

ENVIRONMENTAL TECTONICS CORP
Form 10-K/A
March 15, 2011

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K/A
(Amendment No. 1)**

**ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

**þ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended February 26, 2010
or**

**o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.
Commission File Number 1-10655
ENVIRONMENTAL TECTONICS CORPORATION**

Pennsylvania

23-1714256

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

125 James Way
County Line Industrial Park
Southampton, Pennsylvania 18966
(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code (215) 355-9100

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, par value \$.05 per share

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information

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statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted, pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller reporting
(Do not check if a smaller reporting company) company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes No

As of August 28, 2009, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$7,250,000 based upon the closing sale price of the registrant's common stock on the Over the Counter Bulletin Board of \$1.30 on such date. See footnote (1) below.

As of May 10, 2010, there were 9,086,999 shares of the registrant's common stock issued and outstanding.

(1) Index to Exhibits appears after page 36 of this Report.

The information provided is not an admission that any person whose holdings are excluded from the figure is not an affiliate or that any person whose holdings are included is an affiliate and any such admission is hereby disclaimed. The information provided is solely for record keeping purposes of the Securities and Exchange Commission.

**ENVIRONMENTAL TECTONICS CORPORATION
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FEBRUARY 26, 2010
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When used in this Annual Report on Form 10-K/A, except where the context otherwise requires, the terms "we", "us", "our", "ETC" and the "Company" refer to Environmental Tectonics Corporation.

(i)

Explanatory Note

This Amendment No. 1 on Form 10-K/A (the Amendment) amends our Annual Report on Form 10-K for the year ended February 26, 2010 as originally filed with the Securities and Exchange Commission on May 27, 2010 (the Original Filing).

This Amendment is being filed in response to comments provided in a series of letters from the staff of the Securities and Exchange Commission (SEC) in connection with the Staff's review of the Company's Original Filing (the Comment Letters).

This Amendment incorporates the changes that were included in the Company's responses to the Comment Letters. All other information in the Original Filing not specifically changed in this Amendment remains unchanged from the Original Filing.

The most significant changes in the Amendment are as follows:

1. The inclusion in Item 8T, Controls and Procedures, of a complete and properly worded disclosure pursuant to Items 307 and 308T of Regulation S-K of the SEC; and
2. A restatement of the Company's earnings per share on the consolidated statement of operations for fiscal years 2009 and 2010 to correct an error in the method of calculating the participating feature of its preferred stock in the basic earning per share calculation. Please refer to the Company's Current Report on Form 8-K filed on November 30, 2010, for a further explanation of this restatement.

Except as noted herein, this Amendment does not reflect events which have occurred subsequent to the filing of the Original Filing.

This Amendment should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the date of the Original Filing. These subsequent filings are as follows:

1. Form 10-Q for the period ended May 28, 2010 originally filed on July 12, 2010 and amended on March 15, 2011;
2. Form 10-Q for the period ended August 27, 2010 originally filed on October 6, 2010 and amended on March 15, 2011; and
3. Form 10-Q for the period ended November 26, 2010, filed January 10, 2011.

(ii)

FORWARD-LOOKING STATEMENTS

Discussions of some of the matters contained in this Annual Report on Form 10-K/A for Environmental Tectonics Corporation may constitute forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, and as such, may involve risks and uncertainties. Some of these discussions are contained under the captions Item 1. Business and Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations. We have based these forward-looking statements on our current expectations and projections about future events or future financial performance, which include implementing our business strategy, developing and introducing new technologies, obtaining, maintaining and expanding market acceptance of the technologies we offer, and competition in our markets. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about ETC and its subsidiaries that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

These forward-looking statements include statements with respect to the Company's vision, mission, strategies, goals, beliefs, plans, objectives, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business of the Company, including, but not limited to, (i) projections of revenues, costs of materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, capital structure, other financial items and the effects of currency fluctuations, (ii) statements of our 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 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 terminology such as may, will, should, expect, plan, anticipate, believe, estimate, predict, potential, intend, or continue, and similar expressions. These forward-looking statements involve risks and uncertainties which 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. Factors that might cause or contribute to such a material difference include, but are not limited to, those discussed in this Annual Report on Form 10-K/A, in the section entitled Risks Particular to Our Business. Shareholders are urged to review these risks carefully prior to making an investment in the Company's common stock.

The Company cautions that the foregoing list of factors that could affect forward-looking statements by ETC is not exclusive. Except as required by federal securities law, the Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

References to fiscal 2010 or the 2010 fiscal year are references to the fifty-two week period ended February 26, 2010. References to fiscal 2009 or the 2009 fiscal year are references to the fifty-two week period ended February 27, 2009.

PART I

Item 1. Business

ETC was incorporated in 1969 in Pennsylvania. For over forty years, we have provided our customers with products, service and support. Innovation, continuous technological improvement and enhancement, and product quality are core values and critical to our success. We are a significant supplier and innovator in the following product areas: (1) software driven products and services used to create and monitor the physiological effects of flight; (2) high performance jet tactical flight simulation; (3) steam and gas sterilization; (4) testing and simulation devices for the automotive industry; (5) hyperbaric and hypobaric chambers; and (6) driving and disaster simulation systems.

We operate in two business segments Training Services Group (TSG) and Control Systems Group (CSG). Our core technologies in TSG include the design, manufacture and sale of training services which includes (1) software driven products and services used to create and monitor the physiological effects of flight; (2) high performance jet tactical flight simulation, and; (3) driving and disaster simulation systems, and in CSG include: (1) steam and gas sterilization; (2) testing and simulation devices for the automotive industry, and; (3) hyperbaric and hypobaric

chambers. Product categories included in TSG are Aircrew Training Systems (ATS) and flight simulators, disaster management systems and entertainment applications. CSG includes sterilizers, environmental control devices and hyperbaric chambers along with parts and service support. Revenue and other financial information regarding our segments may be found in Note 11 Business Segment Information of the Notes to the Consolidated Financial Statements in Exhibit 13.

Marketing

We utilize both employees and independent representatives to market our products and services. At February 26, 2010, approximately 30 employees were committed to sales and marketing functions. We have branch offices in England, Turkey, Egypt,

Singapore, the United Arab Emirates and Malaysia. Internationally, we contract with numerous independent sales representatives and organizations.

Product Development

Technological improvement and enhancement is an integral part of our philosophy. New ideas and products come from customer feedback and from all levels of our design and engineering staff. Within the TSG segment, product development emphasizes additional functionality and fidelity, enhancing control systems and software graphics and exploring commercial possibilities. Our recent product development efforts are as follows:

Tactical Flight Combat and G-force / Disorientation Trainers

Initially, the Company's high-G (the physiological impact of gravity on humans) pilot training centrifuges were developed for the aeromedical community to provide G-training such as G-loss of consciousness (G-LOC) for high performance jet pilots. However, we believed that we could incorporate tactical flight simulation into a high-G ground simulator. By 2004 the engineering tools and technology had evolved sufficiently to allow us to begin this integration in earnest. The result of this evolution is our Authentic Tactical Fighting System (ATFS), the first fully flyable centrifuge-based tactical maneuvering ground based simulator. This technology allows a fighter pilot to practice tactical air combat maneuvers such as dodging enemy missiles, ground fire and aircraft obstacles while experiencing the real life environment of a high G-force fighter aircraft. These flight trainers provide a low cost and extremely less risky alternative to actual air flight. Development of this technology is a core objective of ETC. Additionally we are now migrating elements of this technology to other products, especially our GYROLAB, our four axes motion platform simulator.

Upset Recovery Training

In 2009, our National AeroSpace Training and Research (NASTAR) Center, in conjunction with Embry Riddle Aeromedical University (ERAU), began conducting research under a Federal Aviation Administration (FAA) funded research project aimed at examining the effectiveness of using centrifuge based simulation for Upset Recovery Training (URT).

Loss of control in flight is a major cause factor in loss of life and hull damage aircraft accidents. Modern day commercial aviation currently has no requirement for training of pilots to deal with these situations, commonly referred to as upsets. Twenty years ago 80% of civilian pilots were from a military training background; today this percentage is down to 20%. Realistic training for responding to and recovering from upsets, or URT, requires more than a non-centrifuge-based simulator because non-centrifuge-based simulators do not reproduce the physiological stresses and disorientation that a pilot experiences during an actual upset. We believe our GYROLAB simulator series is an answer to providing pilots with the dynamic environment necessary for effective training.

The FAA-funded research project was focused on comparing the benefits of three different types of URT. The first included only academic lectures. The second type included academic lecture and computer based training using Microsoft Flight Simulator training software. The third type included academic lecture plus instruction in our GYROLAB GL-2000, a centrifuge type motion based simulator. The research involved training an equal number of ERAU's flight students under each approach and then comparing their upset recovery skills in an actual flight in ERAU's American Champion Aircraft Decathlon airplane. Additionally, each student received identical classroom instruction at ERAU.

As of the filing date of the Original Filing, the test flights have been completed and the results are under evaluation.

Advanced Disaster Management Simulator (ADMS)

During fiscal 2010, our simulation division continued development of its software-driven disaster scenario products. ETC-PZL, our subsidiary in Poland, performed extensive effort on the ADMS software platform while engineers in our Orlando, Florida, office continued to expand our library of visual environments and incidents. We now offer training in aircraft accidents, hazardous material incidents, train and tunnel incidents, major traffic accidents, structural fires in high-rise, commercial, industrial and apartment buildings, large wildfires, terrorist attacks, bomb threats and explosions and school shootings.

In fiscal 2010, we completed a contract for the New York City Office of Emergency Management to supply a multi-station ADMS COMMAND, our most advanced training system. This system included a turnkey,

multi-discipline team-training system with a comprehensive library of customized training scenarios. Our simulators will become an integral component of the overall New York City's Citywide Incident Management System Training Program. During fiscal 2010, we also continued work on a contract with the Pennsylvania Southeast Region Counter-Terrorism Task Force to provide an ADMS-TEAM training system.

