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ENVIRONMENTAL TECTONICS CORP  
Form 10-K  
June 07, 2002

FORM 10-K  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act Of 1934 For the fiscal year ended February 22, 2002

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [no fee required]

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-10655

ENVIRONMENTAL TECTONICS CORPORATION

-----  
(Exact name of small business issuer in its charter)

|                                                                                                     |                                                                        |
|-----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| -----<br>Pennsylvania<br>-----<br>(State or other jurisdiction of<br>incorporation or organization) | -----<br>23-1714256<br>-----<br>I.R.S. Employer<br>Identification No.) |
|-----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|

|                                                                                                                        |                                       |
|------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| -----<br>County Line Industrial Park<br>Southampton, Pennsylvania<br>-----<br>(Address of principal executive offices) | -----<br>18966<br>-----<br>(Zip Code) |
|------------------------------------------------------------------------------------------------------------------------|---------------------------------------|

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

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

-----  
Common Stock, par value \$.05 per share

-----  
(Title of Class)

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

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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

Check if there is no disclosure of delinquent filers in response 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 statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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As of May 15, 2002, the aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant was approximately \$38,976,000. As of May 15, 2002, there were 7,153,428 shares of Registrant's common stock, \$0.05 par value per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE. Portions of Registrant's 2002 Annual Report to Stockholders (the "Annual Report") are incorporated by reference in Part II, Items 5, 6, 7, and 8.

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### FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us and our subsidiaries, that may cause our 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 such 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 raw materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, the effect of currency fluctuations, capital structure and other financial items, (ii) statements of plans and objectives of the Company or its management or board of directors, including the introduction of new products, or estimates or predictions of actions by customers, suppliers, competitors or regulating authorities, (iii) statements of future economic performance, (iv) statements of assumptions and other statements about the Company or its business, and (v) statements preceded by, followed by or that include the words, "may," "could," "should," "pro forma," "looking forward," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," or similar expressions. These forward-looking statements involve risks and uncertainties, which are subject to change based on various important factors (some of which, in whole or in part, are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the goals, plans, objectives, intentions and expectations expressed in such forward-looking statements: (1) the strength of the United States and global economies in general and the strength of the regional and local economies in which the Company conducts operations; (2) the effects of, and changes in, U.S. and foreign governmental trade, monetary and fiscal policies and laws; (3) the import of domestic or foreign military or political conflicts and turmoil; (4) the timely development of competitive new products and services by the Company and the acceptance of such products and services by customers; (5) willingness of customers to substitute competitors' products and services and vice versa; (6) the impact on operations of changes in U.S. and governmental laws and public policy, including environmental regulations; (7) the level of export sales impacted by export controls, changes in legal and regulatory requirements; policy changes affecting the markets, changes in tax laws and tariffs, exchange rate fluctuations, political and economic instability, and accounts receivable collection; (8) technological changes; (9) regulatory or judicial proceedings;

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- (10) the impact of any current or future litigation involving the Company; and
- (11) the success of the Company at managing the risks involved in the foregoing.

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

### PART I

#### Item 1. Business

##### (a) Business Development

Environmental Tectonics Corporation ("ETC" or the "Company"), a Pennsylvania corporation, incorporated in 1969, is principally engaged in the design, manufacture and sale of software driven products used to A) create and monitor the physiological effects of motion on humans and equipment and B) control, modify, simulate and measure environmental conditions. These products include aircrew training systems, entertainment products, sterilizers, environmental and hyperbaric chambers, and other products, which involve similar manufacturing techniques and engineering technologies.

Since February 23, 2001, there has been no material change in the Company's mode of conducting business.

##### (b) Business of the Company

###### Segments

The company operates in two primary business segments, Aircrew Training Systems ("ATS") and the Industrial Group.

**Aircrew Training Systems.** This segment includes three primary product groups: aircrew training devices, entertainment products, and disaster management simulation.

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**Aircrew Training Devices.** The Company's aircrew training devices are used for medical research, advanced tactical and physiological flight training, and for the indoctrination and testing of military and commercial pilots. The major devices sold in this product area are military and commercial flight simulators, night vision trainers, water survival training equipment, disorientation training equipment, human centrifuges, ejection seat trainers and vehicle and tank simulators. The Company provides operation and maintenance services for installed equipment it manufactures as well as equipment produced by others.

