ENVIRONMENTAL TECTONICS CORP
Form 10-Q
July 16, 2001

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 25,2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______
Commission File No. 1-10655

ENVIRONMENTAL TECTONICS CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	23-1714256
(State or other jurisdiction of incorporation or organization	(IRS Employer Identification No.)

COUNTY LINE INDUSTRIAL PARK
SOUTHAMPTON, PENNSYLVANIA 18966

(Address of principal executive offices)
(Zip Code)

(215) 355-9100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes x No

The number of shares outstanding of the registrant's common stock as of July 9, 2001 is: 7,141,864

1

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Environmental Tectonics Corporation
Consolidated Income Statements
(unaudited)

	Three months ended: May 25, 2001	Three months ended: May 26, 2000
	(thousands, except share and per share information)	
Net Sales	$ 8,340	$ 7,157
Cost of goods sold	5,647	3,802
Gross profit	2,693	3,355
Operating expenses:		
Selling and administrative	2,076	1,658
Research and development	168	175
	2,244	1,833
Operating income	449	1,522
Other expenses:		
Interest expense	258	192
Other, net	33	(21)
	291	171
Income before income taxes	158	1,351
Provision for/(benefit from) income taxes	(61)	467
Income before minority interest	219	884
Income (loss) attributable to minority interest	(5)	2
Net income	$ 224	$ 882
Per share information:		
Income available to common shareholders	$ 224	$ 882
Income per share: basic	$ 0.03	$ 0.13
Income per share: diluted	$ 0.03	$ 0.12
Number of shares: basic	7,139,000	7,035,000
Number of shares: diluted	7,557,000	7,534,000

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

Environmental Tectonics Corporation
Consolidated Balance Sheets

	May 25, 2001	February 23, 2001
	unaudited	
	(amounts in thousands, except share information)	
Assets		
Current assets:		
Cash and cash equivalents	$ 572	$ 851
Cash equivalents restricted for letters of credit	196	544
Accounts receivable, net	16,482	16,776
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	11,254	9,595
Inventories	5,554	4,624
Deferred tax asset	615	615
Prepaid expenses and other current assets	752	423
	35,425	33,428
Property, plant and equipment, at cost, net of accumulated depreciation of $8,789 at May 25, 2001 and $8,635 at Feb. 23, 2001	5,657	5,337
Software development costs, net of accumulated amortization of $5,784 at May 25, 2001 and $5,670 at February 23, 2001	1,200	1,191
Other assets	743	749
Total assets	$43,025	$40,705
Liabilities and Stockholders' Equity		
Liabilities		
Current liabilities:		
Current portion of long-term obligations	$ 290	$ 643
Accounts payable - trade	2,344	1,929
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	353	1,712
Customer deposits	2,116	1,443
Accrued income taxes	626	754
Accrued liabilities	1,927	1,877
Total current liabilities	7,656	8,358
Long-term debt, less current portion:		
Credit facility payable to banks	10,478	7,564
Long-Term Bonds, net	4,920	5,195
Other	16	19
	15,414	12,778
Deferred income taxes	674	674
Total liabilities	23,744	21,810
Minority interest	94	99

Stockholders' Equity		
Common stock; $.05 par value; 20,000,000 shares authorized; 7,138,796 and 7,110,546 issued and outstanding at May 25, 2001 and February 23, 2001, respectively	358	355
Capital contributed in excess of par value of common stock	6,682	6,514
Accumulated other comprehensive income	(230)	(226)
Retained earnings	12,377	12,153
Total stockholders' equity	19,187	18,796
Total liabilities and stockholders' equity	$43,025	$40,705

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

Environmental Tectonics Corporation
Consolidated Statements of Cash Flows
(unaudited)

