ECOLOGY & ENVIRONMENT INC
Form 10-Q
June 16, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. -20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended May 2, 2015

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from __________ to __________

Commission File Number 1-9065

ECOLOGY AND ENVIRONMENT, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| New York | 16-0971022 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |
| 368 Pleasant View Drive<br>Lancaster, New York | 14086 |
| (Address of principal executive offices) | (Zip code) |

(716) 684-8060
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | Smaller reporting company |

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

At June 1, 2015, 2,665,858 shares of Registrant's Class A Common Stock (par value $.01) and 1,621,197 shares of Class B Common Stock (par value $.01) were outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Ecology and Environment, Inc.
Condensed Consolidated Balance Sheets
Unaudited

| Assets | (Unaudited) May 2, 2015 | (Audited) July 31, 2014 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $5,420,566 | $6,889,243 |
| Investment securities available for sale | 1,430,554 | 1,407,277 |
| Contract receivables, net of allowance for doubtful accounts and contract adjustments of $5,906,452 and $6,126,854, respectively | 41,698,596 | 44,431,305 |
| Deferred income taxes | 4,673,625 | 4,534,437 |
| Income tax receivable | 136,178 | 1,107,983 |
| Other current assets | 1,678,085 | 1,589,646 |
| Total current assets | 55,037,604 | 59,959,891 |
| Property, building and equipment, net of accumulated depreciation of $25,168,535 and $28,615,915, respectively | 7,424,155 | 7,941,455 |
| Deferred income taxes | 1,867,940 | 1,865,798 |
| Other assets | 1,922,219 | 1,941,178 |
| Total assets | $66,251,918 | $71,708,322 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $6,952,656 | $9,874,649 |
| Lines of credit | 1,495,701 | 1,572,466 |
| Accrued payroll costs | 6,515,731 | 7,650,077 |
| Current portion of long-term debt and capital lease obligations | 561,025 | 420,737 |
| Billings in excess of revenue | 4,249,140 | 5,003,413 |
| Deferred income taxes | 272,133 | - |
| Other accrued liabilities | 3,775,905 | 4,235,262 |
| Total current liabilities | 23,822,291 | 28,756,604 |
| Income taxes payable | 107,035 | 107,035 |
| Deferred income taxes | 368,873 | 631,083 |
| Long-term debt and capital lease obligations | 444,528 | 421,769 |
| Commitments and contingencies (Note 16) | - | - |
| Shareholders' equity: | | |
| Preferred stock, par value $.01 per share (2,000,000 shares authorized; no shares issued) | - | - |
| | 27,077 | 26,851 |

| | | |
|---|---|---|
| Class A common stock, par value $.01 per share (6,000,000 shares authorized; 2,707,727 shares issued) | | |
| Class B common stock, par value $.01 per share; (10,000,000 shares authorized; 1,685,998 shares issued) | 16,861 | 17,087 |
| Capital in excess of par value | 16,988,667 | 17,124,339 |
| Retained earnings | 23,372,509 | 21,916,575 |
| Accumulated other comprehensive loss | (1,337,666 ) | (182,735 ) |
| Treasury stock, at cost (Class A common: 41,869 and 40,553 shares; Class B common: 64,801 shares) | (1,223,899 ) | (1,223,899 ) |
| Total Ecology and Environment, Inc. shareholders' equity | 37,843,549 | 37,678,218 |
| Noncontrolling interests | 3,665,642 | 4,113,613 |
| Total shareholders' equity | 41,509,191 | 41,791,831 |
| Total liabilities and shareholders' equity | $66,251,918 | $71,708,322 |

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

Page 1 of 25

Ecology and Environment, Inc.
Condensed Consolidated Statements of Operations
Unaudited

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 2, 2015 | April 30, 2014 | May 2, 2015 | April 30, 2014 |
| Revenue, net | $30,344,571 | $31,503,899 | $91,696,883 | $95,330,462 |
| Cost of professional services and other direct operating expenses | 11,506,854 | 11,768,467 | 35,453,764 | 37,018,639 |
| Subcontract costs | 4,837,691 | 4,947,772 | 15,422,214 | 14,259,290 |
| Administrative and indirect operating expenses | 7,968,329 | 10,206,247 | 26,010,879 | 31,244,612 |
| Marketing and related costs | 2,539,313 | 3,446,837 | 8,742,546 | 9,949,290 |
| Depreciation and amortization | 360,964 | 1,036,010 | 1,125,326 | 3,138,502 |
| Income (loss) from operations | 3,131,420 | 98,566 | 4,942,154 | (279,871) |
| Interest income | 22,529 | 38,938 | 57,135 | 125,177 |
| Interest expense | (42,395) | (31,912) | (97,267) | (126,623) |
| Gain on sale of assets and investment securities | 24,539 | - | 176,624 | - |
| Net foreign exchange gain (loss) | 55,825 | (23,971) | 182,871 | (21,481) |
| Other (expense) income | (8,713) | (30,585) | 68,895 | 119,075 |
| Income (loss) before income tax provision (benefit) | 3,183,205 | 51,036 | 5,330,412 | (183,723) |
| Income tax provision (benefit) | 1,280,081 | 57,624 | 2,219,086 | (48,542) |
| Net income (loss) | 1,903,124 | (6,588) | 3,111,326 | (135,181) |
| Net income attributable to noncontrolling interests | (108,948) | (316,276) | (622,321) | (591,940) |
| Net income (loss) attributable to Ecology and Environment, Inc. | $1,794,176 | $(322,864) | $2,489,005 | $(727,121) |
| Net income (loss) per common share: basic and diluted | $0.42 | $(0.08) | $0.58 | $(0.17) |
| Weighted average common shares outstanding: basic and diluted | 4,287,460 | 4,289,900 | 4,288,067 | 4,282,348 |

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

Ecology and Environment, Inc.
Condensed Consolidated Statements of Comprehensive Income
Unaudited

| | Three Months Ended | | Nine Months Ended, | |
|---|---|---|---|---|
| | May 2, 2015 | April 30, 2014 | May 2, 2015 | April 30, 2014 |
| Net income (loss) including noncontrolling interests | $1,903,124 | $(6,588) | $3,111,326 | $(135,181) |
| Foreign currency translation adjustments | (321,492) | 172,777 | (1,511,127) | (193,200) |
| Unrealized investment (losses) gains, net | (14,033) | 4,006 | (982) | 2,040 |
| Comprehensive income (loss) | 1,567,599 | 170,195 | 1,599,217 | (326,341) |
| Comprehensive income (loss) attributable to noncontrolling interests | (72,682) | (291,953) | (265,143) | (468,097) |
| Comprehensive income (loss) attributable to Ecology and Environment, Inc. | $1,494,917 | $(121,758) | $1,334,074 | $(794,438) |

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

Ecology and Environment, Inc.
Condensed Consolidated Statements of Cash Flows
Unaudited

| | Nine Months Ended | |
|---|---|---|
| | May 2, 2015 | April 30, 2014 |
| Cash flows from operating activities: | | |
| Net income (loss) | $3,111,326 | $(135,181) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Impairment of goodwill | 103,547 | - |
| Depreciation and amortization | 1,125,326 | 3,138,502 |
| Provision for deferred income taxes | (497,364) | 85,407 |
| Share based compensation expense | 44,271 | 264,246 |
| Tax impact of share-based compensation | (91,849) | (31,695) |
| Gain on sale of assets and investment securities | (176,624) | - |
| Net provision for (recovery of) contract adjustments and doubtful accounts | 29,740 | (530,100) |
| Net bad debt (recovery) expense | (400,680) | - |
| Decrease (increase) in: | | |
| - contract receivables | 707,388 | 3,485,793 |
| - other current assets | (222,030) | (200,050) |
| - income tax receivable | 971,805 | 1,515,657 |
| - other non-current assets | (97,028) | 28,807 |
| (Decrease) increase in: | | |
| - accounts payable | (1,485,468) | (1,676,038) |
| - accrued payroll costs | (635,010) | 1,043,103 |
| - income taxes payable | 111,148 | 515,305 |
| - billings in excess of revenue | (360,992) | (156,680) |
| - other accrued liabilities | (6,698) | 335,845 |
| Net cash provided by operating activities | 2,230,808 | 7,682,921 |
| | | |
| Cash flows from investing activities: | | |
| Acquisition of noncontrolling interest of subsidiaries | (50,000) | (689,361) |
| Purchase of property, building and equipment | (615,890) | (1,176,753) |
| Proceeds from sale of property, building and equipment | 239,565 | - |
| (Purchase) sale of investment securities | (24,913) | 49,338 |
| Net cash used in investing activities | (451,238) | (1,816,776) |
| | | |
| Cash flows from financing activities: | | |
| Dividends paid | (2,066,142) | (2,053,506) |
| Proceeds from debt | 84,940 | 555,656 |
| Repayment of debt and capital lease obligations | (742,054) | (694,312) |
| Net borrowings (repayments) under lines of credit | 223,761 | (5,526,325) |
| Distributions to noncontrolling interests | (513,583) | (431,522) |
| Purchase of treasury stock | - | (173,278) |
| Net cash used in financing activities | (3,013,078) | (8,323,287) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (235,169) | (16,793) |
| | | |
| Net decrease in cash and cash equivalents | (1,468,677) | (2,473,935) |
| Cash and cash equivalents at beginning of period | 6,889,243 | 9,444,660 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $5,420,566 | $6,970,725 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $90,969 | $122,188 |
| Income taxes | 821,926 | (2,471,717) |
| Supplemental disclosure of non-cash items: | | |
| Acquistion of noncontrolling interest of subsidiaries (loans and stock) | 233,220 | 1,041,824 |

