

## **Environmental Tectonics Corporation**

125 James Way, Southampton, PA 18966

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(215) 355-9100

www.etcusa.com

# **Quarterly Report**

**For the period ending May 24, 2024 (the “Reporting Period”)**

### **Outstanding Shares**

The number of shares outstanding of our Common Stock was:

9,443,785 as of May 24, 2024

9,443,785 as of February 23, 2024

### **Shell Status**

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933, Rule 12b-2 of the Exchange Act of 1934 and Rule 15c2-11 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company’s shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

### **Change in Control**

Indicate by check mark whether a Change in Control<sup>4</sup> of the company has occurred during this reporting period:

Yes: ☐ No: ☒

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<sup>4</sup> “Change in Control” shall mean any events resulting in:

- (i) Any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company’s then outstanding voting securities;
- (ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company’s assets;
- (iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or
- (iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

**1) Name and address(es) of the issuer and its predecessors (if any)**

In answering this item, provide the current name of the issuer and names used by predecessor entities, along with the dates of the name changes.

Environmental Tectonics Corporation

Current State and Date of Incorporation or Registration: August 11, 1969 in Pennsylvania

Standing in this jurisdiction: (e.g. active, default, inactive): Current standing is active

Prior Incorporation Information for the issuer and any predecessors during the past five years:

N/A

Describe any trading suspension or halt orders issued by the SEC or FINRA concerning the issuer or its predecessors since inception:

N/A

List any stock split, dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

N/A

Address of the issuer's principal executive office:

125 James Way, Southampton, PA

Address of the issuer's principal place of business:

☒ *Check if principal executive office and principal place of business are the same address*

125 James Way, Southampton, PA 18966

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

No: ☒ Yes: ☐ If Yes, provide additional details below:

N/A

**2) Security Information**

**Transfer Agent**

Name: Equiniti Trust Company, LLC

Phone: 1-800-468-9716

Email: shareowneronline.com

Address: 55 Challenger Road, Ridgefield Park, NJ 07660

**Publicly Quoted or Traded Securities:**

*The goal of this section is to provide a clear understanding of the share information for its publicly quoted or traded equity securities. Use the fields below to provide the information, as applicable, for all outstanding classes of securities that are publicly traded/quoted.*

Trading symbol:	<u>ETCC</u>	
Exact title and class of securities outstanding:	<u>Common Stock</u>	
CUSIP:	<u>294092</u>	
Par or stated value:	<u>\$0.05</u>	
Total shares authorized:	<u>50,000,000</u>	<u>as of date: May 24, 2024</u>
Total shares outstanding:	<u>9,443,785</u>	<u>as of date: May 24, 2024</u>
Total number of shareholders of record:	<u>208</u>	<u>as of date: July 17, 2024</u>

*Please provide the above-referenced information for all other publicly quoted or traded securities of the issuer.*

**Other classes of authorized or outstanding equity securities that do not have a trading symbol:**

*The goal of this section is to provide a clear understanding of the share information for its other classes of authorized or outstanding equity securities (e.g., preferred shares that do not have a trading symbol). Use the fields below to provide the information, as applicable, for all other authorized or outstanding equity securities.*

Exact title and class of the security:	<u>Preferred Stock, Series E</u>
	<u>6,124,567 shares</u>
CUSIP:	<u>294092</u>
Par or stated value:	<u>Par value of \$0.05; Stated value of \$1,000</u>
Total shares authorized:	<u>25,000 as of date: May 24, 2024</u>
Total shares outstanding:	<u>12,127 as of date: May 24, 2024</u>
Total number of shareholders of record:	<u>1 as of date: July 18, 2024</u>

*Please provide the above-referenced information for all other classes of authorized or outstanding equity securities.*

**Security Description:**

*The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the company. Please provide the below information for each class of the company's equity securities, as applicable:*

**1. For common equity, describe any dividend, voting and preemption rights.**

The Company has never declared any dividend on its common stock. Common stock is the only class of stock that is entitled to vote at the Annual Meeting. Holders of the Company's common stock and holders of the Preferred Stock are entitled to vote on a common stock equivalent basis at the Annual Meeting.

**2. For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.**

The Company has one class of cumulative convertible participating Preferred Stock currently outstanding, Series E (25,000 shares authorized). The Preferred Stock was authorized by the Board of Directors in April 2009. 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 dividend 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" bases. 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. Upon a liquidation event, the holders of the Preferred Stock would be entitled to participate in any proceeds in preference to an Common Stock holders. The Preferred Stock would also participate in any liquidation event with the Common Stockholders 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 price.

As of May 24, 2024, 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. Preferred Stock dividends accrued during the period of February 23, 2013 through May 24, 2024, which totaled \$5,461,000 remained unpaid as of July 18, 2024.

3. Describe any other material rights of common or preferred stockholders.

None

4. Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report.

None

### 3) Issuance History

*The goal of this section is to provide disclosure with respect to each event that resulted in any changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period.***

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares, or any other securities or options to acquire such securities, issued for services. Using the tabular format below, please describe these events.

#### A. Changes to the Number of Outstanding Shares for the two most recently completed fiscal years and any subsequent period.

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No: ☒ Yes: ☐ (If yes, you must complete the table below)

Shares Outstanding as of the Second Most Recent Fiscal Year End: Opening Balance:  Date <u>February 24, 2023</u> Common: <u>9,443,785</u> Preferred: <u>12,127</u>			*Right-click the rows below and select "Insert" to add rows as needed.						
Date of Transaction	Transaction type (e.g., new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to.  ***You must disclose the control person(s) for any entities listed.	Reason for share issuance (e.g. for cash or debt conversion) - OR- Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Shares Outstanding on Date of This Report:  Ending Balance:  Date <u>May 24, 2024</u> Common: <u>9,443,785</u> Preferred: <u>12,127</u>									

**Example:** A company with a fiscal year end of December 31<sup>st</sup> 2023, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2022 through December 31, 2023 pursuant to the tabular format above.