**Entertainment Products.** The Company's entertainment products consist of motion-based simulation rides and other products.

**Disaster Management Simulation.** The Company's Disaster Management Systems line includes real-time interactive training programs that allow instruction on various disaster situations.

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The aircrew training system class of products as a whole represented 69%, 73% and 76% of consolidated revenues of the Company for the years ended February 22, 2002, February 23, 2001 and February 25, 2000, respectively.

Industrial Group. This segment includes three primary product lines: sterilizers, environmental systems and other products, and hyperbarics.

**Sterilizers.** The Company manufactures steam and gas sterilizers for various industrial and pharmaceutical applications. The Company concentrates on marketing the larger custom-designed sterilizers to the pharmaceutical and medical device industries.

**Environmental Systems and Other Products.** The Company's environmental systems business consists of the design and fabrication of sampling and analysis systems, and test equipment and systems. The simulation systems generally consist of an enclosed chamber with instrumentation and equipment which enable the customer to control and modify such environmental factors as temperature, pressure, humidity, wind velocity and gas content to produce desired conditions. These products include controlled air systems for automotive companies and environmental chambers for HVAC and other applications.

**Hyperbarics.** The Company's Hyperbarics line includes monoplace (single person) and multiplace (multiple persons) chambers for high altitude training, decompression and wound care applications.

Sales of Industrial Group products were 31%, 27% and 24% of consolidated revenues of the Company for the years ended February 22, 2002, February 23, 2001 and February 25, 2000, respectively.

The Company also provides control upgrades, maintenance and repair services and spare parts for its own and other manufacturers' equipment.

For a more complete description of financial information regarding our business segments, see "Note 10. Business Segment Information" to the Company's consolidated financial statements incorporated herein by reference to the Annual Report.

### Marketing

The Company currently markets its products and services primarily through its sales offices and employees. At February 22, 2002, approximately 18 employees were committed to sales and marketing functions. The Company uses branch offices in the United Kingdom, the Middle East, and Asia as well as the services of approximately 100 independent sales organizations in seeking foreign orders for its products.

### Product Development

New products and improvements in existing products are being continually developed in response to inquiries from customers and to management's determination that particular products should be produced or significantly improved. Although the Company does not have a separate research and development group, there are several technical personnel whose main activity is the development and integration of new technologies into our existing products. These personnel include the Vice-President of Engineering and the Vice-President

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of New Product Development whose additional activity is the introduction of product extensions and new applications of existing technology.

Within the Aircrew Training Systems Segment, product development emphasizes enhancing control systems and software graphics and exploring commercial possibilities. The Company's product development efforts will be focused on two areas:

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- Disaster Management Simulation. The Company is in production of a major contract from the City of Chicago to develop, install and maintain a computer-based Incident Command Simulator. Additionally, the Company is completing orders from respected fire schools throughout the world for simulation products. The company will continue to explore product applications and extensions to this Intelligent Virtual Reality product.
- G-force and Disorientation Trainers.  
-----
  - The Company recently introduced a new second generation General Aviation Trainer (GAT II). Aimed at the commercial aviation market, the GAT II simulates the cockpit controls, displays and flight characteristics of general aviation private aircraft, business aircraft and helicopters.
  - The Company has begun testing on its high-end rapid onset Sustained G Tactical Flight Simulator, the G-FET II TFS.
  - The Company recently completed a successful factory acceptance of its new GYROLAB(R) GL-1500 Advanced Flight Simulator Spatial disorientation trainer.
  - The Company plans to incorporate additional advanced tactical flight simulation (TFS) applications into additional products in the ATS line.

The Company's wholly owned subsidiary, Entertainment Technology Corporation, develops and manages all of the Company's future entertainment projects. Product development in this class will emphasize entertainment applications of our proven ATS simulation technology.

