ECOLOGY & ENVIRONMENT INC
Form 10-Q
June 10, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 26, 2008

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

Commission File Number 1-9065

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

New York (State or other jurisdiction of incorporation or organization)	16-0971022 (IRS Employer Identification Number)
368 Pleasant View Drive Lancaster, New York (Address of principal executive offices)	14086 (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 þ No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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

At June 1, 2008, 2,597,917 shares of Registrant's Class A Common Stock (par value $.01) and 1,667,426 shares of Class B Common Stock (par value $.01) were outstanding.

PART 1
FINANCIAL INFORMATION

Item 1. Financial Statements

Ecology and Environment, Inc
Consolidated Balance Sheet
Unaudited

Assets	April 26, 2008	July 31, 2007
Current assets:		
Cash and cash equivalents	$ 12,793,730	$ 15,554,523
Investment securities available for sale	125,116	101,009
Contract receivables, net	36,307,393	36,742,288
Deferred income taxes	5,430,574	5,196,728
Income tax receivable	1,357,213	1,357,213
Other current assets	2,163,267	1,686,588
Total current assets	58,177,293	60,638,349
Property, building and equipment, net	7,696,243	7,725,535
Deferred income taxes	2,522,205	1,404,232
Other assets	1,682,450	1,438,329
Total assets	$ 70,078,191	$ 71,206,445
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 6,555,894	$ 10,178,873

Accrued payroll costs	5,394,856	6,191,434
Income taxes payable	1,704,756	664,085
Deferred revenue	88,692	90,791
Current portion of long-term debt and capital lease obligations	422,092	333,229
Other accrued liabilities	7,862,190	8,866,707
Total current liabilities	22,028,480	26,325,119
Income taxes payable	2,721,349	-
Accrued interest and penalties	1,904,538	-
Long-term debt and capital lease obligations	522,727	385,270
Minority interest	3,968,190	3,582,968
Commitments and contingencies (see note #10)	-	-
Shareholders' equity:		
Preferred stock, par value $.01 per share; authorized - 2,000,000 shares; no shares issued	-	-
Class A common stock, par value $.01 per share; authorized - 6,000,000 shares; issued - 2,661,498 and 2,661,498 shares	26,615	26,615
Class B common stock, par value $.01 per share; authorized - 10,000,000 shares; issued - 1,732,227 and 1,732,227 shares	17,323	17,323
Capital in excess of par value	19,926,576	20,051,446
Retained earnings	19,352,568	22,211,098
Accumulated other comprehensive income	895,956	299,102
Treasury stock - Class A common, 63,581 and 104,020 shares; Class B common, 64,801 and 64,801 shares, at cost	(1,286,131)	(1,692,496)
Total shareholders' equity	38,932,907	40,913,088
Total liabilities and shareholders' equity	$ 70,078,191	$ 71,206,445

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

Ecology and Environment, Inc.
Consolidated Statement of Income
Unaudited

	Three months ended		Nine months ended	
	April 26, 2008	April 28, 2007	April 26, 2008	April 28, 2007
Revenue	$ 27,413,230	$ 26,261,994	$ 77,137,701	$ 74,052,560
Cost of professional services and other direct operating expenses	11,373,396	10,613,064	31,440,146	29,148,901

