obligations and to contribute appropriately.

The Board of Directors meets four times per year in addition to various Board committee meetings held throughout the year. Standing committees consist of the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee. These committees each have defined charters that address the committees' purpose, goals, and responsibilities. All committees meet on a scheduled basis. Please refer to the Investors section of our website **(www.etcusa.com)** for more information on corporate governance.

COMMITTEE COMPOSITION

	Audit Committee	Compensation Committee	Nominating and Governance Committee
George K. Anderson, M.D.	-	-	-
Linda J. Brent Ed.D	Member	Member	Chairperson
Roger Colley	Chairperson	Member	Member
Winston E. Scott	Member	Chairperson	Member

Reporting Requirements

The Company is not currently required to register with the U.S. Securities and Exchange Commission ("SEC") and therefore is not subject to the reporting requirements of a public company; however, the Company issues periodic press releases, quarterly unaudited interim consolidated financial statements, and an annual report with audited consolidated financial statements.

Interim Consolidated Financial Statements

Interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for fiscal 2020. The results for any interim period are not necessarily indicative of results for the full fiscal year. Certain information and footnote disclosures normally included in audited financial statements have been omitted. As mentioned previously, the Company is not subject to SEC reporting requirements and therefore its quarterly interim consolidated financial statements are not subject to an interim review by Independent Auditors as prescribed by the SEC.

Investor and Shareholder Information

Shareholder Inquiries

Questions concerning your account, address changes, consolidation of duplicate accounts, lost certificates, and other related matters should be addressed to ETC's transfer agent:

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
Toll Free: (800) 937-5449
Telephone: (718) 921-8124
Website: www.astfinancial.com

Stock Exchange Listing

The Common Stock of ETC is traded under the symbol "ETCC" on the electronic Pink Sheets and is listed by the OTC Markets Group, Inc., reporting service for over-the-counter stocks. Stock quotation information is available through stock reporting services on the Internet at www.otcmarkets.com.

Annual Meeting

The Company's Annual Meeting of Shareholders will be held live via the Internet. Specific details including the exact time, date, and link to access the meeting will be contained within the Notice of Annual Meeting of Shareholders that will be included with the mailing of this Annual Report to Shareholders.

Corporate Data

You can access Company information including press releases, earnings announcements, history, and other information through the Internet by visiting the ETC website at **www.etcusa.com.**

For further information, contact Mark Prudenti, Chief Financial Officer. Telephone: (215) 355-9100 x1531

Board of Directors

George K. Anderson, M.D., Chairman (2003)
Linda J. Brent, Ed.D. (2010)
Roger Colley (2011)
Robert L. Laurent, Jr. (2014)
Winston E. Scott (2010)

OWNERSHIP TABLE

	Name/Address **	Title	Ownership Percentage
Directors and Executive Officers:	George K. Anderson, M.D.	Chairman of the Board of Directors	*
	Linda J. Brent, Ed.D.	Director	*
	Roger Colley	Director	*
	Winston E. Scott	Director	*
	Robert L. Laurent, Jr.	Chief Executive Officer, President, and Director	2.0%
	Mark Prudenti	Chief Financial Officer and Treasurer	1.2%
	James D. Cashel	Vice President, General Counsel, Corporate Secretary, and Chief Compliance Officer	1.5%
	Thomas G. Loughlin	Chief Operating Officer	1.3%
	Alper Kus	Senior Vice President, Aircrew Training Systems	*
Control Persons:	Estate of H.F. Lenfest *c/o The Lenfest Foundation* *Two Logan Square* *100 N. 18th Street, Suite 800* *Philadelphia, PA 19103*		*** 54.1%
	Peter H. Kamin and related family entities *2720 Donald Ross Road, 311* *Palm Beach Gardens, FL 33410*		11.7%
	T. Todd Martin, III *50 Midtown Park East* *Mobile, AL 36606*		11.0%
	Estate of Pete L. Stephens		6.3%

* *less than 1%*

** *address listed for all persons beneficially owning more than ten percent (10%)*

*** *the denominator for this ownership percentage calculation includes all participating preferred shares*

Information is accurate as of January 7, 2021, the date of issuance of our consolidated financial statements, based on information available to the Company. None of the foregoing Directors and Executive Officers in the last ten (10) years has had a legal/disciplinary issue.

INNOVATION
IS THE CORNERSTONE OF ETC

Innovation, continuous technological improvement and enhancement, and product quality are core values that are critical to our success.

ADMS's new Aerial Ladder Tactical Simulator with VR-glasses

EO chambers with newly developed automated, pneumatic material handling conveyor systems.

