30-pallet EO sterilization system currently in production.

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PRE-TEST SOAK CELL WITH ALTITUDE SIMULATION FOR VEHICLE TESTING FOR AN INTERNATIONAL BUS AND TRUCK MANUFACTURER.

ADVANCED CROWD SIMULATIONS FOR AN INTERNATIONAL POLICE ACADEMY

LETTER TO THE SHAREHOLDERS

We are pleased to report that ETC's fiscal 2024 results reflect the positive impact of the significant orders we have received, particularly in our Air Crew Training Systems ("ATS") and Sterilizer Systems units. Sales increased 64.4% to $43.3 million, following a 37.7% increase in the prior year. Gross profit increased 89.7% to $12.5 million, following a 52.1% increase in the prior year, and operating income increased to $3.0 million compared to an operating loss of $2.9 million in the prior year. Net income in fiscal 2024 increased to $1.8 million or $0.09 earnings per diluted share compared to a fiscal 2023 loss of $1.6 million or $0.13 loss per diluted share. These increases in sales and profitability were driven in large part by the $103.5 million sales backlog ETC had entering fiscal 2024. We believe that we are well positioned to continue this trend in fiscal 2025 as we recognized $43.3 million in revenues during the year, and finished fiscal 2024 with a sales backlog of $108.9 million and once again, a strong pipeline of opportunities.

We entered fiscal 2024 with a solid sales backlog, due in large part to an $85.4 million international contract award for an aeromedical center. The contract includes ETC serving as general contractor for the building and all related facilities, in addition to supplying an authentic tactical flight simulator ("ATFS-400-25"), GL-1500 spatial disorientation trainer, altitude chamber, ejection seat simulator, night vision/night vision goggle training system, and a water survival system. Because ETC began to manufacture this equipment, and other ATS international orders, aerospace segment sales increased 94.7% over the prior year.

NEWLY INSTALLED GYROLAB THAT WILL PROVIDE ADVANCED SD TRAINING AND RESEARCH

ALTITUDE CHAMBER FLIGHT STATIONS

ETC's Sterilizer Systems business unit received significant orders during fiscal 2024, driving an increase in Sterilizer Systems sales to a record $14.4 million, an increase of 87.4% over the prior year. This increased the Commercial/Industrial Systems segment sales by 33.7%.

During the past year, our ATS Business unit focused on technological upgrades to our Altitude Chambers, including implementation of our physiological monitoring system, improved performance of the environmental control system, and the addition of flight stations at every seat, which is a new and more relevant way of assessing hypoxia.

ETC Simulation delivered Airbase Emergency Response training systems to domestic and international military customers. The business unit developed an Advanced Disaster Management Simulation ("ADMS") training system for a client in the oil and gas industry. In addition, ETC Simulation delivered a variety of vehicle simulators including fire truck driving simulators and aerial ladder truck simulators. We are also developing advanced crowd simulations for an international police academy.

ETC Sterilizer Systems continues mechanical engineering advancements, such as fully integrated chain drive conveyance, while the technical focus continues to be control systems and software development. As new facility designs evolve around latest government regulations, ETC systems are responsible for the control and reporting of the entire sterilization process from preconditioning through sterilization and aeration. This includes product conveyance between the different segments of the process to eliminate operator handling of product, provide controls over air monitoring, airflow and differential pressure control within the sterilization areas.

Our Environmental Test and Simulation Systems ("ETSS") unit is currently in the engineering phase of a one of a kind racing test cell equipment project. This equipment will provide the customer the ability to simulate the pressure effects of the racecar's track speed on both the engine throttle inlet and the intake air scoop for NASCAR, INDYCAR and F1 race vehicles. We believe that accurately controlling these parameters over a range of dynamic track conditions as the vehicle progresses through a full lap will enhance competitiveness. ETSS is also completing the commissioning of a test lab for large heavy-duty vehicles.

ETC continues its technological development of products that broaden its customer base and continue its tradition of "Quality through Integrity and Technology". With another strong backlog, and with continued improvement in gross profit and operating margins, we look forward to a solid fiscal 2025. ETC's growth in orders and margins, along with its expansion into new markets, is a testament to its team of hard working and dedicated employees and their loyalty, passion and pursuit of excellence. We would also like to express gratitude to our shareholders for your continued support and thanks to our loyal suppliers and customers.

Robert L. Laurent, Jr.
Chief Executive Officer and President

George K. Anderson, M.D.
Chairman

ETC'S EXECUTIVE TEAM

BOTTOM ROW (FROM LEFT):
Kasia Wrzesinski, Bob Laurent. Tom Loughlin

TOP ROW (FROM LEFT):
Alper Kus, Joe McAvoy, Tim Kennedy

ETC's Sterilization Systems team poses in front of multiple 30-pallet EO sterilization systems.

SUCCESS THROUGH TEAMWORK.

Teamwork was essential to our success this year. Our collaborative efforts enabled us to achieve significant milestones while fostering a culture of flexibility, respect, and responsiveneess amoung management, employees, customers, and suppliers.

FINANCIAL REVIEW

(in thousands, except per share information)

	Fiscal year ended	
	February 23, 2024	February 24, 2023
Net sales	$ 43,307	$ 26,345
Gross profit	12,459	6,566
Operating income (loss)	2,965	(2,888)
Net income (loss) attributable to ETC	1,820	(1,557)
Per share information:		
Basic earnings (loss) per common and participating share:		
Distributed earnings (loss) per share:		
Common	$ -	$ -
Preferred	$ 0.08	$ 0.08
Earnings (loss) per diluted share:		
Common	$ 0.09	$ (0.13)
Preferred	$ 0.09	$ (0.13)
Earnings (loss) per diluted share	$ 0.09	$ (0.13)
Working capital	$ 8,741	$ 5,109
Total long-term debt obligations	12,078	10,017
Total assets	43,941	32,689
Total shareholders' equity (deficit)	936	(548)
Weighted average common and participating shares:		
Basic	15,569	15,569
Diluted	15,569	15,569

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

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

Dividends on the Company's Preferred Stock, as declared, accrue according to the terms of the Preferred Stock and when paid, are paid in cash. The Preferred Stock is currently entitled to receive cumulative dividends at the rate of four percent (4%) per year in preference to the holders of the Company's Common Stock with respect to dividends. Series E Preferred Stock dividends accrued as of February 23, 2024, which totaled $5.3 million, remained unpaid as of June 7, 2024, the date of issuance of our consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Discussions of some of the matters contained in this Annual Report to Shareholders include forward-looking statements that may involve risks and uncertainties. Some of these discussions are contained under the caption "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 that may cause actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements.

These forward-looking statements include statements with respect to the Company's vision, mission, strategies, goals, beliefs, plans, objectives, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance, and business of the Company, including, but not limited to, (i) projections of revenues, costs of materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, capital structure, other financial items, and the effects of foreign currency fluctuations, (ii) statements of our plans and objectives of the Company or its management or the Company's Board of Directors (the "Board of Directors"), including the introduction of new products, or estimates or predictions of actions of customers, suppliers, competitors, or regulatory authorities, (iii) statements of future economic performance, (iv) statements of assumptions and other statements about the Company or its business, (v) statements made about the possible outcomes of litigation involving the Company, (vi) statements regarding the Company's ability to obtain financing to support its operations and other expenses, and (vii) statements preceded by, followed by, or, that include, words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "future" , "predict", "potential", "intend", or "continue", and similar expressions. These forward-looking statements involve risks and uncertainties that are subject to change based on various important factors. Some of these risks and uncertainties, in whole or in part, are beyond the Company's control.

The Company's primary Standard Industrial Classification Code is 3569. The Company's fiscal year is the fifty-two week or fifty-three week annual accounting period ending the last Friday in February. References to fiscal 2024 are references to the fifty-two week period ended February 23, 2024. References to fiscal 2023 are references to the fifty-two week period ended February 24, 2023.

Overview

ETC was incorporated in 1969 in Pennsylvania. For over five decades, we have provided our customers with products, services, and support. Innovation, continuous technological improvement and enhancement, and product quality are core values that are critical to our success. We are a significant supplier and innovator in the following areas: (i) software driven products and services used to create and monitor the physiological effects of flight, including high performance jet tactical flight simulation, fixed and rotary wing upset prevention and recovery and spatial disorientation, and both suborbital and orbital commercial human spaceflight, collectively, Aircrew Training Systems ("ATS"); (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); (iv) Advanced Disaster Management Simulators ("ADMS"); (v) steam and gas (ethylene oxide) sterilizer systems; and (vi) environmental testing and simulation systems ("ETSS"). We operate in two primary business segments, Aerospace Solutions ("Aerospace") and Commercial/Industrial Systems ("CIS").

Aerospace encompasses the design, manufacture, and sale of: (i) ATS products; (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); and (iv) ADMS, as well as integrated logistics support ("ILS") for customers who purchase these products or similar products manufactured by other parties. These products and services provide customers with an offering of comprehensive solutions for improved readiness and reduced operational costs. Sales of our Aerospace products are made principally to U.S. and foreign government agencies and to civil aviation organizations.

Specific products within Aerospace include:

- Aeromedical Centers;
- Authentic Tactical Fighting System ("ATFS") Motion Platforms;
  - ATFS-400-31 Human Centrifuge
  - ATFS-400-25 Human Centrifuge
- Interchangeable Cockpit Modules;
- G-LAB Human Centrifuge and G Trainer;
- GYROLAB GL-6000 KRAKEN Advanced Spatial Disorientation Training and Research Device;
- GYROLAB GL-4000;
- GYROLAB GL-1500;
- GYRO IPT-III eFOV;
- GYRO IPT-II Fixed and Rotary Wing Spatial Disorientation Trainer;
- GAT-III Fixed Wing Aviation Trainer;
- GAT-HELO Rotary Wing Aviation Trainer;
- Night Vision Training System ("NVTS");
- Night Vision Goggle Training System ("NVGTS");
- FALCON Altitude (Hypobaric) Chambers;
- Multiplace Hyperbaric Chambers;
- Ejection Seat Simulator ("ESS");
- Pilot Selection System ("PSS");
- Water Survival Training equipment;
- Vestibular Illusion Demonstrator ("VID");
- Interactive motion based simulation and virtual reality equipment designed for the education/entertainment industry; and our
- ADMS line of products (primarily AIRBASE, COMMAND, CONTROL, DRIVE, FIRE, and the Aircraft Rescue and Firefighting ("ARFF") Vehicle Simulator).

Specific services within Aerospace include:

- Tactical flight training;
- High-G training;
- Hypoxia training;
- Situational awareness and spatial disorientation training;
- Aeromedical training;
- Suborbital and orbital commercial human spaceflight training;
- Upset prevention and recovery training ("UPRT");
- Crew resource management ("CRM") training;
- Advanced pilot training;
- Basic pilot training;
- Pilot selection;
- Emergency response training; and
- Integrated logistics support.

CIS encompasses the design, manufacture, and sale of:

- Steam and gas (ethylene oxide) sterilizers systems;
- Environmental testing and simulation systems ("ETSS"); and
- Parts and service support.

Net sales, operating loss, identifiable assets, and other financial information regarding our segments can be found in Note 8 – Business Segment Information.

ETC-PZL Aerospace Industries Sp. z o.o. ("ETC-PZL"), our 100%-owned subsidiary in Warsaw, Poland, is currently our only operating subsidiary. ETC-PZL manufactures certain simulators and provides software to support products manufactured domestically within our Aerospace segment.

We utilize both employees and independent representatives to market our products and services. As of February 23, 2024, approximately fifteen (15) employees were committed to sales and marketing functions. In addition to our one operating subsidiary, we have employees stationed in Turkey, Qatar, the United Arab Emirates, India, and Malaysia. In certain countries outside the United States, we have relationships with independent sales representatives and distributors.

We sell integrated products and training services. Some of our products are customized using our proprietary software based on specifications provided by our customers. Some of our products take more than one year to manufacture and deliver to the customer.

In the Aerospace segment, we offer integrated ATS products to commercial, governmental, and military defense agencies, and training devices, including altitude (hypobaric) and multiplace chambers ("Chambers"), to governmental and military defense agencies, universities and civil aviation organizations both in the United States and internationally. We sell our ADMS line of products to governmental organizations in both the United States and internationally, original equipment manufacturers in the global special fire truck market (including ARFF vehicles), fire and emergency training schools, universities, and airports. We also provide ILS for customers who purchase these products or similar products manufactured by other parties.

In the CIS segment, we sell our sterilizer systems to medical device manufacturers, pharmaceutical manufacturers, and universities. We sell ETSS primarily to commercial automotive and heating, ventilation, and air conditioning ("HVAC") manufacturers. We also provide upgrade, maintenance, and repair services for our products and similar products manufactured by other parties.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements requires the use of judgments and estimates. Our critical accounting policies are described below to provide a better understanding of how we develop our assumptions and judgments about future events and related estimates, and how they can impact our consolidated financial statements. A critical accounting estimate is one that requires our most difficult, subjective, or complex estimates and assessments, and is fundamental to our results of operations. We identified our most critical accounting estimates (not in any specific order) to be:

- estimating budget costs for large, multi-year contracts that involve significant engineering and software development;
- inventory valuation and reserves;
- valuations of long-lived assets, including equipment housed within our National Aerospace Training and Research Center (the "NASTAR Center") and intangible assets such as capitalized software;
- legal reserves and contingencies; and
- forecasting our effective income tax rate, including our future ability to value and utilize tax credits and to realize the deferred tax assets, and providing for uncertain tax positions.

We base our estimates on historical experience, and on various other assumptions we believe to be reasonable according to the current facts and circumstances; the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We believe the following are the critical accounting policies used in the preparation of our consolidated financial statements, as well as the significant estimates and judgments affecting the application of these policies. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in this Annual Report to Shareholders.

We have discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the disclosures presented below.

Revenue Recognition

The majority of our net sales are generated from long-term contracts with U.S. and foreign government agencies (including foreign military sales ("FMS") contracted through the U.S. Government) for the research, design, development, manufacture, integration, and sustainment of ATS products, including Chambers and the simulators manufactured and sold through ETC-PZL, collectively, Aeromedical Training Solutions. The Company also enters into long-term contracts with domestic and international customers for the sale of sterilizer systems and ETSS. Net sales of ADMS are generally much shorter term in nature and vary between domestic and international customers. We generally provide our products and services under fixed-price contracts.

