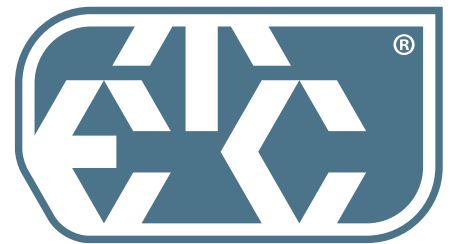




30-pallet EO
sterilization system
currently in production.

Q2



QUARTERLY
REPORT

For the thirteen weeks ended August 23, 2024.

Environmental Tectonics Corporation

125 James Way, Southampton, PA 18966

(215) 355-9100
www.etcusa.com

Quarterly Report

For the period ending August 23, 2024 (the “Reporting Period”)

Outstanding Shares

The number of shares outstanding of our Common Stock was:

9,443,785 as of August 23, 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 Control⁴ of the company has occurred during this reporting period:

Yes: ☐ No: ☒

⁴ “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: August 23, 2024</u>
Total shares outstanding:	<u>9,443,785</u>	<u>as of date: August 23, 2024</u>
Total number of shareholders of record:	<u>202</u>	<u>as of date: October 14, 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: August 23, 2024</u>
Total shares outstanding:	<u>12,127 as of date: August 23, 2024</u>
Total number of shareholders of record:	<u>1 as of date: October 14, 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. 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 August 23, 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 August 23, 2024, which totaled \$5,582,000 remained unpaid as of October 15, 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: <u>Opening Balance:</u> 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: <u>Ending Balance:</u> Date <u>August 23, 2024</u> Common: <u>9,443,785</u> Preferred: <u>12,127</u>									

Example: A company with a fiscal year end of December 31st 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.

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 August 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>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. If any updates are needed to your public company profile, log in to 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. 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:⁵ **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.

⁵ 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.

October 15, 2024

/s/ Robert L. Laurent, Jr.

(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.

October 15, 2024

/s/ Timothy R. Kennedy

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

ENVIRONMENTAL TECTONICS CORPORATION

Quarterly Report
For the thirteen weeks ended August 23, 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

Investor Relations Contact:

Tim Kennedy, Chief Financial Officer
Environmental Tectonics Corporation
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 August 23, 2024	25,000 as of August 23, 2024
Total shares outstanding:	9,443,785 as of August 23, 2024	12,127 as of August 23, 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

* 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 August 23, 2024, which totaled \$5,582 thousand, remained unpaid as of October 15, 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 Comparative Statements of Operations and Comprehensive Income (Loss)
(unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	August 23, 2024	August 25, 2023	August 23, 2024	August 25, 2023
<i>(in thousands, except per share information)</i>				
Net sales	\$ 14,083	\$ 9,016	\$ 27,575	\$ 16,683
Cost of goods sold	9,886	6,726	18,851	12,559
Gross Profit	4,197	2,290	8,724	4,124
Operating expenses	2,219	2,364	5,194	4,973
Operating income (loss)	1,978	(74)	3,530	(849)
Other expenses:				
Interest expense, net	233	228	349	426
Other expense, net	29	93	85	143
Other expense, net total	262	321	434	569
Income (loss) before income taxes	1,716	(395)	3,096	(1,418)
Income tax provision	20	40	40	80
Net income (loss)	1,696	(435)	3,056	(1,498)
Foreign Currency translation adjustment	(130)	(140)	(330)	(259)
Comprehensive income (loss)	\$ 1,566	\$ (575)	\$ 2,726	\$ (1,757)
Preferred Stock Dividends	(121)	(121)	(242)	(242)
Income (loss) attributable to common and participating shareholders	\$ 1,575	\$ (556)	\$ 2,814	\$ (1,740)
Per share information:				
Basic earnings (loss) per common and participating share:				
Distributed earnings per share:				
Common	\$ -	\$ -	\$ -	\$ -
Preferred	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.04
Undistributed earnings (loss) per share:				
Common	\$ 0.10	\$ (0.04)	\$ 0.18	\$ (0.11)
Preferred	\$ 0.10	\$ (0.04)	\$ 0.18	\$ (0.11)
Earnings (loss) per diluted share	\$ 0.09	\$ (0.04)	\$ 0.17	\$ (0.11)
Basic weighted average common and participating shares:				
Common weighted average number of shares	9,444	9,444	9,444	9,444
Participating preferred shares	6,125	6,125	6,125	6,125
Total basic weighted average common and participating shares	15,569	15,569	15,569	15,569
Diluted weighted average shares:				
Basic weighted average common and participating shares	15,569	15,569	15,569	15,569
Dilutive effect of stock options	1,156	-	1,156	-
Total diluted weighted average shares	16,725	15,569	16,725	15,569