**\*\*\*Control persons for any entities in the table above must be disclosed in the table or in a footnote here.**

Use the space below to provide any additional details, including footnotes to the table above:

N/A

## B. Promissory and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities :

No: ☒ Yes: ☐ (If yes, you must complete the table below)

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder.  *** You must disclose the control person(s) for any entities listed.	Reason for Issuance (e.g. Loan, Services, etc.)
_____	_____	_____	_____	_____	_____	_____	_____

_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

**\*\*\*Control persons for any entities in the table above must be disclosed in the table or in a footnote here.**

Use the space below to provide any additional details, including footnotes to the table above:

\_\_\_\_\_

#### 4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. Ensure that these descriptions are updated on the Company's Profile on [www.OTCMarkets.com](http://www.OTCMarkets.com).

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

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 sterilizer systems; and (vi) environmental testing and simulation systems ("ETSS"). 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. CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizer systems; and (ii) ETSS; 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 sterilizer systems to medical device manufacturers, pharmaceutical manufacturers, and universities. We sell ETSS primarily to commercial automotive and heating, ventilation, and air conditioning ("HVAC") manufacturers. We utilize both employees and independent representatives to market our products and services. As of February 23, 2024, approximately fifteen (15) employees were committed to sales and marketing functions. In addition to our one operating subsidiary, we have employees stationed in 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.

B. List any subsidiaries, parent company, or affiliated companies.

ETC-PZL Aerospace Industries Sp. z o.o. ("ETC-PZL"), our wholly-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.

C. Describe the issuers' principal products or services.

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.

Specific products within Aerospace include:

- Aeromedical Centers;
- Advanced Tactical Flight Simulator ("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 and Rotary Wing Spatial Disorientation Trainer;
- GAT-III Fixed Wing Aviation Trainer;
- GAT HELO 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) sterilizer systems;
- Environmental testing and simulation systems ("ETSS"); and

- Parts and service support.

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, universities and civil aviation organizations both in the United States and internationally. We sell our ADMS line of products to governmental organizations in both 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 sterilizer systems to medical device manufacturers, pharmaceutical manufacturers, and universities. We sell ETSS primarily to commercial automotive and heating, ventilation, and air conditioning ("HVAC") manufacturers. We also provide upgrade, maintenance, and repair services for our products and similar products manufactured by other parties



## 5) Issuer's Facilities

*The goal of this section is to provide investors with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer and the extent in which the facilities are utilized.*

In responding to this item, please clearly describe the assets, properties or facilities of the issuer. Describe the location of office space, data centers, principal plants, and other property of the issuer and describe the condition of the properties. Specify if the assets, properties, or facilities are owned or leased and the terms of their leases. If the issuer does not have complete ownership or control of the property, describe the limitations on the ownership.

<u>Location</u>	<u>Approximate Square Footage</u>	<u>Function</u>	<u>Owned/ Leased</u>	<u>Segment</u>
ETC Global Headquarters 125 James Way Southampton, PA	83,800	Manufacturing (36,000 sq. ft.), NASTAR Center (22,100 sq. ft.), and Corporate Headquarters (25,700 sq. ft.)	Leased: 8 Year expiring in 2029 with option for 7 years	Aerospace CIS
ETC Simulation Training Systems 2100 N. Alafaya Trail, Suite 900 Orlando, FL	8,700	Product development and administration	Leased: 2 Years expiring in December 2025	Aerospace
ETC-PZL Aerospace Industries Sp. z.o.o.	28,000	Manufacturing, product development, and administration	Leased: 1 year lease expiring November 2024	Aerospace
ETC-Turkey Beytepe Mah. Kanuni Sultan Süleyman Bulv. 5345 sokak No:2 "Vitrin Beytepe" Ofis No:50-52, 06800 Ankara - Turkey	1,940	Software development	Leased: 5 year lease expiring 2026	Aerospace CIS

## 6) All Officers, Directors, and Control Persons of the Company

Using the table below, please provide information, as of the period end date of this report, regarding all officers and directors of the company, or any person that performs a similar function, regardless of the number of shares they own.

In addition, list all individuals or entities controlling 5% or more of any class of the issuer's securities.

If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information (City, State) of an individual representing the corporation or entity. Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

The goal of this section is to provide investors with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial owners.

Names of All Officers, Directors and Control Persons	Affiliation with Company (e.g. Officer Title /Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Names of control person(s) if a corporate entity
<u>George K. Anderson, MD</u>	<u>Chairman of the Board of Directors</u>	<u>Fairplay, CO</u>	<u>9,821</u>	<u>Common Stock</u>	<u>1.3% Beneficial ownership calc.</u>	_____
<u>Linda J. Brent</u>	<u>Director</u>	<u>Pensacola, FL</u>	<u>1,619</u>	<u>Common Stock</u>	<u>1.0% Beneficial ownership calc.</u>	_____
<u>Brian Eccleston</u>	<u>Director</u>	<u>Pelham Manor, NY</u>	<u>0</u>		<u>0</u>	_____
<u>Winston E. Scott</u>	<u>Director</u>	<u>Melbourne, FL</u>	<u>6,224</u>	<u>Common Stock</u>	<u>1.1% Beneficial ownership calc.</u>	_____
<u>Robert L. Laurent, Jr.</u>	<u>Chief Executive Officer, President, Corporate Secretary and Director</u>	<u>Martinsville, NJ</u>	<u>71,828</u>	<u>Common Stock</u>	<u>1.9% Beneficial ownership cal.</u>	_____
<u>Timothy Kennedy</u>	<u>Chief Financial Officer</u>	<u>Wayne, PA</u>	<u>0</u>		<u>0</u>	
<u>Thomas G. Loughlin</u>	<u>Chief Operating Officer</u>	<u>Newtown, PA</u>	<u>36, 567</u>	<u>Common Stock</u>	<u>1.0% Beneficial ownership calc.</u>	
<u>Alper Kus</u>	<u>Senior Vice President, Aircrew Training Systems</u>	<u>Warrington, PA</u>	<u>35, 261</u>	<u>Common Stock</u>	<u>Less than 1%</u>	
<u>Katarzyna Wrzesinski</u>	<u>Director of Finance and Corporate Controller</u>	<u>Richboro, PA</u>	<u>0</u>		<u>0</u>	
<u>Joseph McAvoy</u>	<u>Vice President of Contracts</u>	<u>Glenside, PA</u>	<u>0</u>		<u>0</u>	
<u>Estate of H.F. Lenfest</u>	<u>Owner of more than 5%</u>	<u>Philadelphia, PA</u>	<u>2,216,939 Preferred Stock, Series E</u>  <u>12,127 (currently convertible to 6,124,567 shares of</u>	<u>Common Stock</u>  <u>Preferred Stock, Series E</u>	<u>23.5% owner of Common Stock</u>  <u>100% Owner of Preferred Stock, Series E</u>	_____