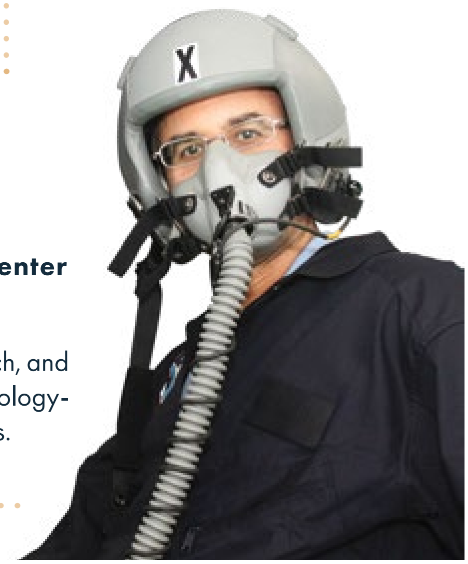
This first of its kind, GAT-III, is designed for basic spatial disorientation training.

ETC continues to advance its Night Vision and Night Vision Goggle Training Systems to provide this important capability within its fixed and rotary wing Spatial Disorientation trainers.

AEROSPACE SOLUTIONS

ETC Aircrew Training Systems
etcAircrewTraining.com

For nearly five decades, ATS has provided clients around the world with simulation systems designed for training and research applications in: high-G, spatial disorientation, situational awareness, aircraft egress, night vision, hypoxic environments, tactical aviation, avionics maintenance, helicopter flight, and water survival.



The National AeroSpace Training And Research (NASTAR) Center
NASTARcenter.com

The NASTAR Center is the premier commercial air and space training, research, and development facility. It combines state-of-the-art flight simulators with physiology-based coursework to optimize human performance in extreme environments.

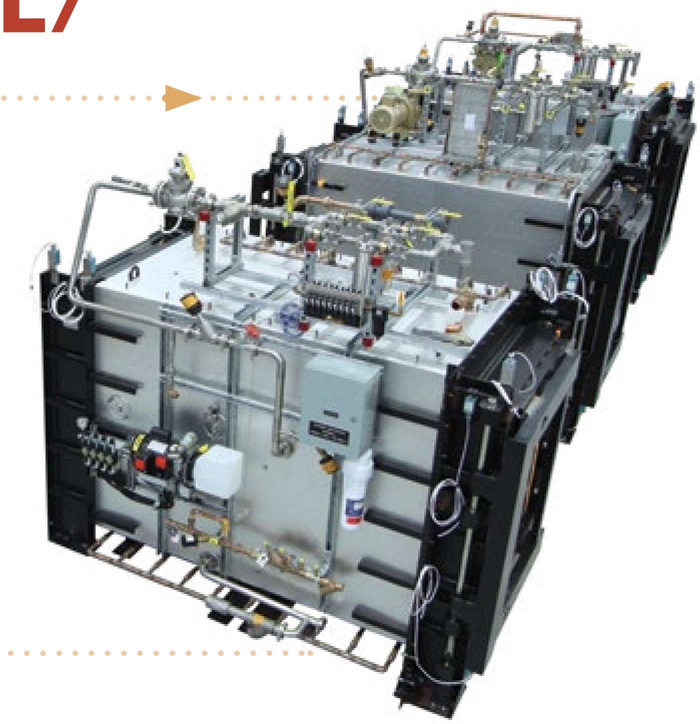
ETC Simulation
etcSimulation.com

ETC Simulation's flagship product is the Advanced Disaster Management Simulator (ADMS), a realistic, virtual emergency management simulation training system. Based in Orlando, Florida, ETC Simulation offers the most thorough training for incident command and disaster management teams.

ETC Integrated Logistics Support
SimulatorSupport.com

Equipment maintenance, training, and upgrades for domestic and foreign commercial accounts, civilian agencies, and militaries.

COMMERCIAL/ INDUSTRIAL SYSTEMS



ETC Sterilization Systems

etcSterilization.com

Specializing in medium to large (30 to 6000 cubic feet) EO and steam sterilizers. ETC Sterilization Systems serves the pharmaceutical, biotech, medical device, and life sciences markets with unique design solutions for any challenge.

ETC Environmental Testing & Simulation Systems

TestingandSimulation.com

ETSS has designed, manufactured, and installed state-of-the-art environmental simulation systems for the automotive-testing and HVAC industries since 1969. Offering a complete line of industry-leading test equipment developed for clients' needs, ETSS offers the most customized equipment available for optimizing R&D, testing, and validation programs.

ETC Service and Support

SterilizerSupport.com

ETC's Service and Support unit operates out of offices worldwide and provides service and support for all sterilizers, environmental systems, and chambers.

INVESTOR CONTACT

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Chief Financial Officer

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ENVIRONMENTAL TECTONICS CORPORATION