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

Environmental Tectonics Corporation
Consolidated Comparative Balance Sheets

	August 23, 2024	
	(unaudited)	February 23, 2024
<i>(in thousands, except share information)</i>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43	\$ 37
Restricted cash	7,411	8,407
Accounts receivable, net	5,740	7,365
Contract assets	19,516	12,278
Inventories, net	2,002	1,876
Prepaid expenses and other current assets	3,631	6,994
Total current assets	<u>38,343</u>	<u>36,957</u>
Property, plant, and equipment, at cost, net	3,916	4,138
Right-of-use asset	2,644	2,822
Capitalized software development costs, net	15	24
Total assets	<u>\$ 44,918</u>	<u>\$ 43,941</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt obligations, net of debt issuance costs	\$ 13,851	\$ 712
Accounts payable, trade	3,405	4,711
Contract liabilities	12,048	12,997
Accrued taxes	231	268
Accrued interest and dividends	5,663	5,340
Current portion of lease obligations	890	815
Other accrued liabilities, current	2,361	3,373
Total current liabilities	<u>38,449</u>	<u>28,216</u>
Long-term debt obligations, net of debt issuance costs, less current portion:		
Credit facility payable to bank, net of debt issuance costs	563	12,078
Total long-term debt obligations, net of debt issuance costs, less current portion	<u>563</u>	<u>12,078</u>
Lease obligations, non-current	1,754	2,007
Other accrued liabilities, non-current	704	704
Total liabilities	<u>41,470</u>	<u>43,005</u>
Shareholders' equity:		
Cumulative convertible participating Preferred Stock, Series E, \$0.05 par value, 25,000 shares authorized; 12,127 shares outstanding as of August 23, 2024 and February 23, 2024	12,127	12,127
Common Stock, \$0.05 par value, 50,000,000 shares authorized; 9,443,785 shares issued and outstanding as of August 23, 2024 and February 23, 2024	472	472
Additional paid-in capital	5,712	5,927
Accumulated deficit	(13,922)	(16,979)
Accumulated other comprehensive loss	(941)	(611)
Total shareholders' equity	<u>3,448</u>	<u>936</u>
Total liabilities and shareholders' equity	<u>\$ 44,918</u>	<u>\$ 43,941</u>

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

Environmental Tectonics Corporation
Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)

	Twenty-six weeks ended	
	August 23, 2024	August 25, 2023
Cash flows from operating activities:		
Net income (loss)	\$ 3,056	\$ (1,498)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	422	460
Increase in allowance for credit losses and inventory obsolescence	9	7
Stock compensation expense	26	-
Changes in operating assets and liabilities:		
Accounts receivable	1,625	(10,610)
Contract assets	(7,238)	639
Inventories	(135)	86
Prepaid expenses and other assets	3,364	(677)
Accounts payable, trade	(1,306)	(327)
Contract liabilities	(949)	6,058
Accrued taxes	(37)	(173)
Accrued interest and dividends	82	(39)
Other accrued liabilities	(1,012)	186
Net cash (used in) operating activities	(2,093)	(5,888)
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(191)	(178)
Capitalized software development costs	-	(4)
Net cash (used in) investing activities	(191)	(182)
Cash flows from financing activities:		
Borrowings under lines of credit	1,624	4,679
Net cash provided by financing activities	1,624	4,679
Effect of exchange rate changes on cash	(330)	(259)
Net (decrease) in cash, cash equivalents, and restricted cash	(988)	(1,650)
Cash, cash equivalents, and restricted cash at beginning of year	8,444	9,634
Cash, cash equivalents, and restricted cash at end of period	\$ 7,456	\$ 7,984
Less: Restricted cash	(7,411)	(7,891)
Cash and cash equivalents at end of period	\$ 45	\$ 93
Supplemental schedule of cash flow information:		
Interest paid	\$ 617	\$ 566
Income taxes paid	\$ -	\$ -
Supplemental information on non-cash operating and investing activities:		
Preferred Stock dividends accrued during each respective fiscal period	\$ 242	\$ 242