	Three months ended May 25, 2001	May 26, 2000
	(amounts in thousands)	
Cash flows from operating activities:		
Net income	$ 224	$ 882
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	307	336
Provision for losses on accounts receivable and inventories	27	(167)
Minority interest	5	3
Changes in operating assets and liabilities:		
Accounts receivable	294	(67)
Costs and estimated earnings in excess of billings on uncompleted long-term contracts	(1,659)	(1,225)
Inventories	(957)	(1,293)
Prepaid expenses and other assets	(329)	(141)
Other assets	47	(23)
Accounts payable	415	(572)
Billings in excess of costs and estimated earnings on uncompleted long-term contracts	(1,359)	(1,250)
Customer deposits	673	-
Accrued income taxes	(128)	446
Other accrued liabilities	32	(371)
Payments under settlement agreements	-	(30)
Net cash used in operating activities	(2,408)	(3,472)
Cash flows from investing activities:		
Acquisition of equipment	(474)	(293)
Capitalized software development costs	(123)	(50)
Purchase of subsidiary, net	-	195
Net cash used in investing activities	(597)	(148)

Cash flows from financing activities:		
Net borrowings(payments)under credit facility	2,914	(1,523)
Proceeds from long-term bonds	-	5,470
Deferred financing costs	(80)	(175)
Decrease/(Increase) in cash equivalents, restricted	348	(1,210)
Proceeds from issuance of common stock/warrants	171	598
Capital leases/other	(631)	(12)
Net cash provided by financing activities	2,722	3,148
Effect of exchange rate changes on cash	4	6
Net decrease in cash and cash equivalents	(279)	(466)
Cash and cash equivalents at beginning of period	851	1,725
Cash and cash equivalents at end of period	$ 572	$ 1,259
Supplemental schedule of cash flow information:		
Interest paid	234	141
Income taxes paid	193	36

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

4

Environmental Tectonics Corporation
Notes to Consolidated Financial Statements
(amounts in dollars, except where noted and
share and per share information)

1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of Environmental Tectonics Corporation ("ETC" or the "Company"), its wholly-owned subsidiaries ETC International Corporation, Entertainment Technology Corporation, and ETC Europe, and its majority-owned subsidiary ETC-PZL Aerospace Industries, Ltd. ("ETC-PZL").

The accompanying consolidated financial statements have been prepared by Environmental Tectonics Corporation, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

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 pursuant to such rules and regulations and the financial results for the period presented may not be indicative of the full year's results, although the Company believes the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 23, 2001. Certain reclassifications have been made to the 2000 financial statements to conform to the 2001 presentation.

2. Earnings per Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The following table demonstrates the components of basic and diluted earnings per share for the three month periods ended May 25, 2001 and May 26, 2000.

5

	(amounts in thousands, except share and per share information) Three months ended:	
	May 25, 2001	May 26, 2000
Net income	$224	$882
Income available to common stockholders	$224	$882
Basic earnings per share:		
Weighted average shares	7,139,000	7,035,000
Per share amount	$0.03	$0.13
Diluted earnings per share:		
Weighted average shares	7,139,000	7,035,000
Effect of dilutive securities:		
Stock options	104,000	181,000
Stock warrants	314,000	318,000
	7,557,000	7,534,000
Per share amount	$0.03	$0.12

3. Accounts Receivable

The components of accounts receivable are as follows:

	May 25, 2000	February 2 2001
	(amounts in thousands)	
U.S. Government receivables billed and unbilled contract costs subject to negotiation	$ 6,366	$ 5,707
U.S. commercial receivables billed	2,537	2,484
International receivables billed and unbilled contract costs		

subject to negotiation	7,949	8,955
	16,852	17,146
Less allowance for doubtful accounts	(370)	(370)
	$16,482	$ 16,776

U.S. Government receivables billed and unbilled contract costs subject to negotiation:

Unbilled contract costs subject to negotiation primarily represent claims made or to be made against the U.S. Government under a contract for a centrifuge. These costs were recorded beginning in fiscal year 1994, including $1,148,000 recorded during the three months ended May 26, 2000. The Company has recorded claims, amounting to $3,898,000 to the extent of contract costs incurred, and accounts receivable of $1,649,000 representing the balance due under the contract. Claim costs have been incurred in connection with U.S. Government caused delays, errors in specifications and designs, and other unanticipated causes and may not be received in full during

fiscal 2002. In conformity with accounting principles generally accepted in the United States of America, revenue recorded by the Company from a claim does not exceed the incurred contract costs related to the claim. The Company currently has approximately $12,000,000 in claims filed with the U.S. Government (including the aforementioned recorded claim and accounts receivable balances), which are subject to negotiation and audit by the U.S. Government. The U.S. Government has responded to the claims with either denials or deemed denials that the Company has appealed. In May 2000, the Company and the U.S. Government had reached an agreement in principle which would have included resolution of all U.S. Navy claims on a global basis and contracted additional work on the centrifuge. In July 2000, the Company received notice that the Navy, citing an inability to obtain the prerequisite approvals and thus the necessary funding to effect the settlement, was rescinding the agreement.

International receivables and unbilled contract costs subject to negotiation:

International receivables billed include $929,000 related to a certain contract with the Royal Thai Air Force.

In October 1993, the Company was notified by the Royal Thai Air Force ("RTAF") that the RTAF was terminating a certain $4,600,000 simulator contract with the Company. Although the Company had performed in excess of 90% of the contract, the RTAF alleged a failure to completely perform. In connection with this termination, the RTAF made a call on a $229,000 performance bond, as well as a draw on an approximately $1,100,000 advance payment letter of credit. Work under this contract had stopped while under arbitration, but on October 1, 1996, the Thai Trade Arbitration Counsel rendered its decision under which the contract was reinstated in full and the Company was given a period of nine months to complete the remainder of the work. Except as noted in the award, the rights and obligations of the parties remained as per the original contract including the potential invoking of penalties or termination of the contract for delay. On December 22, 1997, the Company successfully performed acceptance testing and the unit passed with no discrepancy reports. Although the contract was not completed in the time allotted, the Company has requested an extension on the completion time due to various extenuating circumstances, including allowable "force majeure" events, one of which was a delay in obtaining an export license to ship parts required to complete the trainers. The balance due on the contract is still under review and at this point the Company is not able to determine what, if any, impact the extended completion period will have upon the receipt of final payment. However, the

Company recently received notification that the RTAF Directorate of Finance had received approval from the Ministry of Finance to release the performance bond portion of the balance. The Company continues to pursue collection.

Unbilled contract costs subject to negotiation represent claims made or to be made against an international customer for two contracts covering 1996 to the present. Claims receivables and corresponding revenue aggregating $5,539,000 have been recorded, including $441,000 in the current quarter. Claim costs have been incurred in connection with customer caused delays, errors in specifications and designs, other out-of-scope items and exchange losses and may not be received in full during fiscal 2002. In conformity with accounting principles generally accepted in the United States of America, revenue recorded by the Company from a claim does not exceed the incurred contract costs related to the claim. The Company has submitted a claim for one of the contracts to the customer and has also submitted to the customer requests for equitable contract price adjustments on the other contract. The Company predicts it will have to ultimately begin legal proceedings in the United Kingdom against the customer. As a related item, during the third quarter of fiscal 2000, the aforementioned international customer, citing failure to deliver product within contract terms, assessed liquidated damages totalling approximately $1,600,000 on two contracts currently in progress. The Company disputes the basis for these liquidated damages and plans to contest them vigorously. However, following generally accepted accounting principles, the Company has reduced contract values and corresponding revenue recognition by approximately $1,600,000.