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

Ecology and Environment, Inc.
Condensed Consolidated Statements of Shareholders’ Equity

| | Class A Common Stock Shares | Class A Common Stock Amount | Class B Common Stock Shares | Class B Common Stock Amount | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock Shares | Treasury Stock Amount |
|---|---|---|---|---|---|---|---|---|---|
| Balance at July 31, 2013 (Audited) | 2,685,151 | $26,851 | 1,708,574 | $17,087 | $20,016,873 | $25,365,853 | $(84,527 ) | 143,911 | $(1,798, |
| Net (loss) income | - | - | - | - | - | (1,382,656 ) | - | - | - |
| Foreign currency translation adjustment | - | - | - | - | - | - | (163,913 ) | - | - |
| Cash dividends declared ($0.48 per share) | - | - | - | - | - | (2,066,622 ) | - | - | - |
| Unrealized investment gain, net | - | - | - | - | - | - | 1,412 | - | - |
| Repurchase of Class A common stock | - | - | - | - | - | - | - | 16,091 | (173,2 |
| Issuance of stock under stock award plan | - | - | - | - | (194,454 ) | - | - | (16,387 ) | 194,45 |
| Share-based compensation expense | - | - | - | - | 353,295 | - | - | - | - |
| Tax impact of share based compensation | - | - | - | - | (31,695 ) | - | - | - | - |
| Distributions to noncontrolling interests | - | - | - | - | - | - | - | - | - |
| Reclassification adjustment for prior period acquisitions of noncontrolling interests | - | - | - | - | (2,414,027 ) | - | - | - | - |
| Purchase of additional noncontrolling interests | - | - | - | - | (605,653 ) | - | 64,293 | (44,260 ) | 553,15 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Stock award plan forfeitures | - | - | - | - | - | - | - | 5,999 | - |
| Balance at July 31, 2014 (Audited) | 2,685,151 | $26,851 | 1,708,574 | $17,087 | $17,124,339 | $21,916,575 | $(182,735 ) | 105,354 | $(1,223, |
| Net income | - | - | - | - | - | 2,489,005 | - | - | - |
| Foreign currency translation adjustment | - | - | - | - | - | - | (1,153,949) | - | - |
| Cash dividends declared ($0.24 per share) | - | - | - | - | - | (1,033,071 ) | - | - | - |
| Unrealized investment gain, net | - | - | - | - | - | - | (982 ) | - | - |
| Conversion of Class B to Class A common stock | 22,576 | 226 | (22,576 ) | (226 ) | - | - | - | - | - |
| Share-based compensation expense | - | - | - | - | 44,271 | - | - | - | - |
| Tax impact of share based compensation | - | - | - | - | (91,849 ) | - | - | - | - |
| Distributions to noncontrolling interests | - | - | - | - | - | - | - | - | - |
| Purchase of additional noncontrolling interests | - | - | - | - | (88,094 ) | - | - | - | - |
| Stock award plan forfeitures | - | - | - | - | - | - | - | 1,316 | - |
| Balance at May 2, 2015 (Unaudited) | 2,707,727 | $27,077 | 1,685,998 | $16,861 | $16,988,667 | $23,372,509 | $(1,337,666) | 106,670 | $(1,223, |

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

Ecology and Environment, Inc.
Notes to Condensed Consolidated Financial Statements

1. Organization and Basis of Presentation

Ecology and Environment, Inc., ("EEI" or the "Parent Company") was incorporated in 1970 as a global broad-based environmental consulting firm whose underlying philosophy is to provide professional services worldwide so that sustainable economic and human development may proceed with acceptable impact on the environment. Together with its subsidiaries (collectively, the "Company"), EEI has direct and indirect ownership in 19 wholly owned and majority owned operating subsidiaries in 12 countries. The Company's staff is comprised of individuals representing more than 80 scientific, engineering, health, and social disciplines working together in multidisciplinary teams to provide innovative environmental solutions. The Company has completed more than 50,000 projects for a wide variety of clients in more than 120 countries, providing environmental solutions in nearly every ecosystem on the planet.

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of such information. All such adjustments are of a normal recurring nature.

Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, including a description of significant accounting policies, have been condensed or omitted pursuant to SEC rules and regulations. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2014 filed with the Securities and Exchange Commission (the "2014 Annual Report"). The accounting policies followed by the Company for preparation of the consolidated financial statements included in the 2014 Annual Report were also followed for this interim report. The condensed consolidated results of operations for the three and nine months ended May 2, 2015 are not necessarily indicative of the results for any subsequent period or the entire fiscal year ending July 31, 2015.

Certain prior year amounts were reclassified to conform to the condensed consolidated financial statement presentation for the three and nine months ended May 2, 2015.

2. Recent Accounting Pronouncements

Accounting Pronouncements Adopted During the Fiscal Year Ended July 31, 2015

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). ASU 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The Company adopted the provisions of ASU 2013-11 effective August 1, 2014 and applied its provisions retrospectively. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Accounting Pronouncements Not Yet Adopted as of May 2, 2015

In May 2014, FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). ASU 2014-09 is the result of a joint project of FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for use in the U.S and internationally. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605 of FASB’s Accounting Standards Codification (the “Codification”) and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09 enhances comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, reduces the number of requirements an entity must consider for recognizing revenue, and requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within the annual reporting period. The Company intends to adopt the provisions of ASU 2014-09 effective August 1, 2017. ASU 2014-09 requires retrospective application by either restating each prior period presented in the financial statements, or by recording the cumulative effect on prior reporting periods to beginning retained earnings in the year that the standard becomes effective. Management is currently assessing the provisions of ASU 2014-09 and has not yet estimated its impact or selected a transition method.

In January 2015, FASB issued ASU No. 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20) ("ASU 2015-01"). ASU 2015-01 eliminates the concept of extraordinary items from U.S. generally accepted accounting principles. While reporting entities will no longer be required to assess whether an underlying event or transaction is extraordinary, presentation and disclosure guidance for items that are unusual in nature or occur infrequently are retained, and are expanded to include items that are both unusual in nature and infrequently occurring. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company intends to adopt the provisions of ASU 2015-01 effective August 1, 2015.

3. Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. The Company invests cash in excess of operating requirements in income-producing short-term investments. Money market funds of less than $0.1 million and $0.3 million were included in cash and cash equivalents in the accompanying condensed consolidated balance sheets at May 2, 2015 and July 31, 2014, respectively.

4. Fair Value of Financial Instruments

The Company's financial assets or liabilities are measured using inputs from the three levels of the fair value hierarchy. The asset's or liability's classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Company has not elected a fair value option on any assets or liabilities. The three levels of the hierarchy are as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Generally this includes debt and equity securities and derivative contracts that are traded on an active exchange market (e.g., New York Stock Exchange) as well as certain U.S. Treasury and U.S. Government and agency mortgage-backed securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Inputs – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, credit risks, etc.) or can be corroborated by observable market data. The Company's investment securities classified as Level 2 are comprised of international and domestic corporate and municipal bonds.

Level 3 Inputs – Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. The Company evaluated the significance of transfers between levels based upon the nature of the financial instrument. There were no transfers in or out of levels 1, 2 or 3, respectively during the three or nine months ended May 2, 2015 or the fiscal year ended July 31, 2014.

The fair value of the Company's assets and liabilities that are measured at fair value on a recurring basis is summarized by level within the fair value hierarchy in the following table.

| | Balance at May 2, 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investment securities available for sale | $1,430,554 | $ --- | $ --- | $1,430,554 |

| | Balance at July 31, 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investment securities available for sale | $1,407,277 | $ --- | $ --- | $1,407,277 |

Investment securities available for sale include mutual funds that are valued at the net asset value ("NAV") of shares held by the Company at period end. Mutual funds held by the Company are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Company are deemed to be actively traded.

Reclassification adjustments out of accumulated other comprehensive income from realized gains or losses from investment securities available for sale are included in the condensed consolidated statements of operations within other income (expense).

The carrying amount of cash and cash equivalents approximated fair value at May 2, 2015 and July 31, 2014. These assets were classified as level 1 instruments at both dates. Long-term debt consists of bank loans and capitalized equipment leases. Lines of credit consist of borrowings for working capital requirements. Based on the Company's assessment of the current financial market and corresponding risks associated with the debt and line of credit borrowings, management believes that the carrying amount of these liabilities approximated fair value at May 2, 2015 and July 31, 2014. These liabilities were classified as level 2 instruments at both dates. There were no financial instruments classified as level 3 at May 2, 2015 or July 31, 2014.

Investment securities available for sale are stated at fair value. Unrealized gains or losses related to investment securities available for sale are recorded in accumulated other comprehensive income, net of applicable income taxes in the accompanying condensed consolidated balance sheets and condensed consolidated statements of changes in shareholders' equity. The cost basis of securities sold is based on the specific identification method. The Company had gross unrealized gains of less than $0.1 million recorded in accumulated other comprehensive income at May 2, 2015 and July 31, 2014.