The Company reported research and development expenses of \$600,000, \$903,000 and \$920,000 for the years ended February 22, 2002, February 23, 2001 and February 25, 2000, respectively. However, most of the cost of the Company's research efforts, which were and continue to be a significant cost of its business, are included in cost of sales for applied research for specific contracts, as well as research for feasibility and technology updates.

### Supplies

The components being used in the assembly of systems and the parts used to manufacture the Company's products are purchased from equipment manufacturers, electronics supply firms and others. To date, the Company has had no difficulty in obtaining supplies. Further, all raw materials, parts, components, and other supplies used by the Company in the manufacture of its products can be obtained at competitive prices from alternate sources should existing sources of supply become unavailable.

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### Patents and Trademarks

Other than a patent on the GYROLAB Spatial Disorientation Trainer, which expires in December 2004, the Company has no patents or trademarks which it considers significant to its operations.

### Customers

In the current year and throughout most of its history, the Company has made a substantial portion of sales to a small number of customers that vary within any given year. The Company's business does not depend upon repeat orders from these same customers. Sales of aircrew training systems are made principally to U.S. and foreign governmental agencies. Sales of sterilizers and environmental systems are made to commercial and governmental entities worldwide.

In fiscal 2002, the Company's major customers included the Royal Thai Air Force generating revenues of \$3,285,000 and the Walt Disney companies generating revenues of \$15,859,000 or 48.8% and 10.1%, respectively, of total net sales. These companies do not have any relationship with the Company other than as customers. The Company expects to continue to conduct business with each of these companies in fiscal 2003.

### Foreign and Domestic Operations and Export Sales

During the years ended February 22, 2002, February 23, 2001 and February 25, 2000, approximately \$1,194,000 (4%), \$2,063,000 (7%) and \$1,587,000 (5%), respectively, of the Company's net 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.

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During the years ended February 22, 2002, February 23, 2001 and February 25, 2000, \$10,110,000 (31%), \$15,258,000 (47%) and \$23,907,000 (69%), respectively, of the Company's net revenues were attributable to export sales or sales for export. (See Note 10 to the Company's consolidated financial statements incorporated herein by reference to the Annual Report.) On export sales, customers' obligations to the Company are normally secured by irrevocable letters of credit based on the creditworthiness of the customer.

The Company does not believe that the distribution of its sales between foreign and domestic sales for any particular period is necessarily indicative of the distribution expected for any other period.

A large portion of the Company's sales is derived from long-term contracts requiring more than one year to complete. The Company accounts for sales under long-term contracts on the percentage of completion basis. See Note 1 to consolidated financial statements incorporated herein by reference to the Annual Report.

The Company's U.S. Government contracts contain standard terms permitting termination for the convenience of the Government. In the event of termination of such contracts, the Company is entitled to receive reimbursement on the basis of work completed (cost incurred plus a reasonable profit), recording the amounts anticipated 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

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offsetting expense concurrently with the recognition of income from the claim.

### Backlog

The Company's sales backlog at February 22, 2002 and February 23, 2001, for work to be performed and revenue to be recognized under written agreements after such dates, was \$28,148,000 and \$40,439,000, respectively. In addition, the Company's training, maintenance and upgrade contracts backlog at February 22, 2002 and February 23, 2001, for work to be performed and revenue to be recognized after that date under written agreements was \$1,485,000 and \$1,347,000, respectively. Of the February 22, 2002 backlog, approximately \$20,967,000 is under contracts for aircrew training systems and maintenance support including \$13,069,000 for the Walt Disney companies. Approximately 94% of the February 22, 2002, backlog is expected to be completed prior to February 28, 2003.

### Competition

The Company's business strategy in recent years has been to seek niche markets in which there are not numerous competitors. However, in some areas of its business the Company competes with well-established firms, some of which have substantially greater financial and personnel resources than the Company.

Some competitor 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 the Company for this business. The competition for any particular project generally is determined by the technological requirements of the project, with consideration also being given to a bidder's reliability, product performance, past performance, and price.

The Company faces particularly intense competition from a number of firms in the sale of hospital sterilizers but faces less competition in the sale of the larger custom-designed industrial sterilizers.