Under fixed-price contracts, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss. Some fixed-price contracts have a performance-based component under which we may incur financial penalties based on our performance, such as liquidated damages for delayed delivery.

We account for a contract after all parties to the arrangement have approved it, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable.

We assess each contract at its inception to determine whether it should be combined with other contracts. When making this determination, we consider factors such as whether two or more contracts were negotiated and executed at or near the same time or were negotiated with an overall profit objective. If combined, we treat the combined contracts as a single contract for revenue recognition purposes.

We evaluate the products or services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The majority of the Company's contracts with customers are accounted for as one performance obligation, as the majority of products and services is part of a single project or capability. In limited cases, our contracts have more than one distinct performance obligation, which occurs when we perform activities that are not interrelated or involve different product lifecycles. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit recorded in a given period.

We determine the transaction price for each contract based on the consideration we expect to receive for the products or services being provided under the contract, net of all sales and similar taxes collected from customers. For contracts where a portion of the price may vary, we estimate variable consideration at the most likely amount, which is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur.
We analyze the risk of a significant revenue reversal, and if necessary, constrain the amount of variable consideration recognized in order to mitigate this risk.

At the inception of a contract, we estimate the transaction price based on our current rights and do not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Contracts are often subsequently modified to include changes in specifications, requirements, or price, which may create new or change existing enforceable rights and obligations. Depending on the nature of the modification, we consider whether to account for the modification as an adjustment to the existing contract or as a separate contract. Generally, modifications to our contracts are not distinct from the existing contract due to the significant integration and interrelated tasks provided in the context of the contract; therefore, such modifications are accounted for as if they were part of the existing contract and recognized as a cumulative adjustment to revenue. Contract claims and disputes related to customer caused delays, errors in specifications and designs, and other unanticipated causes for amounts in excess of contract value may increase the transaction price if it is probable that the claim will result in an increase in the contract value and if the increase can be reliably estimated; however, the resulting revenue recorded on a contract claim cannot exceed the incurred contract costs related to that claim. Claims are subject to negotiation, dispute resolution, and audit by the customer or governmental agency.

For contracts with multiple performance obligations, we allocate the transaction price to each performance obligation based on the estimated standalone selling price of the product or service underlying each performance obligation. The standalone selling price represents the amount we would sell the product or service to a customer on a standalone basis (i.e., not bundled with any other products or services). Our contracts with the U.S. Government, including FMS contracts, are subject to the Federal Acquisition Regulations ("FAR") and the price is typically based on estimated or actual costs plus a reasonable profit margin. As a result of these regulations, the standalone selling price of products or services in our contracts with the U.S. Government and FMS contracts are typically equal to the selling price stated in the contract; therefore, we typically do not need to allocate (or reallocate) the transaction price to multiple performance obligations.

For non-U.S. Government contracts with multiple performance obligations, we evaluate whether the stated selling prices for the products or services represent their standalone selling prices. We primarily sell customized solutions unique to a customer's specifications. When it is necessary to allocate the transaction price to multiple performance obligations, we typically use the expected cost plus a reasonable profit margin to estimate the standalone selling price of each product or service. We occasionally sell standard products or services with observable standalone sales transactions. In these situations, the observable standalone sales transactions are used to determine the standalone selling price.

We recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. In determining when performance obligations are satisfied, we consider factors such as contract terms, payment terms, and whether there is an alternative future use of the product or service. Substantially all of our revenue is recognized over a period of time as we perform under the contract because control of the work in process transfers continuously to the customer. For contracts with the U.S. Government and FMS contracts, this continuous transfer of control of the work in process to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit, and take control of any work in process. Our non-U.S. Government contracts, primarily domestic and international direct commercial contracts, typically do not include termination for convenience provisions; however, continuous transfer of control to our customer is supported as, if our customer were to terminate the contract for reasons other than our non-performance, we would have the right to recover damages that would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to us.

For performance obligations to deliver products with continuous transfer of control to the customer, revenue is recognized by means of an input measure based on the extent of progress towards completion of the performance obligation, generally using the percentage-of-completion cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer as we incur costs on our contracts. Under the percentage-of-completion cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation(s).

For performance obligations in which control does not continuously transfer to the customer, we recognize revenue at the point in time in which each performance obligation is fully satisfied. This coincides with the point in time the customer obtains control of the product or service, which typically occurs upon customer acceptance or receipt of the product or service, given that we maintain control of the product or service until that point.

The Company also offers one to five year (and in limited cases fifteen year) maintenance and support agreements for many of its products, especially within the Aerospace segment. The specific terms and conditions of these agreements vary depending upon the product sold and country in which the product was sold. Revenue is recognized on such agreements over a period of time on a straight-line basis over the term of the maintenance and support services or the right to invoice method (in situations where the value transferred matches our billing rights) as our customer receives and consumes the benefits. The standalone selling price is determined based on the price charged when sold separately or upon renewal.

Sales backlog (i.e., unfulfilled or remaining performance obligations) represents the sales we expect to recognize for our products and services for which control has not yet transferred to the customer. The estimated consideration is determined at the outset of the contract and considers the risks related to the technical, schedule, and cost impacts to complete the contract and an estimate of any variable consideration. We review these risks on a quarterly basis and may increase or decrease backlog accordingly. As the risks on such contracts are successfully retired, the estimated consideration from customers may be reduced, resulting in a reduction of backlog without a corresponding recognition of sales.

For arrangements with the U.S. Government and FMS contracts, we generally do not begin work on contracts until funding is appropriated by the customer. Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. Typical payment terms under fixed-price contracts with the U.S. Government provide that the customer pays either performance-based payments based on the achievement of contract milestones or progress payments based on a percentage of costs we incur. For the majority of our domestic and international direct commercial contracts, we typically receive advance payments prior to commencement of work, as well as milestone payments that are paid in accordance with the terms of our contract as we perform. We recognize a liability for payments in excess of revenue recognized, which is presented as a contract liability on the balance sheet. The portion of payments that may be retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer from our failure to adequately complete some or all of the obligations under the contract. Payments received from customers in advance of revenue recognition are not considered significant financing components because they are used to meet working capital demands that can be higher in the early stages of a contract. We present revenues recognized in excess of billings as contract assets on the balance sheet. Amounts billed and due from our customers are classified as receivables on the balance sheet.

Significant estimates and assumptions are made in estimating contract sales and costs, including the profit booking rate. At the outset of a long-term contract, we identify and monitor risks to the achievement of the technical, schedule, and cost aspects of the contract, as well as variable consideration, and assess the effects of those risks on our estimates of sales and total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events), and costs (e.g., material, labor, subcontractor, overhead, and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule, and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and cost aspects of the contract, which decreases the estimated total costs to complete the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase or our estimates of variable consideration we expect to receive decrease. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. When estimates of total costs to be incurred on a contract exceed total estimates of the transaction price, a provision for the entire loss is determined at the contract level and is recorded in the period in which the loss is determined.

Comparability of our segment sales, operating loss, and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts for which we recognize revenue over a period of time using the percentage-of-completion cost-to-cost method to measure progress towards completion. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs to fulfill the performance obligations that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate, resulting in an increase in the estimated total costs to fulfill the performance obligations and a reduction in the profit booking rate. Increases or decreases in profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes.

The aggregate impact of adjustments in contract estimates to net loss attributable to ETC are presented below (in thousands):

Net income attributable to Environmental Tectonics Corporation

	Fiscal 2024	Fiscal 2023
Aerospace	$ (608)	$ (79)
CIS	109	38
Total	**$ (499)**	**$ (41)**

Inventory

We periodically evaluate our inventory, which affects gross margin, to ensure that it is carried at the lower of cost or net realizable value. Cost includes appropriate overhead. Overhead allocated to inventory cost includes only costs directly related to our manufacturing activities. These include, but are not limited to, general supervision, utilities, supplies, and depreciation and software amortization expense. Where necessary, provision is made for obsolete, slow-moving, or damaged inventory. This provision represents the difference between the cost of the inventory and its estimated market value based on the future demand of our products. To the extent that future events affect the salability of inventory, these provisions could vary significantly.

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes, as well as the valuation of net operating loss ("NOL") carryforwards and research and development tax credits. Valuation allowances are reviewed each fiscal period to determine whether there is sufficient positive or negative evidence to support a change in judgment about the Company's ability to realize the related deferred tax asset. Deferred tax assets and liabilities are offset and presented as a single non-current asset.

Results of Operations

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

FISCAL 2024 VERSUS FISCAL 2023

(in thousands, except per share information)

	Summary Table of Results			
	Fiscal 2024	**Fiscal 2023**	**Variance ($)**	**Variance (%)**
Net sales:				
Domestic sales	$ 6,282	$ 12,982	$ (6,700)	(51.6)
U.S. Government sales	1,434	1,560	(126)	(8.1)
International sales	35,591	11,803	23,788	201.5
Net sales total	43,307	26,345	16,962	64.4
Gross profit	12,459	6,566	5,893	89.7
Gross profit margin %	28.8%	24.9%	3.8%	15.4%
Operating expenses:				
Selling and marketing	1,757	1,562	195	12.5
General and administrative	6,205	6,092	113	1.9
Research and development	1,532	1,800	(268)	(14.9)
Operating expenses total	9,494	9,454	40	0.4
Operating income (loss)	2,965	(2,888)	5,853	202.7
Operating margin %	6.8%	-11.0%	17.8%	161.8%
Interest expense, net	899	439	460	104.7
Other expense (income), net	297	(1,933)	2,230	(115.4)
Income (loss) before income taxes	1,769	(1,394)	3,163	226.9
Pre-tax margin %	4.1%	-5.3%	9.4%	177.4%
Income (benefit) tax	(51)	208	(259)	(124.5)
Net income (loss)	1,820	(1,602)	3,422	213.6
Loss attributable to non-controlling interest	-	45	(45)	100.0
Net income (loss) attributable to ETC	**$ 1,820**	**$ (1,557)**	**$ 3,377**	**216.9**
Per share information:				
Basic earnings (loss) per common and participating share:				
Distributed earnings per share:				
Common	$ -	$ -	$ -	-
Preferred	$ 0.08	$ 0.08	$ -	-
Undistributed earnings (loss) per share:				
Common	$ 0.09	$ (0.13)	$ 0.22	-
Preferred	$ 0.09	$ (0.13)	$ 0.22	-
Earnings (loss) per diluted share	$ 0.09	**$ (0.13)**	**$ 0.22**	**-**

Net income (loss) attributable to ETC

Net income attributable to ETC was $1.8 million, or $0.09 earnings per diluted share, in fiscal 2024, compared to net (loss) attributable to ETC of $1.6 million during fiscal 2023, equating to $0.13 (loss) per diluted share. The $3.4 million variance is primarily attributable to a $17.0 million increase in sales as well as a 3.8% increase in gross profit margin percentage.

Net sales

The following schedule presents the Company's net sales (in thousands) by segment, business unit, and geographic area:

	Fiscal 2024				Fiscal 2023			
	Domestic	U.S. Gov't	Int'l	Total	Domestic	U.S. Gov't	Int'l	Total
Aerospace Solutions								
Aeromedical Training Solutions (ATS)	$ 379	$ 874	$ 21,175	$ 22,428	$ 964	$ 856	$ 7,725	$ 9,545
Simulation (ADMS)	106	560	2,723	3,389	246	705	2,764	3,715
Subtotal	485	1,434	23,898	25,817	1,210	1,560	10,489	13,260
Commercial/Industrial Systems								
Sterilizers Systems	2,975	-	11,423	14,398	6,515	-	1,166	7,681
Environmental (ETSS)	1,600	-	166	1,766	3,245	-	74	3,319
Service and Spares	1,222	-	104	1,326	2,012	-	74	2,086
Subtotal	5,797	-	11,693	17,490	11,772	-	1,314	13,086
Net sales total	**$ 6,282**	**$ 1,434**	**$ 35,591**	**$ 43,307**	**$ 12,982**	**$ 1,560**	**$ 11,803**	**$ 26,345**

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

Type of Revenue	Fiscal 2024	Fiscal 2023
Products	86.1%	79.1%
Services	3.3%	7.7%
Maintenance and support agreements	9.1%	10.2%
Spare parts	1.5%	3.0%
Total	**100.0%**	**100.0%**

Net sales for fiscal 2024 were $43.3 million, an increase of $17.0 million, or 64.4%, compared to fiscal 2023 net sales of $26.3 million. The increase is a result of higher International sales of $23.8 million, of which $13.5 million are within ATS and $10.4 million are within CIS, partially offset by lower Domestic sales of $6.7 million, $6.0 million of which are within CIS. Further, sales in fiscal 2024 increased the greatest within the ATS business unit and Sterilizer Systems business unit, accounting for $12.9 and $6.7 million, respectively of the overall increase of $17.0 million, slightly offset by a decrease in sales in the Environmental business unit and Service and Spares of $1.6 million and $0.8 million, respectively.

In fiscal 2024, one International customer within the Aerospace segment and one International customer within the Sterilizer Systems business unit represented 10.0% or more of total net sales, and sales to these customers totaling $14.1 million and $7.0 million, respectively, represented 32.6% and 16.2%, respectively, of total net sales. In fiscal 2023, one Domestic customer within the Environmental business unit represented 10.0% or more of total net sales, and sales to this customer totaling $3.1 million represented 11.7% of total net sales.

Sales backlog represents unfulfilled or remaining performance obligations under existing contracts, which sales we expect to recognize for our products and services for which control has not yet transferred to the customer. Within the Company's February 23, 2024 sales backlog of $108.9 million, one International contract within the Aerospace segment and one International contract with the CIS segment represented at least 10% of the total sales backlog and constituted $69.6 million, or 63.9%, and $14.4 million, or 13.2%, respectively of the total sales backlog. As of February 24, 2023, only one (1) business unit, ATS, represented 10% or more of total sales backlog. ATS sales backlog was $84.8 million, or 77.8%, of the total sales backlog. We expect to recognize approximately 59% of the total sales backlog as of February 23, 2024 over the next twelve (12) months and approximately 91% over the next twenty-four (24) months as revenue, with the remainder to be recognized thereafter. Given the Company's sales backlog as of February 23, 2024, it is anticipated that ETC will generate the majority of its sales from International ATS and Sterilizer Systems contracts in fiscal 2025.