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

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

	<u>Preferred</u> <u>Stock</u>	<u>Common Stock</u>		<u>Additional</u> <u>paid-in capital</u>	<u>Accumulated</u> <u>deficit</u>	<u>Accumulated other</u> <u>comprehensive</u> <u>loss</u>	<u>Total</u> <u>Shareholders'</u> <u>Equity</u>
		<u>Shares</u>	<u>Amount</u>				
<i>(in thousands, except share information)</i>							
Balance, February 23, 2024	\$ 12,127	9,443,785	\$ 472	\$ 5,927	\$ (16,979)	\$ (611)	\$ 936
Net income	-	-	-	-	3,057	-	3,057
Foreign currency translation adjustment	-	-	-	-	-	(330)	(330)
Preferred Stock dividends	-	-	-	(242)	-	-	(242)
Stock compensation expense	-	-	-	26	-	-	26
Balance, August 23, 2024	\$ 12,127	9,443,785	\$ 472	\$ 5,712	\$ (13,922)	\$ (941)	\$ 3,448

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 and gas industry 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 fiscal second quarter are references to the thirteen week period ended August 23, 2024. References to the 2024 fiscal second quarter are references to the thirteen week period ended August 25, 2023. References to the 2025 fiscal first half are references to the twenty-six week period ending August 23, 2024. References to the 2024 fiscal first half are references to the twenty-six week period ending August 25, 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 August 23, 2024 and August 25, 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 August 23, 2024 and August 25, 2023, there were outstanding options to purchase the Company's Common Stock at an average price of \$0.83 and \$0.88, respectively totaling 1,156,450 and 722,450 shares, respectively. Due to the conversion price of Common Stock options, 0 and 722,450 shares, respectively were excluded from the calculation of diluted earnings per share as of August 23, 2024 and August 25, 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 under existing contracts) 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 August 23, 2024, our ending sales backlog was \$109 million. We expect to recognize as revenue approximately 64% of the backlog over the next twelve (12) months and approximately 96% of the backlog over the next twenty-four (24) months, 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) attributable to ETC are presented below:

	Thirteen weeks ended					
	August 23, 2024			August 25, 2023		
	Aerospace	CIS	Total	Aerospace	CIS	Total
Net income attributable to adjustments in contract estimates	\$ 129	\$ (49)	\$ 80	\$ (101)	\$ (7)	\$ (108)

	Twenty-six weeks ended					
	August 23, 2024			August 25, 2023		
	Aerospace	CIS	Total	Aerospace	CIS	Total
Net income attributable to adjustments in contract estimates	\$ (298)	\$ 32	\$ (266)	\$ (82)	\$ 73	\$ (9)

The following schedule presents the Company's net sales by segment, business unit, and geographic area for the 2025 fiscal second quarter compared to the 2024 fiscal second quarter:

	Thirteen weeks ended							
	August 23, 2024				August 25, 2023			
	Domestic	U.S. Govt.	International	Total	Domestic	U.S. Govt.	International	Total
Aerospace Solutions								
Aeromedical Training Solutions	\$ 64	\$ 534	\$ 8,007	\$ 8,605	57	192	4,044	4,293
Simulation (ADMS)	8	2	1,131	1,141	3	123	626	752
Subtotal	72	536	9,138	9,746	60	315	4,670	5,045
Commercial/Industrial Systems								
Sterilizers	268	-	3,137	3,405	943	-	2,138	3,081
Environmental (ETSS)	365	-	10	375	452	-	11	463
Service and spares	504	-	53	557	367	-	60	427
Subtotal	1,137	-	3,200	4,337	1,762	-	2,209	3,971
Net Sales Total	\$ 1,209	\$ 536	\$ 12,338	\$ 14,083	\$ 1,822	\$ 315	\$ 6,879	\$ 9,016