4. Inventories

Inventories are valued at the lower of cost or market using the first in, first out (FIFO) method and consist of the following (net of reserves):

	May 25, 2001	February 23, 2001
	(amounts in thousands)	
Raw materials	$ 392	$ 359
Work in Process	5,162	4,265
	$5,554	$4,624

5. Stockholders' Equity

The components of stockholders' equity at May 25, 2001, and February 23, 2001 were as follows:

(amounts in thousands, except share information)

	Common Stock Shares	Common Stock Amount	Additional Capital	Accumulated other comp. income	Retained Earnings	Total
Balance, February 23, 2001	7,110,546	$355	$6,514	$(226)	$12,153	$18,79
Net income for the three month period ended May 25, 2001	-	-	-	-	224	22
Other comprehensive loss	-	-	-	(4)	-	(
Total comprehensive income	-	-	-	(4)	-	22
Shares issued in connection with employee stock option plans	28,250	3	168	-	-	17
Balance at May 25, 2001	7,138,796	$358	$6,682	$(230)	$12,377	$19,18

6. Business Segment Presentation:

The Company primarily manufactures under contract various types of high-technology equipment, which it has designed and developed. The Company considers its business activities to be divided into two segments: Aircrew Training Systems (ATS) and Industrial Simulation. The ATS business segment produces devices which create and monitor the physiological effects of motion, including spatial disorientation and centrifugal forces for the medical, training, research and entertainment markets. The Industrial Group produces chambers that create environments that are used for sterilization, research, and medical applications. The following segment information reflects the accrual basis of accounting:

(amounts in thousands)

Three months ended May 25, 2001	ATS	Industrial Group	Total
Net Sales	$5,545	$2,795	$8,340
Interest Expense	214	44	258
Deprec. And Amort.	220	87	307
Operating Income/(loss)	(49)	693	644
Income Tax Prov/(benefit)	108	(124)	(16)
Identifiable Assets	28,575	5,915	34,490
Expend. For Seg. Assets			

9

	ATS	Industrial Group	Total

(amounts in thousands)

Three months ended May 26,2000			
Net Sales	$5,776	$1,381	$ 7,157
Interest Expense	119	33	152
Deprec. And Amort.	242	94	336
Operating Income	1,977	(259)	1,718
Income Tax Prov.	650	(102)	548
Identifiable Assets	21,992	5,116	27,108
Expend. For Seg. Assets	182	42	224

Reconciliation to consolidated amounts	2001	2000
Segment operating income	$ 644	$1,718
Less interest expense	(258)	(152)
Less income taxes	(16)	(548)
Total profit for segments	$ 370	$1,018
Corporate home off. exps.	(185)	(196)
Interest and other exps.	(33)	(19)
Income tax benefit	77	81
Minority interest	(5)	2
Net income	$ 224	$ 882

Segment operating income (loss) consists of net sales less applicable costs and expenses related to those revenues. Unallocated general corporate expenses and other miscellaneous fees have been excluded from total profit for segments. General corporate expenses are primarily central administrative office expenses including executive salaries, stockholders expenses and legal and accounting fees. Other miscellaneous expenses include banking and letter of credit fees. Property, plant and equipment are not identified with specific business segments as these are common resources shared by all segments.

Approximately 48% of sales totaling $4,028,000 in the first quarter of fiscal 2002 were made to one domestic customer in the ATS segment. Approximately 31% of sales totaling $2,237,000 in the first quarter of fiscal 2001 were made to two international and one domestic customers in the ATS segment.

Included in the segment information for the first quarter of fiscal 2002 are export sales of $2,834,000, none of which when aggregated by geographic area exceeded 10% of total sales for the quarter. Sales to the US government and its agencies aggregated $786,000 for the period.

10

Included in the segment information for the first quarter of fiscal 2001 are export sales of $3,246,000. Of this amount, there are sales to or relating to government accounts in Great Britain of $995,000. Sales to the US government and its agencies aggregate $1,462,000 for the period.

7. Acquisitions

On September 9, 2000, the company purchased the assets of the "Pro-Pilot" flight simulation game for $400,000 cash. The Company plans to develop a next generation "Pro-Pilot 2000"tm game which will be marketed through the internet. Also, this software can be integrated into the Company's General Aviation Trainer product for commercial application.