We have historically experienced significant variability in our sales performance. This reflects the existing sales backlog, product mix, nature of contracts (size and performance time), manufacturing cycle, installation time, customer acceptance, and certain factors not in our control such as customer delays and the time required to obtain U.S. Government export approvals. A small number of contracts may account for a substantial percentage of our net sales in any period.

Domestic sales

Domestic sales in fiscal 2024 were $6.3 million, a decrease of $6.7 million, or 51.6%, compared to fiscal 2023 and represented 14.5% of total net sales in fiscal 2024 compared to 49.3% in fiscal 2023. The decrease in Domestic sales was attributable to the CIS segment with a $6.0 million decrease along with a reduction of $0.7 million within the Aerospace segment. Sterilizer Systems comprised the largest decrease in Domestic sales within the CIS segment at $3.5 million, with ETSS sales and Service and Spares also decreasing $1.6 million and $0.8 million, respectively in the CIS segment. As the majority of the Sterilizer Systems sales are to large multinational medical device manufacturers, there can be significant variability between their domestic and international location requirements, which occurred in fiscal 2024 as compared to fiscal 2023. We continue to see a strong pipeline of opportunities in our sterilizer systems business, both domestic and internationally.

U.S. Government sales

U.S. Government sales in fiscal 2024 were $1.4 million, a decrease of $0.1 million, or 8.1%, from fiscal 2023. U.S. Government sales represented 3.3% of total net sales in fiscal 2024 compared to 5.9% in fiscal 2023.

International sales

International sales in fiscal 2024, including those of ETC-PZL, were $35.6 million, an increase of $23.8 million, or 201.5%, compared to fiscal 2023. The increase in International sales is a result of a $13.4 million increase in sales within Aerospace and a $10.4 million increase in sales with the CIS segment. In aggregate, International sales represented 82.2% of the Company's total net sales in fiscal 2024 compared to 44.8% in fiscal 2023. In fiscal 2024, International sales totaling at least $0.5 million were made to customers in ten (10) different countries as compared to fiscal 2023, International sales totaling at least $0.5 million were made to customers in seven (7) different countries.

Segment sales

Aerospace sales were $25.8 million in fiscal 2024, an increase of $12.6 million, or 94.7%, from sales of $13.3 million in fiscal 2023. This increase was primarily due to higher International sales within the ATS business unit. Sales of Aerospace Solutions products accounted for 59.6% of our total net sales in fiscal 2024 versus 50.3% in fiscal 2023. Sales in our CIS segment increased $4.4 million, or 33.7%, and amounted to 40.4% of our total net sales in fiscal 2024 compared to 49.7% in fiscal 2023. The increase in CIS sales was mainly a result of the overall increase in the International sales in Sterilizer Systems.

Gross profit

Gross profit for fiscal 2024 was $12.5 million compared to $6.6 million in fiscal 2023, an increase of $5.9 million, or 89.7%. The increase in gross profit was due to higher net sales within the ATS and Sterilizers System business units, along with a more favorable mix and overhead absorption. Gross profit margin as a percentage of net sales increased to 28.8% in fiscal 2024 compared to 24.9% in fiscal 2023.

Selling and marketing expenses

Selling and marketing expenses for fiscal 2024 of $1.8 million increased by $0.2 million, or 12.5%, from $1.6 million in fiscal 2023. The increase in selling and marketing expenses was due primarily to an increase in commission expense based on timing of sales mix and recognition. As a percentage of net sales, selling and marketing expenses decreased to 4.1% in fiscal 2024 compared to 5.9% in fiscal 2023.

General and administrative expenses

General and administrative expenses for fiscal 2024 of $6.2 million increased by $0.1 million, or 1.9% from $6.1 million in fiscal 2023. The increase in general and administrative expenses was due primarily to an increase in headcount and fringe benefits costs, along with an increase in professional fees. As a percentage of net sales, general and administrative expenses decreased to 14.3% in fiscal 2024 compared to 23.1% in fiscal 2023.

Research and development expenses

Research and development expenses include spending for potential new products and technologies, and work performed internationally under government grant programs. This spending, net of reimbursements from the Polish government, decreased to $1.5 million in fiscal 2024 from $1.8 million in fiscal 2023. Most of the Company's other research and development efforts, which were and continue to be a significant cost of its business, are included in cost of sales. As a percentage of net sales, research and development expenses decreased to 3.5% in fiscal 2024 compared to 6.8% in fiscal 2023.

Operating income (loss)

Operating income in fiscal 2024 was $3.0 million compared to operating loss of $2.9 million in fiscal 2023. The $5.9 million or 202.7% favorable variance was due to the overall increase in revenue and gross profit margin percentage.

On a segment basis, Aerospace posted an operating income of $2.2 million for fiscal 2024, a $4.1 million favorable variance with an operating loss of $1.9 million in fiscal 2023. CIS posted operating income of $1.6 million for fiscal 2024, a $1.3 million favorable variance compared to operating income of $0.3 million in fiscal 2023. These segment operating results were offset, in part, by unallocated corporate expenses.

Interest expense, net

Interest expense, net, for fiscal 2024 was $0.9 million compared to $0.4 million in fiscal 2023, an increase of $0.5 million, or 104.7%, due primarily to higher borrowing and increased interest rates.

Other expense (income), net

Other expense, net, for fiscal 2024 was $0.3 million, compared to other income, net, of $1.9 million in fiscal 2023, realized from the sale of its Southampton, Pennsylvania facility, a decrease of $2.2 million, or 115.4% in fiscal 2024 compared to fiscal 2023.

Income (benefit) taxes

As of February 23, 2024, the Company reviewed the components of its deferred tax assets and determined, based upon all available information, that it is more likely than not that deferred tax assets relating to its federal and state NOL carryforwards and research and development tax credits will not be realized primarily due to uncertainties related to our ability to utilize them before they expire. Accordingly, we have established a $7.9 million valuation allowance for such deferred tax assets that we do not expect to realize. If there is a change in our ability to realize our deferred tax assets for which a valuation allowance has been established, then our tax valuation allowance may decrease in the period in which we determine that realization is more likely than not.

An income tax benefit of $0.1 million was recorded in fiscal 2024 compared to income tax provision of $0.2 million recorded in fiscal 2023. Effective tax rates were -2.8% and -14.9% for fiscal 2024 and fiscal 2023, respectively. The decrease in the effective tax rate for fiscal 2024 as compared to fiscal 2023 was driven primarily by the change in the full valuation allowance amount as it relates to all deferred tax assets, largely attributable to the change in net operating loss carryforward amounts, as well as the net effect of the current year state and foreign income tax expense (benefit) created.

Liquidity and Capital Resources

On September 30, 2021, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for a line of credit of $20.0 million. The maturity date was extended to June 30, 2022.

On May 23, 2023, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The maturity date of the PNC Credit Facilities was extended from June 30, 2023 to June 30, 2024.

(ii) The PNC Credit Facilities are collateralized by a combination of the Company's pledged restricted cash held by PNC ($6.8 million as of February 23, 2024), and the pledged collateral from the estate of H.F. Lenfest.

(iii) Provided the ability for ETC to utilize our accounts receivable and inventory as collateral for additional borrowings with alternative lenders.

Loans under the Line of Credit shall bear interest at a variable rate per annum equal to the sum of (A) Daily Simple SOFR (Secured Overnight Financing Rate) plus (B) an unadjusted spread of two hundred seventy five basis points (2.75%) plus (C) a SOFR adjustment of ten basis points (0.10%).

On May 6, 2024, subsequent to the end of fiscal 2024, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank, the maturity date of the PNC Credit Facilities was extended from June 30, 2024 to June 30, 2025.

As of February 23, 2024, the Company's availability under the Revolving Line of Credit was $4.0 million. This reflected cash borrowings of $11.7 million and net outstanding standby letters of credit of approximately $4.3 million. As of June 7, 2024, the date of our most current Revolving Line of Credit statement, the Company's availability under the Revolving Line of Credit was approximately $6.5 million. The Company had working capital of $8.7 million as of February 23, 2024 compared to working capital of $5.1 million as of February 24, 2023. The increase in working capital was primarily the result of a significant increase in accounts receivable, net and contract assets partially offset by an increase in accounts payable, trade and contract liabilities. With unused availability under the Company's various current lines of credit, the further conversion of contract assets into cash, the collection of milestone payments associated with several International contracts, and expected deposits on fiscal 2025 bookings, the Company anticipates its sources of liquidity will be sufficient to fund its operating activities, anticipated capital expenditures, and debt repayment obligations throughout fiscal 2025.

Cash flows from operating activities

Cash flows from operations are driven by income from the sale of our products and services and changes in operating assets and liabilities, which primarily depend on the timing of receipts, offset by payments, in the ordinary course of business.

During fiscal 2024, cash flows used by operating activities were $3.7 million, a decrease of $5.1 million compared to fiscal 2023 cash flows provided of $1.4 million. Cash flows in fiscal 2024 decreased as a result of the increase in accounts receivable and contract assets partially offset by net income for the fiscal year.

Cash flows from investing activities

Cash used for investing activities primarily relates to funds used for capital expenditures in property, plant, and equipment and software development. The Company's fiscal 2024 and fiscal 2023 investing activities used $0.3 million and provided $4.5 million, respectively. During fiscal 2024, the Company invested $0.3 million towards property, plant and equipment. This compares to cash provided by investing activities including $4.7 million as a result of a sale leaseback of the facility in Southampton, PA. in fiscal 2023.

Cash flows from financing activities

During fiscal 2024, the Company's financing activities included $2.7 million borrowings under the Company's credit facility to support the significant increase in manufacturing, compared to fiscal 2023 repayments of $3.2 million.

Outlook

We expect to use our cash, cash equivalents, and credit facilities for working capital and general corporate purposes, products, technologies, leases, property, plant, and equipment, the payment of contractual and other legal obligations, including scheduled interest payments on credit facilities and/or the purchase, redemption, or retirement of our credit facilities and Preferred Stock. We expect that net sales of our currently marketed products and services, combined with the current and anticipated future availability under our various lines of credit, the conversion of contract assets into cash, the collection of milestone payments associated with several International contracts, and expected deposits on fiscal 2025 bookings, should continue to provide us sufficient funds for fiscal 2025. At this time, however, we cannot accurately predict the effect of certain developments on our anticipated results in fiscal 2025 and beyond because of factors such as the degree of market acceptance, the impact of competition, the effectiveness of our sales and marketing efforts, and the outcome of our efforts to develop new products.

Off-Balance Sheet Arrangements

There were no unconsolidated legal entities, "special purpose" entities, or other off-balance sheet arrangements during either fiscal 2024 or fiscal 2023 other than disclosed in Note 10 – Commitments and Contingencies that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to our shareholders.

MANAGEMENT'S REPORT

Management is responsible for the preparation as well as the integrity and objectivity of the accompanying consolidated financial statements of Environmental Tectonics Corporation. These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and necessarily include amounts that represent the best estimates and judgments of management.

Environmental Tectonics Corporation maintains an accounting system of internal controls to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for preparing financial statements and maintaining accountability for assets. Reasonable assurance recognizes that the cost of a system of internal controls should not exceed its benefits and that the evaluation of these factors requires estimates and judgments by management. The internal control system includes the selection and training of management and supervisory personnel; an organizational structure providing for delegation of authority and establishment of responsibilities; communication of requirements for compliance with approved accounting control and business practices throughout the organization; and business planning and review.

RSM US LLP, our independent auditor, is engaged to audit and report on these consolidated financial statements. Their audit is conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement .

The Audit Committee of the Board of Directors meets regularly with management and the independent auditors to review matters relating to financial reporting, internal controls, and auditing. Management and the independent auditors each have direct and confidential access to this committee

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Robert L. Laurent, Jr.
Chief Executive Officer and President

Timothy Kennedy
Chief Financial Officer

Independent Auditor's Report

Board of Directors
Environmental Tectonics Corporation

Opinion

We have audited the consolidated financial statements of Environmental Tectonics Corporation and Subsidiaries (the Company), which comprise the consolidated balance sheets as of February 23, 2024 and February 24, 2023, the related consolidated statements of operations and comprehensive loss changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of February 23, 2024 and February 24, 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Blue Bell, Pennsylvania
June 7, 2024

CONSOLIDATED COMPARATIVE BALANCE SHEETS

(in thousands, except share information)	**February 23, 2024**	**February 24, 2023**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37	$ 559
Restricted cash	8,407	9,075
Accounts receivable, net	7,365	3,352
Contract assets	12,278	4,174
Inventories, net	1,876	1,957
Prepaid expenses and other current assets	6,994	5,468
Total current assets	36,957	24,585
Property, plant, and equipment, at cost, net	4,138	5,291
Right-of-use asset	2,822	2,768
Capitalized software development costs, net	24	45
Total assets	**$ 43,941**	**$ 32,689**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt obligations, net of debt issuance costs	$ 712	$ 123
Accounts payable, trade	4,711	2,578
Contract liabilities	12,997	7,127
Accrued taxes	268	333
Accrued interest and dividends	5,340	4,895
Current portion of lease obligations	815	759
Other accrued liabilities, current	3,373	3,661
Total current liabilities	28,216	19,476
Long-term debt obligations, net of debt issuance costs, less current portion:		
Credit facility payable to bank, net of debt issuance costs	12,078	10,017
Total long-term debt obligations, net of debt issuance costs, less current portion	12,078	10,017
Lease obligations, non-current	2,007	2,006
Other accrued liabilities, non-current	704	1,738
Total liabilities	43,005	33,237
Shareholders' equity (deficit):		
Cumulative convertible participating Preferred Stock, Series E, $0.05 par value, 25,000 authorized; 12,127 shares outstanding as of Feb. 23, 2024 and Feb. 24, 2023	12,127	12,127
Common Stock, $0.05 par value, 50,000,000 shares authorized; 9,443,785 shares issued and outstanding as of Feb. 23, 2024 and Feb. 24, 2023	472	472
Additional paid-in capital	5,927	6,411
Accumulated deficit	(16,979)	(18,799)
Accumulated other comprehensive loss	(611)	(796)
Total shareholders' equity (deficit) before non-controlling interest	936	(585)
Non-controlling interest	-	37
Total shareholders' equity (deficit) before non-controlling interest	936	(548)
Total liabilities and shareholders' equity (deficit)	**$ 43,941**	**$ 32,689**