The Company believes that it is a significant participant in the markets in which it competes, especially in aircrew training systems in which the Company believes it is a principal provider of this type of equipment and training in its market area.

### Compliance with Environmental Laws

The Company has not incurred during fiscal 2002, nor does it anticipate incurring during fiscal 2003, 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 does the Company anticipate that compliance with these provisions will have a material adverse effect on its earnings or competitive position.

### Employees

On February 22, 2002, the Company had 276 full-time employees, of whom 6 were employed in executive positions, 101 were engineers, engineering designers, or draftspeople, 59 were administrative (sales, accounting, etc.) and clerical personnel, and 110 were engaged principally in production and operations.

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### Item 2. Property

The Company owns its executive offices and principal production facilities located on a 5-acre site in the County Line Industrial Park, Southampton, Pennsylvania in an approximately 100,000 square foot steel and masonry building. Approximately 85,000 square feet are devoted to manufacturing and 15,000 square feet to office space. The original building was erected in 1969 and additions were most recently made in 2001. This property serves as collateral for the Company's revolving credit facility. Additionally, the Company rents office space at various sales and support locations throughout the world and at ETC-PZL Aerospace Industries, its Polish subsidiary.

The Company considers its machinery and plant to be in satisfactory operating condition. Increases in the level of operations beyond that expected in the current fiscal year might require the Company to obtain additional facilities and equipment.

### Item 3. Legal Proceedings

Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Company. In the opinion of management, all such matters are reserved for or are 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 material adverse effect on the financial position of the Company if resolved unfavorably.

### Item 4. Submission of Matters to a Vote of Security Holders

None.

## PART II

### Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters



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See information appearing under the heading "Market for the Registrant's Common Stock and Related Stockholder Matters" in the Annual Report attached hereto as Exhibit 13 and incorporated herein by reference.

### Item 6. Selected Financial Data

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

### Item 7. 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 attached hereto as Exhibit 13 and incorporated herein by reference.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

### Item 8. Financial Statements

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

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

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## PART III

### Item 10. Directors and Executive Officers of the Registrant

The following table sets forth certain information as of May 15, 2002, with respect to the directors and executive officers of the Company:

| Name | Age | Served<br>as<br>Director<br>or Officer<br>Since (1) | Principal<br>and Po<br>Offices<br>C |
|------|-----|-----------------------------------------------------|-------------------------------------|
|------|-----|-----------------------------------------------------|-------------------------------------|

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| Name                       | Age | Year | Position                   |
|----------------------------|-----|------|----------------------------|
| William F. Mitchell (2)    | 60  | 1969 | Chairman of<br>President   |
| Richard E. McAdams (3)     | 66  | 1985 | Executive<br>and Director  |
| Pete L. Stephens, M.D. (4) | 64  | 1974 | Director                   |
| David P. Lazar (5)         | 45  | 2000 | Director                   |
| Duane D. Deaner (6)        | 54  | 1996 | Chief Financial<br>Officer |

- (1) Directors serve one-year terms.
- (2) Mr. Mitchell has been Chairman of the Board, President and Chief Executive Officer of the Company since 1969, except for the period from January 24, 1986 through January 24, 1987, when he was engaged principally in soliciting sales for the Company's products in the overseas markets.
- (3) Mr. McAdams has been with the Company since 1970. He became a Vice President in 1978 with responsibility for contract administration. Mr. McAdams became Executive Vice President of the Company in 1990.
- (4) Recently retired, Dr. Stephens had been a physician engaged in the private practice of medicine for 30 years.
- (5) Since November 2001, Mr. Lazar has served as Senior Executive Vice President of Boenning and Scattergood, Inc., and Managing Director of its investment banking group. Prior to that, Mr. Lazar served as Managing Director of Berwind Financial, L.P. from February 1, 1993, to November 2001. Boenning and Scattergood is a regional investment firm specializing in investment banking services to both privately held and publicly traded companies. Mr. Lazar holds an MBA from the College of William and Mary Graduate School of Business Administration and a B.S. from Duke University. He serves as a trustee of the Academy of Natural Sciences, is a member of the Board of the Recording for the Blind and Dyslexic, and also serves as an advisory director of Lydian Trust Co., a Florida based internet company that provides financial services.
- (6) Mr. Deaner has served as Chief Financial Officer of the Company since January 1996. Mr. Deaner served as Vice President of Finance for Pennfield Precision Incorporated from September 1988 to December 1995.