Internationally, in recent years we expanded our presence with sales to Düsseldorf, Germany and Hong Kong. During fiscal 2010, we delivered a multiple ADMS-COMMAND to a national training institute in the Middle East. This simulator included several team training systems, customized scenarios, regionalized environments, and models of appropriate vehicles, equipment, responders, and citizens. The system was delivered in Arabic with specific evaluation, scoring, and record keeping components to train and assess individuals and teams according to the country's national standards. A two-year service, support, and scenario expansion package was also included. The ADMS-COMMAND systems will be used to train emergency responders in command and control. Trainees will

exercise in dynamic scenarios in realistic virtual environments. Fires, hazardous material releases, and victims' health status react dynamically to mitigation efforts, offering real-world incident conditions and realistic experiences for trainees.

We will continue to enhance product applications by adding additional software objects and increasing interactivity between the various disaster scenarios.

Within the CSG segment, product development includes:

Sterilizer Division

Sectional sterilizers: This recent innovation involves the fabrication and installation of Bulk Size Sterilizers in Sections. Research facilities, many of which are located in older buildings, face serious problems when attempting to replace large, bulk size sterilizers installed many years ago. These locations are simply no longer accessible without demolition of existing walls, which is expensive and disruptive. We have engineered the unique capability of manufacturing, delivering, and installing these large size sterilizers in modular segments, or Sections. The sections travel through narrow corridors and doorways, into old, narrow elevators, and around corners to the final destination. The sections are then rigged into the existing footprint and welded together on-site (no flanges or gaskets) to American Society of Mechanical Engineers (ASME) Code.

Green projects: During fiscal 2010, we were awarded a large green project from a domestic customer that is intended to dramatically reduce their consumption of water by reusing cooling water. This project virtually eliminates all wastewater from the current sterilizers. The project calls for us to retrofit the customer's older sterilizers (which were manufactured by another supplier) with state of the art control systems and vacuum systems while also adding a chilled water loop for cooling the older sterilizers. The project will result in significant monetary savings for the customer due to reduced energy consumption and maintenance expense, while improving process reliability. The largest benefit will be the reduction of tens of thousands of gallons of wastewater each year. Additionally, this project will extend the useful life of their sterilizers at a fraction what it would cost to replace the systems.

Hyperbaric Division

With respect to Electronic Medical Records (EMR), our engineering staff has addressed this part of the federal government's plan to modernize the nation's healthcare system by developing O.S.C.A.R. (Operating System for Control And Recordkeeping). O.S.C.A.R. is a computer-based pressure vessel control device designed for single compartment (i.e., monoplace) hyperbaric chambers. The technology in O.S.C.A.R. has the potential to provide comprehensive EMR of the Hyperbaric Oxygen Therapy treatment (HBOT) each patient receives. Prior to introducing this device into the market, we must obtain, and are in the process of trying to obtain, pre-market approval from the U.S. Food and Drug Administration.

Subsidiaries

We presently have four operating subsidiaries. Entertainment Technology Corporation, our wholly owned subsidiary, is a Pennsylvania corporation that focuses on the development, manufacturing and distribution of our entertainment products. ETC-PZL Aerospace Industries, our 95%-owned subsidiary, is a Polish corporation that manufactures simulators. ETC-Europe, our 99%-owned subsidiary, is a United Kingdom corporation that focuses on generating international sales. NASTAR Center LLC is our wholly-owned Delaware subsidiary which includes our NASTAR Center.

Suppliers

The components being used in the assembly of systems and the parts used to manufacture our products are purchased from equipment manufacturers, electronics supply firms and others. Generally we have historically had little difficulty in obtaining supplies. Further, most of the raw materials, parts, components and other supplies which we use to manufacture our products can be obtained at competitive prices from alternate sources should existing sources of supply become unavailable. We do maintain designs, drawings, molds, tools, safety stock, alternate vendors, and other techniques to eliminate or mitigate the effects of the loss of a single source vendor.

To support our backlog, we have formed Team ETC, a vendor teaming arrangement which includes approximately 30 of our most valuable vendors. Formation of this consortium expands our design and manufacturing capabilities to support large, multiple year contracts.

Intellectual Property

We own or have rights to certain intellectual property used in our business (i.e., patents or patent applications, trade secrets, copyrights, trademarks and trade names). While we consider patents, trademarks and copyrights to be valuable assets, we do not believe that our competitive position is dependent solely on patent, trademark or copyright protection, or that any business segment or our

operations as a whole is dependent on any individual patent, trademark or copyright. We believe that it is unlikely that we could lose any intellectual property rights that are material to our business.

Customers

Throughout most of our history, in any given fiscal year a substantial portion of our revenues reflect significant contracts with a small number of customers. These customers tend to vary between fiscal years. For the most part we do not depend upon repeat orders from these same customers, although many of these accounts are long time customers and over time tend to order additional or replacement products, upgrades or devices. We sell our Aircrew Training Systems principally to U.S. and foreign governmental agencies. Our ADMS products are sold domestically primarily to municipalities and quasi-governmental agencies and internationally to training schools and academies. Most of our CSG products (sterilizers, environmental systems and hyperbaric monoplace chambers) are sold domestically to commercial customers.

In fiscal 2010, sales to two customers represented in total \$10,536,000, or 24.6%, of total sales. International sales totaling at least \$500,000 per country, listed in order of magnitude,, were made to customers in Saudi Arabia, Korea, Malaysia and Turkey. Additionally, three customers represented a total of \$85,724,000, or 88.4%, of ETC's total backlog of \$96,964,000.

We do not have any relationship with these customers other than as customers. We are continuing to conduct business with these customers in fiscal 2011.

Foreign and Domestic Operations and Export Sales

The following schedule presents sales information by geographic area (amounts in thousands except percentages):

Geographic area:	Fiscal year ended February 26, 2010		Fiscal year ended February 27, 2009	
	Sales	%	Sales	%
Domestic	\$ 12,870	30.5%	\$ 14,442	39.4%
US Government	7,711	18.2%	3,096	8.4%
International	21,690	51.3%	19,149	52.2%
Total	\$ 42,271	100.0%	\$ 36,687	100.0%

During the fiscal years ended February 26, 2010 and February 27, 2009, \$7,711,000 (18.2%) and \$3,096,000 (8.4%), respectively, of our revenues were attributable to contracts with agencies of the U.S. Government or with other customers who had prime contracts with agencies of the U.S. Government.

During the fiscal years ended February 26, 2010 and February 27, 2009, \$21,690,000 (51.3%) and \$19,149,000 (52.2%), respectively, of our revenues were attributable to export sales, including sales of our ETC-PZL subsidiary. Depending on the geographic location of the customer, payments under international contracts are normally secured by irrevocable letters of credit primarily.

During the fiscal years ended February 26, 2010 and February 27, 2009, \$12,870,000 (30.5%) and \$14,442,000 (39.4%), respectively, of our revenues were attributable to domestic sales to customers other than the U.S. Government.

We do not believe that the distribution of our sales between Domestic, U.S. Government and International sales for any particular period is necessarily indicative of the distribution expected for any other period.

We derive a large portion of our sales from long-term contracts requiring more than one year to complete. We account for sales under long-term contracts on the percentage of completion (POC) basis. Contracts under POC accounted for \$29,066,000 or 68.8% of our total revenues during fiscal 2010.

Our U.S. Government contracts contain standard terms permitting termination either for the convenience of the U.S. Government or for default. In the event of termination for convenience, we are entitled to receive reimbursement on the basis of work completed (cost incurred plus a reasonable profit). We customarily record the amounts that we anticipate to be recovered from termination claims in income as soon as those amounts can be reasonably determined rather than at the time of final settlement. All costs applicable to a termination claim are charged as an offsetting

expense concurrently with the recognition of income from the claim.

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Product Warranties and Service

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

Manufacturing Facilities

Our manufacturing is located on a five-acre site owned by the Company in Southampton, Pennsylvania, a northern suburb of Philadelphia. We have approximately 64,000 square feet devoted to manufacturing, assembly and testing. We are an ISO 9001-2000 certified manufacturer. Over the last year we instituted the Lean Manufacturing process with the intent of streamlining project execution and reducing costs and we intend to continue to optimize the process in the foreseeable future.

Green Initiative

We have adopted a green initiative to save energy. Some of the applications we have initiated include: Our ATFS-400 regenerative braking technology recovers 80% of the energy used to power the centrifuge.

We are currently replacing all the CRT computer monitors (90 watts) with more energy efficient LCD monitors (45 watts).

We are undergoing a full energy audit in an effort to reduce consumption.

We are investigating switching to LED lighting and the feasibility of a Solar Farm on our roof.

Operationally, we continue to emphasize the following:

Expand our recycling effort so as to reduce waste sent to landfills.

Use our printers less and email more. When printing we strive to use recycled or FSC certified paper. (Products carrying the FSC label are independently certified to assure consumers that they come from forests that are managed to meet the social, economic and ecological needs of present and future generations.) Also, we have added the following disclaimer to the bottom of our emails: Please consider the environment before printing this email .

Sales Backlog

Below is a breakdown of the Company's February 26, 2010 sales backlog (amounts in thousands except percentages):

Geographic area:	Business segment:			%
	TSG	CSG	Total	
Domestic	\$ 210	\$ 3,772	\$ 3,982	4.1%
US Government	49,111	48	49,159	51.0
International	36,244	7,579	43,823	44.9
Total	\$ 85,565	\$ 11,399	\$ 96,964	100.0%
% of total	88.2%	11.8%	100.0%	

Our sales backlog at February 26, 2010, for work to be performed and revenue to be recognized under written agreements after such dates, was \$96,964,000. Of the February 26, 2010 sales backlog, one product line represented at

least 10% of the total backlog: aircrew training systems (\$81,707,000, 84.3%). Additionally, three customers represented a total of \$85,724,000, or 88.4%, of the total backlog.

We expect to complete approximately 50% of the February 26, 2010 sales backlog prior to February 25, 2011, the end of our 2011 fiscal year. Of the February 27, 2009 sales backlog, we completed approximately 54% by February 26, 2010.

Of significance is the continued mix shift in fiscal year-end backlog to U.S. Governmental contracts. At February 26, 2010 this category constituted 51.0% of the total backlog and at February 26, 2009, U.S. Government contracts constituted 46.9% of the total backlog.. It is also important to note that almost the entire U.S. Government backlog at February 26, 2010 reflected contracts awarded under funding allocated to the Base Realignment and Closure Act (BRAC). It should not be assumed that significant U.S. Government contracts of this magnitude would necessarily be awarded in the future.