The following schedule presents the Company's net sales by segment, business unit, and geographic area for the 2025 fiscal first half compared to the 2024 fiscal first half:

	Twenty-six weeks ended							
	August 23, 2024				August 25, 2023			
	Domestic	U.S. Govt.	International	Total	Domestic	U.S. Govt.	International	Total
Aerospace Solutions								
Aeromedical Training Solutions (ATS)	\$ 285	\$ 810	\$ 13,880	\$ 14,975	311	361	6,569	7,241
Simulation (ADMS)	16	2	1,909	1,927	47	207	1,474	1,728
Subtotal	301	812	15,789	16,902	358	568	8,043	8,969
Commercial/Industrial Systems								
Sterilizers	612	-	8,539	9,151	2,010	-	3,927	5,937
Environmental (ETSS)	598	-	10	608	985	-	34	1,019
Service and spares	835	-	79	914	691	-	67	758
Subtotal	2,045	-	8,628	10,673	3,686	-	4,028	7,714
Net Sales Total	\$ 2,346	\$ 812	\$ 24,417	\$ 27,575	\$ 4,044	\$ 568	\$ 12,071	\$ 16,683

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

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

Type of Revenue	Thirteen weeks ended	
	August 23, 2024	August 25, 2023
Products	79.7%	81.6%
Maintenance and support agreements	15.6%	8.8%
Services	3.5%	7.3%
Spare parts	1.2%	2.3%
Total	100.0%	100.0%

Type of Revenue	Twenty-six weeks ended	
	August 23, 2024	August 25, 2023
Products	82.7%	85.6%
Maintenance and support agreements	12.6%	7.9%
Services	3.4%	4.1%
Spare parts	1.3%	2.4%
Total	100.0%	100.0%

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 the Right-of-use asset, with the related liabilities included in either the 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 the commencement date. If a lease does not implicitly state a rate, the Company uses its incremental borrowing rate based on the information available at the 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 August 23, 2024, these leases have remaining lease terms of twelve (12) months to fifty-eight (58) months, with a weighted average remaining lease term of approximately forty-seven (47) months. Maturities of operating lease liabilities are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2025	\$ 592
2026	745
2027	501
2028	494
2029	490
2030	142
Total lease payments	2,964
Less: imputed interest	(320)
Total future long-term debt obligations	2,644
Less: current portion	(890)
Total future long-term debt obligations, less current portion	\$ 1,754

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

Total operating lease expense was \$251 for the 2025 fiscal second quarter. For the 2025 fiscal second quarter, cash payments against operating lease liabilities totaled \$214.

Total operating lease expense was \$502 for the first half of fiscal 2025. For the first half of fiscal 2025, cash payments against operating lease liabilities totaled \$424.

Note 5. Long-Term Obligations

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

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

	August 23, 2024 (unaudited)	February 23, 2024
Credit facility payable to PNC Bank	\$ 13,074	\$ 11,725
Credit facility payable to Spoldzielczy Bank	1,291	1,065
Other	49	-
Total long-term debt obligations	14,414	12,790
Less: current portion	13,851	712
Total long-term debt obligations	\$ 563	\$ 12,078

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 and \$40, primarily related to an increase in unrecognized tax benefits, was recorded in the 2025 fiscal second quarter and the 2024 fiscal second quarter, respectively. Effective tax rates were 1.2% and -10.1% for the 2025 fiscal second quarter and the 2024 fiscal second quarter, respectively. As of August 23, 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 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.

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

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

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.