Subcontract costs	3,893,812	3,709,116	10,277,820	11,336,364
Gross profit	12,146,022	11,939,814	35,419,735	33,567,295
Administrative and indirect operating expenses	7,827,792	7,396,793	22,507,125	20,258,715
Marketing and related costs	3,033,549	2,882,876	8,738,961	7,786,926
Depreciation	369,015	313,175	1,091,294	941,250
Income from operations	915,666	1,346,970	3,082,355	4,580,404
Interest expense	(112,880)	(36,310)	(344,181)	(103,565)
Interest income	97,836	152,795	357,506	396,827
Other expense	(65,666)	(392)	(99,240)	(92,929)
Net foreign currency exchange gain (loss)	(226,204)	(3,097)	(225,862)	23,922
Income from continuing operations before income taxes and minority interest	608,752	1,459,966	2,770,578	4,804,659
Income tax provision	228,384	449,012	812,637	1,460,263
Net income from continuing operations before minority interest	380,368	1,010,954	1,957,941	3,344,396
Minority interest	(257,712)	(531,989)	(1,204,131)	(1,512,663)
Net income from continuing operations	122,656	478,965	753,810	1,831,733
Income (loss) from discontinued operations	(17)	1,089	(51)	993,290
Income tax benefit (provision) on gain (loss) from discontinued operations	5	(327)	14	(419,491)
Net income	$ 122,644	$ 479,727	$ 753,773	$ 2,405,532
Net income per common share: basic				
Continuing operations	$ 0.03	$ 0.11	$ 0.18	$ 0.43
Discontinued operations	-	-	-	0.14
Net income per common share: basic	$ 0.03	$ 0.11	$ 0.18	$ 0.57
Net income per common share: diluted				
Continuing operations	$ 0.03	$ 0.11	$ 0.18	$ 0.43
Discontinued operations	-	-	-	0.13
Net income per common share: diluted	$ 0.03	$ 0.11	$ 0.18	$ 0.56
Weighted average common shares outstanding: basic	4,164,117	4,215,776	4,164,417	4,217,035
Weighted average common shares outstanding: diluted	4,209,487	4,278,307	4,224,835	4,263,404

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

Ecology and Environment, Inc
Consolidated Statement of Cash Flows

Unaudited

	Nine Months Ended April 26, 2008	April 28, 2007
Cash flows from operating activities:		
Net income	$ 753,773	$ 2,405,532
Net income (loss) from discontinued operations, net of tax	(37)	573,799
Income from continuing operations	753,810	1,831,733
Adjustments to reconcile net income to net cash		
provided by (used in) operating activities:		
Depreciation	1,091,294	941,250
Deferred income taxes	(302,299)	1,331,517
Share-based compensation expense	251,090	79,558
Gain on disposition of property and equipment	(44)	(1,034)
Minority interest	1,204,131	1,453,663
Provision (benefit) for contract adjustments	(279,006)	523,436
(Increase) decrease in:		
- contracts receivable, net	713,901	1,086,390
- other current assets	(449,255)	(715,860)
- income tax receivable	-	(300,729)
- other non-current assets	48,360	559,437
Increase (decrease) in:		
- accounts payable	(3,622,979)	(1,122,823)
- accrued payroll costs	(796,578)	(1,938,527)
- income taxes payable	1,293,369	(1,524,608)
- deferred revenue	(2,099)	(39,571)
- other accrued liabilities	(1,004,517)	(2,266,386)
- accrued interest and penalties	456,583	-
Net cash used in operating activities	(644,239)	(102,554)
Cash flows used in investing activities:		
Purchase of property, building and equipment	(1,061,958)	(931,364)
Payment for the purchase of bond	(22,646)	(2,549)
Cash used in investing activities	(1,084,604)	(933,913)
Cash flows provided by (used in) financing activities:		
Dividends paid	(766,458)	(739,172)
Proceeds from debt	155,564	109,694
Repayment of debt and capital lease obligations	(279,275)	(412,719)
Distributions to minority partners	(525,372)	(720,325)
Purchase of minority interest	(116,677)	-
Purchase of treasury stock	-	(58,733)
Net cash used in financing activities	(1,532,218)	(1,821,255)
Effect of exchange rate changes on cash and cash equivalents	500,305	76,512

Discontinued Operations		
Net cash used in discontinued operating activities	(37)	(414,514)
Net cash provided by discontinued investing activities - sale of assets	-	2,500,000
Net cash provided by (used in) discontinued operations	(37)	2,085,486
Net decrease in cash and cash equivalents	(2,760,793)	(695,724)
Cash and cash equivalents at beginning of period	15,554,523	13,094,499
Cash and cash equivalents at end of period	$ 12,793,730	$ 12,398,775

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

Ecology and Environment, Inc
Consolidated Statement of Changes in Shareholders' Equity
Unaudited