			<u>Common Stock</u> <u>8,341,506</u>	<u>Total shares on a convertible basis</u>	<u>54.1% owner on a convertible basis (Beneficial ownership calc.)</u>	
<u>Peter H. Kamin and related family entities</u>	<u>Owner of more than 5%</u>	<u>Palm Beach Gardens, FL</u>	<u>1,107,000</u>	<u>Common Stock</u>	<u>11.7% owner of Common Stock (Beneficial ownership calc.)</u> <u>7.1% owner on a convertible basis</u>	
<u>T. Todd Martin, III</u>	<u>Owner of more than 5%</u>	<u>Mobile, AL</u>	<u>1,036,000</u>	<u>Common Stock</u>	<u>11.0% owner of Common Stock (Beneficial ownership calc.)</u> <u>6.7% owner on a convertible basis</u>	
<u>Estate of Pete L. Stephens</u>	<u>Owner of more than 5%</u>	<u>Bluffton, SC</u>	<u>590,475</u>	<u>Common Stock</u>	<u>6.3% owner of Common Stock (Beneficial ownership calc.)</u> <u>3.8% owner on a convertible basis</u>	

Confirm that the information in this table matches your public company profile on [www.OTCMarkets.com](http://www.OTCMarkets.com). If any updates are needed to your public company profile, log in to [www.OTCIQ.com](http://www.OTCIQ.com) to update your company profile.

## 7) Legal/Disciplinary History

- A. Identify and provide a brief explanation as to whether any of the persons or entities listed above in Section 6 have, in the past 10 years:
1. Been the subject of an indictment or conviction in a criminal proceeding or plea agreement or named as a defendant in a pending criminal proceeding (excluding minor traffic violations);

None Noted

2. Been the subject of the entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, financial- or investment-related, insurance or banking activities;

None Noted

3. Been the subject of a finding, disciplinary order or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, a state securities regulator of a violation of federal or state securities or commodities law, or a foreign regulatory body or court, which finding or judgment has not been reversed, suspended, or vacated;

None Noted

4. Named as a defendant or a respondent in a regulatory complaint or proceeding that could result in a "yes" answer to part 3 above; or

None Noted

5. Been the subject of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

None Noted

6. Been the subject of a U.S Postal Service false representation order, or a temporary restraining order, or preliminary injunction with respect to conduct alleged to have violated the false representation statute that applies to U.S mail.

None Noted

- B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party to or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

In the fiscal 2024 first quarter, the Company filed a Voluntary Disclosure with the Director of Compliance, U.S. Department of State, Directorate of Defense Trade Controls ("DDTC"), relating to its discovery it may not have been compliant with a certain requirement of the International Traffic in Arms Regulations ("ITAR"). This Voluntary Disclosure identified that the Company did not disclose to DDTC sales commissions paid to certain sales representatives when the Company filed export license applications pursuant to the ITAR, and also set forth the corrective actions to be taken by the Company. At this time ETC does not believe fines or penalties, if any, assessed against the Company would have a material impact.

## **8) Third Party Service Providers**

Provide the name, address, telephone number and email address of each of the following outside providers. You may add additional space as needed.

Confirm that the information in this table matches your public company profile on [www.OTCMarkets.com](http://www.OTCMarkets.com). If any updates are needed to your public company profile, update your company profile.

Securities Counsel (must include Counsel preparing Attorney Letters).

Name: Stradley Ronon  
Address 1: 30 Valley Stream Parkway  
Address 2: Malvern, PA 19355  
Phone: (610) 640 5800  
Email: \_\_\_\_\_

Accountant or Auditor

Name: \_\_\_\_\_  
Firm: RSM US LLP  
Address 1: 518 Township Line Road – Suite 300  
Address 2: Blue Bell, PA 19422  
Phone: (215) 641-8600  
Email: \_\_\_\_\_

Investor Relations

Name: \_\_\_\_\_  
Firm: \_\_\_\_\_  
Address 1: \_\_\_\_\_  
Address 2: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Email: \_\_\_\_\_

*All other means of Investor Communication:*

X (Twitter): \_\_\_\_\_  
Discord: \_\_\_\_\_  
LinkedIn: \_\_\_\_\_  
Facebook: \_\_\_\_\_  
[Other ]: \_\_\_\_\_

Other Service Providers

Provide the name of any other service provider(s) that **that assisted, advised, prepared, or provided information with respect to this disclosure statement**. This includes counsel, broker-dealer(s), advisor(s), consultant(s) or any entity/individual that provided assistance or services to the issuer during the reporting period.