### Committees of the Board of Directors

During the year ended February 22, 2002, the Company had an Audit Committee consisting of the following directors: Messrs. Lazar, Philip L. Wagner and Dr. Pete L. Stephens. Dr. Wagner retired from the Board on December 19, 2001. The independent outside directors also served on the Company's Compensation Committee during the year ended February 22, 2002. The Audit Committee is charged with reviewing and overseeing the Company's financial systems and internal control procedures and conferring with the Company's independent accountants with respect thereto. The Compensation Committee is charged with reviewing the compensation and incentive plans of officers and key personnel.

During the year ended February 22, 2002, the Board of Directors held four meetings and the Audit Committee and Compensation Committee each held one meeting. All members of the Board attended all of the meetings of the Board held while they were members of the Board. All members of the Audit Committee (except Mr. Wagner) and Compensation Committee attended all meetings of the Committee held while they were members thereof.

Directors of the Company who are not officers of the Company are paid \$600 for Board of Directors meetings which they attend. Additional compensation is not paid for committee meetings.

Compliance With Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC") and the American Stock Exchange. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) Forms they file. The rules of the SEC regarding the filing of such statement require that "late filings" of such statements be disclosed in the Company's proxy statement.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that, during the fiscal year ended February 22, 2002, its officers, directors and greater than ten percent beneficial owners complied with all applicable filing requirements.

Item 11. Executive Compensation

SUMMARY COMPENSATION TABLE

The following table sets forth compensation paid by the Company to the Chief Executive Officer for services rendered during fiscal years 2002, 2001, and 2000. There are no other executive officers whose total annual salary and bonus exceeds \$100,000. The footnotes to the table provide additional information concerning the Company's compensation and benefit programs.

| Name and<br>Principal<br>Position<br>-----                       | Fiscal<br>Year<br>---- | Annual Compensation  |                     | Ot<br>An<br>C<br>sation<br>----- |
|------------------------------------------------------------------|------------------------|----------------------|---------------------|----------------------------------|
|                                                                  |                        | Salary (\$)<br>----- | Bonus (\$)<br>----- |                                  |
| William F. Mitchell,<br>President and Chief<br>Executive Officer | 2002                   | \$225,000            | \$10,051 (1)        | -                                |
|                                                                  | 2001                   | 225,000              | \$10,969 (1)        | -                                |
|                                                                  | 2000                   | 225,000              | \$12,023 (1)        | -                                |

(1) These amounts represent a portion of a deferred bonus from fiscal 1999 due 75% in 1999 and 5% in each of the five following fiscal years. No bonus awards for fiscal 2000, 2001, or 2002 were paid.

(2) The Company's executive officers receive certain perquisites. For

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fiscal years 2002, 2001 and 2000, the perquisites received by Mr. Mitchell did not exceed the lesser of \$50,000 or 10% of his salary and bonus.

- (3) These amounts represent the Company's contribution to the Retirement Savings Plan.

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### Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth as of May 15, 2002, the number of shares and percentage of the Company's Common Stock owned beneficially by each director, each executive officer named in the Summary Compensation Table, and each person holding, to the Company's knowledge, more than 5% of the outstanding Common Stock. The table also sets forth the holdings of all directors and executive officers as a group.

| Name and Address of Beneficial Owner                                                                                                        | Amount and<br>Nature of<br>Beneficial<br>Ownership(9) |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| William F. Mitchell (1)<br>c/o Environmental Tectonics<br>Corporation<br>County Line Industrial Park<br>Southampton, PA 18966               | 1,701,998                                             |
| Pete L. Stephens, M.D. (2)<br>31 Ribaut Drive<br>Hilton Head Island, SC 29926                                                               | 679,500(3)                                            |
| Richard E. McAdams (2)<br>c/o Environmental Tectonics<br>Corporation<br>County Line Industrial Park<br>Southampton, PA 18966                | 51,017(4)                                             |
| David P. Lazar (2)<br>c/o Boenning and Scattergood, Inc.<br>4 Tower Bridge<br>200 Barr Harbor Dr., Suite 300<br>West Conshohocken, PA 19428 | 0                                                     |
| ETC Asset Management, LLC<br>50 Midtown Park East<br>Mobile, AL 36606                                                                       | 832,820(5)                                            |
| T. Todd Martin, III<br>50 Midtown Park East<br>Mobile, AL 36606                                                                             | 944,520(6)                                            |
| Emerald Advisors, Inc.                                                                                                                      | 1,350,255(7)                                          |