	Common Stock				Capital in		Accumulated Other		
	Class A		Class B		Excess of	Retained	Comprehensive	Treasury Stoc	
	Shares	Amount	Shares	Amount	Par Value	earnings	Income	Shares	Amo
Balance at July 31, 2006	2,534,566	$ 25,346	1,650,173	$ 16,502	$ 17,684,373	$ 23,163,716	$ (2,208,830)	128,463	$ (1,05
Net income	-	-	-	-	-	3,074,471	-	-	
Reclassification adjustment for realized foreign currency translation loss in net income	-	-	-	-	-	-	2,110,431	-	
Foreign currency translation reserve	-	-	-	-	-	-	397,476	-	
Cash dividends paid ($.34 per share)	-	-	-	-	-	(1,464,921)	-	-	
5% Stock Dividend	126,522.00	1,265	82,464.00	825	2,560,078	(2,562,168)	-	8,040	
Unrealized investment gain, net	-	-	-	-	-	-	25	-	
Conversion of common stock - B to A	410	4	(410)	(4)	-	-	-	-	
	-	-	-	-	-	-	-	86,806	(1,08

Repurchase of Class A common stock									
Issuance of stock under stock award plan	-	-	-	-	(325,985)	-	-	(57,620)	47
Share-based compensation expense	-	-	-	-	121,396	-	-	-	
Tax impact of share based compensation	-	-	-	-	5,860	-	-	-	
Other	-	-	-	-	5,724	-	-	3,132	(2
Balance at July 31, 2007	2,661,498	26,615	1,732,227	17,323	20,051,446	22,211,098	299,102	168,821	(1,69
Cumulative effect of adopting FIN 48	-	-	-	-	-	(2,845,845)	-	-	
Adjusted Balance at July 31, 2007	2,661,498	$ 26,615	1,732,227	$ 17,323	$ 20,051,446	$ 19,365,253	$ 299,102	168,821	$ (1,69
Net income	-	-	-	-	-	753,773	-	-	
Foreign currency translation reserve	-	-	-	-	-	-	595,977	-	
Cash dividends paid ($.18 per share)	-	-	-	-	-	(766,458)	-	-	
Unrealized investment gain, net	-	-	-	-	-	-	877	-	
Issuance of stock under stock award plan	-	-	-	-	(412,173)	-	-	(41,094)	41
Share-based compensation expense	-	-	-	-	254,719	-	-	-	
Tax impact of share based compensation	-	-	-	-	33,457	-	-	-	
Other	-	-	-	-	(873)	-	-	655	(
Balance at April 26, 2008	2,661,498	$ 26,615	1,732,227	$ 17,323	$ 19,926,576	$ 19,352,568	$ 895,956	128,382	$ (1,28

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

Ecology and Environment, Inc.
Notes to Consolidated Financial Statements

Summary of Operations and Basis of Presentation

The consolidated financial statements included herein have been prepared by Ecology and Environment, Inc., ("E & E" or the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Although E & E believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations. Therefore, these financial statements should be read in conjunction with the financial statements and the notes thereto included in E & E's 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for the nine months ended April 26, 2008 are not necessarily indicative of the results for any subsequent period or the entire fiscal year ending July 31, 2008.

1. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries. Also reflected in the financial statements is the 50% ownership in the Chinese operating joint venture, The Tianjin Green Engineering Company. This joint venture is accounted for under the equity method. All significant intercompany transactions and balances have been eliminated.

b. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

c. Revenue Recognition

The majority of the Company's revenue is derived from environmental consulting work, with the balance derived from aquaculture. 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
Fixed Price	Consulting	Percentage of completion, approximating the ratio of total costs incurred to date to total estimated costs.

Cost-type	Consulting	Costs as incurred. Fixed fee portion is recognized using percentage of completion determined by the percentage of level of effort (LOE) hours incurred to total LOE hours in the respective contracts.
Time and Materials	Consulting	As incurred at contract rates.
Unit Price	Aquaculture	Upon delivery and payment from customers.

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 an annual basis and based on past audit settlement history. Government audits have been completed and final rates have been negotiated through fiscal year 2001. The balance in the allowance for contract adjustments accounts principally represents a reserve for contract adjustments for the fiscal years 1996-2008.