Competition

Competition in our diverse product groups reflects our product applications (military versus commercial), market (defense purchases, capital goods for testing and production, etc.), customer (governmental versus commercial), and geographic area (domestic versus international). Our business strategy in recent years has been to seek niche markets in which there is limited competition. However, in some areas of our business we compete with well-established firms, some of which have substantially larger financial and personnel resources than we have.

Some competing firms have technical expertise and production capabilities in one or more of the areas involved in the design and production of physiological flight training equipment, environmental systems, and other specially designed products, and compete with us for this business. Awards for any particular project are determined by various factors including the technological requirements of the project, financial capability, reliability, product performance, past performance and price. Competition for our aeromedical products has increased in recent years.

We face competition in the sale of the larger custom-designed industrial sterilizers both from other manufacturers and from our customers' in-house production capabilities. Most of our competition for environmental products comes from small manufacturers, while the hyperbaric monoplace line has two major competitors.

We believe that we are a significant participant in the markets in which we compete, especially where we have a technical advantage.

Compliance with Environmental Laws

We did not incur during fiscal 2010, nor do we anticipate incurring during fiscal 2011, any material capital expenditures to maintain compliance with federal, state and local statutes, rules and regulations concerning the discharge of materials into the environment, nor do we anticipate that compliance with these provisions will have a material adverse effect on our earnings or competitive position. We believe that we are currently in compliance with federal, state and local statutes, rules and regulations concerning the discharge of materials into the environment.

Governmental policy makers, industry representatives and scientists continue to discuss global climate change and potential legislation to reduce greenhouse gases. Due to the high level of uncertainty regarding the character and timing of any legislation or regulations that may be adopted, management is unable to evaluate the potential economic impact of any such measures at this time. Additional regulation in this area could result in incurring additional capital spending and higher operating expenses.

Compliance with Export Controls

Depending on the product, customer, location and the application or use, some of our aeromedical products require an export license from the U.S. Commerce or State Department. Certain international letters of credit for contracts which include controlled equipment may also include the requirement for us to obtain export licenses before applying for payments. We have an Export License Compliance Program which covers all key aspects of the International Traffic in Arms Regulations (ITAR), as issued by the U.S. Department of Defense Trade Controls, a division of the U.S. Department of State. Although most export licenses are readily obtainable in a reasonable timeframe, depending on the equipment and customer, some of our international contracts for aeromedical equipment include the issuance of an export license as a force majeure (a natural and unavoidable catastrophe that disrupts the expected course of events) exception for any contract penalties or liquidated damages.

Employees

On February 26, 2010, we had 273 full-time employees (compared to 240 a year ago), of which five were employed in executive positions, 120 were engineers, engineering designers, or drafts people, 56 were administrative (sales, sales support, accounting and general administrative) and clerical personnel, and 92 were engaged principally in production, operations and field support. A total of 186 employees were stationed in our Southampton, Pennsylvania corporate headquarters.

Available Information

Our Internet address is www.etcusa.com. The content on our website is available for informational purposes only. You should not rely upon such content for investment purposes and such content is not incorporated by reference into this Form 10-K/A.

We make available free of charge, on our Internet website under the heading Investor Relations, this Annual Report on Form 10-K/A, Proxy Statement, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments

to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. We also make available on or through our website copies of our key corporate governance documents, including our Charters for the Audit

Committee, Compensation Committee, and the Nominating and Governance Committee of the Board of Directors and our Codes of Ethics and Conduct. Stockholders may request free copies of these documents from our Investor Relations Department by writing to Environmental Tectonics Corporation, Investor Relations, 125 James Way, Southampton, PA 19866, by calling (215) 355-9100, or by sending an email request to invest@etcusa.com.

Item 1A. Risk Factors

RISKS PARTICULAR TO OUR BUSINESS

Our business is subject to numerous risks and uncertainties which could cause our actual operating results and developments to be materially different from those expressed or implied in any of our public announcements or filings including this Annual Report on Form 10-K/A for the year ended February 26, 2010. These risks and uncertainties include the following items, which do not represent a comprehensive list of all the risks and uncertainties associated with our business.

Our common stock is currently quoted on the Over the Counter Bulletin Board which may limit purchase and sale of our common stock.

Our common stock is quoted on the Over-the-Counter Bulletin Board (OTC-BB). Certain investors have policies and regulations that may not allow investment in our common stock because it is listed on the OTC-BB. This may limit trading volume and affect the price of our common stock.

In general, the market price of securities of thinly traded public companies has historically faced significant volatility. Our common stock does not experience a significant average daily trading volume. Accordingly, if one stockholder either elects to purchase or sell a block of our common stock, it may have a significant effect on the current trading price. In addition, the stock market in recent years has experienced significant price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of particular companies. Factors that have influenced the trading prices for our common stock include, but are not limited to, the following:

actual or anticipated operating results;

market conditions in the industries in which we compete;

announcements by competitors;

results of litigation;

regulatory actions; and

general economic conditions.

Any of the above factors would likely affect the market price of our common stock.

During the current fiscal year, our core business, aircrew training simulators, was awarded three large multi-year contracts, two with the U.S. Department of Defense and one with a major international defense agency. Purchases such as these are infrequent and inconsistent. The U.S. Defense contracts were awarded under funds appropriated under the Base Realignment and Closure Act (BRAC). This Act had a specific focus and purpose and funds allocation. Although possible, it should not be assumed that additional awards will be obtained under this Act nor that additional funding under this Act will be available. If we are unsuccessful in obtaining additional contracts under BRAC funding our financial performance could be significantly negatively impacted.

As of February 26, 2010, \$48.3 million of our backlog was for two contracts awarded under BRAC funds. Additionally, \$37.5 million represented one large international contract. We currently have a major outstanding proposal for another U.S. defense purchase which is also covered under BRAC funds. Given the political and economic environment, and the extremely competitive nature of these contracts, there is no assurance that we will be successful in obtaining this or any major U.S. Defense contract. We have spent significant funds over the prior years to develop advanced technologies to support the defense simulator industry and our cost of software, plant assets and operating expenses is relatively high in comparison to our revenue base. Also, the cost of preparing these complicated proposals is significant. (Depending on the size and nature of the proposal, preparation costs including pre-engineering costs can exceed \$500,000.) Consequently, our financial performance is highly dependent upon obtaining these contracts.

There is a risk of an unfavorable outcome in litigation and resulting negative financial impact on our operating results.

On May 29, 2008, a Request for Arbitration was filed against the Company with the Secretariat of the International Court of Arbitration by Mends International Ltd. (Mends). Mends Request for Arbitration arose out of a February 3, 1999 contract between the Company and Mends wherein Mends purchased aeromedical equipment for sale to the Nigerian Air Force. Mends asserted a claim for breach of contract and demanded \$797,486, plus interest and costs. On September 16, 2008, Mends filed an Amended Request for Arbitration, adding tort claims for conversion and breach of fiduciary duty and seeking punitive damages. In response, the Company asserted a counterclaim seeking damages for other disputes with Mends that have arisen under the contract that Mends has put at issue in this arbitration. On April 27, 2009 the Company participated in an arbitration hearing in the United Kingdom on this matter. As of the filing date of the Original Filing, a decision had not been determined in this matter, although one is anticipated in the near future. The Company is contesting this arbitration case vigorously; however, in conformity with accounting principles generally accepted in the United States, the Company has recorded a reserve in this matter.

Our sources of revenues are not consistent; they tend to be concentrated within a few contracts with a few customers and in a particular mix. It cannot be assumed that any of these contracts, customers or mix will recur in future years.

In any given fiscal year, a substantial portion of our revenues is typically derived from a small number of contracts and customers. In fiscal 2010, sales to two customers each represented 10% or more of total sales, totaling \$10,536,000 or 24.6% of our total sales. In fiscal 2009, one customer contributed \$7,327,000 or 20.0% of total sales. Of the February 26, 2010 sales backlog, one product line represented at least 10% of the total backlog: aircrew training systems (\$81,707,000, 84.3%). Additionally, three customers represented a total of \$85,724,000, or 88.4%, of the total backlog. At February 27, 2009 one customer accounted for 44.1% of our sales backlog.

Of significance is the continued mix shift in fiscal year-end backlog to U.S. Governmental contracts. At February 26, 2010 this category constituted 51.0% of the total backlog and at February 26, 2009, U.S. Government contracts constituted 46.9% of the total backlog. It is also important to note that almost the entire U.S. Government backlog at February 26, 2010 reflected contracts awarded under funding allocated to the Base Realignment and Closure Act (BRAC). It should not be assumed that significant U.S. Government contracts of this magnitude would necessarily be awarded in the future.

Our debt is concentrated and directly dependent upon either direct arrangements or under guarantee arrangements with H. F. Lenfest.

In addition to cash flow from operations, a significant portion of our cash needs are supplied under direct arrangements or bank agreements guaranteed personally by H.F. Lenfest, a major shareholder and member of our Board of Directors. Mr. Lenfest has supplanted or provided funding in multiple arrangements and at multiple times since 2003. Should these personal guarantees no longer be available, this event might cause a disruption of available funds under our various financing arrangements.

Additionally, we have a significant amount of indebtedness and Mr. Lenfest's preferred stock. We may not generate sufficient cash flow from operations, or have future additional sources of cash available to us to service our required payments.

Our ability to make debt payments depends on our future performance, which, to a certain extent, is subject to general economic, financial, competitive and other factors, many of which are beyond our control. Based upon our current level of operations and anticipated growth, we believe that cash on hand, future availability under the PNC Bank line of credit and our Line of Credit with Mr. Lenfest will be adequate to meet our future obligations through at least June 1, 2011. However, given that our bank debt is personally guaranteed by Mr. Lenfest and that all of our arrangements and agreements are with him as an individual, there can be no assurance that, should our business not generate sufficient cash flow from operations to enable us to pay our debts or to make necessary capital expenditures, we will be successful in negotiating new financial arrangements with Mr. Lenfest or any other party, or that any refinancing of debt would be available and on commercially reasonable terms.

See the Liquidity and Capital Resources section of the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K/A.