5. Revenue and Contract Receivables, net

Revenue Recognition

Substantially all of the Company's revenue is derived from environmental consulting work. The consulting revenue is principally derived from the sale of labor hours. The consulting work is performed under a mix of fixed price, cost-type, and time and material contracts. Contracts are required from all customers. Revenue is recognized as follows:

| Contract Type | Work Type | Revenue Recognition Policy |
|---|---|---|

| | | |
|---|---|---|
| Time and materials | Consulting | As incurred at contract rates. |
| Fixed price | Consulting | Percentage of completion, approximating the ratio of either total costs or Level of Effort (“LOE”) hours incurred to date to total estimated costs or LOE hours. |
| Cost-plus | Consulting | Costs as incurred plus fees. Fees are recognized as revenue using percentage of completion determined by the percentage of LOE hours incurred to total LOE hours in the respective contracts. |

Revenues reflected in the Company's condensed consolidated statements of operations represent services rendered for which the Company maintains a primary contractual relationship with its customers. Included in revenues are certain services outside the Company's normal operations which the Company has elected to subcontract to other contractors.

Time and material contracts are accounted for over the period of performance, in proportion to the costs of performance, predominately based on labor hours incurred. Revenue earned from fixed price and cost-plus contracts is recognized using the “percentage-of-completion” method, wherein revenue is recognized as project progress occurs. If an estimate of costs at completion on any contract indicates that a loss will be incurred, the entire estimated loss is charged to operations in the period the loss becomes evident.

Substantially all of the Company's cost-type work is with federal governmental agencies and, as such, is subject to audits after contract completion. Under these cost-type contracts, provisions for adjustments to accrued revenue are recognized on a quarterly basis and based on past audit settlement history. Government audits have been completed and final rates have been negotiated through fiscal year 2007. The Company records an allowance for project disallowances in other accrued liabilities for potential disallowances resulting from government audits (refer to Note 11 of these condensed consolidated financial statements).

Change orders can occur when changes in scope are made after project work has begun, and can be initiated by either the Company or its clients. Claims are amounts in excess of the agreed contract price which the Company seeks to recover from a client for customer delays and /or errors or unapproved change orders that are in dispute. Costs related to change orders and claims are recognized as incurred. Revenues and profit are recognized on change orders when it is probable that the change order will be approved and the amount can be reasonably estimated. Revenues are recognized only up to the amount of costs incurred on contract claims when realization is probable, estimable and reasonable support from the customer exists.

All bid and proposal and other pre-contract costs are expensed as incurred. Out of pocket expenses such as travel, meals, field supplies, and other costs billed direct to contracts are included in both revenues and cost of professional services. Sales and cost of sales at the Company’s South American subsidiaries exclude tax assessments by governmental authorities, which are collected by the Company from its customers and then remitted to governmental authorities.

Billed contract receivables represent amounts billed to clients in accordance with contracted terms, which have not been collected from clients as of the end of the reporting period. Billed contract receivables may include: (1) amounts billed for revenues from incurred costs and fees that have been earned in accordance with contractual terms; and (2) progress billings in accordance with contractual terms that include revenue not yet earned as of the end of the reporting period.

Unbilled contract receivables result from: (i) revenues from incurred costs and fees which have been earned, but are not billed as of period-end; and (ii) differences between year-to-date provisional billings and year-to-date actual contract costs incurred.

The Company reduces contract receivables by recording an allowance for doubtful accounts to account for the estimated impact of collection issues resulting from a client’s inability or unwillingness to pay valid obligations to the Company. The resulting provision for bad debts is recorded within administrative and indirect operating expenses on the condensed consolidated statements of operations.

The Company also reduces contract receivables by establishing an allowance for contract adjustments related to revenues that are deemed to be unrealizable, or that may become unrealizable in the future. Management reviews contract receivables and determines allowance amounts based on the adequacy of the Company’s performance under the contract, the status of change orders and claims, historical experience with the client for settling change orders and claims, and economic, geopolitical and cultural considerations for the home country of the client. Such contract adjustments are recorded as direct adjustments to revenue in the condensed consolidated statements of operations.

Contract Receivables, Net

Contract receivables, net are summarized in the following table.

| | Balance at | |
|---|---|---|
| | May 2, 2015 | July 31, 2014 |
| Contract Receivables: | | |

| | | |
|---|---|---|
| Billed | $23,686,190 | $26,863,708 |
| Unbilled | 23,918,858 | 23,694,451 |
| | 47,605,048 | 50,558,159 |
| Allowance for doubtful accounts and contract adjustments | (5,906,452 ) | (6,126,854 ) |
| Total contract receivables, net | $41,698,596 | $44,431,305 |

Billed contract receivables did not include any contractual retainage balances at May 2, 2015 or July 31, 2014. Management anticipates that the unbilled receivables outstanding at May 2, 2015 will be substantially billed and collected within one year.

Contract Receivable Concentrations

Significant concentrations of contract receivables and the allowance for doubtful accounts and contract adjustments are summarized in the following table.

| | Balance at May 2, 2015 | | Balance at July 31, 2014 | |
|---|---|---|---|---|
| Region | Contract Receivables | Allowance for Doubtful Accounts and Contract Adjustments | Contract Receivables | Allowance for Doubtful Accounts and Contract Adjustments |
| United States, Canada and South America | $40,773,324 | $625,878 | $43,394,442 | $1,611,068 |
| Middle East and Africa | 6,758,478 | 5,273,574 | 7,010,225 | 4,386,240 |
| Asia | 73,246 | 7,000 | 153,492 | 129,546 |
| Totals | $47,605,048 | $5,906,452 | $50,558,159 | $6,126,854 |

Combined contract receivables related to projects in the Middle East, Africa and Asia represented 14% of total contract receivables at May 2, 2015 and July 31, 2014, while the combined allowance for doubtful accounts and contract adjustments related to these projects represented 89% and 74% of the total allowance for doubtful accounts and contract adjustments at May 2, 2015 and July 31, 2014, respectively. These allowance percentages highlight the Company's experience of heightened operating risks (i.e., political, regulatory, cultural and credit risks) within these foreign regions in comparison with similar risks in the United States, Canada and South America. During fiscal years prior to 2014, the Company expended resources in these regions that it did not recover for several months, or at all. During fiscal years 2014 and 2015, the Company significantly curtailed its operations and projects in these regions in order to focus on more profitable operations in the United States and South America.

Allowance for Doubtful Accounts and Contract Adjustments

Activity within the allowance for doubtful accounts and contract adjustments is summarized in the following table.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 2, 2015 | April 30, 2014 | May 2, 2015 | April 30, 2014 |
| Balance at beginning of period | $5,966,241 | $5,336,972 | $6,126,854 | $5,592,800 |
| Net increase (decrease) due to adjustments in the allowance for: | | | | |
| Contract adjustments (1) | (63,401) | 94,658 | 180,278 | (163,745) |
| Doubtful accounts (2) | 3,612 | (78,930) | (400,680) | (66,355) |
| Transfer of reserves to allowance for project disallowances (3) | --- | (12,500) | --- | (22,500) |
| Balance at end of period | $5,906,452 | $5,340,200 | $5,906,452 | $5,340,200 |

(1) Increases (decreases) to the allowance for contract adjustments on the condensed consolidated balance sheets are recorded as (decreases) increases to revenue, net on the condensed consolidated statements of operations.

(2) Increases (decreases) to the allowance for doubtful accounts on the condensed consolidated balance sheets are recorded as increases (decreases) to administrative and other indirect operating expenses on the condensed consolidated statements of operations.

(3) Refer to Note 11 of these condensed consolidated financial statements for a summary of the allowance for project disallowances.

6. Property, Building and Equipment, net

In November 2013, management decided to abandon the Company's existing operating and financial software system and migrate to new system software.  The Company acquired and developed new software during fiscal year 2014, and began utilizing the new software effective August 1, 2014 for its U.S. operations.  Although the core software modules were operating effectively as of August 1, 2014, certain operational and reporting capabilities of the new system continued to be developed during the nine months ended May 2, 2015.  The process to develop new operating and financial software systems for the Company's significant foreign subsidiaries was completed during the quarter ended April 30, 2015.  The Company recorded software development costs of $0.2 million and $1.5 million in property, plant and equipment during the nine months ended May 2, 2015 and April 30, 2014, respectively.

The Company continued to utilize the previous software system through July 31, 2014, at which time the previous system was abandoned.  As a result, amortization of software development costs capitalized for the previous system was accelerated so that the system was completely amortized by July 31, 2014.  Total software amortization expense was less than $0.1 million and $0.7 million for the three months ended May 2, 2015 and April 30, 2014, respectively, and $0.1 million and $2.0 million for the nine months ended May 2, 2015 and April 30, 2014, respectively.