We reduce our accounts receivable and costs and accrued earnings in excess of billings on contracts in process by establishing an allowance for amounts that, in the future, may become uncollectible or unrealizable, respectively. We determine our estimated allowance for uncollectible amounts based on management's judgments regarding our operating performance related to the adequacy of the services performed, the status of change orders and claims, our experience settling change orders and claims and the financial condition of our clients, which may be dependent on the type of client and current economic conditions that the client may be subject to.

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 are recognized on change orders (including profit) when it is probable that the change order will be approved and the amount can be reasonably estimated. Revenue on claims is not recognized until the claim is approved by the customer.

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.

d. Translation of Foreign Currencies

The financial statements of foreign subsidiaries where the local currency is the functional currency are translated into U.S. dollars using exchange rates in effect at period end for assets and liabilities and average exchange rates during each reporting period for results of operations. Translation adjustments are deferred in accumulated other comprehensive income.

The financial statements of foreign subsidiaries located in highly inflationary economies are remeasured as if the functional currency were the U.S. dollar. The remeasurement of local currencies into U.S. dollars creates transaction adjustments which are included in net income. There were no highly inflationary economy translation adjustments for fiscal years 2007-2008.

e. Income Taxes

The Company follows the asset and liability approach to account for income taxes. This approach requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Although realization is not assured, management believes it is more likely than not that the recorded net deferred tax assets will be realized. Since in some cases management has utilized estimates, the amount of the net deferred tax asset considered realizable could be reduced in the near term. No provision has been made for United States income taxes applicable to undistributed earnings of foreign subsidiaries as it is the intention of the Company to indefinitely reinvest those earnings in the operations of those entities.

Income tax expense includes U.S. and international income taxes, determined using an estimate of the Company's annual effective tax rate. A deferred tax liability is recognized for all taxable temporary differences, and a deferred tax asset is recognized for all deductible temporary differences and net operating loss carryforwards.

The Company has significant deferred tax assets, resulting principally from contract reserves, fixed assets and domestic net operating loss carryforwards ("NOLs"). As required by FAS 109, "Accounting for Income Taxes" the Company periodically evaluates the likelihood of realization of deferred tax assets, and has determined that no valuation allowance is presently necessary.

In July of 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), an interpretation of FAS 109. FIN 48 clarifies the accounting for uncertainty in income taxes and reduces the diversity in current practice associated with the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return by defining a "more-likely-than-not" threshold regarding the sustainability of the position. The Company adopted FIN 48 beginning August 1, 2007. See Footnote No. 12.

f. Earnings Per Share (EPS)

Basic EPS is computed by dividing continuing and discontinued operating income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. See Footnote No. 8.

g. Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. The Company assesses recoverability of the carrying value of the asset by estimating the future net cash flows (undiscounted) expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

h. Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash paid for interest was approximately $113,000 and $104,000 for the first nine months of fiscal year 2008 and 2007, respectively. Cash paid for income taxes was approximately $954,000 and $1.5 million for the first nine months of fiscal year 2008 and 2007, respectively. Additionally in the first quarter of fiscal year 2008, Gustavson Associates LLC purchased from minority unit holder, Prospect Resources, their remaining 50 ownership units. Prospect was paid $466,708 for its units with 25% of the amount paid in cash, and the assumption of a $350,000 three year note with a six percent annualized interest rate.

i. Goodwill

During the first quarter of fiscal year 2008, additional goodwill of $256,000 was recorded as a result of the purchase of additional shares of Gustavson Associates LLC. The total goodwill of approximately $1.1 million is subject to an annual assessment for impairment.

2. Contract Receivables, net

	April 26, 2008	July 31, 2007
United States government -		
Billed	$ 1,829,908	$ 2,905,030
Unbilled	3,350,565	4,195,989
	5,180,473	7,101,019
Industrial customers and state and municipal governments -		
Billed	22,626,730	24,496,429
Unbilled	9,935,760	6,885,363
	32,562,490	31,381,792
Less allowance for doubtful accounts and contract adjustments	(1,435,570)	(1,740,523)
	$ 36,307,393	$ 36,742,288