We need to attain validation from the U.S. defense agencies of our Authentic Tactical Fighting Systems technology.

A challenge for our ATFS technology has been marketing this technology to the world's defense agencies. This is a new technology that is contrary to the conventional training belief that tactical flight and combat skills can only be learned in a flying aircraft. Although we made significant progress toward this goal during fiscal 2010 by being awarded a contract by the United States Air Force to provide a high performance training and research human centrifuge, at this point we cannot be certain that we will be able to overcome conventional thinking on training nor achieve an acceptable level of validation with respect to the applicability and efficacy of ATFS training.

Our operations involve rapidly evolving products and technological change.

The pace of technological change impacts products in our Training Services Group. Changing technology requires us to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. Technology development is only partially funded through enhancements included in customer orders. We cannot guarantee that we will continue to maintain comparable levels of research and

development nor that this development will be customer-funded in the same ratio going forward. Reinvestment of operating funds and profits in an amount greater than currently earned may be required. Even so, we cannot be assured that we will successfully identify new opportunities and continue to have the financial resources required to develop new products profitably. At the same time, products and technologies developed by others may render our products and systems obsolete or non-competitive.

Long term contracts under percentage of completion (POC) accounting comprise a significant portion of our fiscal 2010 revenues and our backlog at February 26, 2010. Delays in the delivery of our products may prevent us from invoicing our costs and estimated earnings on uncompleted contracts.

At February 26, 2010, contracts accounted for under the percentage of completion (POC) accounting method comprised \$91,143,000 or 94.0% of our total backlog. Additionally, contracts under POC accounted for \$29,066,000 or 68.8% of our total revenues. In conformity with accounting principles generally accepted in the United States for long-term contracts under the POC accounting method, we record, due to timing differences, an asset for our costs and estimated earnings that exceed the amount we are able to bill our customers on uncompleted contracts. At February 26, 2010, this asset totaled \$3,576,000. Although a significant portion of these costs have been billed and collected since the end of our fiscal year, we cannot bill additional amounts unless and until we meet certain contractual milestones related to the production, delivery and integration of our products. Typically, there will be a time lag ranging from six to twenty-four months between performance and associated costs for these types of projects and billing and collection of all contract payments. Our failure to meet milestones by delivering and integrating our products in a timely manner may impact our ability to collect final payments on these contracts, which could severely impact our cash flow.

For an explanation of percentage of completion accounting, see the section Critical Accounting Policies in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 2 Summary of Significant Accounting Policies of the notes to our consolidated financial statements in the Annual Report to Stockholders attached hereto as Exhibit 13 and incorporated herein by reference.

In the event we suffer production delays, we may be required to pay certain customers substantial liquidated damages and other penalties.

The variety and complexity of our high technology product lines require us to deal with a multitude of suppliers and subcontractors. Some of the parts we purchase are highly specialized. Planning production, optimizing inventory levels, and meeting delivery schedules all require high coordination and at times may have conflicting goals. Most of our large aircrew training simulators and our software products must be custom designed and manufactured, which is not only complicated and expensive, but can also require long periods of time to accomplish. Slight errors in design, planning and managing production, inventory levels, delivery schedules, or manufacturing can result in unsatisfactory products that may not be correctable. If we are unable to meet our delivery schedules, we may be subject to penalties, which may have an adverse impact on our business.

Our fixed-price and cost-reimbursement contracts may commit us to unfavorable terms.

Historically, we have provided our products and services primarily through fixed-price contracts. Under a fixed-price contract, we agree to perform the scope of work required by the contract for a predetermined contract price. Although a fixed-price contract generally permits us to retain profits if the total actual contract costs are less than the estimated contract costs, we bear the risk that increased or unexpected costs may reduce our profit or cause us to sustain contract losses. Therefore, unless there are customer-requested changes in scope or other changes in specifications which are reimbursable, we fully absorb cost overruns on fixed-price contracts and this reduces our profit margin on the contract. These cost overruns may result in us recognizing a loss on a contract. A further risk associated with fixed-price contracts is the difficulty of estimating sales and costs that are related to performance in accordance with contract specifications. Our failure to anticipate technical problems, estimate costs accurately or control costs during performance of a fixed-price contract may reduce our profitability and may cause us to incur a loss on the project.

Although significant portions of our revenues are generated from the sale of our services and products in commercial markets, we cannot assure you that we will be able to compete successfully in these markets. Most of our commercial contracts contain fixed pricing which subjects us to substantial risks relating to unexpected cost increases and other factors outside of our control. We may fail to anticipate technical problems, estimate costs accurately, or control costs during performance of a fixed-price contract. Any of these failures may reduce our profit or may cause a loss under our commercial contracts.

In connection with certain commercial contracts, we have been required to obtain bonds, letters of credit, or similar credit enhancements. We cannot assure you that we will be successful in obtaining these types of instruments or that

these types of instruments, if available, will be affordable in the future.

Under the terms of our commercial contracts, we typically must satisfy strict performance obligations and project milestones, which we may not be able to satisfy. If we fail to meet these performance obligations and milestones, the other party may terminate the contract and, under certain circumstances, recover liquidated damages or other penalties from us which could have a negative effect on our business, financial condition or results of operations.

As a U.S. Government contractor, we are subject to a number of procurement rules and regulations.

Government contractors must also comply with specific procurement regulations and other requirements. These regulations and requirements, although customary in government contracts, increase our performance and compliance costs. In addition, current

U.S. Government budgetary constraints could lead to changes in the procurement environment. If such changes occur, our costs of complying with procurement requirements could increase and reduce our margins.

Failure to comply with these regulations and requirements could result in reductions of the value of contracts, contract modifications or termination, and the assessment of penalties and fines, which could negatively impact our results of operations and financial condition. The termination of a government contract or relationship could also, under certain circumstances, result in our suspension or debarment from future government contracting for a period of time, and this could have a negative impact on our reputation and ability to procure other government contracts in the future. Presently, the Company is not aware of any circumstances which could result in its suspension or debarment from government contracting.

Our business could be adversely affected by a negative audit by the U.S. Government.

As a government contractor, we are subject to routine audits and investigations by U.S. Government agencies such as the Defense Contract Audit Agency (DCAA). These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the contractor's adequacy of and compliance with its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed or must be refunded if already reimbursed. If an audit contains a significant adverse finding, we could be subject to penalties and fines and contract termination, which could negatively impact our results of operations and financial condition. The termination of a government contract or relationship could also, under certain circumstances, result in our suspension or debarment from future government contracting for a period of time, and this could have a negative impact on our reputation and ability to procure other government contracts in the future. Presently, the Company is not aware of any circumstances which could result in a significant adverse finding by the DCAA.

Our contracts that are funded by the U.S. Government or foreign governments are subject to a competitive bidding process that may affect our ability to win contract awards or renewals in the future.

Government supply contracts generally are awarded to us through a competitive bidding process in which we may have many qualified competitors. Upon expiration, government supply contracts may be subject, once again, to the competitive bidding process. We cannot assure that we will be successful in winning contract awards or renewals in the future. Our failure to renew or replace government contracts when they expire could have a material adverse effect on our business, financial condition or results of operations. Our business, financial condition and results of operations could be materially and adversely affected to the extent that government agencies believe our competitors offer a more attractive combination of technical merit, personnel qualifications, financial capability, experience and price. In addition, new government contract awards also are subject to protest by competitors at the time of award that can result in the re-opening of the competitive bidding process, the evaluation process or the award of a contract to a competitor. Other characteristics of the government contract market that may affect our operating results include the complexity of designs, and the difficulty of forecasting costs and schedules when bidding on developmental and highly sophisticated technical work. Our earnings may vary materially on some contracts depending upon the types of government long-term contracts undertaken, the costs incurred in their performance, and the achievement of other performance objectives.

Our international business is subject to geo-political and economic factors, regulatory requirements and other risks.

Our international business exposes us to geo-political and economic factors, regulatory requirements and other risks associated with doing business in foreign countries. These risks differ from and potentially may be greater than those associated with our domestic business. In addition, our exposure to such risks may increase if our international business continues to grow as we anticipate.

Our international business is sensitive to changes in the priorities and budgets of international customers, which may be driven by changes in threat environments and potentially volatile worldwide economic conditions, regional and local economic and political factors, as well as U.S. foreign policy. Our international sales are subject to U.S. laws, regulations and policies, which sometimes include the Foreign Corrupt Practices Act, the International Traffic in Arms Regulations (ITAR), and other export laws and regulations. They are also subject to local government laws,

regulations and procurement policies and practices which may differ from U.S. Government regulations, including regulations relating to import-export control, investments, exchange controls and repatriation of earnings, as well as to varying currency, geo-political and economic risks. Our international contracts may include requirements on specific in-country purchases, manufacturing agreements or financial support obligations, known as offsets, and provide for penalties if we fail to meet such requirements. We also are exposed to risks associated with using foreign representatives and consultants for international sales and operations and teaming with international subcontractors, partners and suppliers in connection with international programs. As a result of these factors, we could experience award and funding delays on international programs and could incur losses on such programs which could negatively impact our results of operations and financial condition.

Legislative actions resulting in higher compliance costs are likely to adversely affect our future consolidated results of operations, financial position and cash flows.

Compliance with laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, and new regulations enacted by the Securities and Exchange Commission (the SEC), are resulting in increased compliance costs. We, like all other public companies, are incurring expenses and diverting employees' time in an effort to comply with Section 404 of the Sarbanes-Oxley Act of 2002. We are a smaller reporting company, and have completed the process of documenting our systems of internal control and have evaluated our systems of internal control. Beginning with the year ended December 31, 2007, we have been required to assess continuously our compliance with Section 404 of the Sarbanes-Oxley Act of 2002. We expect to continue to devote the necessary resources, including internal and external resources, to support our assessment. In the future, if we identify one or more material weaknesses, or our independent registered public accounting firm is unable to attest that our report is fairly stated or to express an opinion on the effectiveness of our internal controls over financial reporting, this could result in a loss of investor confidence in our financial reports, have an adverse effect on our stock price and/or subject us to sanctions or investigation by regulatory authorities. Compliance with these evolving standards will result in increased general and administrative expenses and may cause a diversion of our time and attention from revenue-generating activities to compliance activities.