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1703 Oregon Pike  
Suite 101  
Lancaster, PA 17601

All directors and executive  
officers as a group (5 persons)

2,440,485(8)

\* less than 1%

- 
- (1) Chairman of the Board, President and Director of the Corporation.  
Shares of Common Stock include 177,000 shares held by Mr. Mitchell's wife.
  - (2) Director of the Corporation.
  - (3) Includes 25,500 shares held by or for the benefit of Dr. Stephens' wife and two of his children.
  - (4) Includes options to purchase 30,775 shares of Common Stock held under the Company's Stock Option Plan which are presently exercisable.
  - (5) These shares include 332,820 shares of Common Stock underlying a presently exercisable warrant to purchase shares of Common Stock.
  - (6) These shares include 500,000 shares of Common Stock and 332,820 shares of Common Stock underlying a presently exercisable warrant to purchase shares of Common Stock presently owned by ETC Asset Management, LLC, a limited liability company of which Mr. Martin is manager, 26,900 shares owned by Allied Williams Co, Inc., a corporation of which Mr. Martin is an officer and director, 14,300 shares owned by Mr. Martin jointly with his spouse, and 7000 shares owned by trusts of which Mr. Martin is trustee.

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- (7) As reported in a Schedule 13G, dated December 31, 2001, filed by Emerald Advisors, Inc., Emerald has sole voting power with respect to 835,365 shares of Common Stock and sole dispositive power over 1,350,255 shares of Common Stock.
- (8) Includes options to purchase 30,775 and 9,470 shares of Common Stock which may be acquired by Director McAdams and Duane Deaner, Chief Financial Officer, respectively, upon the exercise of options granted under the Company's Stock Option Plan.
- (9) Beneficial ownership has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934. Unless otherwise noted, the Company believes that all persons named in the table have sole voting and investment power with respect to all shares of the Company's Common Stock beneficially owned by them.

### Item 13. Certain Relationships and Related Transactions

David P. Lazar, a director of the Company, is a Senior Executive Vice President of Boenning and Scattergood, Inc. and is Managing Director of its investment banking group. Boenning and Scattergood, Inc. has been retained to provide general financial advisory services to the Company.

### Item 14. Exhibits and Reports on Form 8-K

#### (a) Exhibits:

Number

Item

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3.1 Registrant's Articles of Incorporation, as amended, were filed as

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- Exhibit 3.1. to Registrant's Form 10-K for the year ended February 28, 1997 and are incorporated herein by reference.
- 3.2 Registrant's By-Laws, as amended, were filed as Exhibit 3(ii) to Registrant's Form 10-K for the year ended February 25, 1994 and are incorporated herein by reference.
- 10.1 Registrant's 1998 Stock Option Plan was filed on October 8, 1998 on Form S-8 and is incorporated herein by reference. \*
- 10.2 Registrant's Employee Stock Purchase Plan was filed on July 6, 1988 as Exhibit A to the Prospectus included in Registrant's Registration Statement (File No. 33-42219) on Form S-8 and is incorporated herein by reference. \*
- 10.3 Registrant's Stock Award Plan adopted April 7, 1993, filed as Exhibit 10(ix) to the Registrant's Form 10-K for the fiscal year ended February 25, 1994 and is incorporated herein by reference. \*
- 10.5 Revolving Credit Agreement, dated as of March 27, 1997, between the Registrant and First Union National Bank was filed as Exhibit 10.6 to Registrant's Form 10-K for the year ended February 28, 1997 and is incorporated herein by reference.
- 10.6 Amendment to Revolving Credit Agreement dated as of March 29, 2002.
- 10.7 Stock Purchase Warrant dated as of December 26, 2001, issued by the Registrant to ETC Asset Management, LLC.
- 13 Portions of Registrant's 2002 Annual Report to Shareholders which are incorporated by reference into this Form 10-K.
- 21 List of subsidiaries.
- 23 Consent of Grant Thornton L.L.P.