Note 8. Subsequent Events

The Company has evaluated subsequent events through October 15, 2024, the date of issuance of the accompanying interim consolidated financial statements, and determined that there were no material subsequent events other than disclosed below requiring adjustment to, or disclosure in, the accompanying interim consolidated financial statements for the thirteen weeks ended August 23, 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 August 23, 2024 compared to thirteen weeks ended August 25, 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			
	August 23, 2024	August 25, 2023	Variance (\$)	Variance (%)
Net sales	\$ 14,083	\$ 9,016	\$ 5,067	56.2
Cost of goods sold	9,886	6,726	3,160	47.0
Gross Profit	4,197	2,290	1,907	83.3
<i>Gross profit margin %</i>	29.8%	25.4%	4.4%	17.3%
Operating expenses	2,219	2,364	(145)	(6.1)
Operating income (loss)	1,978	(74)	2,052	2,772.9
<i>Operating margin %</i>	14.0%	-0.8%	14.8%	1799.0%
Interest expense, net	233	228	5	2.2
Other expense, net	29	93	(64)	(69.0)
Income (loss) before income taxes	1,716	(395)	2,111	534.4
<i>Pre-tax margin %</i>	12.2%	-4.4%	16.6%	377.3%
Income tax provision	20	40	(20)	(50.0)
Net income (loss)	\$ 1,696	\$ (435)	\$ 2,131	489.9

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	\$ 0.10	\$ (0.04)	\$ 0.14
Preferred	\$ 0.10	\$ (0.04)	\$ 0.14

Earnings (loss) per diluted share

\$ 0.09	\$ (0.04)	\$ 0.13
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Environmental Tectonics Corporation
Management's Discussion and Analysis, continued

Net Income (Loss)

Net income was \$1.7 million, or \$0.09 earnings per diluted share, in the 2025 fiscal second quarter, compared to net loss of (\$0.4) million during the 2024 fiscal second quarter, equating to (\$0.04) earnings per diluted share. The \$2.1 million variance is due primarily to increased sales and improved gross profit margin.

Net Sales

Net sales in the 2025 fiscal second quarter were \$14.1 million, an increase of \$5.1 million, or 56.2%, compared to 2024 fiscal second quarter net sales of \$9.0 million. The increase in net sales was driven by a \$4.3 million or 100.4% increase in ATS, a \$0.4 million or 51.7% increase in ADMS and a \$0.3 million or 10.5% increase in Sterilizer Systems net sales in 2025 fiscal second quarter compared to 2024 fiscal second quarter net sales.

Gross Profit

Gross profit for the 2025 fiscal second quarter of \$4.2 million increased from \$2.3 million in the 2024 fiscal second quarter, an increase of \$1.9 million or 83.3%. Gross profit margin of 29.8% increased 4.4% in the 2025 fiscal second quarter compared to 25.4% in the 2024 fiscal second quarter. The increase in gross profit was due to higher net sales within the ATS, ADMS and Sterilizer Systems business units, along with an increased overhead absorption resulting from higher production levels.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2025 fiscal second quarter were \$2.2 million, a decrease of \$0.1 million, or 6.1%, compared to \$2.4 million for the 2024 fiscal second quarter. Operating expenses decreased due primarily to lower research and development expense for the 2025 fiscal second quarter as compared to the 2024 fiscal second quarter. The increase in sales and gross profit margin along with the decrease in operating expenses resulted in an improvement in operating margin from (-0.8%) in the 2024 second fiscal quarter to 14.0% in the 2025 fiscal second quarter.

Twenty-six weeks ended August 23, 2024 compared to twenty-six weeks ended August 25, 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)

	Twenty-six weeks ended			
	August 23, 2024	August 25, 2023	Variance (\$)	Variance (%)
Net sales	\$ 27,575	\$ 16,683	\$ 10,892	65.3
Cost of goods sold	18,851	12,559	6,292	50.1
Gross Profit	8,724	4,124	4,600	111.5
<i>Gross profit margin %</i>	31.6%	24.7%	6.9%	27.9%
Operating expenses	5,194	4,973	221	4.4
Operating income (loss)	3,530	(849)	4,379	515.8
<i>Operating margin %</i>	12.8%	-5.1%	17.9%	351.0%
Interest expense, net	349	426	(77)	(18.1)
Other expense, net	85	143	(58)	(40.6)
Income (loss) before income taxes	3,096	(1,418)	4,514	318.3
<i>Pre tax margin %</i>	11.2%	-8.5%	19.7%	231.8%
Income tax provision	40	80	(40)	(50.0)
Net income (loss)	\$ 3,056	\$ (1,498)	\$ 4,554	304.0