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

CONSOLIDATED COMPARATIVE STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share information)

	Fiscal Year Ended	
	Feb. 23, 2024	**Feb. 24, 2023**
Net sales	$ 43,307	$ 26,345
Cost of goods sold	30,848	19,779
Gross profit	12,459	6,566
Operating expenses:		
Selling and marketing	1,757	1,562
General and administrative	6,205	6,092
Research and development	1,532	1,800
Operating expenses total	9,494	9,454
Operating income (loss)	2,965	(2,888)
Other expenses:		
Interest expense, net	899	439
Other expense (income), net	297	(1,933)
Other expense (income) total	1,196	(1,494)
Income (loss) before income taxes	1,769	(1,394)
Income tax (benefit) provision	(51)	208
Net income (loss)	1,820	(1,602)
Income attributable to non-controlling interest	-	45
Net income (loss) attributable to ETC	**1,820**	**(1,557)**
Foreign currency translation adjustment	185	(92)
Comprehensive income (loss)	$ 2,005	$ (1,649)
Preferred Stock dividends	(484)	(484)
Income (loss) attributable to common and participating shareholders	$ 1,336	$ (2,041)
Per share information:		
Basic earnings (loss) per common and participating share:		
Distributed earnings per share:		
Common	$ -	$ -
Preferred	$ 0.08	$ 0.08
Undistributed earnings (loss) per share:		
Common	$ 0.09	$ (0.13)
Preferred	$ 0.09	$ (0.13)
Earnings (loss) per diluted share	**$ 0.09**	**$ (0.13)**
Basic weighted average common and participating shares:		
Common weighted average number of shares	9,444	9,444
Participating preferred shares	6,125	6,125
Total basic weighted average common and participating shares	**15,569**	**15,569**
Diluted weighted average shares:		
Basic weighted average common and participating shares	15,569	15,569
Dilutive effect of stock options	-	-
Total diluted weighted average shares	**15,569**	**15,569**

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

(in thousands, except share information)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity (Deficit)
Balance, February 26, 2022	$ 12,127	9,443,785	$ 472	$ 6,861	$ (17,243)	$ (704)	$ 1,595
Less: Prior year non-controlling interest	-	-	-	-	-	-	(82)
Net income (loss) attributable to ETC	-	-	-	-	(1,557)	-	(1,557)
Foreign currency translation adjustment	-	-	-	-	-	(92)	(92)
Preferred Stock dividends	-	-	-	(484)	-	-	(484)
Stock compensation expense	-	-	-	34	-	-	34
Balance before non-controlling interest, February 24 2023	12,127	9,443,785	472	6,411	(18,799)	(796)	(585)
Non-controlling interest	-	-	-	-	-	-	37
Balance, February 24, 2023	**$ 12,127**	**9,443,785**	**$ 472**	**$ 6,411**	**$ (18,799)**	**$ (796)**	**$ (548)**
Less: Prior year non-controlling interest	-	-	-	-	-	-	(37)
Net income attributable to ETC	-	-	-	-	1,820	-	1,820
Foreign currency translation adjustment	-	-	-	-	-	185	185
Preferred Stock dividends	-			(484)	-	-	(484)
Balance, February 23, 2024	**$ 12,127**	**9,443,785**	**$ 472**	**$ 5,927**	**$ (16,979)**	**$ (611)**	**$ 936**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Fiscal year ended	
	Feb. 23, 2024	Feb. 24, 2023
Cash flows from operating activities:		
Net income (loss)	$ 1,820	$ (1,602)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,448	1,075
Deferred income taxes	-	267
Increase in allowance for credit losses and inventory obsolescence	55	42
Stock compensation expense	-	34
(Gain) on sale of assets	-	(2,320)
Changes in operating assets and liabilities:		
Accounts receivable	(4,079)	3,241
Contract assets	(8,104)	(2,385)
Inventories	92	690
Prepaid expenses and other assets	(1,526)	1,452
Accounts payable, trade	2,133	287
Contract liabilities	5,870	1,737
Accrued taxes	(65)	225
Accrued interest and dividends	(39)	4
Other accrued liabilities	(1,319)	(1,316)
Net cash (used in) provided by operating activities	**(3,714)**	**1,431**
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(306)	(213)
Proceeds from sale of assets	-	4,700
Capitalized software development costs	(5)	(33)
Net cash (used in) provided by investing activities	**(311)**	**4,454**
Cash flows from financing activities:		
Borrowings (repayments) under lines of credit	2,650	(3,218)
Net cash provided by (used in) financing activities	**2,650**	**(3,218)**
Effect of exchange rate changes on cash	185	(88)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(1,190)	2,579
Cash, cash equivalents, and restricted cash at beginning of year	9,634	7,055
Cash, cash equivalents, and restricted cash at end of period	**$ 8,444**	**$ 9,634**
Less: Restricted cash	(8,407)	(9,075)
Cash and cash equivalents at end of period	**$ 37**	**$ 559**
Supplemental schedule of cash flow information:		
Interest paid	$ 1,206	$ 528
Income taxes paid	$ -	$ -
Supplemental information on non-cash operating and investing activities:		
Preferred Stock dividends accrued during each respective fiscal period	$ 484	$ 484
Unrealized gain (loss) on cash flow hedge	$ 652	$ 2,320

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

Description of Business

ETC was incorporated in 1969 in Pennsylvania. For over five decades, we have provided our customers with products, services, and support. Innovation, continuous technological improvement and enhancement, and product quality are core values that are critical to our success. We are a significant supplier and innovator in the following areas: (i) software driven products and services used to create and monitor the physiological effects of flight, including high performance jet tactical flight simulation, fixed and rotary wing upset prevention and recovery and spatial disorientation, and both suborbital and orbital commercial human spaceflight, collectively, Aircrew Training Systems ("ATS"); (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); (iv) Advanced Disaster Management Simulators ("ADMS"); (v) steam and gas (ethylene oxide) sterilizer systems; and (vi) environmental testing and simulation systems ("ETSS"). We operate in two primary business segments, Aerospace Solutions ("Aerospace") and Commercial/Industrial Systems ("CIS"). Net sales, operating profit (loss), identifiable assets, and other financial information regarding our segments may be found in Note 8 – Business Segment Information.

Aerospace encompasses the design, manufacture, and sale of: (i) ATS products; (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); and (iv) ADMS, as well as integrated logistics support ("ILS") for customers who purchase these products or similar products manufactured by other parties. These products and services provide customers with an offering of comprehensive solutions for improved readiness and reduced operational costs. Sales of our Aerospace products are made principally to U.S. and foreign government agencies and to civil aviation organizations. We offer integrated ATS products to commercial, governmental, and military defense agencies, and training devices, including altitude (hypobaric) and multiplace chambers ("Chambers"), to governmental and military defense agencies and civil aviation organizations both in the United States and internationally. We sell our ADMS line of products to governmental organizations and the oil and gas industry both in the United States and internationally, original equipment manufacturers in the global special fire truck market (including Aircraft Rescue and Firefighting vehicles), fire and emergency training schools, universities, commercial operations, and airports. We also provide ILS for customers who purchase these products or similar products manufactured by other parties.

CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizer systems; and (ii) ETSS; as well as parts and service support for customers who purchase these products or similar products manufactured by other parties. Sales of our CIS products are made principally to the healthcare, pharmaceutical, and automotive industries. We sell our sterilizer systems to medical device manufacturers, pharmaceutical manufacturers, and universities. We sell ETSS primarily to commercial automotive and heating, ventilation, and air conditioning ("HVAC") manufacturers. We also provide upgrade, maintenance, and repair services for our products and similar products manufactured by other parties.

The Company's primary Standard Industrial Classification Code is 3569. The Company's fiscal year is the fifty-two week or fifty-three week annual accounting period ending the last Friday in February. References to fiscal 2024 are references to the fifty-two week period ended February 23, 2024. References to fiscal 2023 are references to the fifty-two week period ended February 24, 2023.

Sales Backlog

Sales backlog represents unfulfilled or remaining performance obligations under existing contracts, which sales we expect to recognize for our products and services for which control has not yet transferred to the customer.

Below is a breakdown of the Company's February 23, 2024 sales backlog (amounts in thousands, except percentages):

	Business segment			
Geographic Area	**Aerospace**	**CIS**	**Total**	**%**
Domestic	$ 152	$ 2,659	$ 2,811	2.6%
U.S. Government	1,574	-	1,574	1.4%
International	86,350	18,189	104,539	96.0%
Total	**$88,076**	**$ 20,848**	**$ 108,924**	**100.0%**
% of Total	80.9%	19.1%	100.0%	

Within the Company's February 23, 2024 sales backlog of $108.9 million, one International contract within the Aerospace segment and one International contract with the CIS segment represented at least 10% of the total sales backlog and constituted $69.6 million, or 63.9%, and $14.4 million, or 13.2%, respectively of the total sales backlog. As of February 24, 2023, one (1) unit, ATS, represented 10% or more of total sales backlog. ATS sales backlog was $84.8 million, or 77.8%, of the total sales backlog, ADMS sales backlog was $3.3 million, or 3.0% of the total sales backlog, ETSS sales backlog was $0.4 million, or 0.4% of the total sales backlog, and Sterilizer systems sales backlog was $20.5 million, or 18.8% of total sales backlog. We expect to recognize approximately 59% of the total sales backlog as of February 23, 2024 over the next twelve (12) months and approximately 91% over the next twenty-four (24) months as revenue, with the remainder recognized thereafter. Given the Company's sales backlog as of February 23, 2024, it is anticipated that ETC will generate the majority of its sales from International ATS and Sterilizer Systems contracts in fiscal 2025.

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of ETC and ETC-PZL Aerospace Industries Sp. z o.o. ("ETC-PZL"), our 100%-owned subsidiary in Warsaw, Poland. ETC-PZL manufactures certain simulators and provides software to support products manufactured domestically within our Aerospace segment. "ETC-SH" refers to the Company's corporate headquarters and main production plant located in Southampton, Pennsylvania. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made when estimating budget costs for large, multi-year contracts that involve significant engineering and software development and for valuations of long-lived assets, inventory and legal reserves, and income taxes.

Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable, and bank debt approximate fair value because of the short maturity associated with each of these instruments.

Revenue Recognition

The majority of our net sales are generated from long-term contracts with U.S. and foreign government agencies (including foreign military sales ("FMS") contracted through the U.S. Government) for the research, design, development, manufacture, integration, and sustainment of ATS products, including Chambers and the simulators manufactured and sold through ETC-PZL, collectively, Aeromedical Training Solutions. The Company also enters into long-term contracts with domestic and international customers for the sale of sterilizers and ETSS. Net sales of ADMS are generally much shorter term in nature and vary between domestic and international customers. We generally provide our products and services under fixed-price contracts.

Under fixed-price contracts, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss. Some fixed-price contracts have a performance-based component under which we may incur financial penalties based on our performance, such as liquidated damages for delayed delivery.

We account for a contract after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable.

We assess each contract at its inception to determine whether it should be combined with other contracts. When making this determination, we consider factors such as whether two or more contracts were negotiated and executed at or near the same time or were negotiated with an overall profit objective. If combined, we treat the combined contracts as a single contract for revenue recognition purposes.

We evaluate the products or services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The majority of the Company's contracts with customers are accounted for as one performance obligation, as the majority of products and services is part of a single project or capability. In limited cases, our contracts have more than one distinct performance obligation, which occurs when we perform activities that are not interrelated or involve different product lifecycles. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit recorded in a given period.

We determine the transaction price for each contract based on the consideration we expect to receive for the products or services being provided under the contract, net of all sales and similar taxes collected from customers. For contracts where a portion of the price may vary, we estimate variable consideration at the most likely amount, which is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. We analyze the risk of a significant revenue reversal, and if necessary, constrain the amount of variable consideration recognized in order to mitigate this risk.

At the inception of a contract, we estimate the transaction price based on our current rights and do not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Contracts are often subsequently modified to include changes in specifications, requirements, or price, which may create new or change existing enforceable rights and obligations. Depending on the nature of the modification, we consider whether to account for the modification as an adjustment to the existing contract or as a separate contract. Generally, modifications to our contracts are not distinct from the existing contract due to the significant integration and interrelated tasks provided in the context of the contract; therefore, such modifications are accounted for as if they were part of the existing contract and recognized as a cumulative adjustment to revenue. Contract claims and disputes related to customer caused delays, errors in specifications and designs, and other unanticipated causes for amounts in excess of contract value may increase the transaction price if it is probable that the claim will result in an increase in the contract value and if the increase can be reliably estimated; however, the resulting revenue recorded on a contract claim cannot exceed the incurred contract costs related to that claim. Claims are subject to negotiation, dispute resolution, and audit by the customer or governmental agency.

For contracts with multiple performance obligations, we allocate the transaction price to each performance obligation based on the estimated standalone selling price of the product or service underlying each performance obligation. The standalone selling price represents the amount we would sell the product or service to a customer on a standalone basis (i.e., not bundled with any other products or services). Our contracts with the U.S. Government, including FMS contracts, are subject to the Federal Acquisition Regulations ("FAR") and the price is typically based on estimated or actual costs plus a reasonable profit margin. As a result of these regulations, the standalone selling price of products or services in our contracts with the U.S. Government and FMS contracts are typically equal to the selling price stated in the contract; therefore, we typically do not need to allocate (or reallocate) the transaction price to multiple performance obligations.

For non-U.S. Government contracts with multiple performance obligations, we evaluate whether the stated selling prices for the products or services represent their standalone selling prices. We primarily sell customized solutions unique to a customer's specifications. When it is necessary to allocate the transaction price to multiple performance obligations, we typically use the expected cost plus a reasonable profit margin to estimate the standalone selling price of each product or service. We occasionally sell standard products or services with observable standalone sales transactions. In these situations, the observable standalone sales transactions are used to determine the standalone selling price.

We recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. In determining when performance obligations are satisfied, we consider factors such as contract terms, payment terms, and whether there is an alternative future use of the product or service. Substantially all of our revenue is recognized over a period of time as we perform under the contract because control of the work in process transfers continuously to the customer. For contracts with the U.S. Government and FMS contracts, this continuous transfer of control of the work in process to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit, and take control of any work in process. Our non-U.S. Government contracts, primarily domestic and international direct commercial contracts, typically do not include termination for convenience provisions; however, continuous transfer of control to our customer is supported as, if our customer were to terminate the contract for reasons other than our non-performance, we would have the right to recover damages that would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to us.

For performance obligations to deliver products with continuous transfer of control to the customer, revenue is recognized by means of an input measure based on the extent of progress towards completion of the performance obligation, generally using the percentage-of-completion cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer as we incur costs on our contracts. Under the percentage-of-completion cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation(s).

For performance obligations in which control does not continuously transfer to the customer, we recognize revenue at the point in time in which each performance obligation is fully satisfied. This coincides with the point in time the customer obtains control of the product or service, which typically occurs upon customer acceptance or receipt of the product or service, given that we maintain control of the product or service until that point.

The Company also offers one to five year (and in limited cases fifteen year) maintenance and support agreements for many of its products, especially within the Aerospace segment. The specific terms and conditions of these agreements vary depending upon the product sold and country in which the product was sold. Revenue is recognized on such agreements over a period of time on a straight-line basis over the term of the maintenance and support services or the right to invoice method (in situations where the value transferred matches our billing rights) as our customer receives and consumes the benefits. The standalone selling price is determined based on the price charged when sold separately or upon renewal.

Sales backlog represents unfulfilled or remaining performance obligations under existing contracts, which sales we expect to recognize for our products and services for which control has not yet transferred to the customer. The estimated consideration is determined at the outset of the contract and considers the risks related to the technical, schedule, and cost impacts to complete the contract and an estimate of any variable consideration. We review these risks on a quarterly basis and may increase or decrease backlog accordingly. As the risks on such contracts are successfully retired, the estimated consideration from customers may be reduced, resulting in a reduction of backlog without a corresponding recognition of sales.

For arrangements with the U.S. Government and FMS contracts, we generally do not begin work on contracts until the customer appropriates funding. Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. Typical payment terms under fixed-price contracts with the U.S. Government provide that the customer pays either performance-based payments based on the achievement of contract milestones or progress payments based on a percentage of costs we incur. For the majority of our domestic and international direct commercial contracts, we typically receive advance payments prior to commencement of work, as well as milestone payments that are paid in accordance with the terms of our contract as we perform. We recognize a liability for payments in excess of revenue recognized, which is presented as a contract liability on the balance sheet. The portion of payments that may be retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer from our failure to adequately complete some or all of the obligations under the contract. Payments received from customers in advance of revenue recognition are not considered to be significant financing components because they are used to meet working capital demands that can be higher in the early stages of a contract. We present revenues recognized in excess of billings as contract assets on the balance sheet. Amounts billed and due from our customers are classified as receivables on the balance sheet.

Significant estimates and assumptions are made in estimating contract sales and costs, including the profit booking rate. At the outset of a long-term contract, we identify and monitor risks to the achievement of the technical, schedule, and cost aspects of the contract, as well as variable consideration, and assess the effects of those risks on our estimates of sales and total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events), and costs (e.g., material, labor, subcontractor, overhead, and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule, and costs in the

initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and cost aspects of the contract, which decreases the estimated total costs to complete the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase or our estimates of variable consideration we expect to receive decrease. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. When estimates of total costs to be incurred on a contract exceed total estimates of the transaction price, a provision for the entire loss is determined at the contract level and is recorded in the period in which the loss is determined.

Comparability of our segment sales, operating loss, and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts for which we recognize revenue over a period of time using the percentage-of-completion cost-to-cost method to measure progress towards completion. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs to fulfill the performance obligations that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate, resulting in an increase in the estimated total costs to fulfill the performance obligations and a reduction in the profit booking rate. Increases or decreases in profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes.

The aggregate impact of adjustments in contract estimates to net loss attributable to ETC are presented below:

Net (loss) income attributable to ETC

	Fiscal 2024	Fiscal 2023
Aerospace	$ (608)	$ (79)
CIS	109	38
Total	**$ (499)**	**$ (41)**

Cash and Cash Equivalents

Cash includes short-term deposits at market interest rates with original maturities of three (3) months or less. The Company maintains cash balances at several financial institutions located in the Northeast United States and at several locations internationally. Accounts in each domestic institution are insured by the Federal Deposit Insurance Corporation up to $250. During each fiscal year, the Company may periodically have cash and cash equivalents in excess of insured amounts.

Restricted Cash

Restricted cash was $8,407 as of February 23, 2024 compared to $9,075 as of February 24, 2023. Restricted cash is comprised primarily of collateral for any obligations under our loan agreements with PNC Bank, National Association ("PNC Bank") as defined in Note 6 – Long-Term Obligations and Related Equity Arrangements. The decrease in restricted cash was due primarily to the reduction in advance payments to PZL for the intended use of prepaid research and development funding under international government grant programs.

Accounts Receivable and Concentration of Credit Risk

Accounts receivable represents our unconditional right to consideration under the contract and include amounts billed and currently due from customers. The amounts are stated at their net estimated realizable value.

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current creditworthiness. Terms are cash upon delivery, except where satisfactory open account credit is established, in which case terms are generally payment net thirty (30) days from the date of the invoice. Accounts receivable are deemed past due if payment is not received by the payment due date. Overdue payments are subject to interest penalty of the delinquent amount at the rate of one and one-half percent (1.5%) per month. The Company continuously monitors collections and payments from its customers, and maintains a provision for estimated credit losses The Company's measurement of expected economic loss, as well as any potential recovery, is based on historical losses, current and forecasted economic conditions, customer specific considerations as well as geopolitical considerations. While credit losses have historically been within the Company's expectations and the provisions established, we cannot guarantee that the Company will continue to experience the same credit loss rates.

Additionally, as a result of the concentration of international receivables, the Company cannot predict the effect, if any, that geopolitical disputes and financial constraints will have on the ultimate collection of its international receivables. Amounts due under contracts related to international customers and agencies of a foreign government totaled $5,588, or 75.9%, of total net accounts receivable as of February 23, 2024 as compared to $1,954, or 58.3%, of total net accounts receivable as of February 24, 2023. As of June 7, 2024, the date of issuance of our consolidated financial statements, 93.8% of these receivables outstanding as of February 23, 2024 and 86.2% of these receivables outstanding as of February 24, 2023 have been collected. See Note 2 – Accounts Receivable for additional disclosures related to our accounts receivable.

Contract Assets

Contract assets include unbilled amounts typically resulting from sales under contracts when the percentage-of-completion cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. The amounts may not exceed their estimated net realizable value. In accordance with industry practices, contract assets are classified as current even though a portion of these amounts may not be realized within one year.

Contract Liabilities

Contract liabilities include billings in excess of revenue recognized and advance payments. In accordance with industry practices, contract liabilities are classified as current.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined principally by the first-in, first-out method ("FIFO method"). The costs of finished goods and work-in-process inventories include material, direct engineering, manufacturing labor, and overhead components. Overhead costs allocated to inventory are only those directly related to our manufacturing activities. Where necessary, provision is made for obsolete, slow-moving, or damaged inventory. This provision represents the difference between the cost of the inventory and its estimated market value. In addition, we capitalize costs to fulfill incurred in advance of contract award in inventories as work-in-process if we determine that contract award is probable.

In accordance with U.S. GAAP, the Company may capitalize certain costs of simulation equipment into property, plant, and equipment. This equipment may be used to provide training or as a demonstration device to market the technology, and may be sold as a product if appropriate.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, and are depreciated over their estimated useful lives using the straight-line method for financial reporting purposes. Buildings and building additions are depreciated over 40 years; machinery and equipment, 3 to 20 years; office furniture and equipment, 10 years; and building improvements, 5 to 10 years. In June, 2022, the Company was involved in a sale leaseback of the facility. The Company manufactures certain equipment that it uses primarily for both research and demonstration purposes to support its sales effort and is not listed for sale, although sales of such demonstration equipment are not precluded. The gross value of demonstration equipment was $14,816 and $16,960 as of February 23, 2024 and February 24, 2023, respectively. The net book value of demonstration equipment was $3,709 and $4,712 as of February 23, 2024 and February 24, 2023, respectively. Upon sale of such demonstration devices, their costs, net of accumulated depreciation, are transferred to cost of sales. Upon sale or retirement of property, plant, and equipment, the costs and related accumulated depreciation are eliminated from the accounts with any resulting gains or losses. In fiscal 2024, $3,201 of property, plant, and equipment, with a net book value of $596, was retired. There was $1 of retirements of assets in fiscal 2023. In June, 2022, ETC sold and leased back its land, buildings, and improvements, in Southampton, Pennsylvania, with a net book value of $2,250, for pre-tax proceeds of $4,700 to its current landlord. See Note 1 Leases section.

Capitalized Software Development Costs

The Company capitalizes the qualifying costs of developing software contained in certain products. Capitalization of such costs commences when technological feasibility has been established in accordance with the Financial Accounting Standards Board's ("FASB") guidance on accounting for the costs of computer software to be sold, leased, or otherwise marketed. Technological feasibility is defined as the point in time when the Company has completed all planning, designing, coding, and testing activities that are necessary to establish that a software product can be produced to meet its design specifications, including functions, features, and technical performance requirements. When the software is ready for commercial release, capitalization of development costs cease and amortization commences on a straight-line basis over a period ranging from three (3) to five (5) years, depending upon the life of the product. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors including, but not limited to, anticipated future gross product revenue, estimated economic product lives, and changes in software and hardware technology. Software amortization totaled $16 and $31 in fiscal 2024 and fiscal 2023, respectively. Estimated software amortization, which is based on existing capitalized software, for each of the next five (5) fiscal years, is as follows: $18 in fiscal 2025, $6 in fiscal 2026, and $0 thereafter.

Research and Development Costs

Research and development costs, which relate primarily to the development, design, and testing of products, are expensed as incurred. The Company enters into research grants with various government entities, both in the United States and internationally. During both fiscal 2024 and fiscal 2023, the Company was involved with three (3) such grants, of which two (2) remained at the end of the year. Reimbursement payments received under these grants for qualified expenses are recorded as a reduction of research and development costs. Net expenses was $1,532 in fiscal 2024 compared to $1,800 in fiscal 2023. Research and development expenses, which totaled $3,974 in fiscal 2024 and $7,297 in fiscal 2023, include spending for potential new products and technologies and work performed under government grant programs, both in the United States and internationally. This spending, net of reimbursements from the governments of Poland as detailed above, was $1,532 for fiscal 2024 compared to $1,800 for fiscal 2023.

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes, as well as the valuation of net operating loss ("NOL") carryforwards and research and development tax credits. Valuation allowances are reviewed each fiscal period to determine whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax asset. Deferred tax assets and liabilities are offset and presented as a single non-current asset.

Significant judgments and estimates are required in determining the provision for taxes, including judgments and estimates regarding the realization of deferred tax assets and the ultimate outcomes of tax-related contingencies. During the normal course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. A liability is recognized, including interest, or a tax asset is reduced, for the anticipated outcome of tax audits. These amounts are adjusted in light of changing facts and circumstances.

Long-Lived Assets

The Company reviews its property, plant, and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the net undiscounted cash flows expected to be generated by the asset. An impairment loss would be recorded for the excess of net book value over the fair value of the asset impaired. The fair value is estimated based on expected undiscounted future cash flows. The results of impairment tests are subject to management's estimates and assumptions of projected cash flows and operating results; actual results may differ. There were no impairment losses recorded in either fiscal 2024 or fiscal 2023.

Share-Based Compensation

Share-based compensation expense is measured at the stock option grant date, based on the fair value of the award, and is recorded primarily to general and administrative expense. The Company uses the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair value of share-based awards in accordance with Accounting Standards Codification ("ASC") 718, Compensation. This option-pricing model requires the input of highly subjective assumptions, including the option's expected term, the price volatility of the underlying stock, risk-free rates of return, dividend yield, and expected forfeitures. The expected term of an award is no less than the award vesting period and is based on the Company's historical experience. The expected stock price volatility is based on the Company's historical stock prices. The risk-free interest rate is approximated using rates available on U.S. Treasury securities in effect at the time of grant with a remaining term similar to the award's expected life. The Company uses a dividend yield of zero in the Black-Scholes option-pricing model as it does not anticipate paying cash dividends in the near future. The Company uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expense for only those awards that are expected to vest as the requisite service is rendered. The guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from these estimates. The Company typically issues new shares of Common Stock upon the exercise of stock options, as opposed to using treasury shares. There were no stock options granted in fiscal 2024 and fiscal 2023.

Advertising Costs

The Company expenses advertising costs, which include trade shows, as incurred. Advertising costs were $98 and $130 in fiscal 2024 and fiscal 2023, respectively.

Warranty Costs

The Company provides warranties against defects in materials and workmanship in our products. Warranty periods for our products generally range from ninety (90) days to two (2) years. The Company maintains 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.

Earnings per Share

The Company utilizes the two-class method for computing and presenting earnings per share. The Company currently has one class of Common Stock (the "Common Stock") and one class of cumulative convertible participating Preferred Stock currently outstanding, Series E (the "Preferred Stock"). Under its terms, the Preferred Stock is entitled to participate in any cash dividends on a one-for-one basis for the equivalent converted common shares if the Preferred Stock were to be converted by the holder by the dividend record date; therefore, the Preferred Stock is considered a participating security requiring the two-class method for the computation and presentation of net income per share – basic.

The two-class computation method for each period segregates basic earnings per common and participating share into two categories: distributed earnings per share (i.e., the Preferred Stock stated dividend) and undistributed earnings per share, which allocates earnings after subtracting the Preferred Stock dividend to the total of weighted average common shares outstanding plus equivalent converted common shares related to the Preferred Stock. Basic earnings per common and participating share exclude the effect of Common Stock equivalents, and is computed using the two-class computation method.

Earnings per diluted share reflects the potential dilution that could result if securities or other contracts to issue Common Stock were exercised or converted into Common Stock. Earnings per diluted share continues to be computed using the if-converted method. Earnings per diluted share assumes the exercise of stock options and warrants using the treasury stock method. If the effect of the conversion of any financial instruments would be anti-dilutive, it is excluded from the earnings per diluted share calculation.