7. Goodwill

Goodwill of $1.1 million and $1.2 million at May 2, 2015 and July 31, 2014, respectively, is included in other assets on the accompanying condensed consolidated balance sheets. Goodwill is subject to an annual assessment for impairment by comparing the estimated fair values of reporting units to which Goodwill has been assigned, as calculated using a discounted cash flow method, to the recorded book value of the respective reporting units. The Company's most recent annual impairment assessment for goodwill was completed during the fourth quarter of fiscal year 2014. The results of this assessment showed that the fair values of the reporting units to which goodwill is assigned was in excess of the book values of the respective reporting units, resulting in the identification of no goodwill impairment.

Goodwill is also assessed for impairment between annual assessments whenever events or circumstances make it more likely than not that an impairment may have occurred. The Company identified changes in circumstances during the quarter ended January 31, 2015 that necessitated an evaluation for impairment of a portion of its recorded goodwill.

The Company recorded $0.1 million of goodwill resulting from an acquisition of a majority-owned subsidiary during fiscal year 2011. The acquired company experienced recurring operating losses over the course of several recent reporting quarters. Projections completed by management indicated that operating losses are expected to continue into the foreseeable future. As a result of management's assessment, during the second quarter of fiscal year 2015, the Company determined that goodwill recorded as a result of this acquisition was impaired. The Company recorded a $0.1 million impairment loss in administrative and indirect operating expenses on the accompanying condensed consolidated statements of operations.

8. Lines of Credit

Unsecured lines of credit are summarized in the following table.

| | Balance at May 2, 2015 | July 31, 2014 |
|---|---|---|
| Outstanding cash draws, recorded as lines of credit on the accompanying condensed consolidated balance sheets | $1,495,701 | $1,572,466 |
| Outstanding letters of credit to support operations | 904,761 | 1,944,994 |
| Total amounts used under lines of credit | 2,400,462 | 3,517,460 |
| Remaining amounts available under lines of credit | 31,968,538 | 30,851,540 |
| Total approved unsecured lines of credit | $34,369,000 | $34,369,000 |

Contractual interest rates ranged from 2.50% to 3.00% at May 2, 2015. The Company's lenders have reaffirmed the lines of credit within the past twelve months.

9. Debt and Capital Lease Obligations

Debt and capital lease obligations are summarized in the following table.

| | Balance at May 2, 2015 | July 31, 2014 |
|---|---|---|
| Various bank loans and advances at interest rates ranging from 3.25% to 14% | $648,129 | $676,874 |
| Capital lease obligations at varying interest rates averaging 8% | 357,424 | 165,632 |

| | | |
|---|---|---|
| | 1,005,553 | 842,506 |
| Current portion of long-term debt and capital lease obligations | (561,025) | (420,737) |
| Long-term debt and capital lease obligations | $444,528 | $421,769 |

The aggregate maturities of long-term debt and capital lease obligations as of May 2, 2015 are summarized in the following table.

| | |
|---|---|
| May 2015 – April 2016 | $561,025 |
| May 2016 – April 2017 | 223,392 |
| May 2017 – April 2018 | 182,074 |
| May 2018 – April 2019 | 13,788 |
| Thereafter | 25,274 |
| Total | $1,005,553 |

10. Income Taxes

The estimated effective tax rate was a 41.6% provision and a 26.4% benefit for the nine months ended May 2, 2015 and April 30, 2014, respectively. During fiscal year 2014, certain discrete items were recorded which increased tax expense, including foreign dividend income and additional expenses that were unallowable for tax purposes, which were partially offset by a return to provision adjustment that increased available foreign tax credits. During fiscal year 2015, the Company is forecasting higher income from entities in the U.S. compared with the prior fiscal year, which is taxed at a higher effective rate than income from entities in foreign countries.

11. Other Accrued Liabilities

Other accrued liabilities are summarized in the following table.

| | Balance at May 2, 2015 | July 31, 2014 |
|---|---|---|
| Allowance for project disallowances | $2,242,813 | $2,393,351 |
| Other | 1,533,092 | 1,841,911 |
| Total other accrued liabilities | $3,775,905 | $4,235,262 |

The allowance for project disallowances represents potential disallowances of amounts previously billed and collected under government contracts. Allowances for project disallowances are recorded when the amounts are estimable. Resolution of these amounts is dependent upon the results of government audits and other formal contract close-out procedures. Activity within the allowance for project disallowances is summarized in the following table.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 2, 2015 | April 30, 2014 | May 2, 2015 | April 30, 2014 |
| Balance at beginning of period | $2,242,813 | $2,673,351 | $2,393,351 | $2,663,351 |
| Net change during the period | --- | (287,500 ) | (150,538 ) | (277,500 ) |
| Balance at end of period | $2,242,813 | $2,385,851 | $2,242,813 | $2,385,851 |

The reduction in the allowance for project disallowances during the nine months ended May 2, 2015 and April 30, 2014 resulted from settlement of an allowance recorded in prior fiscal years. This settlement resulted in payment of less than $0.1 million during the nine months ended May 2, 2015 and adjustments of $0.1 million and $0.3 million recorded during the nine months ended May 2, 2015 and April 30, 2014, respectively, as additions to revenue, net in the accompanying condensed consolidated statements of operations.

12. Stock Award Plan

EEI adopted the 1998 Stock Award Plan effective March 16, 1998 (the “1998 Award Plan”). The following supplemental plans were adopted subsequent to adoption of the 1998 Award Plan:

- The 2003 Stock Award Plan (the “2003 Award Plan”), which was adopted by the Board of Directors in October 2004, approved by shareholders in January 2004, and terminated in October 2008;
- The 2007 Stock Award Plan (the “2007 Award Plan”), which was adopted by the Board of Directors in October 2007, approved by shareholders in January 2008, and terminated in October 2012; and
- The 2011 Stock Award Plan (the “2011 Award Plan”), which was adopted by the Board of Directors in October 2011, approved by shareholders in January 2012, and will terminate in October 2016.

The 1998 Award Plan and all supplemental plans are collectively referred to as the “Award Plan”. The Award Plan permits grants of stock awards for a period of five (5) years from the date of adoption by the Board of Directors. The Award Plan is not a qualified plan under Section 401(a) of the Internal Revenue Code. Total gross compensation expense related to stock awards is recognized over the vesting period of awards granted.

The Company awarded 62,099 Class A shares valued at $0.9 million in October 2011, which had a three year vesting period and were fully vested in August 2014. The Company awarded 16,387 Class A shares valued at $0.2 million in October 2013, which have a three year vesting period and will be fully vested in August 2016. The Company recorded non-cash compensation expense of less than $0.1 million and $0.3 million during the nine months ended May 2, 2015 and April 30, 2014, respectively, in connection with all outstanding stock compensation awards. Total unearned compensation costs related to outstanding stock awards were $0.1 million at May 2, 2015. The "pool" of excess tax benefits accumulated in Capital in Excess of Par Value was $0.1 million and at May 2, 2015 and July 31, 2014.

13. Shareholders' Equity

Class A and Class B Common Stock

The relative rights, preferences and limitations of the Company's Class A and Class B common stock are summarized as follows: Holders of Class A shares are entitled to elect 25% of the Board of Directors so long as the number of outstanding Class A shares is at least 10% of the combined total number of outstanding Class A and Class B common shares. Holders of Class A common shares have one-tenth the voting power of Class B common shares with respect to most other matters.

In addition, Class A shares are eligible to receive dividends in excess of (and not less than) those paid to holders of Class B shares. Holders of Class B shares have the option to convert at any time, each share of Class B common stock into one share of Class A common stock. Upon sale or transfer, shares of Class B common stock will automatically convert into an equal number of shares of Class A common stock, except that sales or transfers of Class B common stock to an existing holder of Class B common stock or to an immediate family member will not cause such shares to automatically convert into Class A common stock.

Restrictive Shareholder Agreement

Messrs. Gerhard J. Neumaier (deceased), Frank B. Silvestro, Ronald L. Frank, and Gerald A. Strobel entered into a Stockholders’ Agreement dated May 12, 1970, as amended January 24, 2011, which governs the sale of certain shares of Ecology and Environment, Inc. common stock (now classified as Class B Common Stock) owned by them, certain children of those individuals and any such shares subsequently transferred to their spouses and/or children outright or in trust for their benefit upon the demise of a signatory to the Agreement (“Permitted Transferees”). The Agreement provides that prior to accepting a bona fide offer to purchase some or all of their shares of Class B Common Stock governed by the Agreement, that the selling party must first allow the other signatories to the Agreement (not including any Permitted Transferee) the opportunity to acquire on a pro rata basis, with right of over-allotment, all of such shares covered by the offer on the same terms and conditions proposed by the offer.

Cash Dividends

The Company declared and accrued $1.0 million of cash dividends during the nine months ended May 2, 2015 and April 30, 2014, which were paid in February 2015 and 2014, respectively. The Company paid dividends of $1.0 million in August 2014 and 2013 that were declared and accrued in prior periods.

Stock Repurchase

In August 2010, the Company’s Board of Directors approved a program for repurchase of 200,000 shares of Class A common stock (the “stock repurchase program”). As of May 2, 2015, the Company repurchased 122,918 shares of Class A stock, and 77,082 shares had yet to be repurchased under the stock repurchase program. The Company did not acquire any Class A shares under the stock repurchase program during the three months or nine months ended May 2, 2015. The Company acquired 16,091 shares of Class A stock under the stock repurchase program during the nine months ended April 30, 2014 for a total acquisition cost of approximately $0.2 million.