\* Represents a management contract or a compensatory plan or arrangement.

(b) Reports on Form 8-K:

The Company did not file any Current Reports on Form 8-K during the fiscal quarter ended February 22, 2002.

### SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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By /s/ William F. Mitchell

-----  
 William F. Mitchell,  
 President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Name<br>-----                                           | Position<br>-----                                                            |
|---------------------------------------------------------|------------------------------------------------------------------------------|
| /s/ William F. Mitchell<br>-----<br>William F. Mitchell | Chairman of the Board,<br>Chief Executive Officer,<br>President and Director |
| /s/ Duane D. Deaner<br>-----<br>Duane D. Deaner         | Chief Financial<br>Officer (Principal<br>Accounting Officer)                 |
| /s/ Richard E. McAdams<br>-----<br>Richard E. McAdams   | Director                                                                     |
| /s/ David P. Lazar<br>-----<br>David P. Lazar           | Director                                                                     |
| /s/ Pete L. Stephens<br>-----<br>Pete L. Stephens, M.D. | Director                                                                     |

ENVIRONMENTAL TECTONICS CORPORATION AND SUBSIDIARIES SCHEDULE II  
 VALUATION AND QUALIFYING ACCOUNTS  
 (\$ in thousands)

| Column A<br>-----    | Column B<br>-----                             | Column C<br>-----                                       | Column D<br>----- |
|----------------------|-----------------------------------------------|---------------------------------------------------------|-------------------|
| Description<br>----- | Balance At<br>Beginning<br>of Period<br>----- | Charges/<br>(Credits)<br>to Costs/<br>Expenses<br>----- | Red<br>-----      |

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Year ended February 22, 2002:

| Valuation and qualifying accounts related to: |         |       |
|-----------------------------------------------|---------|-------|
| Accounts receivable                           | \$370   | \$ 3  |
| Inventory                                     | \$630   | \$108 |
| Property, plant and equipment                 | \$8,635 | \$668 |
| Software development costs                    | \$5,670 | \$496 |
| Other assets                                  | \$96    | \$311 |

Year ended February 23, 2001

| Valuation and qualifying accounts related to: |         |       |
|-----------------------------------------------|---------|-------|
| Accounts receivable                           | \$367   | \$3   |
| Inventory                                     | \$720   | \$100 |
| Property, plant and equipment                 | \$8,004 | \$631 |
| Software development costs                    | \$5,215 | \$455 |
| Other assets                                  | \$61    | \$192 |

Year ended February 25, 2000

| Valuation and qualifying accounts related to: |         |       |
|-----------------------------------------------|---------|-------|
| Accounts receivable                           | \$385   | \$--  |
| Inventory                                     | \$625   | \$95  |
| Property, plant and equipment                 | \$7,527 | \$535 |
| Software development costs                    | \$4,619 | \$596 |
| Other assets                                  | \$25    | \$264 |

(1) Amounts written off or retired

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### EXHIBIT INDEX

| Exhibit<br>No.<br>----- | Item<br>-----                                                                                                        |
|-------------------------|----------------------------------------------------------------------------------------------------------------------|
| 10.6                    | Amendment to Revolving Credit Agreement dated as of March 29, 2002.                                                  |
| 10.7                    | Stock Purchase Warrant dated as of December 26, 2001, issued by the Registrant to ETC Asset Management, LLC.         |
| 13                      | Portions of Registrant's 2002 Annual Report to Shareholders which are incorporated by reference into this Form 10-K. |
| 21                      | List of subsidiaries.                                                                                                |
| 23                      | Consent of Grant Thornton L.L.P.                                                                                     |

\* Represents a management contract or a compensatory plan or arrangement.