As of both February 23, 2024 and February 24, 2023, there was $12,127 of cumulative convertible participating Series E Preferred Stock convertible at an exercise price of $1.98 per share, equating to 6,124,567 shares of Common Stock, originally issued in July 2009.

As of February 23, 2024 and February 24, 2023, there were outstanding options to purchase the Company's Common Stock at an average price of $0.88 and $0.95 totaling 717,950 and 957,950 shares, respectively. Due to the conversion price of the Common Stock options; all 717,950 and 957,950 shares were excluded from the calculation of diluted earnings per share as of February 23, 2024 and February 24, 2023, respectively, because the effect of their conversion would be anti-dilutive.

Leases

The Company determines if an arrangement is a lease at the inception date. On the Consolidated Balance Sheets, operating leases are included in *Right-of-use asset*, with the related liabilities included in either *Current portion of lease obligations or Lease obligations, non-current*. Also on the Consolidated Balance Sheets, finance leases are included in *Property, plant, and equipment, at cost, net*, with the related liabilities included in either *Other accrued liabilities, current*, or *Other accrued liabilities, non-current*.

Right-of-use assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. If a lease does not implicitly state a rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Variable components of the lease payments such as fair market value adjustments, utilities, and maintenance costs are expensed as incurred and not included in determining the present value. Lease expense for minimum lease payments are recognized on a straight-line basis over the lease term..

Upon sale of the land, building and improvements in the sale and lease back transaction the Company received net proceeds of $4,700 and added Right of Use assets of $2,756. The discount rate was 5.50%. The Company leases certain premises, automobiles and office equipment under operating leases. As of February 23, 2024, these leases have remaining lease terms of four (4) months to sixty-four (64) months, with a weighted average remaining lease term of approximately fifty-three (53) months. Maturities of operating lease liabilities are as follows:

Fiscal Year		**Amount**
Fiscal 2025	$	956
Fiscal 2026		649
Fiscal 2027		488
Fiscal 2028		481
Fiscal 2029		484
Fiscal 2030		143
Total lease payments		3,201
Less: imputed interest		(379)
Total future long-term debt obligations		2,822
Less: current portion		(815)
Total future long-term debt obligations, less current portion	**$**	**2,007**

Total operating lease expense in fiscal 2024 was $944 of which $0 was attributable to variable lease expenses. Cash payments against operating lease liabilities in fiscal 2024 totaled $796.

Recently Adopted Accounting Pronouncements

Financial Instruments—Credit Losses

On February 25, 2023, the Company adopted Accounting Standards Update ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. ASU 2016-13 replaces the incurred loss impairment methodology for measuring and recognizing credit losses, including trade receivables, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This new standard, as amended by ASU 2019-10 is effective for fiscal years beginning after December 15, 2022. Under this new standard, on initial recognition and at each reporting period, an entity is required to recognize an allowance that reflects the entity's current estimate of credit losses expected to be incurred over the life of the financial instrument.

The Company's measurement of expected economic loss, as well as any potential recovery, is based on the following considerations:

(i) Historical losses of the various pools
(ii) Current and forecasted economic conditions
(iii) Customer specific considerations
(iv) Geopolitical considerations

Recent Accounting Pronouncements

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures. This amendment requires disclosures of significant expenses by segment and interim disclosure of items that were previously required on an annual basis. The amendments are to be applied on a retrospective basis and are effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. We are evaluating the impact of the amendments on disclosures in our consolidated financial statements

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740), Improvements to Income Tax Disclosures. On an annual basis, the new guidance requires a public entity to disclose: (1) specific categories in the rate reconciliation, (2) additional information for reconciling items that are equal to or greater than 5% of the amount computed by multiplying income (or loss) from continuing operations before income tax expense (or benefit) by the applicable statutory income tax rate, (3) income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes, with foreign taxes disaggregated by individual jurisdictions in which income taxes paid is equal to or greater than 5% of total income taxes paid, (4) income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, and (5) income tax expense (or benefit) from continuing operations disaggregated between federal (national), state and foreign. The amendments may be adopted on a prospective or retrospective basis and are effective for fiscal years beginning after December 15, 2024 with early adoption permitted. We are evaluating the impact of the amendments on disclosures in our consolidated financial statements.

2. Accounts Receivable

The components of accounts receivable are as follows:

	Feb. 23, 2024	Feb. 24, 2023
U.S. Commercial ("Domestic")	$ 1,280	$ 1,389
U.S. Government	366	79
International	5,855	1,954
	7,501	3,422
Less: allowance for credit losses	(136)	(70)
Accounts receivable, net	**$ 7,365**	**$ 3,352**

The components of accounts receivable are as follows:

	Feb. 24, 2023	Additions	Recoveries	Feb. 23, 2024
U.S. Commercial ("Domestic")	$ 35	$ 32	$ (6)	$ 61
U.S. Government	-	-	-	-
International	35	60	(20)	75
Allowance for credit losses	**$ 70**	**$ 92**	**$ (26)**	**$ 136**

3. Contract Assets and Contract Liabilities

The following is a summary of long-term contracts in progress:

	Feb. 23, 2024	Feb. 24, 2023
Cost incurred on uncompleted long-term contracts	$ 58,436	$ 72,245
Estimated earnings	25,481	34,039
	83,917	106,284
Less: billings to date	(84,636)	(97,240)
	$ (719)	**$ (2,953)**

Included in accompanying balance sheets under the following captions:

	Feb. 23, 2024	Feb. 24, 2023
Contract assets	$ 12,278	$ 4,174
Contract liabilities	(12,997)	(7,127)
	$ (719)	**$ (2,953)**

Included in contract liabilities is a provision for unexpected losses on contracts of $200 in both fiscal 2024 and fiscal 2023.

4. Inventories

Inventories are valued at the lower of cost or market using the FIFO method and consist of the following:

	Feb. 23, 2024	Feb. 24, 2023
Raw materials	$ 135	$ 122
Work in process	1,741	1,818
Finished goods	-	17
Inventories, net	**$ 1,876**	**$ 1,957**

Inventory is presented net of an allowance for obsolescence of $621 (raw material $61, work in process $560, and finished goods $0) and $632 (raw material $61, work in process $553 and finished goods $18) as of February 23, 2024 and February 24, 2023, respectively.

5. Property, Plant, and Equipment

The following is a summary of property, plant and equipment, at cost:

	Feb. 23, 2024	Feb. 24, 2023
Machinery and equipment	$ 11,143	$ 11,333
Demonstration equipment	14,816	16,960
Office furniture and equipment	1,223	1,324
Construction in process	-	631
	27,182	30,248
Less: accumulated depreciation	(23,044)	(24,957)
Property, plant, and equipment, at cost, net	**$ 4,138**	**$ 5,291**

Depreciation and amortization expense for fiscal 2024 and fiscal 2023 was $1,448 and $1,075, respectively.

As of both February 23, 2024 and February 24, 2023, substantially all of the Company's long-lived assets were located in the United States of America.

In accordance with U.S. GAAP, the Company may capitalize certain costs of simulation equipment into property, plant, and equipment. This equipment may be used to provide training or as a demonstration device to market the technology, and may be sold as a product if appropriate

6. Long-Term Obligations and Related Equity Arrangements

September 28, 2012 Loan Agreement with PNC Bank

Effective September 28, 2012, ETC and PNC Bank entered into a loan agreement (the "September 28, 2012 Loan Agreement"), which included ETC executing a Line of Credit Note and a Term Loan Note (as defined below). As set forth in the September 28, 2012 Loan Agreement, borrowings under the PNC Line of Credit were available for working capital and other general business purposes, and for issuances of letters of credit. Amounts were borrowed, repaid, and re-borrowed under the PNC Line of Credit from time to time until August 5, 2016, the date on which the Company entered into an amendment to the September 28, 2012 Loan Agreement that provided for, among other things, the consolidation of the PNC Line of Credit and the Term Loan into a $21,000 Revolving Line of Credit (the "Revolving Line of Credit"), which on April 9, 2018 was subsequently increased to $25,000; see "Recent Amendments to the September 28, 2012 Loan Agreement" below for details.

The Company's obligation to repay the advances under the Revolving Line of Credit is set forth in the Amended and Restated Committed Line of Credit Note (the "Line of Credit Note"). As of February 23, 2024, the Company's availability under the Revolving Line of Credit was $3,996. This reflected cash borrowings of $11,725 and net outstanding standby letters of credit of $4,279. As of June 7, 2024, the date of our most current Revolving Line of Credit statement, the Company's availability under the Revolving Line of Credit was approximately $6,546.

As security for repayment of the Line of Credit Note, as noted above, and the Term Loan Note, which set forth the Company's obligation to repay the principal on the Term Loan, including interest, on a monthly basis, the Company also concurrently entered into the Third Amended and Restated Reimbursement Agreement for Letters of Credit between ETC and PNC Bank dated September 28, 2012, a Security Agreement between ETC and PNC Bank dated September 28, 2012, a Pledge Agreement executed by ETC on September 28, 2012 in favor of PNC Bank ("Pledge Agreement"), an Amended and Restated Guaranty and Suretyship Agreement executed on September 28, 2012 in favor of PNC Bank by H.F. Lenfest ("Mr. Lenfest"), a major shareholder and director of ETC since 2003, who passed away on August 5, 2018, and an Open-End Mortgage and Security Agreement between ETC and PNC Bank dated September 28, 2012. Pursuant to the Pledge Agreement, which was subsequently amended and restated in conjunction with the Fiscal 2017 Amendment to the September 28, 2012 Loan Agreement (as defined below), the Company pledged to PNC Bank as collateral the Company's ownership interest in certain subsidiaries of the Company.

The September 28, 2012 Loan Agreement contains both affirmative and negative covenants that are customary for transactions of this type, including such financial covenants as a minimum net worth, a maximum operating leverage ratio, and a minimum fixed charge coverage ratio, as well as limitations with respect to indebtedness, liens, investments, distributions, dispositions of assets, change of business, and transactions with affiliates. The September 28, 2012 Loan Agreement also provides for customary events of default, including the failure to pay any principal or interest when due, failure to comply with covenants, material misrepresentations, certain bankruptcy, insolvency or receivership events, imposition of certain judgments, and the liquidation of ETC. Upon an event of default under the September 28, 2012 Loan Agreement, including the non-payment of principal or interest, the obligations of the Company under the September 28, 2012 Loan Agreement may be accelerated and the assets securing the obligations secured.

Recent Amendments to the Sept. 28, 2012 Loan Agreement

On September 30, 2021, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for a line of credit of $20.0 million with a maturity date of June 30, 2022.

On May 23, 2022, the Company entered into an amendment to a September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

(i) The maturity date of the PNC Credit Facilities was extended from June 30, 2022 to June 30, 2023.

(ii) The PNC Credit Facilities will be collateralized by a combination of the Company's pledged restricted cash held by PNC ($6.85 million as of November 25, 2022), substantially all of the Company's additional assets, and the pledged collateral from the estate of H.F. Lenfest

Loans under the Line of Credit shall bear interest at a variable rate per annum equal to the sum of (A) Daily Simple SOFR (Secured Overnight Financing Rate) plus (B) an unadjusted spread of two hundred seventy five basis points (2.75%) plus (C) a SOFR adjustment of ten basis points (0.10%).

On May 23, 2023, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that provided for, among other things, the following:

i) The maturity date of the 2016 PNC Credit Facilities was extended from June 30, 2023 to June 30, 2024.

ii) Loans under the Line of Credit shall bear interest at a variable rate per annum equal to the sum of (A) Daily Simple SOFR plus (B) an unadjusted spread of two hundred seventy five basis points (2.75%) plus (C) a SOFR adjustment of ten basis points (0.10%).

iii) Provided the ability for ETC to utilize our accounts receivable and inventory as collateral for additional borrowings with alternative lenders.

On May 6, 2024, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that extended the maturity date of the 2016 PNC Credit Facilities from June 30, 2024 to June 30, 2025.

Preferred Stock

Presently, the Company has one class of cumulative convertible participating Preferred Stock currently outstanding, Series E (25,000 shares authorized) (the "Preferred Stock"). The Preferred Stock was authorized by the Board of Directors in April 2009 as part of the 2009 Lenfest Financing Transaction. The Preferred Stock has a par value of $0.05 per share and a stated value of $1,000 per share. The Preferred Stock is currently entitled to receive cumulative dividends at the rate of four percent (4%) per year in preference to the holders of the Company's Common Stock with respect to dividends. These dividends are payable only upon a liquidation event or when otherwise declared by the Board of Directors. The Company cannot declare or pay any dividends on its Common Stock until the dividends on the Preferred Stock have been paid. The Preferred Stock holders are entitled to receive any dividends paid with respect to the Common Stock on an "as-converted" basis. The Preferred Stock may be converted by the holder at any time and from time to time into the Company's Common Stock by dividing the stated value of the Preferred Stock by the conversion price established at the time of issuance (see "Series E Preferred Stock" below). Upon a liquidation event, the holders of the Preferred Stock would be entitled to participate in any proceeds in preference to any Common Stock holders. The Preferred Stock would also participate in any liquidation event with the Common Stock holders on an "as-converted" basis. The Preferred Stock conversion price is subject to adjustment for certain transactions including stock splits and issuance of equity securities below the conversion prices.

The Company has reviewed U.S. GAAP applicable to the Preferred Stock; specifically, the Company has reviewed both ASC 480 – Distinguishing Liabilities from Equity and ASC 815 – Derivatives and Hedging. Upon its review, the Company determined that the Preferred Stock is within the control of the Company and that the attributes of the Preferred Stock are more akin to equity than debt. The specific attributes considered by the Company include the designation of the instruments, the conversion of the instruments to the Company's Common Stock, the participation feature, the non-mandatory conversion, the voting rights, and the ability to appoint directors. Secondly, the Company determined that the Preferred Stock qualifies as permanent equity because the Preferred Stock is not mandatorily redeemable, and there is no obligation to either repurchase the instruments or issue a variable amount of common shares. Lastly, the Company determined that the conversion feature qualifies for the scope exception of ASC 815 – Derivatives and Hedging as it is clearly and closely related to the Preferred Stock instrument. Due to the Company's accumulated deficit as of February 24, 2012, all Preferred Stock dividends accruing through this date were recorded in the accompanying consolidated financial statements as a reduction of additional paid-in capital. During fiscal 2013, the Company entered into a position of retained earnings; thus, all $1,511 and $493 of dividends recorded during fiscal 2013 and fiscal 2014, respectively, were recorded as a reduction to retained earnings. Due to the accumulated deficit position entered into beginning in fiscal 2015, all $484 of dividends recorded during each of the fiscal years since were recorded as a reduction of additional paid-in capital.