Noncontrolling Interests

Noncontrolling interests are disclosed as a separate component of consolidated shareholders' equity on the accompanying condensed consolidated balance sheets.  Earnings and other comprehensive (loss) income are separately attributed to both the controlling and noncontrolling interests.  Earnings per share ("EPS") is calculated based on net (loss) income attributable to the Company's controlling interests.

Transactions to acquire ownership interest from noncontrolling shareholders during the nine months ended May 2, 2015 and during the fiscal year ended July 31, 2014, which were recorded at amounts that approximated fair value, are summarized in the following table.

| | Nine Months Ended May 2, 2015 | Fiscal Year Ended July 31, 2014 |
|---|---|---|
| Purchases of noncontrolling interests: | | |
| Purchase of 2,800 Gustavson common shares (1) | $287,625 | $--- |
| Purchase of 344 Walsh common shares (2) | --- | 5,653 |
| Purchase of 3,705 Walsh common shares (3) | --- | 1,120,749 |
| Purchase of 100 Walsh common shares (4) | --- | 30,250 |
| Total purchases of additional noncontrolling interests (5) | $287,625 | $1,156,652 |

(1) In January 2015, Gustavson Associates, LLC ("Gustavson"), a majority owned indirect subsidiary of EEI, purchased an additional 7.2% of its outstanding common shares from noncontrolling shareholders for $0.3 million. The purchase price was paid as follows: (i) approximately $0.1 million of cash paid on the transaction date; and (ii) approximately $0.2 million payable in 3 annual installments plus interest accrued at 6% per annum. EEI's indirect ownership of Gustavson increased to 83.6% as a result of this transaction.

(2) In January 2014, EEI purchased an additional 0.9% of Walsh from noncontrolling shareholders for $0.1 million in cash. Walsh became a wholly-owned subsidiary of EEI as a result of these transactions.

(3) In October 2013, EEI purchased an additional 9.4% of Walsh for $1.6 million. The purchase price was paid as follows: (i) one third in cash payable on the transaction consummation date; (ii) one third payable with EEI Common Stock on the transaction consummation date; and (iii) one third payable in two annual installments plus interest accrued at 3.25% per annum.

(4) In October 2013, EEI purchased an additional 0.2% of Walsh for less than $0.1 million in cash.

(5) Purchases of additional noncontrolling interests are recorded as reductions of shareholders' equity on the condensed consolidated statements of shareholders' equity.

14. Earnings Per Share

Basic and diluted EPS is computed by dividing the net income (loss) attributable to Ecology and Environment, Inc. common shareholders by the weighted average number of common shares outstanding for the period. After consideration of all the rights and privileges of the Class A and Class B stockholders summarized in Note 13, in particular the right of the holders of the Class B common stock to elect no less than 75% of the Board of Directors making it highly unlikely that the Company will pay a dividend on Class A common stock in excess of Class B common stock, the Company allocates undistributed earnings between the classes on a one-to-one basis when computing earnings per share. As a result, basic and fully diluted earnings per Class A and Class B share are equal amounts.

The Company has determined that its unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities. These securities shall be included in the computation of earnings per share pursuant to the two-class method. The resulting impact was to include unvested restricted shares in the weighted average shares outstanding calculation.

The computation of earnings per share is included in the following table.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 2, | April 30, | May 2, | April 30, |

| | 2015 | 2014 | 2015 | 2014 |
|---|---|---|---|---|
| Net (loss) income attributable to Ecology and Environment, Inc. | $1,794,176 | $(322,864) | $2,489,005 | $(727,121) |
| Dividends declared | --- | --- | (1,033,071) | (1,033,551) |
| Balance at end of period | $1,794,176 | $(322,864) | $1,455,934 | $(1,760,672) |
| | | | | |
| Weighted-average common shares outstanding (basic and diluted) | 4,287,460 | 4,289,900 | 4,288,067 | 4,282,348 |
| | | | | |
| Distributed earnings per share | $--- | $--- | $0.24 | $0.24 |
| Undistributed earnings per share | 0.42 | (0.08) | 0.34 | (0.41) |
| Total earnings per share | $0.42 | $(0.08) | $0.58 | $(0.17) |

15. Segment Reporting

The Company reports segment information based on the geographic location of its customers (for revenues) and the location of its offices (for long-lived assets).  Revenue and long-lived assets by business segment are summarized in the following tables.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 2, 2015 | April 30, 2014 | May 2, 2015 | April 30, 2014 |
| Revenue, net by geographic location: | | | | |
| United States | $21,577,386 | $19,721,145 | $60,995,999 | $61,328,509 |
| Foreign countries (1) | 8,767,185 | 11,782,754 | 30,700,884 | 34,001,953 |

(1) Significant foreign revenues included revenues in Peru ($5.0 million and $5.5 million for the three months ended May 2, 2015 and April 30, 2014, respectively, and $17.3 million and $13.9 million for the nine months ended May 2, 2015 and April 30, 2014, respectively), Brazil ($1.4 million and $3.5 million for the three months ended May 2, 2015 and April 30, 2014, respectively, and $6.5 million and $10.1 million for the nine months ended May 2, 2015 and April 30, 2014, respectively) and Chile ($1.7 million and $2.3 million for the three months ended May 2, 2015 and April 30, 2014, respectively, and $4.8 million and $7.0 million for the nine months ended May 2, 2015 and April 30, 2014, respectively).

| | Balance at | |
|---|---|---|
| | May 2, 2015 | July 31, 2014 |
| Long-Lived Assets by geographic location: | | |
| United States | $27,060,193 | $31,170,634 |
| Foreign countries | 5,532,497 | 5,386,736 |

16. Commitments and Contingencies

From time to time, the Company is a named defendant in legal actions arising out of the normal course of business. The Company is not a party to any pending legal proceeding, the resolution of which the management believes will have a material adverse effect on the Company's results of operations, financial condition or cash flows, or to any other pending legal proceedings other than ordinary, routine litigation incidental to its business.  The Company maintains liability insurance against risks arising out of the normal course of business.

Certain contracts contain termination provisions under which the customer may, without penalty, terminate the contracts upon written notice to the Company.  In the event of termination, the Company would be paid only termination costs in accordance with the particular contract.  Generally, termination costs include unpaid costs incurred to date, earned fees and any additional costs directly allocable to the termination.

On September 21, 2012, the Colorado Department of Public Health and Environment ("CDPHE") issued a proposed Compliance Order on Consent (the "Proposed Consent Order") to the City and County of Denver ("Denver") and to Walsh.  On the date that the Proposed Consent Order was issued, Walsh was a majority-owned subsidiary of EEI.  The Proposed Consent Order pertained to construction improvement activities of certain property owned by Denver which was the subject of asbestos remediation.  Denver had entered into a contract with Walsh under which Walsh provided certain environmental consulting services (asbestos monitoring services) in connection with the asbestos containment and/or removal performed by other contractors at Denver's real property.  On February 13, 2013, without admitting liability or CDPHE's version of the underlying facts, Walsh entered into a Compliance Order on Consent with CDPHE, paid a penalty of less than $0.1 million and paid for a Supplemental Environmental Project to benefit the public at large in an amount less than $0.1 million. Denver was served with a final Compliance Order and Assessment of Administrative Penalty against Denver alone for approximately $0.2 million. Under Walsh's environmental consulting contract with Denver, Walsh agreed to indemnify Denver for certain liabilities where Walsh could potentially be held responsible for a portion of the penalty imposed upon Denver. In January 2015, Walsh settled this indemnity claim with a payment of less than $0.1 million to Denver.

On February 4, 2011, the Chico Mendes Institute of Biodiversity Conservation of Brazil (the "Institute") issued a Notice of Infraction to ecology and environment do brasil Ltda ("E&E Brasil"), a majority-owned subsidiary of EEI. The Notice of Infraction concerns the taking and collecting species of wild animal specimens without authorization by the competent authority and imposes a fine of 520,000 Reais, which has a value of approximately $0.2 million at May 2, 2015. No claim has been made against EEI. The Institute has also filed Notices of Infraction against four employees of E&E Brasil alleging the same claims and has imposed fines against those individuals that, in the aggregate, are equal to the fine imposed against E&E Brasil. E&E Brasil has filed administrative responses with the Institute for itself and its employees that: (a) deny the jurisdiction of the Institute; (b) state that the Notice of Infraction is constitutionally vague; and (c) affirmatively state that E&E Brasil had obtained the necessary permits for the surveys and collections of specimens under applicable Brazilian regulations and that the protected conservation area is not clearly marked to show its boundaries. To date, E&E Brasil has attended one meeting where depositions were taken; the claim of violations against one of the four employees was dismissed; two of the four employees have fines assessed against them, which are going being appealed; and the remaining one employee and E&E Brasil are awaiting agency determinations. If fines are assessed against the remaining one employee and/or E&E Brasil, appeals will be filed. Management believes that these administrative proceedings will not have a material adverse impact on the operations of the Company.

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

References in this Quarterly Report on Form 10-Q (the "Quarterly Report") to "EEI" refer to Ecology and Environment, Inc., a New York corporation. References to "the Company," "we," "us," "our," or similar terms refer to EEI together with its consolidated subsidiaries.