On September 27, 2000, the Company purchased an additional 30% ownership interest in ETC-PZL for $300,000 cash. With this purchase, the Company's ownership interest increases to 95%. Also, in April 2001, the Company paid off the $350,000 note issued with the original purchase of ETC-PZL in April 1998.

8. Recent Accounting Pronouncements

In January 2001, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activity." SFAS No. 133 requires the recognition of all derivative financial instruments as either assets or liabilities in the Consolidated Balance Sheet, and the periodic adjustment of those instruments to fair value. The classification of gains and losses resulting from changes in the fair value of derivatives is dependent on the intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives that are not considered highly effective hedges are reflected in earnings. Adjustments to reflect changes in fair values of derivatives that are considered highly effective hedges are either reflected in earnings and largely offset by corresponding adjustments related to the fair values of the hedged items, or reflected in other comprehensive income until the hedged transaction matures and the entire transaction is recognized in earnings. The change in fair value of the ineffective portion of a hedge is immediately recognized in earnings. SFAS No. 133 is effective for all periods beginning after June 15, 1999. This effective date was later deferred to all periods beginning after June 15, 2000 by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement Number 133." The adoption of SFAS No. 133 had no impact on the Company's consolidated financial position or results of operations.

On June 29,2001, the Financial Accounting Standards Board (FASB) approved for issuance Statement of Financial Accounting

Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. Major provisions of these Statements are as follows: all business combinations initiated after June 30, 2001 must use the purchase method of accounting; the pooling of interest method of accounting is prohibited except for transactions initiated before July 1,2001; intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability; goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually, except in certain circumstances, and whenever there is an impairment indicator; all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting; effective January 1, 2002, goodwill will no longer be subject to amortization. Although it is still reviewing the provisions of these Statements, management's preliminary assessment is that these Statements will not have a material impact on the Company's financial position or results of operations.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

(amounts in dollars, except where noted and share and per share amounts)

Results of Operations

Forward Looking Statements

Except for historical information, this report may be deemed to contain "forward-looking" statements. The Company desires to avail itself of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995 (the "Act") and is including this cautionary statement for the express purpose of availing itself of the protection afforded by the act.

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 raw materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, the effect of currency fluctuations, capital structure and other financial items, (ii)statements of plans and objectives of the Company or its management or Board of Directors, including the introduction of new products, or estimates or predictions of actions by customers, suppliers, competitors or regulating authorities, (iii) statements of future economic performance, (iv)statements of assumptions and other statements about the Company or its business, and (v)statements preceded by, followed by or that include the words "may", "could", "should", "pro-forma", "looking forward", "would", "believe", "expect", "anticipate", "estimate", "intend", "plan", or similar expressions. These forward-looking statements involve risks and uncertainties, which are subject to change based on various important factors (some of which, in whole or in part, are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the goals, plans, objectives, intentions and expectations expressed in such forward-looking statements: (1) the strength of the United States and global economies in general and the strength of the regional and local economies in which the Company conducts operations; (2) the effects of, and changes in, U.S. and foreign governmental trade, monetary and fiscal policies and laws; (3) the impact of domestic or foreign military or political conflicts and turmoil; (4) the timely development of competitive new products and services by the Company and the acceptance of such products and services by customers; (5) the willingness of customers to substitute competitors' products and

services and vice versa; (6) the impact on operations of changes in U.S. and governmental laws and public policy, including environmental regulations; (7) the level of export sales impacted by export controls, changes in legal and regulatory requirements; policy changes affecting the markets, changes in tax laws and tariffs, exchange rate fluctuations, political and economic instability, and accounts receivable collection; (8) technological changes;(9) regulatory or judicial proceedings; (10) the impact of any current or future litigation involving the Company; and (11) the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Three months ended May 25, 2001 compared to May 26, 2000.