Changes in healthcare policy could increase our costs and impact sales of and reimbursement for our tests.

Several proposals to reform the system of health care delivery in the U.S. are currently being considered by the federal and many state governments. Some of the reforms call for a government sponsored health plan. A number of states are also contemplating significant reform of their healthcare policies. A proposal for additional government-funded health care could subject expenditures for health care to governmental budget constraints and limits on spending. We cannot predict what healthcare policy reforms, if any, will be adopted or the effect that such adoption may have on our taxes, fees and other costs, which could impact our business, financial condition and results of operations.

The Company is subject to environmental laws and potential exposure to environmental liabilities.

We are subject to various international, federal, state and local environmental laws and regulations that govern our operations, including the handling and disposal of non-hazardous and hazardous wastes, the recycling and treatment of electrical and electronic equipment, and emissions and discharges into the environment. Failure to comply with such laws and regulations could result in costs for corrective action, penalties or the imposition of other liabilities. We are also subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Based on currently available information, although there can be no assurance, we believe that such costs and liabilities have not had and will not have a material adverse impact on our consolidated results of operations.

Our quarterly operating results may vary significantly from quarter to quarter.

Our revenues and earnings tend to fluctuate from quarter to quarter based on factors that include the following:

the number, size and scope of our projects;

the mix of contracts (POC versus other);

equipment purchases and other expenditures required for our business;

our ability to finance our operations;

the number of bid and proposal efforts undertaken;

delays in sales bookings or production;

the level of employee productivity;

the adequacy of our provisions for receivable, inventory and other losses;

the accuracy of our estimate of resources required to complete ongoing projects; and

general economic conditions.

Demand for our products and services in each of the markets we serve can vary significantly from quarter to quarter due to revisions in customer budgets or schedules and other factors beyond our control. Due to all of the foregoing factors, our results of operations may fall below the expectations of our investors in a particular period.

Our officers and directors own a significant amount of our common stock which permits them to exert significant influence over the direction of our business and affairs.

As of May 1, 2010, our directors and executive officers own and could vote an aggregate of approximately 73.7% on a fully converted basis of our outstanding common stock. Accordingly, our directors and executive officers, if they act together, will be able to exert significant control over the direction of our business and affairs.

We depend on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could seriously harm our business.

Due to the specialized nature of our business, our future performance is highly dependent upon the continued services of our key engineering personnel and executive officers, the development of additional management personnel and the hiring of new qualified engineering, manufacturing, marketing, sales and management personnel for our operations. Competition for qualified personnel is intense, and we may not be successful in attracting or retaining qualified personnel. The loss of key employees, our inability to attract new qualified employees or adequately train employees, or the delay in hiring key personnel, could seriously harm our business, results of operations and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our executive offices and principal production facility (an approximately 92,000 square foot steel and masonry building) located on a five-acre site in the County Line Industrial Park, Southampton, Pennsylvania. Approximately 64,000 square feet of the building is devoted to manufacturing, our NASTAR training center occupies approximately 22,000 square feet, and approximately 6,000 square feet of this building is devoted to office space. The original building was erected in 1969 and additions were most recently made in 2001. Additionally, we rent office space at various sales and support locations throughout the world and in Warsaw, Poland at ETC-PZL Aerospace Industries, our Polish subsidiary.

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

The NASTAR Center includes aerospace training and research equipment including:

ATFS-400 Authentic Tactical Flight Simulator

GYROLAB GL-2000 Advanced Spatial Disorientation Trainer

Hypobaric Chamber

Ejection Seat Trainer

Night Vision and Night Vision Goggle Training System

Item 3. Legal Proceedings
Mends International, Ltd.

On May 29, 2008, a Request for Arbitration was filed against the Company with the Secretariat of the International Court of Arbitration by Mends International Ltd. (Mends). Mends Request for Arbitration arose out of a February 3, 1999 contract between the Company and Mends wherein Mends purchased aeromedical equipment for sale to the Nigerian Air Force. Mends asserted a claim for breach of contract and demanded \$797,486, plus interest and costs. On September 16, 2008, Mends filed an Amended Request for Arbitration, adding tort claims for conversion and breach of fiduciary duty and seeking punitive damages. In response, the Company asserted a counterclaim seeking damages for other disputes with Mends that have arisen under the contract that Mends has put at issue in this arbitration. On April 27, 2009 the Company participated in an arbitration hearing in the United Kingdom on this matter. As of the filing date of the Original Filing, a decision had not been determined in this matter, although one is anticipated in the near future. The Company is contesting this arbitration case; however, the Company has recorded a reserve in this matter.

Administrative Agreement with U.S. Navy

In 2007, the Company entered into a settlement agreement with the Department of the Navy to resolve litigation filed by the Company in May 2003 in connection with a contract for submarine rescue decompression chambers. As of May 14, 2008, the Company had made all payments required under this settlement agreement and had transferred the chambers to the Department of the Navy. From October 2, 2007 through December 12, 2007, the Company was suspended by the Department of the Navy from soliciting work for the federal government pursuant to the Federal Acquisition Regulation. However, effective December 12, 2007, the Department of the Navy lifted the Company's suspension pursuant to the execution by the Company and the Department of the Navy of an Administrative Agreement. In accordance with the Administrative Agreement, the Company has established and implemented a program of compliance reviews, audits, and reports.

Other Matters

Certain other claims, suits, and complaints arising in the ordinary course of business have been filed or are pending against us. In our opinion, 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 have a significant effect on our financial position or results of operations if disposed of unfavorably.

PART II**Item 4. Market for the Registrant's Common Stock and Related Security Holder Matters and Issuer Purchases of Equity Securities**

Our common stock is currently traded on the Over the Counter Bulletin Board under the symbol ETCC. As of May 16, 2010, the Company had 277 shareholders of record. The following table sets forth the calendar quarter ranges of high and low sale prices for shares of the common stock for the periods indicated.

	Sale Prices	
	High	Low
Fiscal 2010		
First Quarter	\$ 2.84	\$ 0.73
Second Quarter	1.68	1.05
Third Quarter	2.69	1.20
Fourth Quarter	3.55	2.26
Fiscal 2009		
First Quarter	\$ 2.95	\$ 1.54
Second Quarter	2.82	1.35
Third Quarter	2.30	1.10
Fourth Quarter	1.92	0.55

On May 16, 2010, the closing price of our common stock was \$2.75. We have never paid any cash dividends on our common stock and do not anticipate that any cash dividends on our common stock will be declared or paid in the foreseeable future.

Refinancing Transaction**Lenfest Financing Transaction**

On April 24, 2009, the Company entered into a transaction (the Lenfest Financing Transaction), which was approved by the shareholders on July 2, 2009, with H.F. Lenfest, a member of ETC's Board of Directors and a significant shareholder of and investor in ETC (Lenfest), that provided for the following: (i) a \$7,500,000 credit facility provided by Lenfest to ETC; (ii) exchange of the Subordinated Note held by Lenfest, together with all accrued interest and warrants issuable under the Subordinated Note, and all Series B Preferred Stock and Series C Preferred Stock held by Lenfest, together with all accrued dividends thereon, for a new class of preferred stock, Series E Preferred Stock, of the Company; and (iii) the guarantee by Lenfest of all of ETC's obligations to PNC Bank, National Association (PNC Bank) in connection with an increase of the Company's existing \$15,000,000 revolving line of credit with PNC Bank (the 2007 PNC Credit Facility) to \$20,000,000, and in connection with this guarantee, the pledge by Lenfest to PNC Bank of \$10,000,000 in marketable securities.

For additional information regarding the Lenfest Financing Transaction, please refer to Note 7 Long-Term Obligations and Credit Arrangements in the accompanying Notes to the Consolidated Financial Statements.

Item 5. Selected Financial Data

See information appearing under the heading Financial Review in the Annual Report to Stockholders attached hereto as Exhibit 13 and incorporated herein by reference.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

See information appearing under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report to Stockholders attached hereto as Exhibit 13 and incorporated herein by reference.

Item 7. Financial Statements and Supplementary Data

See the information appearing under the headings Consolidated Financial Statements and Notes to the Consolidated Financial Statements in the Annual Report to Stockholders attached hereto as Exhibit 13 and incorporated herein by reference.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

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Item 8T. Controls and Procedures

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors of the company; and
- (iii) provide reasonable assurance regarding preventing or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the Company's financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Prior to the submission of the Original Filing, ETC assessed its internal control over financial reporting as required by the SEC's rules and regulations. Following the submission of the Original Filing, ETC management determined that the Original Filing failed to include an annual report on internal control over financial reporting as required by the SEC's rules and regulations. Subsequent to the Original Filing, our management re-assessed the effectiveness of our internal control over financial reporting as of February 26, 2010. In making each assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on ETC's re-assessment subsequent to the Original Filing and those criteria, management determined that certain financial statements and footnote disclosure included in the Original Filing contained errors related to the calculation and presentation of the Company's earnings per share in accordance with United States generally accepted accounting principles. The discovery of these deficiencies led management to conclude that ETC's disclosure controls and procedures were ineffective and that material weaknesses in internal control over financial reporting existed as of February 26, 2010, the end of the period covered by the Original Filing.

We have corrected these disclosures and have restated the earnings per share calculations in this Amendment.

Evaluation of Disclosure Control and Procedures

Subsequent to the end of the period covered by the Original Filing, our Chief Executive Officer and Chief Financial Officer evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in the reports we file under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures. A controls system cannot provide absolute assurances, however, that the objectives of the controls systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Based on that evaluation, and solely as a result of material weaknesses in internal controls over financial reporting described below, our Chief Executive Officer and Chief Financial Officer have concluded that ETC's disclosure controls and procedures were ineffective as of the end of the period covered by the Original Filing.

Material Weaknesses in Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of interim or annual financial statements will not be prevented or detected on a timely basis by the company's internal controls.

ETC management has concluded that the following two material weaknesses existed as of the end of the period covered by the Original Filing:

First, management performed and completed its annual report on internal control over financial reporting but failed to include the annual report in the Original Filing. The failure to include the annual report in the Original Filing was the result of an administrative error made during the preparation and filing of the Original Filing.