Name: \_\_\_\_\_  
Firm: \_\_\_\_\_  
Nature of Services: \_\_\_\_\_  
Address 1: \_\_\_\_\_  
Address 2: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Email: \_\_\_\_\_

**9) Disclosure & Financial Information**

A. This Disclosure Statement was prepared by (name of individual):

Name: **Timothy Kennedy**  
Title: **C.F.O.**  
Relationship to Issuer: **Employee**

B. The following financial statements were prepared in accordance with:

- ☐ IFRS  
☒ U.S. GAAP

C. The following financial statements were prepared by (name of individual):

Name: **Timothy Kennedy**  
Title: **C.F.O.**  
Relationship to Issuer: **Employee**

Describe the qualifications of the person or persons who prepared the financial statements:<sup>5</sup> **CPA and CMA**

Provide the following qualifying financial statements:

- Audit letter, if audited;
- Balance Sheet;
- Statement of Income;
- Statement of Cash Flows;
- Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
- Financial Notes

**Financial Statement Requirements:**

- Financial statements must be published together with this disclosure statement as one document.
- Financial statements must be "machine readable". Do not publish images/scans of financial statements.
- Financial statements must be presented with comparative financials against the prior FYE or period, as applicable.
- Financial statements must be prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS) but are not required to be audited.

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<sup>5</sup> The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS and by persons with sufficient financial skills.

## 10) Issuer Certification

### *Principal Executive Officer:*

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities) in each Quarterly Report or Annual Report.

The certifications shall follow the format below:

I, Robert L. Laurent, Jr. certify that:

1. I have reviewed this Disclosure Statement for Environmental Tectonics Corporation;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

July 18, 2024

/s/ Robert L. Laurent, Jr. [CEO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

### *Principal Financial Officer:*

I, Timothy R. Kennedy certify that:

1. I have reviewed this Disclosure Statement for Environmental Tectonics Corporation;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

July 18, 2024

/s/ Timothy R. Kennedy [CFO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")



30-pallet EO  
sterilization system  
currently in production.

# Q1



## QUARTERLY REPORT

For the thirteen weeks ended May 24, 2024



# ENVIRONMENTAL TECTONICS CORPORATION

**Quarterly Report**  
**For the thirteen weeks ended May 24, 2024**

County Line Industrial Park  
125 James Way  
Southampton, Pennsylvania 18966  
(Address of Issuer's Principal Executive Office)

Telephone: (215) 355-9100

Website: [www.etcusa.com](http://www.etcusa.com)

***Investor Relations Contact:***

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County Line Industrial Park  
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Item numbers above refer to the OTC Pink Basic Disclosure Guidelines created by the OTC Markets Group. The OTC Pink Basic Disclosure Guidelines are available on the Internet at <http://www.otcmarkets.com/marketplaces/otc-pink>.

When used in this Quarterly Report, except where the context otherwise requires, the terms “we”, “us”, “our”, “ETC”, and the “Company” refer to Environmental Tectonics Corporation and its subsidiaries.

## Item 2. Security Information

Trading symbol: ETCC  
CUSIP: 294092

Title of class of securities outstanding:	Common Stock	Preferred Stock, Series E
Par value:	\$0.05	\$0.05 (Stated value of \$1,000)
Total shares authorized:	50,000,000 as of May 24, 2024	25,000 as of May 24, 2024
Total shares outstanding:	9,443,785 as of May 24, 2024	12,127 as of May 24, 2024

### ***Transfer Agent:***

Equiniti Trust Company, LLC (“EQ”) \*  
55 Challenger Road, Floor 2  
Ridgefield Park, NJ 07660  
Telephone: (800) 468-9716  
Website: [www.equiniti.com](http://www.equiniti.com)

\* registered under the Exchange Act

List any restrictions on the transfer of security: N/A

Describe any trading suspension: N/A

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past twelve months:

We have never paid any cash dividends on our Common Stock and do not anticipate that any cash dividends will be declared or paid on our Common Stock in the foreseeable future.

Dividends on the Company’s Preferred Stock, as declared, are accrued according to the terms of the Preferred Stock and when paid, are paid in cash. 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. Series E Preferred Stock dividends accrued as of May 24, 2024, which totaled \$5,461 thousand, remained unpaid as of July 18, 2024, the date of issuance of the accompanying interim consolidated financial statements.

## Item 3. Issuance History

- A. The nature of each offering of Common Stock in the last two fiscal years: N/A
- B. Any jurisdictions where the offering was registered or qualified: N/A
- C. The number of shares offered: N/A
- D. The number of shares sold: N/A
- E. The price at which the shares were offered, and the amount actually paid to the issuer: N/A
- F. The trading status of the shares: N/A
- G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act: N/A

**Item 4. Financial Statements**

**Environmental Tectonics Corporation**  
**Consolidated Statements of Operations and Comprehensive Loss**  
(unaudited)

*(in thousands, except per share information)*

	<b>Thirteen weeks ended May 24, 2024</b>	<b>Thirteen weeks ended May 26, 2023</b>
Net sales	\$ 13,492	\$ 7,667
Cost of goods sold	8,965	5,833
<b>Gross Profit</b>	<b>4,527</b>	<b>1,834</b>
Operating expenses	2,975	2,609
<b>Operating income (loss)</b>	<b>1,552</b>	<b>(775)</b>
Other expenses:		
Interest expense, net	116	198
Other expense, net	55	50
Other expense total	171	248
<b>Income (loss) before income taxes</b>	<b>1,381</b>	<b>(1,023)</b>
Income tax provision	20	40
Net income (loss)	1,361	(1,063)
Foreign Currency translation adjustment	(199)	(7)
Comprehensive income (loss)	\$ 1,162	\$ (1,070)
Preferred Stock Dividends	(121)	(121)
<b>Income (loss) attributable to common and participating shareholders</b>	<b>\$ 1,240</b>	<b>\$ (1,184)</b>
<b>Per share information:</b>		
Basic earnings (loss) per common and participating share:		
Distributed earnings per share:		
Common	\$ -	\$ -
Preferred	\$ 0.02	\$ 0.02
Undistributed earnings (loss) per share:		
Common	\$ 0.08	\$ (0.08)
Preferred	\$ 0.08	\$ (0.08)
<b>Earnings (loss) per diluted share</b>	<b>\$ 0.08</b>	<b>\$ (0.08)</b>
Basic weighted average common and participating shares:		
Common weighted average number of shares	9,444	9,444
Participating preferred shares	6,125	6,125
Total basic weighted average common and participating shares	15,569	15,569
Diluted weighted average shares:		
Basic weighted average common and participating shares	15,569	15,569
Dilutive effect of stock options	493	-
Total diluted weighted average shares	16,062	15,569