Executive Overview

As a result of ongoing initiatives to review the Company's organizational and cost infrastructure begun in fiscal year 2013, management has successfully enhanced the Company's operating and cost efficiency and effectiveness. In addition, the Company continues to report significantly lower depreciation and amortization expense as a result of conversion to its new accounting system effective August 1, 2014. Total operating expenses decreased $4.1 million (15%) during the current quarter, and decreased $10.0 million (12%) during the first nine months of the current year, as compared with the same periods of the prior year.

Revenues from U.S. operations improved 9% during the current quarter, as compared with the same quarter last year, driven by higher Department of Defense and energy sector project activity. A 25% decrease in foreign revenues, largely attributable to reduced energy sector project activity in Brazil, resulted in an overall 2% decrease in revenues less subcontract costs during the current quarter. Brazilian operations have been adversely affected by a recent economic downturn and weakening of the Brazilian Real in relation to the U.S. dollar.

Revenues from U.S. operations were relatively constant for the first nine months of the current year, as compared with the same period last year. Higher Department of Defense and energy sector project activity were offset by lower government and mining sector activity during the current year and by a strategic decision to wind down existing asbestos remediation contracts and forego any new asbestos business. Foreign revenues decreased 10% during the current nine month period, as higher energy sector project activity in Peru was more than offset by lower energy and mining sector activity elsewhere in South America, resulting in an overall 4% decrease in revenue less subcontract costs.

Liquidity and Capital Resources

Cash and cash equivalents decreased $1.5 million during the first nine months of 2015, primarily due to payment of $2.0 million of dividends to shareholders, which were approved on a discretionary basis by the Company's Board of Directors. Excluding payment of dividends, net cash generated from operations of during the first nine months of fiscal year 2015 was adequate to fund investing and financing activities required to maintain our current operations.

Cash and cash equivalents activity and balances are summarized in the following table.

| | Nine Months Ended | |
|---|---|---|
| | May 2, 2015 | April 30, 2014 |
| Cash provided by (used in): | | |
| Operating activities | $2,230,808 | $7,682,921 |
| Investing activities | (451,238) | (1,816,776) |
| Financing activities | (3,013,078) | (8,323,287) |
| Effect of exchange rate changes on cash and cash equivalents | (235,169) | (16,793) |
| Net (decrease) increase in cash and cash equivalents | $(1,468,677) | $(2,473,935) |
| | | |
| Cash and cash equivalents at period end, by location: | | |
| U.S. operations | $3,583,004 | $5,228,915 |
| Foreign operations | 1,837,562 | 1,741,810 |

| | | |
|---|---|---|
| Total cash and cash equivalents | $5,420,566 | $6,970,725 |

Net cash provided by operating activities during the nine months ended May 2, 2015 resulted mainly from the following activity:

- Net income (after adjustment for non-cash items) provided $3.1 million of operating cash;
- Net decreases in contract receivables provided $0.7 million of operating cash;
- Other working capital activity provided $0.3 million of operating cash; and
- Net decreases in accounts payable resulted in a $1.9 million use of operating cash.

Net cash used in investment activities during the nine months ended May 2, 2015 resulted mainly from the following activity:

- Net purchases of property, building and equipment resulted in a $0.6 million use of operating cash;
- Acquisition of noncontrolling interests of subsidiaries resulted in a $0.1 million use of operating cash; and
- Proceeds from sale of property, building and equipment provided $0.2 million of operating cash.

Net cash provided by financing activities during the six month ended January 31, 2015 resulted mainly from the following activity:

- Dividend payments to common shareholders resulted in a $2.0 million use of operating cash
- Net repayment of debt and capital lease obligations resulted in a $0.7 million use of operating cash;
- Net distributions to noncontrolling interests resulted in a $0.5 million use of operating cash; and
- Net proceeds from borrowings under lines of credit provided $0.2 million of operating cash.

We maintain $34.4 million of unsecured lines of credit available for working capital and letters of credit. Total amounts used under lines of credit were $2.4 million and $3.5 million at May 2, 2015 and July 31, 2014, respectively. Contractual interest rates ranged from 2.50% to 3.00% at May 2, 2015. Our lenders have reaffirmed the lines of credit within the past twelve months.

We believe that cash flows from U.S. operations, available cash balances in our domestic subsidiaries and our available lines of credit will be sufficient to cover working capital requirements of our U.S. operations during the next twelve months and the foreseeable future. Our foreign subsidiaries typically generate adequate cash flow to fund their operations. We intend to reinvest net cash generated from undistributed foreign earnings into operations and business expansion opportunities outside the U.S. Excess cash accumulated by any foreign subsidiary, beyond that necessary to fund operations or business expansion, may be repatriated to the U.S. at the discretion of the Board of Directors of the respective entities. We would be required to accrue and pay taxes on any amounts repatriated to the U.S. from foreign subsidiaries.

In December 2014, a South American subsidiary of Walsh Environmental Scientists & Engineers, LLC ("Walsh") declared total dividends to its shareholders of $2.0 million, of which $1.5 million was payable to Walsh. After local taxes, approximately $1.4 million of cash was expected to be repatriated to the U.S. and made available for the Company's U.S. operations during fiscal year 2015 as a result of this dividend. In December 2014, approximately $0.7 million of cash was repatriated to the U.S., net of local taxes. In April 2015, approximately $0.2 million of cash was repatriated to the U.S., net of local taxes. Walsh expects to receive the remaining $0.5 million of outstanding dividends from its South American subsidiary during the fourth quarter of fiscal year 2015.

The Company declared and paid $1.0 million of cash dividends during the nine months ended May 2, 2015, and paid dividends of $1.0 million in August 2014 that were declared and accrued in prior periods.

During fiscal year 2014, the Company generated a net operating loss of $1.7 million for income tax purposes, which is expected to be fully utilized during fiscal year 2015.

Contract Receivable Concentrations

Significant concentrations of contract receivables and the allowance for doubtful accounts and contract adjustments are summarized in the following table.

| | Balance at May 2, 2015 | | Balance at July 31, 2014 | |
|---|---|---|---|---|
| Region | Contract Receivables | Allowance for | Contract Receivables | Allowance for |

| | | Doubtful Accounts and Contract Adjustments | | Doubtful Accounts and Contract Adjustments |
|---|---|---|---|---|
| United States, Canada and South America | $40,773,324 | $625,878 | $43,394,442 | $1,611,068 |
| Middle East and Africa | 6,758,478 | 5,273,574 | 7,010,225 | 4,386,240 |
| Asia | 73,246 | 7,000 | 153,492 | 129,546 |
| Totals | $47,605,048 | $5,906,452 | $50,558,159 | $6,126,854 |

Combined contract receivables related to projects in the Middle East, Africa and Asia represented 14% of total contract receivables at May 2, 2015 and July 31, 2014, while the combined allowance for doubtful accounts and contract adjustments related to these projects represented 89% and 74% of the total allowance for doubtful accounts and contract adjustments at May 2, 2015 and July 31, 2014, respectively. These allowance percentages highlight the Company's experience of heightened operating risks (i.e., political, regulatory, cultural and credit risks) within these foreign regions in comparison with similar risks in the United States, Canada and South America. During fiscal years prior to 2014, the Company expended resources in these regions that it did not recover for several months, or at all. During fiscal years 2014 and 2015, the Company significantly curtailed its operations and projects in these regions in order to focus on more profitable operations in the United States and South America.

Results of Operations

Revenue, net

Our revenues are derived primarily from the professional and technical services performed by its employees or, in certain cases, by subcontractors engaged to perform on under contracts entered into with our clients. The revenues recognized, therefore, are derived from our ability to charge clients for those services under the contracts. Revenue, the cost of professional services, other direct operating expenses and subcontract costs of our South American subsidiaries exclude tax assessments by governmental authorities, which are collected by us from its customers and then remitted to governmental authorities.

Substantially all of our revenue is derived from environmental consulting work. The consulting revenue is principally derived from the sale of labor hours. The consulting work is performed under a mix of fixed price, cost-type, and time and material contracts. Contracts are required from all customers. Revenue is recognized as follows:

| Contract Type | Work Type | Revenue Recognition Policy |
|---|---|---|
| Time and materials | Consulting | As incurred at contract rates. |
| Fixed price | Consulting | Percentage of completion, approximating the ratio of either total costs or Level of Effort (LOE) hours incurred to date to total estimated costs or LOE hours. |
| Cost-plus | Consulting | Costs as incurred. Fixed fee portion is recognized using percentage of completion determined by the percentage of LOE hours incurred to total LOE hours in the respective contracts. |

Revenue, net associated with these contract types are summarized in the following table.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 2, 2015 | April 30, 2014 | May 2, 2015 | April 30, 2014 |
| Time and materials | $14,764,372 | $16,549,839 | $43,432,153 | $50,400,989 |
| Fixed price | 12,993,689 | 12,760,106 | 41,350,563 | 37,909,281 |
| Cost-plus | 2,586,510 | 2,193,954 | 6,914,167 | 7,020,192 |
| Total revenue by contract type | $30,344,571 | $31,503,899 | $91,696,883 | $95,330,462 |