Second, management determined that certain errors were made relating to the calculation and presentation of the Company's earnings per share in accordance with United States generally accepted accounting principles. Specifically, the Company did not reflect the participating features of its Series D Preferred Stock and Series E Preferred Stock when calculating its earnings per share in financial statements for certain prior periods.

Remediation Efforts

ETC's remediation efforts, as outlined below, are designed to address the material weaknesses identified by management and to strengthen the Company's internal control over financial reporting.

Specifically, the Company has implemented the following procedural remediation steps to address the material weaknesses described above and to improve its internal control over financial reporting:

Company management will prepare, publish and enforce a detailed reporting schedule which will allow adequate time for proper review by a newly formed compliance disclosure committee. This committee will include Company accounting personnel, the Company's General Counsel and the Company's key operations personnel. The role of this committee will be to assure that all public filings have been reviewed for regulatory compliance and adequate disclosure and that all suggested revisions have been properly incorporated;

Company management will review all procedural controls to ensure that (1) all process participants clearly understand their respective individual roles and the overall control environment, and (2) downstream controls and other checks and balances in the control environment are functioning adequately; and

if appropriate, for specific non-routine complex accounting transactions, management will engage a separate accounting firm to support management in accounting for these transactions.

These material weaknesses were previously disclosed on January 11, 2011, in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 26, 2010.

Changes in Internal Control over Financial Reporting

Except as noted above, there was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently reported fiscal quarter (i.e., the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 26, 2010) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

This Amendment does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Amendment.

PART III**Item 9. Directors and Executive Officers of the Registrant**

The following table sets forth certain information with respect to our directors and executive officers:

Name	Age	Served as Director or Officer Since (1)	Positions and Offices
William F. Mitchell (2)	68	1969	Chairman of the Board, Chief Executive Officer, President and Director
George K. Anderson, M.D. (3)	64	2003	Director
H.F. Lenfest (4)	80	2003	Director
Stephen F. Ryan (5)	74	2009	Director
George A. Sawyer (6)	78	2009	Director
Duane D. Deaner (7)	62	1996	Chief Financial Officer
James D. Cashel (8)	47	2009	General Counsel and Corporate Secretary

- (1) Directors are elected for one-year terms.
- (2) Mr. Mitchell has been our Chairman of the Board, President and Chief Executive Officer since 1969, except for the period from January 24, 1986 through January 24, 1987, when he was engaged principally in soliciting sales for our products in the overseas markets. Mr. Mitchell received a Bachelor of Science degree in physics from Drexel University and has completed graduate work in mechanical and electrical engineering. He is a member of the ASME and Drexel University engineering advisory boards. Additionally, he is a member of the Society of Automotive/Aerospace Engineering, the International Society of Pharmaceutical Engineering, the Undersea and Hyperbaric Medical Society, the Aerospace Medical Association, the American Society of Mechanical Engineering and the Institute of Environmental Sciences.
- (3) Dr. Anderson is an experienced physician executive. He served in the Air Force as a flight surgeon, aerospace medicine staff officer, and commander of several medical organizations in Korea, Germany, and United States. He retired from active duty in the grade of Major General. Following his thirty years of military service, he transitioned to executive positions in the private sector. He served as Chief Executive Officer of the Koop Foundation from 1997 to 1998 and as Chief Executive Officer at Oceania, Inc., a medical software company, from 1999 to 2001. A period of practice as an independent medical technology consultant was followed by his current role as Executive Director of the Association of Military Surgeons of the United States (AMSUS). AMSUS, the nonprofit Society of the Federal Health agencies, operates from a headquarters located in Bethesda, Maryland.
- (4) Mr. Lenfest practiced law with Davis Polk & Wardwell before joining Triangle Publications, Inc., in Philadelphia as Associate Counsel in 1965. In 1970, Mr. Lenfest was placed in charge of Triangle's Communications Division, serving as Editorial Director and Publisher of Seventeen Magazine and President of the CATV Operations. In 1974, Mr. Lenfest, with the support of two investors, formed Lenfest Communications, Inc., which purchased Suburban Cable TV Company and Lebanon Valley Cable TV Company from Triangle with a total of

7,600 subscribers. In January 2000, Mr. Lenfest sold his cable television operations, which by then served 1.2 million subscribers, to Comcast Corporation. Mr. Lenfest is the owner of various other businesses and is active in many philanthropic activities including as Chairman of the Board of the Philadelphia Museum of Art, the Curtis Institute, and the Lenfest Foundation. Since 1989, Mr. Lenfest has served on the Board of Directors for TelVue Corporation, a broadcast technology company. Mr. Lenfest is a graduate of Washington and Lee University and Columbia Law School.

- (5) Mr. Ryan retired in 2001 as the Chairman, President, CEO and a Director from Selas Corporation of America (now known as IntriCon Corporation). Selas was a diversified international firm engaged in the design, development, engineering and manufacturing of industrial products, such as the furnace section of continuous annealing and galvanizing lines in steel production for automotive steel, glass production furnace lines, cable winch devices for below the chassis spare tire lift holders for the automotive industry, parts for hearing aid devices and transistors for electric surge guards for computers and electronics. Mr. Ryan also currently serves as a Director of Bolt Technology Corporation, a public company which is traded

on NASDAQ. Bolt is a manufacturer and seller of seismic air guns, cables, hydrophones and other devices engaged in the offshore oil and gas exploration market. Mr. Ryan received a Bachelor of Business Administration degree from Iona College and MBA degree from the University of Connecticut. He is a member of the New York State Society of Certified Public Accountants (NYSSCPA) and the American Institute of CPAs (AICPA) as a retired CPA.

- (6) Mr. Sawyer is a founding partner of J.F. Lehman & Company and currently serves as Executive Advisor. From 1993 to 1995, he served as President and Chief Executive Officer of Sperry Marine, Inc. Prior thereto, Mr. Sawyer held a number of prominent positions in private industry and in the United States government, including serving as President of John J. McMullen Associates, President and Chief Operating Officer of TRE Corporation, Executive Vice President and Director of General Dynamics Corporation, Vice President of International Operations for Bechtel Corporation and Assistant Secretary of the Navy for Shipbuilding and Logistics. He graduated Phi Beta Kappa from Yale University and completed graduate studies in nuclear engineering at the Knolls Atomic Power Laboratories. He is also the co-inventor of the Consolidated Nuclear Steam Generator II and served in the US Navy for ten years as a nuclear submariner. Mr. Sawyer currently serves as a Director of Atlantic Marine Holding Company, Water Generating Systems Inc. and CHI Systems, Inc.
- (7) Mr. Deaner has served as our Chief Financial Officer since January 1996. Mr. Deaner served as Vice President of Finance for Pennfield Precision Incorporated from September 1988 to December 1995. Mr. Deaner received a Masters of Business Administration degree from Temple University and a Bachelors of Arts degree in Mathematics from Millersville University in Pennsylvania.
- (8) Mr. Cashel was appointed General Counsel and Corporate Secretary in July 2009. From December 2008 to July 2009, Mr. Cashel was General Counsel at ETC. From 1996 through 2008, Mr. Cashel was in private law practice. From May 1998 through December 2008, Mr. Cashel practiced law at Montgomery, McCracken, Walker and Rhoads, LLP, having served as a partner from 2003 through 2008. Mr. Cashel, who is also a registered patent attorney, received a Bachelor of Science degree in Chemical Engineering from Drexel University in 1987, and from 1987 through 1994 he was employed in various engineering positions. Mr. Cashel currently serves on the Board of Directors for the Delaware Valley Association of Corporate Counsel and a Drexel University College of Engineering advisory board.

Board of Directors

Our Board of Directors consists of five members, one of whom (Mr. Mitchell) is also a member of management. Each Board member brings a diverse combination of background, education and interests to the Board's oversight responsibility. In evaluating a nominee for Board membership, the Nominating and Governance Committee considers a number of factors including education and background, relevant experience, industry affiliations, personal interests and diversity (racial, gender, viewpoint, etc.) with a goal towards fostering Board heterogeneity.

We have structured our Board to address the diverse nature of our businesses. Mr. Mitchell has been instrumental in introducing new technologies since the Company's inception and possesses detailed knowledge of the technology of each of our businesses. Mr. Anderson, a former jet pilot with the U.S. Air Force, is a medical doctor with extensive experience in hyperbaric medicine and the aeromedical impact of flight. He is a key supporter of our Authentic Tactical Fighter Systems and a subject matter expert for our hyperbaric monoplace business. Mr. Lenfest, an attorney, spent 25 years managing and growing a company, is an investor with a long term horizon, and appreciates the longer development and marketing cycle required to introduce new technologies to an industry. Mr. Ryan is a retired certified public accountant who also was the CEO of a manufacturing company (Selas Corporation of America) for thirteen years with long-term projects. He is cognizant of the financial aspects affecting the chief executive's role particularly related to the management of long-term turn-key projects. Mr. Sawyer spent numerous years on both sides of procurement with the U.S. Navy and can offer valuable insight to proposal review and the management of complex government contracts.

Our Board serves a specific role in risk oversight. Management reports to the full Board summarizing the important financial, operational and legal performance and issues of the recent period provide the basis for discussions on risk factors facing the organization. Our Audit Committee is assigned responsibility for financial risk. Our Nominating and Governance Committee addresses compliance risk. And our Compensation Committee evaluates compensation philosophy and policy with particular focus on their effect on enterprise risk.

Mr. Mitchell serves the dual function as President, CEO and Chairman of the Board. We feel this is appropriate given the nature of our business. Our Company's core strength is our ability to design, develop and integrate new technologies in our product lines. In our main market, pilot training systems, each new aircraft introduces a quantum leap forward in performance and application. To continue to successfully market our simulators, we must understand the important new features and be able to recreate their effects in a ground based training device. Mr. Mitchell has significant technical education, experience and training, and an in-depth working knowledge of the Company's technology, and as a result he is able to educate the Board members on the applications of our technologies. As the chief spokesperson for our core technology, ATFS, he can provide valuable insight to the Board as to the evolution

of and acceptance for this new and unique training method. ETC is a technology-driven Company and as such we feel the Board leader should possess this background.

We do not have a lead independent director.

Howard W. Kelley resigned from the Board effective July 2, 2009.