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

# Environmental Tectonics Corporation

## Consolidated Balance Sheets

(in thousands, except share information)

	May 24, 2024 (unaudited)	February 23, 2024
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 22	\$ 37
Restricted cash	7,873	8,407
Accounts receivable, net	2,067	7,365
Contract assets	16,336	12,278
Inventories, net	2,240	1,876
Prepaid expenses and other current assets	4,170	6,994
Total current assets	32,708	36,957
Property, plant, and equipment, at cost, net	4,059	4,138
Right-of-use asset	2,705	2,822
Capitalized software development costs, net	20	24
<b>Total assets</b>	<b>\$ 39,492</b>	<b>\$ 43,941</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt obligations, net of debt issuance costs	\$ 756	\$ 712
Accounts payable, trade	3,449	4,711
Contract liabilities	11,748	12,997
Accrued taxes	217	268
Accrued interest and dividends	5,526	5,340
Current portion of lease obligations	839	815
Other accrued liabilities, current	3,489	3,373
Total current liabilities	26,022	28,216
Long-term debt obligations, net of debt issuance costs, less current portion:		
Credit facility payable to bank, net of debt issuance costs	8,902	12,078
Total long-term debt obligations, net of debt issuance costs, less current portion	8,902	12,078
Lease obligations, non-current	1,866	2,007
Other accrued liabilities, non-current	724	704
Total liabilities	37,515	43,005
Shareholders' equity:		
Cumulative convertible participating Preferred Stock, Series E, \$0.05 par value, 25,000 shares authorized; 12,127 shares outstanding as of February 23, 2024 and February 24, 2023	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 23, 2024 and February 24, 2023	472	472
Additional paid-in capital	5,807	5,927
Accumulated deficit	(15,618)	(16,979)
Accumulated other comprehensive loss	(810)	(611)
Total shareholders' equity	1,977	936
<b>Total liabilities and shareholders' equity</b>	<b>\$ 39,492</b>	<b>\$ 43,941</b>

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

**Environmental Tectonics Corporation**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

<i>(in thousands)</i>	Thirteen weeks ended	
	May 24, 2024	May 26, 2023
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 1,361	\$ (1,063)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	209	233
(Decrease) increase in allowance for credit losses and inventory obsolescence	(1)	29
Changes in operating assets and liabilities:		
Accounts receivable	5,298	293
Contract assets	(4,058)	(1,914)
Inventories	(363)	(329)
Prepaid expenses and other assets	2,824	(319)
Accounts payable, trade	(1,262)	(546)
Contract liabilities	(1,249)	(1,093)
Accrued taxes	(51)	(182)
Accrued interest and dividends	65	39
Other accrued liabilities	136	(243)
<b>Net cash provided by (used in) operating activities</b>	<b>2,908</b>	<b>(5,095)</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant, and equipment	(126)	(140)
Investment in ETC-PZL	-	(77)
Capitalized software development costs	-	(4)
<b>Net cash (used in) investing activities</b>	<b>(126)</b>	<b>(221)</b>
<b>Cash flows from financing activities:</b>		
(Repayments) borrowings under lines of credit	(3,132)	4,267
<b>Net cash (used in) provided by financing activities</b>	<b>(3,132)</b>	<b>4,267</b>
Effect of exchange rate changes on cash	(199)	(35)
Net (decrease) in cash, cash equivalents, and restricted cash	(549)	(1,084)
Cash, cash equivalents, and restricted cash at beginning of year	8,444	9,634
<b>Cash, cash equivalents, and restricted cash at end of period</b>	<b>\$ 7,895</b>	<b>\$ 8,550</b>
Less: Restricted cash	(7,873)	(8,417)
<b>Cash and cash equivalents at end of period</b>	<b>\$ 22</b>	<b>\$ 133</b>
<b>Supplemental schedule of cash flow information:</b>		
Interest paid	\$ 282	\$ 227
Income taxes paid	\$ -	\$ -
<b>Supplemental information on non-cash operating and investing activities:</b>		
Preferred Stock dividends accrued during each respective fiscal period	\$ 121	\$ 121

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

**Environmental Tectonics Corporation**  
**Consolidated Statements of Changes in Shareholders' Equity**  
*(unaudited)*

(in thousands, except share information)	<u>Preferred Stock</u>	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive loss</u>	<u>Total Share holders' Equity</u>
		<u>Shares</u>	<u>Amount</u>				
<b>Balance, February 23, 2024</b>	\$ 12,127	9,443,785	\$ 472	\$ 5,927	\$ (16,979)	\$ (611)	\$ 936
Net income	-	-	-	-	1,361	-	1,361
Foreign currency translation adjustment	-	-	-	-	-	(199)	(199)
Preferred Stock dividends	-	-	-	(121)	-	-	(121)
<b>Balance, May 24, 2024</b>	\$ 12,127	9,443,785	\$ 472	\$ 5,807	\$ (15,618)	\$ (810)	\$ 1,977

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

# **Environmental Tectonics Corporation**

## **Notes to the Consolidated Financial Statements**

(unaudited)

(Dollars in thousands, except per share information)

### **Item 5. Description of Business Operations**

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) sterilizer systems (“Sterilizer Systems” or “Sterilizers”); and (vi) environmental testing and simulation systems (“ETSS”). 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. 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, commercial operations, 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) sterilizer systems; and (ii) ETSS; 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 sterilizer systems to medical device manufacturers, pharmaceutical manufacturers, and universities. We sell ETSS primarily to commercial automotive and heating, ventilation, and air conditioning (“HVAC”) manufacturers. 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 (“SIC 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 the 2025 first quarter are references to the thirteen week period ended May 24, 2024. References to the 2024 first quarter are references to the thirteen week period ended May 26, 2023. References to fiscal 2025 are references to the fifty-three week period ending February 28, 2025. References to fiscal 2024 are references to the fifty-two week period ended February 23, 2024.