Series E Preferred Stock

On July 2, 2009, the Company issued 23,741 shares of Series E Preferred Stock to Mr. Lenfest in connection with the 2009 Lenfest Financing Transaction. The shares of Series E Preferred Stock were convertible to Common Stock at a conversion price per share equal to $2.00 and would have converted into 11,870,391 shares of the Company's Common Stock.

On March 10, 2010, August 12, 2010, and February 9, 2011, ETC entered into three separate agreements with Mr. Lenfest to repurchase and retire a total of 2,000 shares of Series E Preferred Stock owned by Mr. Lenfest. In the three agreements, the repurchases were made at the stated price of $1,000 per share for a total of $2,000.

On September 28, 2012, as part of the 2012 Financial Restructuring and immediately following the closing of the Loan Agreement, the Company purchased from Mr. Lenfest, at the stated price of $1,000 per share, 9,614 shares of Series E Preferred Stock, representing a significant portion of the Company's issued and outstanding Series E Preferred Stock. The estate of Mr. Lenfest is the only holder of the outstanding Series E Preferred Stock, and 12,127 shares of Series E Preferred Stock remain outstanding as of both February 23, 2024 and February 24, 2023.

As of both February 23, 2024 and February 24, 2023, Series E Preferred Stock was convertible at an exercise price of $1.98 per share, equating to 6,124,567 shares of Common Stock. All Series E Preferred Stock dividends accrued through February 22, 2013 have been paid in cash. Series E Preferred Stock dividends accrued during the period February 23, 2013 through February 23, 2024, which totaled $5,340, remained unpaid as of June 7, 2024, the date of issuance of our consolidated financial statements.

ETC-PZL Line of Credit Agreement

On December 29, 2022 ETC-PZL revised its loan agreement with a bank in Warsaw, Poland, whereby ETC-PZL received two lines of credit (collectively, the "ETC-PZL Lines of Credit") in the amounts of $750 and $500 to fund current activity. Amounts may be borrowed, repaid, and re-borrowed up until December 29, 2024 ($750) and December 30, 2023 ($500), respectively.

On December 30, 2023 ETZ-PZL received an extension on the $500 line of credit until May 30, 2024. On April 30, 2024, ETC-PZL revised this loan agreement with a bank in Warsaw, Poland, whereby ETC-PZL received a new line of credit in the amounts of $500 thousand until November 29, 2026. The interest rate on the ETC-PZL Lines of Credit will be based on the Warsaw Interbank Offered Rate ("WIBOR") one-month base rate (5.85% as of the date of issuance of our consolidated financial statements) plus a margin of 3.0% for the $750 thousand line and rate (5.85% as of the date of issuance of our consolidated financial statements) plus a margin of 3.3% for the $500 line. The ETC-PZL Lines of Credit are collateralized by a combination of promissory notes and substantially all of ETC-PZL's unrestricted current assets. As of February 23, 2024, there were outstanding borrowings of $1,065 under the two ETC-PZL Lines of Credit.

Summary of Long-Term Debt Obligations

Long-term debt obligations consist of the following:

	Feb. 23, 2024	Feb. 24, 2023
Credit facility payable to PNC Bank	$ 11,725	$ 9,330
Credit facility payable to Spoldzielczy Bank	353	687
Total long-term debt obligations, net of debt issuance costs	**$12,078**	**$10,017**

The amounts of future long-term debt obligations maturing in each of the next five (5) fiscal years are as follows:

Fiscal Year	Amount
Fiscal 2025	-
Fiscal 2026	$ 12,078
Fiscal 2027	-
Fiscal 2028	-
Fiscal 2029	-
Total future long-term debt obligations	**$ 12,078**

7. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes, as well as the valuation of NOL carryforwards and research and development tax credits. Valuation allowances are reviewed each fiscal period to determine whether there is sufficient positive or negative evidence to support a change in judgment about the potential realization of the related deferred tax asset. Deferred tax assets and liabilities are offset and presented as a single non-current asset.

As of February 23, 2024, the Company reviewed the components of its deferred tax assets and determined, based upon all available information, that it is more likely than not that deferred tax assets relating to its federal and state NOL carryforwards and research and development tax credits will not be realized primarily due to uncertainties related to our ability to utilize them before they expire. Accordingly, we have established a $7,897 valuation allowance for such deferred tax assets that we do not expect to realize. If there is a change in our ability to realize our deferred tax assets for which a valuation allowance has been established, then our tax valuation allowance may decrease in the period in which we determine that realization is more likely than not.

An income tax benefit of $51 was recorded in fiscal 2024 compared to an income tax provision of $208 in fiscal 2023. Our income tax (benefit) provision consists of the following:

	Fiscal year ended	
	Feb. 23, 2024	Feb. 24, 2023
Current tax (benefit) expense:		
U.S. Federal	$ -	$ -
U.S. State	29	-
Foreign	(80)	(60)
Total current tax benefit, net	**(51)**	**(60)**
Deferred tax (benefit) expense:		
U.S. Federal	$ -	$ 268
U.S. State	-	-
Foreign	-	-
Total deferred tax expense, net	-	**268**
Income tax provision (benefit)	**$ (51)**	**$ 208**

Effective tax rates were -2.8% and -14.9% for fiscal 2024 and fiscal 2023, respectively. The decrease in the effective tax rate for fiscal 2024 as compared to fiscal 2023 was driven primarily by a change in the full valuation allowance amount as it relates to all deferred tax assets, largely attributable to the change in net operating loss carryforward amounts, as well as the net effect of the current year state and foreign income tax (benefit) expense createdThe Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. ETC is no longer subject to U.S. federal tax examinations by tax authorities for the fiscal years before and including 2021. ETC-PZL is no longer subject to tax examinations in Poland for tax periods prior to December 31, 2017. We are, however, subject to examination

in various other foreign and state jurisdictions for fiscal years 2014-2024.

As of February 23, 2024, the Company had approximately $21,605 of federal NOL carryforwards available to offset future income tax liabilities, $15,931 of which will begin to expire in 2028. Under Section 382 of the Internal Revenue Code of 1986, as amended ("IRC Section 382"), a corporation that undergoes an "ownership change", as defined therein, is subject to limitations on its use of pre-change NOL carryforwards to offset future taxable income. The Company at this time has not performed a full Section 382 analysis. If we were to undergo one or more "ownership changes" within the meaning of IRC Section 382, our NOL carryforwards existing as of the date of each ownership change may be unavailable, in whole or in part, to offset U.S. federal income tax resulting from our operations, which could result in increased U.S. federal income tax liability. The Company has recorded a valuation allowance on the entire NOL carryforward as it believes that it is more likely than not that the deferred tax asset associated with the NOL carryforwards will not be realized regardless of whether an "ownership change" has occurred.

As of February 23, 2024 and February 24, 2023, the Company has a net deferred tax asset of $0. Significant components of our net deferred tax asset are as follows:

	Feb. 23, 2024	Feb. 24, 2023
Deferred tax assets:		
NOL carryforwards	$ 5,430	$ 5,979
U.S. R&D tax credits	1,961	2,072
Vacation accrual	155	202
Inventory reserve	147	145
Receivable reserve	32	16
Right of use liability	602	584
Other, net	1,237	1,074
	9,564	10,073
Valuation allowance	(7,897)	(8,399)
Total deferred tax assets	**1,667**	**1,675**
Deferred tax liabilities:		
Depreciation	(864)	(968)
Amortization of capitalized software	(5)	(9)
Right-of-use Asset	(602)	(584)
APB 23 liability	(196)	(114)
Total deferred tax liabilities	**(1,667)**	**(1,675)**
Total net deferred tax asset	**$ -**	**$ -**

As of February 23, 2024, there were no amounts accrued for the payment of income tax-related interest and penalties included in the consolidated financial statements. As of February 24, 2023, the amounts accrued for the payment of income tax-related interest and penalties included in the consolidated financial statements were as follows: interest of $96 and penalties of $142. The interest and penalties recorded during fiscal 2023 primarily related to domestic state tax and foreign tax issues.

As of February 23, 2024 and February 24, 2023, the total amount of unrecognized tax benefits was $704 and $793, respectively, of which $0 would affect the effective tax rate in fiscal year 2024, if recognized. These amounts, which are recorded on the Company's balance sheet within other accrued liabilities, are primarily associated with U.S. federal tax issues such as the amount of research and development tax credits claimed and taxation of foreign earnings. Also included in these amounts are accruals for domestic state tax issues such as the allocation of income among various state tax jurisdictions.

8. Business Segment Information

We operate in two primary business segments, Aerospace and CIS. Aerospace encompasses the design, manufacture, and sale of: (i) ATS products; (ii) altitude (hypobaric) chambers; (iii) hyperbaric chambers for multiple persons (multiplace chambers); and (iv) ADMS, as well as ILS for customers who purchase these products or similar products manufactured by other parties. These products and services provide customers with an offering of comprehensive solutions for improved readiness and reduced operational costs. Sales of our Aerospace products are made principally to U.S. and foreign government agencies and to civil aviation organizations. CIS encompasses the design, manufacture, and sale of: (i) steam and gas (ethylene oxide) sterilizer systems and (ii) ETSS; as well as parts and service support for customers who purchase these products or similar products manufactured by other parties. Sales of our CIS products are made principally to the healthcare, pharmaceutical, and automotive industries.

Segment operating income (loss) consists of net sales less applicable costs and expenses relating to these sales. Unallocated expenses including general corporate expenses, letter of credit fees, and income taxes have been excluded from the determination of the total profit for segments. For presentation purposes, income, expenses, and assets not specifically identifiable to an individual business group or applicable to all groups and general corporate expenses, primarily central administrative office expenses, are reflected in the Corporate category. Property, plant, and equipment associated with our National Aerospace Training and Research Center (the "NASTAR Center") are included in the Aerospace segment; the remaining property, plant, and equipment are not identified with specific business segments because most of these assets are used in each of the segments.

In fiscal 2024, one International customer within the Aerospace segment and one International customer within the CIS segment represented 10.0% or more of total net sales, and sales to these customers totaling $14,102 and $7,012 represented 32.6% and 16.2% of total net sales, respectively. In fiscal 2023, one International Domestic customer within the CIS segment represented 10.0% or more of total net sales, and sales to this customer totaling $3,094 represented 11.7% of total net sales.

Included in the segment information for fiscal 2024 and fiscal 2023 are export sales of $35,591 and $11,803, respectively. In fiscal 2024, International sales totaling at least $500 were made to customers in ten (10) different countries; in fiscal 2023, International sales totaling at least $500 were made to customers in seven (7). Sales to the U.S. Government and its agencies aggregated to $1,434 and $1,560 for fiscal 2024 and fiscal 2023, respectively.

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The following segment information reflects the accrual basis of accounting:

	Aerospace	CIS	Corporate	Company Total
Fiscal 2024:				
Net sales	$ 25,817	$ 17,490	$ -	$ 43,307
Interest expense, net	536	363	-	899
Depreciation and amortization	1,435	3	10	1,448
Operating income	2,161	1,587	(783)	2,965
Income tax (benefit)	-	-	(51)	(51)
Identifiable assets	20,792	6,827	16,322	43,941
Expenditures for segment assets	207	84	20	311
Fiscal 2023:				
Net sales	$ 13,260	$ 13,086	$ -	$ 26,345
Interest expense, net	221	218	-	439
Depreciation and amortization	1,068	3	4	1,075
Operating loss	(1,898)	306	(1,296)	(2,888)
Income tax benefit	-	-	208	208
Identifiable assets	10,992	5,449	16,248	32,689
Expenditures for segment assets	124	38	84	246

Reconciliation to consolidated net loss attributable to ETC	**Fiscal 2024**	**Fiscal 2023**
Operating income (loss)	$ 2,965	$ (2,888)
Interest expense, net	(899)	(439)
Other expense (income), net	297	(1,933)
Income tax (benefit) provision	(51)	208
Income attributable to non-controlling interest	-	45
Net income (loss) attributable to ETC	**$ 1,820**	**$ (1,557)**

9. Stock Option Plans

The following is a summary of the status of the Company's stock option plans:

	Fiscal year ended			
	February 23, 2024		February 24, 2023	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	957,950	$ 0.95	1,001,450	$ 0.95
Granted	-	$ -	-	$ -
Exercised	-	$ -	-	$ -
Forfeited	(240,000)	$ 1.13	(43,500)	$ 0.86
Outstanding at end of year	**717,950**	**$ 0.88**	**957,950**	**$ 0.95**
Options exercisable at fiscal year end	717,950		776,950	
Weighted average fair value of options granted during the fiscal year		$ -		$ -

The following information applies to options outstanding as of February 23, 2024:

	Options outstanding			Options exercisable	
Exercise price	Number outstanding as of Feb. 23, 2024	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Feb. 23, 2024	Weighted average exercise price
$ 0.71-$ 0.72	493,450	5.5	$ 0.71	493,450	$ 0.71
$ 1.25	224,500	1.16	$ 1.25	224,500	$ 1.25
Total	**717,950**			**717,950**	

The Company uses the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair value of share-based awards in accordance with ASC 718, Compensation. This option-pricing model requires the input of highly subjective assumptions, including the option's expected term, the price volatility of the underlying stock, risk-free rates of return, dividend yield, and expected forfeitures. The expected term of an award (10 years) is no less than the award vesting period and is based on the Company's historical experience. In fiscal 2023 and 2024, no options were granted. The Company uses a dividend yield of zero in the Black-Scholes option-pricing model as it does not anticipate paying cash dividends in the near future. The Company is required to estimate forfeitures at the time of grant, and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expense for only those awards that are expected to vest as the requisite service is rendered. The guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from these estimates. The Company typically issues new shares of Common Stock upon the exercise of stock options, as opposed to using treasury shares. Stock option compensation expense was $0 and $34 in fiscal 2024 and fiscal 2023, respectively.