Committees of the Board of Directors

During the fiscal year ended February 26, 2010, the Board of Directors held four meetings. All members of the Board of Directors attended all of the Board meetings.

We have three standing Board Committees: Audit, Compensation and Nominating and Governance. Each committee has a charter which can be found on the Company's website at www.etcusa.com. The members and chairpersons of each committee during fiscal 2010 are identified in the following table and each committee, its function and the numbers of meetings held by each committee during fiscal 2010 are described below.

Name of Director	Independent	Audit	Compensation	Nominating and Governance
Stephen F. Ryan	Yes	Chair	X	X
Dr. George K. Anderson	Yes	X	X	Chair
George A. Sawyer	Yes	X	Chair	X
Number of Meetings Held in Fiscal Year		7	1	1

Director Independence

Our stock is quoted on the OTC BB inter-dealer quotation system, which does not have director independence requirements. The Company, however, according to the Company's Audit Committee Charter, requires that a minimum of three directors qualify as independent directors, which is defined generally as a person other than an officer or employee of a company or its subsidiaries or any other individual having a relationship, which, in the opinion of the Company's board of directors, would interfere with the director's exercise of independent judgment in carrying out the responsibilities of a director. Messrs. Sawyer and Ryan, and Dr. Anderson are our independent directors. Independent directors constitute a majority of our Board of Directors.

The Company has an Audit Committee Charter which is posted on our website, which is located at www.etcusa.com. At February 26, 2010, we had an Audit Committee consisting of Messrs. Ryan (Chairman) and Sawyer and Dr. Anderson. Mr. Ryan has been designated as the Audit Committee Financial Expert as defined by the rules of the Securities and Exchange Commission. Among other responsibilities, the Audit Committee meets (in person or via telephone) with the external auditors to review and make recommendations to management concerning (if appropriate) the quarterly and annual financial results and the Reports on Forms 10-Q and 10-K. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of our independent accountants in their preparation or issuance of an audit report or the performance of other audit and review services.

Messrs. Sawyer (Chairman) and Ryan and Anderson also served on our Compensation Committee at February 26, 2010. The Compensation Committee is charged with the following responsibilities:

Establish CEO and executive officers compensation

Develop the compensation philosophy which shall include the strict adherence to the company's Code of Ethics and Code of Conduct

Assist with the preparation of and review the Compensation Discussion and Analysis (CD&A)

Oversee equity compensation grant policy

Retain and terminate outside experts if needed

Evaluate related shareholder proposals

Messrs. Anderson (Chairman) and Ryan and Sawyer also served on our Nominating and Governance Committee at February 26, 2010. The Nominating and Governance Committee is charged with finding and recommending new Board members and with ensuring our compliance with all regulatory governance requirements.

Code of Ethics

We have a Code of Ethics, which applies to our chief executive officer, chief financial officer, controller and other senior financial officers. We also have a Company Code of Conduct that applies to our directors, officers and all employees. The Code of Ethics and the Company Code of Conduct are posted on our website, which is located at www.etcusa.com.

In addition, we have adopted a Whistleblower Policy and an Insider Trading Policy, both of which are posted on our website.

Administrative Agreement

On December 12, 2007, the Company entered into an Administrative Agreement with the United States Navy in conjunction with the lifting of a contracting suspension. This agreement includes a program of compliance reviews, audits and reports. Unless extended, this agreement is effective through December 2010.

Compliance With Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. The rules of the SEC regarding the filing of Section 16(a) reports require that we disclose late filings of Section 16(a) reports.

Based solely on our review of the copies of such forms which we received, or written representations from reporting persons that no Section 16(a) reports were required for those persons, Messrs. Mitchell and Anderson had one late filing each. We believe that our greater than ten percent beneficial owners complied with all applicable filing requirements.

Compensation Committee Interlocks and Insider Participation

During fiscal 2010, the members of our Compensation Committee were Mr. George A. Sawyer (Chairman), Dr. George K. Anderson and Mr. Stephen F. Ryan. None of our executive officers served as (i) a member of the compensation committee (or other committee of the board of directors performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on our Compensation Committee, (ii) a director of another entity, one of whose executive officers served on our Compensation Committee or (iii) a member of a compensation committee (or other committee of the board of directors performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as one of our directors. No member of our Compensation Committee has ever been our employee. The issuance of options to members of our Compensation Committee is discussed herein under the heading **Director Compensation**.

Item 10. Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

Objectives and Philosophy of Executive Compensation

ETC's executive compensation program is administered by the Compensation Committee of the Board of Directors. The Compensation Committee is currently composed of George A. Sawyer who serves as the Committee Chairman, Dr. George K. Anderson, and Stephen F. Ryan, each of whom is independent under the relevant rules of the Securities and Exchange Commission.

The Board of Directors adopted and approved a Compensation Committee Charter which sets forth the principles and policies followed by the Compensation Committee in connection with executive compensation. A copy of ETC's Compensation Committee Charter is available on ETC's corporate website (<http://www.etcusa.com>). In April 2009, the Compensation Committee incorporated into its charter a policy statement which defined its specific responsibilities and established a set of generic evaluation criteria for developing and rewarding goals and objectives for the CEO and executive officers.

Stated broadly, we seek to provide competitive compensation for our executive officers that attracts and retains qualified executives, rewards individual and company achievement and aligns the financial interest of our executives with those of our stockholders. We use a combination of base salary, annual cash incentives, long-term equity incentives, perquisites and benefits programs to achieve these objectives. We emphasize performance-based incentive compensation programs for our executives, because we believe that these types of programs reward our executives when our financial and operational goals are achieved.

Compensation Philosophy and Objectives

The primary focus of our executive compensation program is to improve our performance in the short and long term. The executive compensation program is structured to link executive compensation to the overall performance of ETC to more closely align the interests of the executive management team with the interests of ETC's shareholders. We seek to maximize the possibilities for enhancing shareholder value by closely aligning compensation for ETC's executive officers with the profitability of ETC. It is considered essential to the success of ETC that its compensation policies enable ETC to attract, retain and satisfactorily reward executive officers who are contributing to the long-term growth and success of ETC.

Primary Components of Executive Compensation

The primary components of ETC's executive compensation program consist of base salary, annual cash bonus incentive opportunities and long-term incentive opportunities in the form of options to acquire common stock.

Base Salary

We set base salaries for our executive officers based upon their respective positions and corresponding responsibilities and authorities. Executive salaries are reviewed on an annual basis consistent with our fiscal reporting period. We compare our base salaries to market benchmarks for each particular position.

The Compensation Committee specifically evaluates on an annual basis the CEO's performance in relation to the individual goals and performance criteria in place for the period and in relation to overall Company performance. Based on this review, they establish an appropriate base compensation level for the next fiscal year. They also review and approve the CEO's recommendations for executive officer compensation.

Short-term Incentive Compensation

We use short-term incentives to focus executive officers on our quarterly and annual performance plan and to reward them for achieving pre-established performance goals and strategic objectives. These short-term incentives, along with the long-term incentives, put a significant portion of each executive officer's pay at risk, so that these incentives are only earned when we achieve key performance goals and strategic objectives.

During fiscal 2010 our CEO and each of our other named executives participated in a short term incentive compensation plan. Each executive was given a set of individual and common goals which applied for a specific period. These goals included financial

objectives tied into our annual budget, individual goals related to operating or financing objectives, and goals related to personal development. Depending on their performance under the plan, each executive could earn a quarterly or annual compensation payment up to a total of 75% of base salary for our CEO and up to 50% of base salary for the other named executives. Starting with fiscal 2011, our short term incentive compensation plans will be evaluated on a fiscal year basis.

Incentive payments related to performance in fiscal 2010 under the various short term incentive plans totaled \$247,500 for our CEO (Mr. Mitchell received this payment subsequent to fiscal year end), \$21,502 for our CFO, and \$22,500 for our Corporate Counsel. (Certain of these payments were made subsequent to fiscal year end.) This program must be re-authorized on an annual basis and is subject to cancellation at any time.

Long-Term Incentive Compensation

We provide equity-based, long-term incentives to our executive officers as part of their competitive pay package because we believe that they align the interests of the officers directly with the interests of our stockholders. We also believe that long-term incentive compensation is an important retention tool.

On October 26, 2009, pursuant to the Company's 2009 Employee, Director and Consultant Stock Plan, the Board of Directors authorized the grant of stock options for 33,000 shares of common stock to our Chief Executive Officer, 11,500 options to our Chief Financial Officer, and 15,500 options to our General Counsel and Corporate Secretary.

Executive Benefits and Perquisites

As salaried employees, our executive officers participate in all our standard Company benefit programs. Our health and welfare plans include medical, dental, life, short-term disability and other coverages. The health and related benefits provided to executive officers are offered through broad based plans applicable to all regular full-time ETC employees. Our executive officers are also eligible to participate in the ETC Retirement Savings Plan, a qualified 401(k) plan that provides all of the executive officers with the opportunity to contribute compensation, up to the limits imposed by the Internal Revenue Code, on a pre-tax or after-tax basis. We match 100% of the first 4% of salary contributed, and this match vests in equal shares over a period of the five subsequent years. This Retirement Savings Plan is the same plan offered to all regular full-time ETC employees.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Amendment.

Employment Agreements with Executive Officers

As of February 26, 2010, we have entered into employment agreements with certain employees, including the executive officers listed in the Summary Compensation Table.

Chief Executive Officer Employment Agreement

On July 24, 2006, ETC entered into an employment agreement with William F. Mitchell (the (CEO Plan) pursuant to which Mr. Mitchell is employed as the President and Chief Executive Officer. Mr. Mitchell also serves as the Chairman of the Board of ETC. Under Mr. Mitchell's employment agreement, he is entitled to receive a base salary (currently \$330,000), which is subject to increase annually based on a review of his performance by ETC's Compensation Committee. Mr. Mitchell is also entitled to receive a bonus based on a formula and targets set forth in the CEO Plan.