Per share information:

Basic earnings (loss) per common and participating share:

Distributed earnings per share:

Common	\$ -	\$ -	\$ -
Preferred	\$ 0.04	\$ 0.04	\$ -

Undistributed earnings (loss) per share:

Common	\$ 0.18	\$ (0.11)	\$ 0.29
Preferred	\$ 0.18	\$ (0.11)	\$ 0.29

Earnings (loss) per diluted share	\$ 0.17	\$ (0.11)	\$ 0.28
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Environmental Tectonics Corporation
Management's Discussion and Analysis, continued

Net Income (Loss)

Net income was \$3.1 million, or \$0.17 earnings per diluted share, in the 2025 fiscal first half, compared to net loss of (\$1.5) million during the 2024 fiscal first half, equating to (\$0.11) earnings per diluted share. The \$4.6 million variance is attributable to an increase in sales and improved gross profit margin.

Net Sales

Net sales in the 2025 fiscal first half were \$27.6 million, an increase of \$10.9 million, or 65.3%, compared to 2024 fiscal first half net sales of \$16.7 million. The increase in net sales is attributable to a \$7.7 million or 106.8% increase in ATS 2025 fiscal first half net sales and a \$3.2 million or 54.1% increase in sterilizer systems net sales in the 2025 fiscal first half as compared to the 2024 fiscal first half.

Gross Profit

Gross profit for the 2025 fiscal first half was \$8.7 million compared to \$4.1 million in the 2024 fiscal first half, an increase of \$4.6 million, or 111.5%. Gross profit margin of 31.6% increased 6.9% in the 2025 fiscal first half compared to 24.7% in the 2024 fiscal first half. The increase in gross profit was due to an increase in net sales and gross profit margin within the ATS and Sterilizer Systems business units.

Operating Expenses

Operating expenses, including sales and marketing, general and administrative, and research and development, for the 2025 fiscal first half were \$5.2 million, an increase of \$0.2 million, or 4.4%, compared to \$5.0 million for the 2024 fiscal first half. The increase in operating expenses was primarily due to increased expense related to higher sales and personnel expense and general and administrative expense slightly offset by a decrease in research and development expense. The increase in sales and gross profit margin along with the decrease in operating expenses resulted in an improvement in operating margin from (-5.1%) in the 2024 fiscal first half to 12.8% in the 2025 fiscal first half.

Interest Expense, Net

Interest expense, net for the 2025 fiscal first half was \$0.3 million compared to interest expense, net of \$0.4 million for the 2024 fiscal first half, a favorable variance of \$0.1 million. The favorable variance was primarily attributable to an increase in interest income included in the proceeds received related to the 2020 and 2021 Employee Retention Credits received in the 2025 first fiscal first half.

Cash Flows from Operating, Investing, and Financing Activities

During the 2025 fiscal first half, the Company used \$2.1 million of cash from operating activities, due primarily from an increase in contract assets and reduction in accounts payable and contract liabilities, slightly offset by an increase in net income and decrease in accounts receivable and prepaid expenses and other assets, as compared to using \$5.9 million during the 2024 fiscal first half.

Cash used for investing activities was \$0.2 million during the 2025 and 2024 fiscal first half and primarily relates to funds used for capital expenditures on equipment and software development.

The Company's financing activities included borrowings of \$1.6 million during the first half of fiscal 2025 under the Company's credit facility as compared to borrowing \$4.7 million of cash during the 2024 fiscal first half under the Company's credit facilities.

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
Total	122,440			

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
<i>Directors and Executive Officers:</i>	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	*
<i>5% Beneficial Owners:</i>	Estate of H.F. Lenfest <i>c/o The Lenfest Foundation</i> <i>Two Logan Square</i> <i>100 N. 18th Street, Suite 800</i> <i>Philadelphia, PA 19103</i>		*** 54.1%
	T. Todd Martin, III <i>50 Midtown Park East</i> <i>Mobile, AL 36606</i>		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 October 15, 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: October 15, 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: October 15, 2024