The Company had net income of $224,000, or $.03 per share (diluted), versus net income of $882,000 or $.12 per share (diluted), for the corresponding first quarter of fiscal 2000. Sales for the quarter were $8,340,000, an increase of $1,183,000 or 16.5%, over the corresponding prior period. Increases were evidenced in most product areas, most significantly in Entertainment products, which increased $2,787,000 or 224.5%. Providing a partial offset were decreased total International sales for Aircrew Training Systems, which were down $1,578,000 or 52.7%. Overall, domestic sales were up $2,141,000, or 87.4% from the prior period, and represented 55.0% of the Company's total sales, up from 34.2% a year ago. Government sales decreased $676,000 or 46.2%, primarily reflecting the booking in the prior period of $1,148,000 of government claims revenue. International sales were down $283,000 or 8.7%, and represented 35.5% of total sales, down from 38.9% in the prior period.

Gross profit dollars were down $662,000 from the prior period, as the higher sales level was completely offset by a 14.7 percentage point drop in the rate as a percent of sales to 32.2%. Contributing to the gross margin decrease were reduced gross margins for ATS products and exchange losses of $405,000 booked on two contracts which are denominated in foreign currencies. Acting as a partial offset was additional gross margin on the significantly increased Entertainment sales.

Selling and administrative expenses increased $418,000 or 25.2%. This increase reflected additional expenditures for commissions, claim costs and salaries and benefits.

Research and development expenses were within $7,000 of the prior period reflecting continued product development primarily in the Company's Turkish Branch.

Interest and other fees were up $120,000 or 70.2% reflecting increased borrowings albeit at a lower rate.

The Company's tax provision for the current quarter reflected an average rate of 30% and a $100,000 research tax credit. The prior period rate approximated the statutory rate of 35%.

Liquidity and Capital Resources

During the three-month period ended May 25,2001, the Company used $2,408,000 for operating activities. This was primarily a result of an increase in costs and estimated earnings in excess of billings on uncompleted long-term contracts, an increase in inventories, and a decrease in billings in excess of costs and estimated earnings on uncompleted long-term contracts. Versus last year's corresponding period, net cash used in operating activities reflected a decrease of $1,064,000.

Investment activities consisted of purchases for capital equipment and capitalized software.

Financing activities consisted of bank borrowings and cash from a decrease in restricted cash equivalents and the issuance of stock partially offset by a mandatory repayment of $275,000 on long term bonds and the payment of a $350,000 note related to the original purchase of ETC-PZL. On May 21,2001, the Company signed an amendment to its revolving credit agreement which modified the Funds Flow Ratio loan covenants for the three fiscal quarters through November 23, 2001.

The Company's sales backlog at May 25, 2001, and February 23, 2001, for work to be performed and revenue to be recognized under written agreements after such dates was approximately $34,456,000 and $40,439,000 respectively. In addition, the Company's training and maintenance contracts backlog at May 25, 2001, and February 23,2001, for work to be performed and revenue to be recognized after that date under written agreements was approximately $1,501,000 and $1,347,000 respectively.

15

Part II - OTHER INFORMATION

Item 1. Legal Proceedings
none

Item 2. Changes in Securities

The constituent instruments defining the rights of the holders of any class of securities were not modified nor were the rights evidenced by any class of registered securities materially limited or qualified during the period covered by this report.

Item 3. Defaults Upon Senior Securities

No defaults occurred during the period covered in this report.

Item 4. Submission of Matters to Vote of Security Holders
none

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K
None

16

Signatures

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

Date: July 16, 2001 ENVIRONMENTAL TECTONICS CORPORATION

(Registrant)

By: /s/Duane Deaner

Duane Deaner,
Chief Financial Officer
(authorized officer and
principal financial officer)

17

EXHIBIT INDEX

3.1 Articles of Incorporation (Incorporated herein by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended February 28, 1997).

3.2 Bylaws (Incorporated herein by reference to Exhibit 3(ii) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 25, 1994).

18