Entering fiscal 2024, the Company had two stock-based compensation plans:

Employee, Director and Consultant Stock Plan

In July 2009, the Company adopted the 2009 Employee, Director and Consultant Stock Plan. This Plan authorizes the Board of Directors (or a committee appointed under the Board of Directors) to grant option awards for the purchase of Common Stock or Common Stock awards of up to 1,000,000 shares of Common Stock to employees, officers, directors, consultants, and advisors of the Company. The Plan allows for the establishment of an exercise price at the time each option is granted. The exercise price shall not be less than the fair market value, or in the case of a ten percent (10%) owner, one-hundred and ten percent (110%), of a share of the Company's Common Stock on the date of grant of such option. The plan also allows the Board of Directors or its appointed committee to establish the exercise period(s) of any option awards. Granted options have a maximum term of ten (10) years. This Plan was approved by the shareholders on July 2, 2009. No awards are to be granted under this Plan after July 2, 2019.

Non-employee Director Stock Plan

In September 2005, the Company adopted a stock option plan that allows for the granting to non-employee members of the Board of Directors of options to purchase up to 600,000 shares of Common Stock. The Plan provides that the exercise price shall not be less than one-hundred percent (100%) of the current market price of the stock on the date of the grant. The amount of each individual award and the vesting period are determined by the Board of Directors or its appointed committee. Granted options have a maximum term of ten (10) years. The Plan shall remain in effect until terminated by the Board of Directors. As of February 23, 2024, there were 34,048 shares available to be granted under this Plan.

10. Commitments and Contingencies

Legal Proceedings

Directorate of Defense Trade Controls Voluntary Disclosure

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

Other Matters

Certain other claims, suits, and complaints arising in the ordinary course of business have been filed or are pending against us. We believe, after consultation with legal counsel handling these specific matters, all such matters are reserved for or adequately covered by insurance or, if not so covered, are without merit or are of such kind, or involve such amounts, as would not be expected to have a significant effect on our financial position or results of operations if determined adversely against us.

11. Employee Benefit Plans

The Company maintains a 401(k) retirement savings plan for eligible employees. The Company contributes one-hundred percent (100%) to the plan based on the first four percent (4%) of the employees' qualifying contributions plus an additional fifty percent (50%) of the next two percent (2%) of the employees' qualifying contributions. The Company's contributions totaled $415 and $339 in fiscal 2024 and fiscal 2023, respectively.

12. Subsequent Events

The Company has evaluated subsequent events through June 7, 2024 the date of issuance of its consolidated financial statements, and determined that there were no material subsequent events other than disclosed below requiring adjustment to, or disclosure in, the consolidated financial statements for the fiscal year ended February 23, 2024.

On May 6, 2024, the Company entered into an amendment to the September 28, 2012 Loan Agreement with PNC Bank that, extended the maturity date from June 30, 2024 to June 30, 2025. See Note 6 – Long-Term Obligations and Related Equity Arrangements for further details regarding the Company's loan agreements with PNC Bank.

FIVE YEAR SUMMARY

(in thousands, except per share information)

	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024
Net sales	$ 40,580	$ 16,250	$ 19,132	$ 26,345	$ 43,307
Gross profit	8,957	1,264	4,318	6,566	12,459
Gross profit margin %	22.1%	7.8%	22.6%	24.9%	28.8%
Operating income (loss)	(2,721)	(7,219)	(2,997)	(2,888)	2,965
Operating margin %	-6.7%	-44.4%	-15.7%	-11.0%	6.8%
Income (loss) before income taxes	(3,997)	(7,888)	1,672	(1,394)	1,769
Pre-tax margin %	-9.8%	-48.5%	8.7%	-5.3%	4.1%
Income tax (benefit) provision	12	(272)	(131)	208	(51)
Net income (loss)	(4,009)	(7,616)	1,803	(1,602)	1,820
(Income) loss attributable to non-controlling interest	(9)	124	4	45	-
Net income (loss) attributable to ETC	$ (4,018)	$ (7,492)	$ 1,807	$ (1,557)	$ 1,820
Preferred Stock dividends	(493)	(484)	(484)	(484)	(484)
Income (loss) attributable to common and participating shareholders	$ (4,511)	$ (7,976)	$ 1,323	$ 1,323	$ 1,336
Earnings (loss) per diluted share	$ (0.29)	$ (0.51)	$ 0.08	$ (0.13)	$ 0.09
Working capital	$ 7,979	$ 10,032	$ 6,589	$ 5,109	$ 8,741
Total long-term debt obligations	20,078	19,431	13,358	10,017	12,078
Total assets	48,817	38,108	34,553	32,689	43,941
Total shareholders' equity (deficit)	8,023	(76)	1,595	(549)	936
Capital expenditures	243	94	196	246	311
Depreciation and amortization	1,157	1,229	1,191	1,075	1,448
Interest expense, net	779	650	527	439	899
EBITDA *	**$ (2,011)**	**$ (5,925)**	**$ 3,474**	**$ 154**	**$ 4,116**

* In addition to disclosing financial results that are determined in accordance with U.S. GAAP, we also disclose Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA"). The presentation of a non-U.S. GAAP financial measure such as EBITDA is intended to enhance the usefulness of financial information by providing a measure that management uses internally to evaluate our expenses and operating performance and factors into several of our financial covenant calculations.

A reader may find this item important in evaluating our performance. Management compensates for the limitations of using non-U.S GAAP financial measures by using them only to supplement our U.S. GAAP results to provide a more complete understanding of the factors and trends affecting our business.

SUPPLEMENTAL INFORMATION

Company Affiliates and Locations

The consolidated financial statements include the accounts of ETC and our 100%-owned subsidiary ETC-PZL. ETC does not have any unconsolidated legal entities, "special purpose" entities, or other off-balance sheet arrangements other than disclosed in Note 10 – Commitments and Contingencies that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to our shareholders. As of February 23, 2024, we had 231 full-time employees, compared to 221 full-time employees as of February 24, 2023, of which 6 were employed in executive positions, 72 were engineers, engineering designers, or draftspersons, 56 were administrative (sales, sales support, accounting, general administrative or clerical) personnel, and 97 were engaged principally in production, operations, or field support. A total of 124 employees were stationed at ETC-SH in Southampton, Pennsylvania, a northern suburb of Philadelphia, Pennsylvania.

We are an ISO 9001 certified manufacturer. We operate in four major locations consisting of manufacturing facilities, product development, and administration. A summary of square footage and current use as of February 23, 2024 is presented below:

The NASTAR Center, which is included in the Company's Southampton, Pennsylvania owned property, includes the following aerospace training and research equipment:

- ATFS-400-25 High Performance Human Centrifuge;
- Altitude (Hypobaric) Chamber;
- Ejection Seat Simulator; and
- Night Vision Training System; and
- Night Vision Goggle Training System.

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

Corporate Governance

The Board of Directors is currently comprised of five (5) members, four (4) of whom who are considered "independent" directors (not an employee, not affiliated with the Company's auditors, and not part of an interlocking directorate). Directors are nominated based on their individual qualifications and experience, the overall balance of the Board of Directors' background and experience, and each individual's willingness to fulfill their obligations and to contribute appropriately.

The Board of Directors meets four times per year in addition to various Board committee meetings held throughout the year. Standing committees consist of the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee. These committees each have defined charters that address the committees' purpose, goals, and responsibilities. All committees meet on a scheduled basis. Please refer to the Investors section of our website (www.etcusa.com) for more information on corporate governance.

Reporting Requirements

The Company is not currently required to register with the U.S. Securities and Exchange Commission ("SEC") and therefore is not subject to the reporting requirements of a public company; however, the Company issues periodic press releases, quarterly unaudited interim consolidated financial statements, and an annual report with audited consolidated financial statements.

Interim Consolidated Financial Statements

Interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for fiscal 2024. The results for any interim period are not necessarily indicative of results for the full fiscal year. Certain information and footnote disclosures normally included in audited financial statements have been omitted from the interim consolidated financial statements. As mentioned previously, the Company is not subject to SEC reporting requirements and therefore its quarterly interim consolidated financial statements are not subject to an interim review by Independent Auditors as prescribed by the SEC.

Investor and Shareholder Information

Shareholder Inquiries

Questions concerning your account, address changes, consolidation of duplicate accounts, lost certificates, and other related matters should be addressed to ETC's transfer agent:

Equiniti Trust Company, LLC ("EQ")
55 Challenger Road, Floor 2
Ridgefield Park, NJ 07660
Website: www.equiniti.com

Stock Exchange Listing

The Common Stock of ETC is traded under the symbol "ETCC" on the electronic Pink Sheets and is listed by the OTC Markets Group, Inc., reporting service for over-the-counter stocks. Stock quotation information is available through stock reporting services on the Internet at www.otcmarkets.com.

Annual Meeting

The Company's Annual Meeting of Shareholders will be held live via the Internet at 10:00 a.m. on Thursday, July 25, 2024. The link to access the meeting will be contained within the Notice of Annual Meeting of Shareholders that will be included with the mailing of this Annual Report to Shareholders.

Corporate Data

You can access Company information including press releases, earnings announcements, history, and other information through the Internet by visiting the ETC website at **www.etcusa.com.**

For further information, contact Tim Kennedy, Chief Financial Officer. Telephone: (215) 355-9100 x1531

Board of Directors

George K. Anderson, M.D., Chairman (2003)
Linda J. Brent, Ed.D. (2010)
Brian Eccleston (2023)
Robert L. Laurent, Jr. (2014)
Winston E. Scott (2010)

Corporate Officers

Robert L. Laurent, Jr., *Chief Executive Officer, President, Corporate Secretary*
Timothy R. Kennedy, *Chief Financial Officer*
Thomas G. Loughlin, *Chief Operating Officer*
Alper Kus, *Senior Vice President, Aircrew Training Systems*
Katarzyna Wrzesinski, *Director of Finance and Corporate Controller*
Joseph McAvoy, Vice President of Contracts

COMMITTEE COMPOSITION

	Audit Committee	Compensation Committee	Nominating and Governance Committee
George K. Anderson, M.D.	-	-	-
Linda J. Brent Ed.D	Member	Member	Chairperson
Winston E. Scott	Member	Chairperson	Member
Brian Eccleston	Chairperson	Member	Member

OWNERSHIP TABLE

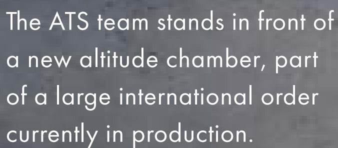
	Name/Address **	Title	Ownership Percentage
Directors and Executive Officers:	George K. Anderson, M.D.	Chairman of the Board of Directors	1.3%
	Linda J. Brent, Ed.D.	Director	1.0%
	Winston E. Scott	Director	1.1%
	Brian Eccleston	Director	*
	Robert L. Laurent, Jr.	Chief Executive Officer, President, Corporate Secretary, and Director	1.9%
	Timothy R Kennedy	Chief Financial Officer	
	Thomas G. Loughlin	Chief Operating Officer	1.0%
	Alper Kus	Senior Vice President, Aircrew Training Systems	*
	Katarzyna Wrzesinski	Director of Finance and Corporate Controller	*
	Joseph McAvoy	Vice President of Contracts	*
5% Beneficial Owners:	Estate of H.F. Lenfest *c/o The Lenfest Foundation* *Two Logan Square* *100 N. 18th Street, Suite 800* *Philadelphia, PA 19103*		*** 54.1%
	Peter H. Kamin and related family entities *2720 Donald Ross Road, 311* *Palm Beach Gardens, FL 33410*		11.7%
	T. Todd Martin, III *50 Midtown Park East* *Mobile, AL 36606*		11.0%
	Estate of Pete L. Stephens		6.3%

** less than 1%*

*** address listed for all persons beneficially owning more than ten percent (10%)*

**** the denominator for this ownership percentage calculation includes all participating preferred shares*

Information is accurate as of June 7, 2024, the date of issuance of our consolidated financial statements, based on information available to the Company. None of the foregoing Directors and Executive Officers in the last ten (10) years has had a legal/disciplinary issue.


The ATS team stands in front of a new altitude chamber, part of a large international order currently in production.

SUCCESS THROUGH INNOVATION.

This year, our ATS Business unit upgraded our Altitude Chambers with advanced physiological monitoring, improved environmental controls, and new flight stations at every seat for more accurate hypoxia assessment.

AEROSPACE SOLUTIONS

ETC AIRCREW TRAINING SYSTEMS

For nearly five decades, ATS has provided clients around the world with simulation systems designed for training and research applications in: high-G, spatial disorientation, situational awareness, aircraft egress, night vision, hypoxic environments, tactical aviation, avionics maintenance, helicopter flight, and water survival.

THE NATIONAL AEROSPACE TRAINING AND RESEARCH (NASTAR) CENTER

The NASTAR Center is the premier commercial air and space training, resea and development facility. It combines stat of-the-art flight simulators with physiology based coursework to optimize human performance in extreme environments.

ETC SIMULATION

ETC Simulation's flagship product is the Advanced Disaster Management Simulator (ADMS), a realistic, virtual emergency management simulation training system. Based in Orlando, Florida, ETC Simulation offers the most thorough training for incident command and disaster management teams.

ETC INTEGRATED LOGISTICS SUPPORT

Equipment maintenance, training, and upgrades for domestic and foreign commercial accounts, civilian agencies, and militaries.

COMMERCIAL/ INDUSTRIAL SYSTEMS

ETC ENVIRONMENTAL TESTING AND SIMULATION SYSTEMS

ETSS has designed, manufactured, and installed state-of-the-art environmental simulation systems for the automotive-testing and HVAC industries since 1969. Offering a complete line of industry-leading test equipment developed for clients' needs, ETSS offers the most customized equipment available for optimizing R&D, testing, and validation programs.

ETC SERVICE AND SUPPORT

ETC's Service and Support unit operates out of offices worldwide and provides service and support for all sterilizers, environmental systems, and chambers.

ETC STERILIZATION SYSTEMS

Specializing in medium to large (30 to 6000 cubic feet) EO and steam systems. ETC Sterilization Systems serves the pharmaceutical, biotech, medical device, and life sciences markets with unique design solutions for any challenge.

INVESTOR CONTACT

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Providing leading-edge products and service solutions since 1969.