### **Note 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 100%-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. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying interim consolidated financial statements have been prepared by ETC, without audit, in conformity with accounting principles generally accepted in the United States of America, consistently applied, and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature.



**Environmental Tectonics Corporation**  
**Notes to the Consolidated Financial Statements, continued**  
(Dollars in thousands, except per share information)

Certain information in footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America has been condensed or omitted and the financial results for the periods presented may not be indicative of the full year's results; however, the Company believes that the disclosures are adequate to make the information presented not misleading. These interim consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report to Shareholders for fiscal 2024 (the "2024 Annual Report").

***Significant Accounting Policies Update***

There have been no material changes in the Company's significant accounting policies during fiscal 2025 as compared to what was previously disclosed in the 2024 Annual Report.

**Note 2. 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 May 24, 2024 and May 26, 2023, 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 May 24, 2024 and May 26, 2023, there were outstanding options to purchase the Company's Common Stock at an average price of \$0.88 and \$0.95 totaling 717,950 and 957,950 shares, respectively. Due to the conversion price of Common Stock options, 224,500 and 957,950 shares were excluded from the calculation of diluted earnings per share as of May 24, 2024 and May 26, 2023, respectively, because the effect of their conversion would be anti-dilutive.

**Note 3. Revenue**

The majority of our net sales are generated from long-term contracts with foreign and U.S. governments and 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, ATS as well as long-term contracts with domestic and international customers for the sale of Sterilizer systems. The Company also enters into long-term contracts with domestic customers for the sale of ETSS. Net sales of ADMS 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.

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. As of May 24, 2024, our ending sales backlog was \$113,625. We expect to recognize approximately 54% over the next twelve (12) months and approximately 90% over the next twenty-four (24) months as revenue, with the remainder recognized thereafter.

**Environmental Tectonics Corporation**  
**Notes to the Consolidated Financial Statements, continued**  
(Dollars in thousands, except per share information)

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 income (loss) are presented below:

	Thirteen weeks ended May 24, 2024			Thirteen weeks ended May 26, 2023		
	Aerospace	CIS	Total	Aerospace	CIS	Total
Net income attributable to adjustments in contract estimates	\$ (313)	\$ (33)	\$ (346)	\$ (20)	\$ 83	\$ 63

The following schedule presents the Company's net sales by segment, business unit, and geographic area flux report:

	Thirteen weeks ended May 24, 2024				Thirteen weeks ended May 26, 2023			
	Domestic	U.S. Gov't	Inter-national	Total	Domestic	U.S. Gov't	Inter-national	Total
<b>Aerospace Solutions</b>								
Aircrew Training Solutions (ATS)	\$ 221	\$ 276	\$ 5,874	\$ 6,371	\$ 254	\$ 169	\$ 2,525	\$ 2,948
Simulation (ADMS)	8	-	778	786	44	84	848	976
Subtotal	229	276	6,652	7,157	298	253	3,373	3,924
<b>Commercial/Industrial Systems</b>								
Sterilizer Systems	344	-	5,402	5,746	1,068	-	1,789	2,857
Environmental (ETSS)	233	-	-	233	533	-	23	556
Service and Spares	331	-	25	356	323	-	7	330
Subtotal	908	-	5,427	6,335	1,924	-	1,819	3,743
<b>Net sales total</b>	<b>\$ 1,137</b>	<b>\$ 276</b>	<b>\$ 12,079</b>	<b>\$ 13,492</b>	<b>\$ 2,222</b>	<b>\$ 253</b>	<b>\$ 5,192</b>	<b>\$ 7,667</b>

The Company's percentage of total recognized revenue by type of revenue was as follows:

Type of Revenue	Thirteen weeks ended May 24, 2024	Thirteen weeks ended May 26, 2023
Products	85.7%	85.7%
Maintenance and support agreements	9.6%	6.7%
Services	3.2%	5.0%
Spare parts	1.5%	2.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

**Environmental Tectonics Corporation**  
**Notes to the Consolidated Financial Statements, continued**  
(Dollars in thousands, except per share information)

**Note 4. Leases**

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 May 24, 2024, these leases have remaining lease terms of one (1) month to sixty-one (61) months, with a weighted average remaining lease term of approximately fifty (50) months. Maturities of operating lease liabilities are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2025	\$ 729
2026	724
2027	488
2028	481
2029	484
2030	142
Total lease payments	3,048
Less: imputed interest	(343)
Total future long-term debt obligations	2,705
Less: current portion	(839)
<b>Total future long-term debt obligations, less current portion</b>	<b>\$ 1,866</b>

Total operating lease expense was \$242 for the 2025 first fiscal quarter. For the 2025 first fiscal quarter, cash payments against operating lease liabilities totaled \$203.

**Note 5. Long-Term Obligations**

On May 23, 2023, 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 maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2023 to June 30, 2024.
- (ii) Loans under the Line of Credit shall bear interest at a variable rate per annum equal to the sum of (A) Daily Simple SOFR plus (B) an unadjusted spread of two hundred seventy five basis points (2.75%) plus (C) a SOFR adjustment of ten basis points (0.10%).
- (iii) Provided the ability for ETC to utilize our accounts receivable and inventory as collateral for additional borrowings with alternative lenders.