Revenue, net and revenue less subcontract costs, by business entity, are summarized in the following table.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 2, 2015 | April 30, 2014 | May 2, 2015 | April 30, 2014 |
| Revenue, net by entity: | | | | |
| EEI and its wholly owned subsidiaries (excluding Walsh) | $19,919,148 | $15,779,533 | $55,088,456 | $50,362,632 |
| Walsh and its subsidiaries | 7,077,628 | 9,064,378 | 24,031,668 | 24,673,756 |
| EEI's majority-owned subsidiaries: | | | | |
| Ecology & Environment do Brasil, Ltda ("E&E Brasil") | 1,366,510 | 3,453,342 | 6,539,373 | 10,058,123 |
| Gestion Ambiental Consultores S.A. ("GAC") | 1,676,206 | 2,287,591 | 4,848,193 | 7,043,371 |
| ECSI, LLC ("ECSI") | 683,558 | 713,713 | 1,979,399 | 2,728,835 |
| | 30,723,050 | 31,298,557 | 92,487,089 | 94,866,717 |
| Less: Net contract (adjustments) recoveries recorded during the period | (378,479) | 205,342 | (790,206) | 463,745 |
| Revenue, net per consolidated statements of income | $30,344,571 | $31,503,899 | $91,696,883 | $95,330,462 |
| | | | | |
| Gross revenue less subcontract costs, by entity: | | | | |
| EEI and its wholly owned subsidiaries (excluding Walsh) | $17,103,117 | $13,600,184 | $46,172,036 | $43,975,662 |
| Walsh and its subsidiaries | 5,453,379 | 6,980,048 | 18,486,471 | 19,226,134 |
| EEI's majority-owned subsidiaries: | | | | |
| E&E Brasil | 1,252,482 | 3,383,125 | 6,211,109 | 9,233,301 |
| GAC | 1,404,824 | 1,699,728 | 4,262,319 | 5,524,722 |
| ECSI | 671,557 | 687,700 | 1,932,940 | 2,647,608 |
| Total | $25,885,359 | $26,350,785 | $77,064,875 | $80,607,427 |

The overall decrease in consolidated revenue less subcontract costs for the quarter ended May 2, 2015 and for the nine months ended May 2, 2015, as compared with the same periods of the prior fiscal year, resulted from the net impact of the following entity activity:

- Higher Parent Company and wholly-owned subsidiary revenue resulted from higher quarter-to-date Department of Defense and energy sector revenues in the U.S., which was partially offset by lower government and commercial sales volumes in the U.S.
- Lower Walsh revenue primarily resulted from a strategic decision to wind down existing asbestos remediation contracts and forego any new asbestos business during the current year, and from lower sales activity in energy and mining sectors in the U.S., which were partially offset by higher energy sector sales volume from operations in Peru.
- Lower E&E Brasil revenue was primarily due to lower sales volume in the energy transmission sector, as transmission projects completed during fiscal year 2014 were not renewed or replaced for the current fiscal year. A weaker Brazilian economy and a weaker Real in relation to the U.S. dollar also contributed to the overall decrease in revenues.
- Lower GAC revenue was primarily due to lower mining sector revenues, as mining projects completed during fiscal year 2014 were not renewed or replaced.
- Lower ECSI revenue primarily resulted from lower sales volume in the mining sector, as mining projects completed during the prior fiscal year were not renewed or replaced.

Contract Adjustments

Net contract adjustments recorded as a reduction of revenue include adjustments to revenues that are deemed to be unrealizable or that may become unrealizable in the future, as well as adjustments to estimated liabilities for project disallowances that are recorded in other accrued liabilities. Contract adjustments related to projects in the United States, Canada and South America typically result from cost overruns from current or recently completed projects.

Contract adjustments related to projects in the Middle East, Africa and Asia typically result from difficulties encountered while attempting to settle claims and issues that may be several years old.

Net contract adjustments are summarized by region in the following table.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 2, 2015 | April 30, 2014 | May 2, 2015 | April 30, 2014 |
| Net contract (adjustments) recoveries recorded as (reductions from) additions to revenue: | | | | |
| United States, Canada and South America | $(71,479) | $422,255 | $104,128 | $329,338 |
| Middle East and Africa | (300,000) | (216,913) | (887,334) | 134,407 |
| Asia | (7,000) | --- | (7,000) | --- |
| Totals | $(378,479) | $205,342 | $(790,206) | $463,745 |

Net contract adjustments recorded for projects in the Middle East and Africa resulted primarily from increased reserves related to a specific project in the Middle East. Due to ongoing difficulties with settlement and close-out of the project, management decided to increase the related reserve to 93% of the $4.9 million contract receivable balance as of May 2, 2015. Management continues to maintain open dialogue with this client, and to seek assistance through all possible official channels, in order to ensure a favorable settlement of this contract receivable balance.

Operating Expenses

During fiscal year 2013 and 2014 and the first nine months of fiscal year 2015, management at EEI and its U.S. subsidiaries critically reviewed technical and indirect staffing levels, other expenses necessary to support current project work levels and key administrative processes. As a result of this review, the number of full time employees in various technical and indirect departments at EEI and its U.S. subsidiaries decreased by a combined 16% and 8% during fiscal year 2014 and the first nine months of fiscal year 2015, respectively. Utilization of contracted services was also reviewed and reduced at EEI. Management continues to critically evaluate its organizational and cost structure to identify ways to operate more efficiently and cost effectively.

The cost of professional services and other direct operating expenses represents labor and other direct costs of providing services to our clients under our project agreements. These costs, and fluctuations in these costs, generally correlate directly with related project revenues. The cost of professional services and other direct operating expenses, by business entity, are summarized in the following table.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 2, 2015 | April 30, 2014 | May 2, 2015 | April 30, 2014 |
| EEI and its wholly owned subsidiaries (excluding Walsh) | $7,207,506 | $6,000,847 | $20,232,334 | $19,482,314 |
| Walsh and its subsidiaries | 2,347,983 | 2,420,333 | 8,267,107 | 7,380,304 |
| EEI's majority-owned subsidiaries: | | | | |
| E&E Brasil | 711,503 | 1,857,250 | 3,429,585 | 5,218,135 |
| GAC | 932,813 | 1,231,941 | 2,638,317 | 3,991,435 |
| ECSI | 307,049 | 258,096 | 886,421 | 946,451 |
| Total cost of professional services and other direct operating expenses | $11,506,854 | $11,768,467 | $35,453,764 | $37,018,639 |

The cost of professional services and other direct operating expenses decreased $0.3 million (2%) during the third quarter and $1.5 million (4%) during the first nine months of fiscal 2015, as compared with the same periods in the prior fiscal year. Lower project-related sales volumes in EEI's Brazilian and Chilean operations were partially offset by higher project service levels and costs in the U.S. and in Walsh's Peruvian operations.

Administrative and indirect operating expenses and marketing and related costs represent operating costs not directly associated with the generation of revenue. We refer to these combined costs as "indirect operating expenses." Indirect operating expenses by business entity, excluding depreciation and amortization expenses, are summarized in the following table.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 2, 2015 | April 30, 2014 | May 2, 2015 | April 30, 2014 |
| EEI and its wholly owned subsidiaries (excluding Walsh) | $6,714,898 | $8,185,711 | $21,797,612 | $25,241,774 |
| Walsh and its subsidiaries | 2,251,759 | 3,205,017 | 7,580,620 | 9,345,092 |
| EEI's majority-owned subsidiaries: | | | | |

| | | | | |
|---|---|---|---|---|
| E&E Brasil | 757,480 | 1,207,695 | 2,930,759 | 3,606,561 |
| GAC | 358,695 | 435,382 | 977,780 | 1,076,946 |
| ECSI | 424,810 | 619,279 | 1,466,654 | 1,923,529 |
| Total indirect operating expenses | $10,507,642 | $13,653,084 | $34,753,425 | $41,193,902 |

Combined indirect operating expenses decreased $3.1 million (23%) during the third quarter and $6.4 million (16%) during the first nine months of fiscal year 2015, as compared with the same periods in the prior fiscal year. During fiscal years 2013 and 2014 and the first nine months of fiscal year 2015, management at EEI and its U.S. subsidiaries critically reviewed key administrative processes, reduced indirect staffing levels, and reduced utilization of contracted services in certain indirect departments. Management continues to critically evaluate its organizational and cost structure to identify ways to operate more efficiently and cost effectively. These cost reductions in the U.S. were partially offset by higher indirect expenses to support growth in South American operations.

Depreciation and amortization expense decreased $0.7 million (65%) during the third quarter and $2.0 million (64%) during the first nine months of fiscal year 2015, as compared with the same periods last year, primarily due to lower amortization of the Company's principal operating software. The Company acquired and developed new operating system software during fiscal year 2014, and began utilizing the new software effective August 1, 2014 for its U.S. operations. The Company continued to utilize the previous software system through July 31, 2014, at which time the previous system was abandoned. As a result, amortization of software development costs capitalized for the previous system was accelerated so that the system was completely amortized by July 31, 2014. Total software amortization expense was less than $0.1 million and $0.7 million for the quarters ended May 2, 2015 and April 30, 2014, respectively, and $0.1 million and $2.0 million for the nine months ended May 2, 2015 and April 30, 2014, respectively.