The term of the employment agreement was originally three years, and it has been extended for another three years (through July 24, 2012), If ETC does not renew the employment agreement for any additional three-year periods, Mr. Mitchell is entitled to terminate the employment agreement and receive certain benefits under the terms of the employment agreement including, without limitation, three years of base salary, bonuses and participation in various benefit plans. The employment agreement also provides Mr. Mitchell with three years of base salary, bonuses, and participation in various benefit plans of ETC if his employment is terminated due to a disability, by ETC without cause, or if Mr. Mitchell terminates his employment with ETC for good reason, including a change in control of ETC (other than a change of control in connection with an acquisition by Lenfest), each as defined in the employment agreement.

ETC has also entered into employment agreements (the Employment Agreement(s)) with Duane D. Deaner, our CFO, and James D. Cashel, our General Counsel and Corporate Secretary (the Executives). Under the Employment Agreements, the Executives each receive a base salary which is subject to increase annually based on a review of their performance. Additionally, the Executives are entitled to bonuses based on specific annual objectives tailored to their individual areas of responsibility. The term of the Employment Agreements is through November 1, 2011. If ETC does not renew them for additional two-year periods, each Executive is entitled to terminate their employment agreement and to receive certain benefits including, without limitation, two years of base salary, bonuses and participation in various benefit plans. The employment agreements also provide the Executives with two years of base salary, bonuses, and participation in various benefit plans of ETC if the Executive's employment is terminated due to a disability, by ETC without cause, or if the Executive terminates their employment with ETC for good reason as defined in the employment agreement.

SUMMARY COMPENSATION TABLE

The following Summary Compensation Table sets forth the compensation of our Named Executive Officers for the fiscal years ended February 26, 2010 and February 27, 2009.

Name and Principal Position (a)	Year (b)	Salary (c)	Bonus (d)	Stock Awards (e)	Option Awards (15) (f)	Compensation Earning (g)	Change in Pension Value and Nonqualified Non-Equity Incentive Plan Compensation (h)	All Other Compensation (i)	Total (j)
William F. Mitchell(1) Chairman of the Board, Chief Executive Officer, President and Director	2010	\$ 243,000	\$ 247,500(2)		\$ 86,000(3)			\$ 66,000(4)	\$ 642,500
Duane D. Deaner (6) Chief Financial Officer	2009	\$ 225,000						\$ 68,000(5)	\$ 293,000
	2010	\$ 115,000	\$ 30,000(7)		\$ 30,000(8)			\$ 2,000(9)	\$ 177,000
James D. Cashel (11) General Counsel, Corporate Secretary	2009	\$ 102,000	\$ 15,000					\$ 2,000(10)	\$ 119,000
	2010	\$ 143,000	\$ 22,500(12)		\$ 41,000(13)			\$ 3,000(14)	\$ 209,500

(1) ETC is party to an employment agreement with Mr. Mitchell, pursuant to which Mr. Mitchell serves as President and Chief Executive Officer. The terms and conditions of Mr. Mitchell's employment agreement are summarized above under Primary Components of Executive Compensation-Chief Executive Officer Employment Agreement.

- (2) Awarded subsequent to fiscal year end.
- (3) On October 26, 2009 Mr. Mitchell was awarded stock options for 33,000 shares of the Company's common stock pursuant to the Company's 2009 Employee, Director and Consultant Stock Plan. These options are exercisable as follows: 11,000 as of October 26, 2010, 11,000 as of October 26, 2011, and 11,000 as of October 26, 2012.
- (4) Consists of \$60,000 paid to Mr. Mitchell in connection with ETC's use of Mr. Mitchell's properties, \$2,000 in automobile allowance payments for Mr. Mitchell's company car, and \$4,000 in contributions on behalf of Mr. Mitchell pursuant to ETC's Retirement Savings Plan.

- (5) Consists of \$60,000 paid to Mr. Mitchell in connection with ETC's use of Mr. Mitchell's properties, \$2,000 in automobile allowance payments for Mr. Mitchell's company car, \$3,000 in life insurance premium payments and \$3,000 in contributions on behalf of Mr. Mitchell pursuant to ETC's Retirement Savings Plan.
- (6) ETC is party to an employment agreement with Mr. Deaner, pursuant to which Mr. Deaner serves as Chief Financial Officer. The terms and conditions of Mr. Deaner's employment agreement are summarized above under Primary Components of Executive Compensation-Employment Agreements with Executive Officers.
- (7) Certain of these payments were made subsequent to fiscal year end.
- (8) On October 26, 2009 Mr. Deaner was awarded stock options for 11,500 shares of the Company's common stock pursuant to the Company's 2009 Employee, Director and Consultant Stock Plan. These options are exercisable as follows: 3,834 as of October 26, 2010, 3,833 as of October 26, 2011, and 3,833 as of October 26, 2012.
- (9) Consists of ETC's contribution on behalf of Mr. Deaner's pursuant to ETC's Retirement Savings Plan.
- (10) Consists of ETC's contribution on behalf of Mr. Deaner's pursuant to ETC's Retirement Savings Plan.
- (11) ETC is party to an employment agreement with Mr. Cashel, pursuant to which Mr. Cashel serves as General Counsel and Corporate Secretary. The terms and conditions of Mr. Cashel's employment agreement are summarized above under Primary Components of Executive Compensation- Employment Agreements with Executive Officers.
- (12) Certain of these payments were made subsequent to fiscal year end.
- (13) On October 26, 2009 Mr. Cashel was awarded stock options for 15,500 shares of the Company's common stock pursuant to the Company's 2009 Employee, Director and Consultant Stock Plan. These options are exercisable as follows: 5,167 as of October 26, 2010, 5,167 as of October 26, 2011, and 5,166 as of October 26, 2012.
- (14) Consists of ETC's contribution on behalf of Mr. Cashel pursuant to ETC's Retirement Savings Plan.
- (15) The Company determines the fair-value of stock-based compensation using the Black-Scholes valuation model prescribed under the applicable accounting guidance. For the amounts in column (f), the Company used the following assumptions: expected volatility of 112.1%; risk-free interest rate of 0.41%; and an expected life of ten years.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

This table summarizes the equity awards held by our Named Executive Officers as of February 26, 2010.

Name (a)	Number of Securities	Number of Securities	Option Exercise Price	Option Expiration Date
	Underlying Unexercised Options (#) Exercisable (b)	Underlying Unexercised Options (#) Unexercisable (c)	(\$) (e)	(f)
William F. Mitchell Chairman of the Board, Chief Executive Officer, President and Director		33,000	\$ 2.64	12/17/2019
Duane D. Deaner Chief Financial Officer	2,881		\$ 7.375	1/03/11
	6,978		\$ 7.24	9/15/14
	642		\$ 6.07	9/21/16
		11,500	\$ 2.64	12/17/2019
James D. Cashel General Counsel, Corporate Secretary		15,500	\$ 2.64	12/17/2019

Compensation of Directors

Currently our directors who did not serve as officers are paid a fee of \$5,000 (either in cash or equivalent value of common stock of the Company) per calendar quarter for attending four Board of Directors meetings, four Audit Committee meetings, and two each of Nominating/Governance and Compensation Committee meetings. For additional Board meetings, directors receive \$1,000 per meeting. For additional committee meetings, directors receive either \$1,500 for each in-person meeting or \$250 for each teleconference meeting. Additionally, non-employee directors may be awarded options to purchase common stock of the Company. Pursuant to this plan, in November 2009, each of Mr. Anderson, Mr. Sawyer and Mr. Ryan, our independent directors, were awarded options to purchase 10,000 shares of common stock at an exercise price of \$2.64 per share, which is equal to the closing trading price on the date of grant.

FISCAL 2010 DIRECTOR COMPENSATION TABLE

The following table sets forth the compensation paid by the Company to each of its Directors for the fiscal year ended February 26, 2010.

Name	Fees Earned or Paid		Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation		All Other Compensation	Total
	in Cash	Stock Awards			Earnings	Earnings		
(a)	(\$)	(\$)	(\$) ¹	(\$)	(\$)	(\$)	(\$)	(\$)
	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
William F. Mitchell ²			\$ 86,000					\$ 86,000
George K. Anderson, M.D. ³	\$ 16,000		\$ 26,000					\$ 42,000
H. F. Lenfest	\$ 5,000	\$ 4,000						\$ 9,000
George A. Sawyer	\$ 10,000		\$ 26,000					\$ 36,000
⁴ Stephen F. Ryan ⁵	\$ 12,667		\$ 26,000					\$ 38,667

¹ The Company determines the fair-value of stock-based compensation using the Black-Scholes valuation model prescribed under the applicable accounting guidance. For the amounts in column d, the Company used the following assumptions: expected volatility of 112.1%; risk-free interest rate of 0.41%; and an expected life of ten years.

² Mr. Mitchell held options to purchase an aggregate of 33,000 shares of our common stock as of February 26, 2010.

³ Dr. Anderson held options to purchase an aggregate of 60,000 shares of our common stock as of February 26, 2010.

⁴ Mr. Lenfest did not hold any options to purchase shares of our common stock as of February 26, 2010.

⁵ Mr. Sawyer held options to purchase an aggregate of 10,000 shares of our common stock as of February 26, 2010.

⁶ Mr. Ryan held options to purchase an aggregate of 10,000 shares of our common stock as of February 26, 2010.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth, as of May 1, 2010, the number of shares and percentage of our common stock owned beneficially by each Director, each nominee for Director and each executive officer named in the Summary Compensation Table, and each person holding, to our knowledge, more than 5% of our outstanding common stock (1). The table also sets forth the holdings of all directors and executive officers as a group.

	Number of shares	Percentage
William F. Mitchell (2) c/o Environmental Tectonics Corporation 125 James Way Southampton, PA 18966	1,093,624(3)	12.0%
George K. Anderson, M.D. (4) 8 Little Harbor Way Annapolis, MD 21403	51,250(5)	1.0%
H.F. Lenfest (4) c/o The Lenfest Group Fire Tower Bridge-Suite 460 300 Barr Harbor Drive West Conshohocken, PA 19428	14,512,176(6)	68.5%
Stephen F. Ryan (4) c/o Environmental Tectonics Corporation 125 James Way Southampton, PA 18966	6,713	*
George A. Sawyer (4) 404 North Union Street Alexandria, VA 22314	1,713	*
T. Todd Martin, III 50 Midtown Park East Mobile, AL 36606	999,592(7)	11.0%
Duane D. Deaner (8) c/o Environmental Tectonics Corporation 125 James Way	10,501(9)	*