On May 6, 2024, 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, 2024 to June 30, 2025.

**Environmental Tectonics Corporation**  
**Notes to the Consolidated Financial Statements, continued**  
(Dollars in thousands, except per share information)

***Summary of Long-Term Debt Obligations***

Long-term debt obligations consist of the following:

	May 24, 2024 (unaudited)	February 23, 2024
Credit facility payable to PNC Bank	\$ 8,389	\$ 11,725
Credit facility payable to Spoldzielczy Bank	1,219	1,065
Other	50	-
Total long-term debt obligations	9,658	12,790
Less: current portion	756	712
<b>Total long-term debt obligations</b>	<b>\$ 8,902</b>	<b>\$ 12,078</b>

**Note 6. 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 potential realization of the related deferred tax asset. Deferred tax assets and liabilities are offset and presented as a single non-current asset.

Generally, accounting standards require companies to provide for income taxes each quarter based on their estimate of the effective tax rate for the full year. The authoritative guidance for accounting for income taxes allows use of the discrete method when, in certain situations, the actual interim period effective tax rate may be used if it provides a better estimate of income tax expense.

An income tax provision of \$20 thousand and \$40 thousand, primarily related to an increase in unrecognized tax benefits, was recorded in the 2025 first quarter and the 2024 first quarter, respectively. Effective tax rates were 1.4% and -3.9% for the 2025 first quarter and the 2024 first quarter, respectively. As of May 24, 2024, the Company had approximately \$21,605 of federal NOL carryforwards available to offset future income tax liabilities, \$15,931 of which begin to expire in 2028. The recorded tax provision and corresponding effective tax rate for the 2025 first fiscal quarter reflects the expectation that ETC will be able to utilize the federal NOL during fiscal 2025. The Company continues to record 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. The unrecognized tax benefits, 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.

**Note 7. Commitments and Contingencies**

***Legal Proceedings***

**Directorate of Defense Trade Controls Voluntary Disclosure**

In the fiscal 2024 first quarter, the Company filed a Voluntary Disclosure with the Director of Compliance, U.S. Department of State, Directorate of Defense Trade Controls (“DDTC”), relating to its discovery it may not have been compliant with a certain requirement of the International Traffic in Arms Regulations (“ITAR”). This Voluntary Disclosure identified that the Company did not disclose to DDTC sales commissions paid to certain sales representatives when the Company filed export license applications pursuant to the ITAR, and also set forth the corrective actions to be taken by the Company. At this time ETC does not believe fines or penalties, if any, assessed against the Company will have a material impact.

***Other Matters***

We are currently unaware of any other claims, suits, and complaints arising in the ordinary course of business that may have been filed or are pending against us.

**Environmental Tectonics Corporation**  
**Notes to the Consolidated Financial Statements, continued**  
(Dollars in thousands, except per share information)

**Note 8. Subsequent Events**

The Company has evaluated subsequent events through July 18, 2024, the date of issuance of the accompanying interim consolidated financial statements, and determined that there were no material subsequent events requiring adjustment to, or disclosure in, the accompanying interim consolidated financial statements for the thirteen weeks ended May 24, 2024.

## Management's Discussion and Analysis

### Forward-looking Statements

Discussions of some of the matters contained in this Quarterly Report include forward-looking statements that may involve risks and uncertainties. Some of these discussions are contained under the caption "Management's Discussion and Analysis". 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.

## Results of Operations

### Thirteen weeks ended May 24, 2024 compared to thirteen weeks ended May 26, 2023

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

#### Summary Table of Results

(unaudited)

(in thousands, except per share information)

	Thirteen weeks ended		Variance (\$)	Variance (%)
	May 24, 2024	May 26, 2023		
<b>Net sales</b>	\$ 13,492	\$ 7,667	\$ 5,825	76.0
Cost of goods sold	8,965	5,833	3,132	53.7
<b>Gross Profit</b>	4,527	1,834	2,693	146.8
<i>Gross profit margin %</i>	33.6%	23.9%	9.6%	40.3%
Operating expenses	2,975	2,609	366	14.0
<b>Operating income (loss)</b>	1,552	(775)	2,327	300.3
<i>Operating margin %</i>	11.5%	-10.1%	21.6%	213.8%
Interest expense, net	116	198	(82)	(41.4)
Other expense (income), net	55	50	5	10.0
<b>Income (loss) before income taxes</b>	1,381	(1,023)	2,404	235.0
<i>Pre-tax margin %</i>	10.2%	-13.3%	23.6%	176.6%
Income tax provision	20	40	(20)	(50.0)
<b>Net income (loss)</b>	<b>\$ 1,361</b>	<b>\$ (1,063)</b>	<b>\$ 2,424</b>	<b>228.0</b>

  

Per share information:				
Basic earnings (loss) per common and participating share:				
Distributed earnings per share:				
Common	\$ -	\$ -	\$ -	
Preferred	\$ 0.02	\$ 0.02	\$ -	
Undistributed earnings (loss) per share:				
Common	\$ 0.08	\$ (0.08)	\$ 0.16	
Preferred	\$ 0.08	\$ (0.08)	\$ 0.16	
<b>Earnings (loss) per diluted share</b>	<b>\$ 0.08</b>	<b>\$ (0.08)</b>	<b>\$ 0.16</b>	

#### Net Income (Loss)

Net income was \$1.4 million, or \$0.08 earnings per diluted share, in the 2025 first fiscal quarter, compared to net loss of \$1.1 million during the 2024 first fiscal quarter, or (\$0.08) loss per diluted share. The \$2.4 million increase is due primarily to the combined effect of a \$5.8 million increase in net sales and a 9.6% increase in gross profit margin percentage partially offset by a \$0.4 million, or 14.0% increase in operating expense and \$0.3 million loss at our subsidiary, ETC-PZL. The ETC-PZL loss is attributable to a reduction in government grants and orders during 2025 first fiscal quarter as compared to 2024 first fiscal quarter.