Income Taxes

The estimated effective tax rate was a 41.6% provision and a 26.4% benefit for the nine months ended May 2, 2015 and April 30, 2014, respectively. During fiscal year 2014, certain discrete items were recorded which increased tax expense, including foreign dividend income and additional expenses that were unallowable for tax purposes, which were partially offset by a return to provision adjustment that increased available foreign tax credits. During fiscal year 2015, the Company is forecasting higher income from entities in the U.S. compared with the prior fiscal year, which is taxed at a higher effective rate than income from entities in foreign countries.

Critical Accounting Policies and Use of Estimates

Management's discussion and analysis of financial condition and results of operations discuss the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, allowance for doubtful accounts and contract adjustments, income taxes, impairment of long-lived assets and contingencies. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Refer to the Company's Annual Report on Form 10-K for the fiscal year end July 31, 2014 for a description of our critical accounting policies.

Inflation

During the nine months ended May 2, 2015 and 2014, inflation did not have a material impact on our business because a significant amount of our contracts are either cost based or contain commercial rates for services that are adjusted annually.

Off-Balance Sheet Arrangements

We had outstanding letters of credit to support operations of $0.9 million and $1.9 million drawn under our lines of credit at May 2, 2015 and July 31, 2014, respectively. Other than these letters of credit, we did not have any off-balance sheet arrangements as of May 2, 2015 or July 31, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Revenues from international operations represented 33%, 36% and 32% of total revenues for the first nine months of fiscal year 2015 and for fiscal years 2014 and 2013, respectively. International operations are subject to a number of risks, including but not limited to:

- general economic and political conditions in foreign markets;
- currency fluctuations;
- greater counterparty risk, leading to longer collection cycles and potentially uncollectible accounts;
- civil disturbance, unrest or violence;
- staffing operations with appropriately credentialed and trained personnel;
- exposure to liability and sanctions under the Foreign Corrupt Practices Act;
- exposure to liability and sanctions under laws and regulations established by foreign jurisdictions in which we conduct business;
- lack of developed legal systems to enforce our contractual rights; and
- communication and other logistical challenges.

Failure to manage these risks effectively may result in harm to our overall operations and significantly reduce our future revenues, net income and liquidity.

In recent months, our Brazilian operations have been adversely affected by an economic downturn and weakening of the Brazilian Real in relation to the U.S. dollar. The total scope and duration of the downturn and the ultimate impact that it will have on our Brazilian operations are uncertain. EEI management is monitoring economic conditions and the business climate in Brazil, and is working closely with management in Brazil to develop a sound strategy to minimize adverse impacts on operations.

## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, our management, with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 promulgated under the Exchange Act. Based upon this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were (1) designed to ensure that material information relating to our Company is accumulated and made known to our management, including our chief executive officer and chief financial officer, in a timely manner, particularly during the period in which this report was being prepared, and (2) effective, in that they provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Management believes, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a Company have been detected.

### Internal Controls

Effective August 1, 2014, we implemented a new operating and accounting software system that resulted in a material change in internal controls over financial reporting. The new software system provides planning, accounting and management reporting functionality for our U.S. operations. We believe the conversion to a new operating software system was necessary to provide an improved operating platform and to reduce manual effort for our U.S. operations. The implementation of the new software system was not in response to any deficiency or material weakness in our internal control over financial reporting. The new software system was acquired from a leading provider of business software for consulting companies, which also provided consulting services for implementation. The new software system was implemented with minimal customization.

The implementation process, which included heavy involvement by key end users and management, was comprised of the following key phases:

- Business process walk-throughs;
-

- System configuration for key master file information related to user organizations, projects, customers, vendors, employees, revenue and expense transactions, and general ledger accounts;
- System configuration for key controls, including overall system security, user access to various modules and levels of authority for various transactions;
- Data migration from the previous system to the new system; and
- Testing of processes, transactions and migration of historical information.

Post-implementation reviews and testing were conducted by management to ensure that internal controls surrounding the implementation process, the integrity of financial data, and the monthly financial close process are properly designed to prevent material financial statement errors. In addition to normal account reconciliation and validation procedures completed during our monthly close process, we also performed additional substantive procedures and analytical assessments during the first quarter of fiscal year 2015 to validate the accuracy of financial information.

Other than the changes related to the new software system, no other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the nine months ended May 2, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is a named defendant in legal actions arising out of the normal course of business. The Company is not a party to any pending legal proceeding, the resolution of which the management believes will have a material adverse effect on the Company's results of operations, financial condition or cash flows, or to any other pending legal proceedings other than ordinary, routine litigation incidental to its business. The Company maintains liability insurance against risks arising out of the normal course of business.

Certain contracts contain termination provisions under which the customer may, without penalty, terminate the contracts upon written notice to the Company. In the event of termination, the Company would be paid only termination costs in accordance with the particular contract. Generally, termination costs include unpaid costs incurred to date, earned fees and any additional costs directly allocable to the termination.

On September 21, 2012, the Colorado Department of Public Health and Environment ("CDPHE") issued a proposed Compliance Order on Consent (the "Proposed Consent Order") to the City and County of Denver ("Denver") and to Walsh. On the date that the Proposed Consent Order was issued, Walsh was a majority-owned subsidiary of EEI. The Proposed Consent Order pertained to construction improvement activities of certain property owned by Denver which was the subject of asbestos remediation. Denver had entered into a contract with Walsh under which Walsh provided certain environmental consulting services (asbestos monitoring services) in connection with the asbestos containment and/or removal performed by other contractors at Denver's real property. Without admitting liability or CDPHE's version of the underlying facts, Walsh on February 13, 2013 entered into a Compliance Order on Consent with CDPHE, paid a penalty of less than $0.1 million and paid for a Supplemental Environmental Project to benefit the public at large in an amount less than $0.1 million. Denver was served with a final Compliance Order and Assessment of Administrative Penalty against Denver alone for approximately $0.2 million. Under Walsh's environmental consulting contract with Denver, Walsh agreed to indemnify Denver for certain liabilities where Walsh could potentially be held responsible for a portion of the penalty imposed upon Denver. In January 2015, Walsh settled this indemnity claim with a payment of less than $0.1 million to Denver.

On February 4, 2011, the Chico Mendes Institute of Biodiversity Conservation of Brazil (the "Institute") issued a Notice of Infraction to ecology and environment do brasil Ltda ("E&E Brasil"), a majority-owned subsidiary of EEI. The Notice of Infraction concerns the taking and collecting species of wild animal specimens without authorization by the competent authority and imposes a fine of 520,000 Reais, which has a value of approximately $0.2 million at May 2, 2015. No claim has been made against EEI. The Institute has also filed Notices of Infraction against four employees of E&E Brasil alleging the same claims and has imposed fines against those individuals that, in the aggregate, are equal to the fine imposed against E&E Brasil. E&E Brasil has filed administrative responses with the Institute for itself and its employees that: (a) deny the jurisdiction of the Institute; (b) state that the Notice of Infraction is constitutionally vague; and (c) affirmatively state that E&E Brasil had obtained the necessary permits for the surveys and collections of specimens under applicable Brazilian regulations and that the protected conservation area is not clearly marked to show its boundaries. To date, E&E Brasil has attended one meeting where depositions were taken; the claim of violations against one of the four employees was dismissed; two of the four employees have fines assessed against them, which are going being appealed; and the remaining one employee and E&E Brasil are awaiting agency determinations. If fines are assessed against the remaining one employee and/or E&E Brasil, appeals will be filed. Management believes that these administrative proceedings will not have a material adverse impact on the operations of the Company.

Item 2. Changes in Securities and Use of Proceeds

(e) Purchased Equity Securities. In August 2010, the Company's Board of Directors approved a 200,000 share repurchase program. The following table summarizes the Company's purchases of its common stock during the six months ended January 31, 2015 under this share repurchase program:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Share Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| August 2014 | --- | --- | --- | 77,082 |
| September 2014 | --- | --- | --- | 77,082 |
| October 2014 | --- | --- | --- | 77,082 |
| November 2014 | --- | --- | --- | 77,082 |
| December 2014 | --- | --- | --- | 77,082 |
| January 2015 | --- | --- | --- | 77,082 |
| February 2015 | --- | --- | --- | 77,082 |
| March 2015 | --- | --- | --- | 77,082 |
| April 2015 | --- | --- | --- | 77,082 |

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Registrant filed a Current Report on Form 8-K on October 29, 2014 to announce the departure of a Director from the Company's Board of Directors, effective January 1, 2015.

(c) Registrant filed a Current Report on Form 8-K on January 5, 2015 to announce the appointment of a new Director to the Company's Board of Directors, effective January 1, 2015.

(d) Registrant filed a Current Report on Form 8-K on January 15, 2015 to report submission of matters to a vote of shareholders. At the Company's Annual Meeting of Stockholders held on January 15, 2015, stockholders elected two (2) Class A Directors and five (5) Class B Directors to the Company's Board of Directors.

(e) Registrant filed a Current Report on Form 8-K on March 9, 2015 to announce the retirement of the Company's CEO and the appointment of the Company's President as President and CEO.

SIGNATURE

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

Ecology and Environment, Inc.

Date: June 16, 2015 By: /s/ H. John Mye III
H. John Mye III
Chief Financial Officer and Treasurer
Principal Financial and Accounting Officer