#### Net Sales

Net sales in the 2025 first fiscal quarter were \$13.5 million, an increase of \$5.8 million, or 76.0%, compared to 2024 first fiscal quarter net sales of \$7.7 million. The increase in net sales was mainly a result of a \$3.4 million, or 116.1% increase in ATS sales as well as a \$2.9 million, or 91.4% increase in Sterilizer Systems sales in the 2025 first fiscal quarter as compared to 2024 first fiscal quarter.

#### Gross Profit

Gross profit for the 2025 first fiscal quarter was \$4.5 million compared to \$1.8 million in 2024 first fiscal quarter, an increase of \$2.7 million, or 146.8%. The increase in gross profit was due to higher net sales within the ATS and Sterilizer Systems business, along with a more favorable mix and increased overhead absorption resulting from higher production levels. Gross profit margin as a percentage of net sales increased to 33.6% in the 2025 first fiscal quarter compared to 23.9% in 2024 first fiscal quarter.

**Environmental Tectonics Corporation**  
**Management's Discussion and Analysis, continued**

***Operating Expenses***

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2025 first fiscal quarter were \$3.0 million, an increase of \$0.4 million, or 14.0%, compared to \$2.6 million for the 2024 first fiscal quarter. The increase in operating expenses was due primarily to higher selling expenses, primarily a result of increased expenses related to higher net sales and overall employee related costs.

***Interest Expense, Net***

Interest expense, net was \$0.1 million for the 2025 first fiscal quarter as compared to \$0.2 million for the 2024 first fiscal quarter, a decrease of \$0.1 million, or 41.4%. The decrease in interest expense, net was primarily attributable to an increase in interest income from the proceeds received related to the 2020 and 2021 Employee Retention Credits received in 2025 first fiscal quarter.

**Cash Flows from Operating, Investing, and Financing Activities**

During the 2025 first fiscal quarter, cash flows provided by operating activities were \$2.9 million, an increase of \$8.0 million compared to cash flows used by operating activities of \$5.1 million during 2024 first fiscal quarter. Cash flows during 2025 first fiscal quarter increased as a result of net income for 2025 first fiscal quarter as compared to a net loss during 2024 first fiscal quarter as well as a decrease in current assets slightly offset by a decrease in current liabilities in the 2025 first fiscal quarter.

Cash used for investing activities primarily relates to funds used for capital expenditures of equipment and software development. The Company's investing activities used \$0.1 million during the 2025 first fiscal quarter compared to \$0.2 million during the 2024 first fiscal quarter.

The Company's financing activities used \$3.1 million of cash during the 2025 first fiscal quarter from repayments under the Company's credit facility compared to providing \$4.3 million of cash during the 2024 first fiscal quarter from borrowings under the Company's credit facility.



## Item 6. Description of Facilities

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 use is presented below:

Location	Approximate Square Footage	Function	Owned/ Leased	Segment
Southampton, Pennsylvania	83,800	Manufacturing (36,000 sq. ft.), NASTAR Center (22,100 sq. ft.), and Corporate Headquarters (25,700 sq. ft.)	Leased	Aerospace CIS
Orlando, Florida	8,700	Product development and administration	Leased	Aerospace
Warsaw, Poland	28,000	Manufacturing, product development, and administration	Leased	Aerospace
Ankara, Turkey	1,940	Software development	Leased	Aerospace CIS
<b>Total</b>	<b>122,440</b>			

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

Our National Aerospace Training and Research Center (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 PHOENIX High Performance Human Centrifuge;
- Altitude (Hypobaric) Chamber;
- IPT II Spatial Disorientation Trainer;
- Ejection Seat Simulator; and
- Night Vision Training System and Night Vision Goggle Training System.

## Item 7. Officers, Directors, and Control Persons

	Name / Address **	Title	Ownership Percentage
<b>Directors and Executive Officers:</b>	George K. Anderson, M.D.	Chairman of the Board of Directors	1.3%
	Linda J. Brent, Ed.D.	Director	1.0%
	Winston E. Scott	Director	1.1%
	Brian Eccleston	Director	*
	Robert L. Laurent, Jr.	Chief Executive Officer, President, Corporate Secretary and Director	1.9%
	Timothy R. Kennedy	Chief Financial Officer	*
	Thomas G. Loughlin	Chief Operating Officer	1.0%
	Alper Kus	Senior Vice President, Aircrew Training Systems	*
	Katarzyna Wrzesinski	Director of Finance and Corporate Controller	*
	Joseph McAvoy	Vice President of Contracts	*
<b>5% Beneficial Owners:</b>	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

## Item 8. Legal/Disciplinary History

Information presented in the table above is accurate as of July 18, 2024, the date of issuance of the accompanying interim consolidated financial statements, based on information available to the Company. None of the foregoing Directors, Executive Officers, and Officers in the last ten (10) years has had a legal/disciplinary issue.

## Item 9. Third Party Providers

### **Legal Counsel:**

Stradley Ronon  
30 Valley Stream Parkway  
Malvern, PA 19355  
(610) 640-5800

### **Independent Auditor:**

RSM US LLP  
518 Township Line Road, Suite 300  
Blue Bell, PA 19422  
(215) 641-8600

## Item 10. Management's Certification

I, Timothy R. Kennedy certify that:

- 1 I have reviewed this Quarterly Report of Environmental Tectonics Corporation;
- 2 Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
- 3 Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.



Timothy R. Kennedy  
Chief Financial Officer  
Date: July 18, 2024

I, Robert L. Laurent, Jr. certify that:

- 1 I have reviewed this Quarterly Report of Environmental Tectonics Corporation;
- 2 Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
- 3 Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.



Robert L. Laurent, Jr.  
Chief Executive Officer and President  
Date: July 18, 2024