United States government receivables arise from long-term U.S. government prime contracts and subcontracts. Unbilled receivables result from revenues which have been earned, but are not billed as of period-end. The above unbilled balances are comprised of incurred costs plus fees not yet processed and billed; and differences between year-to-date provisional billings and year-to-date actual contract costs incurred and fees earned of approximately ($30,000) at April 26, 2008 and $202,000 at July 31, 2007. Management anticipates that the April 26, 2008 unbilled receivables will be substantially billed and collected within one year. Within the above billed balances are contractual retainages in the amount of approximately $296,000 at April 26, 2008 and $409,000 at July 31, 2007. Management anticipates that the April 26, 2008 retainage balance will be substantially collected within one year. Included in the balance of receivables for industrial customers and state and municipal customers are receivables, net of subcontract costs, due under the contracts in Saudi Arabia and Kuwait of $6.4 million at April 26, 2008 and $6.2 million at July 31, 2007.

Included in other accrued liabilities is an additional allowance for contract adjustments relating to potential cost disallowances on amounts billed and collected in current and prior years' projects of approximately $4.0 million and $3.9 million at April 26, 2008 and July 31, 2007, respectively. Also included in other accrued liabilities is a reclassification of billings in excess of recognized revenues of approximately $2.8 million at April 26, 2008 and $4.0 million at July 31, 2007. The allowance for contract adjustments is recorded for contract disputes and government audits when the amounts are estimatable.

3. Line of Credit

The Company maintains an unsecured line of credit available for working capital and letters of credit of $20 million with a bank at 1/2% below the prevailing prime rate. A second line of credit is available at another bank for up to $13.5 million exclusively for letters of credit and is renewed annually. There were two additional lines of credit established during fiscal year 2007. The Company established one for up to $5.0 million exclusively for letters of credit. An additional line of credit was established at Walsh Environmental for up to $750,000 exclusively for working capital and letters of credit. At April 26, 2008 and July 31, 2007, the Company had letters of credit outstanding totaling approximately $1.2 million and $1.3 million, respectively. After letters of credit, there are no outstanding borrowings under the lines of credit and there is $38.0 million of line still available at April 26, 2008. The Company had no outstanding borrowings for working capital at April 26, 2008 and July 31, 2007.

4. Long-Term Debt and Capital Lease Obligations

Debt inclusive of capital lease obligations at April 26, 2008 and July 31, 2007 consists of the following:

	April 26, 2008	July 31, 2007
Various bank loans and advances at interest rates ranging from 5% to 14%	$ 755,308	$ 477,466
Capital lease obligations at varying interest rates averaging 11%	189,511	241,033
	944,819	718,499
Less: current portion of debt and capital lease obligations	(422,092)	(333,229)
Long-term debt and capital lease obligations	$ 522,727	$ 385,270

The aggregate maturities of long-term debt and capital lease obligations at April 26, 2008 are as follows:

	Amount
May 2008 – Apr 2009	$ 422,092
May 2009 – Apr 2010	237,193
May 2010 – Apr 2011	184,172
May 2011 – Apr 2012	32,073
May 2012 – Apr 2013	32,182
Thereafter	37,107
	$ 944,819

5. Stock Award Plan

Effective March 16, 1998, the Company adopted the Ecology and Environment, Inc. 1998 Stock Award Plan (the "1998 Plan"). To supplement the 1998 Plan, the 2003 Stock Award Plan (the "2003 Plan") was approved by the shareholders at the annual meeting held in January 2004 (the 1998 Plan and the 2003 Plan collectively referred to as the "Award Plan"). The 2003 Plan was approved retroactive to October 16, 2003 and will terminate on October 15, 2008. Under the Award Plan key employees (including officers) of the Company or any of its present or future subsidiaries may be designated to received awards of Class A Common stock of the Company as a bonus for services rendered to the Company or its subsidiaries, without payment therefore, based upon the fair market value of the Company stock at the time of the award. The Award Plan authorizes the Company's board of directors to determine for what period of time and under what circumstances awards can be forfeited.

The Company issued 41,094 shares valued at $495,183 in October 2007 pursuant to the Award Plan. These awards issued have a three year vesting period. The "pool" of excess tax benefits accumulated in Capital in Excess of Par Value at April 26, 2008 and July 31, 2007 was approximately $122,000 and $88,000, respectively. Total gross compensation expense is recognized over the vesting period. Unrecognized compensation expense recorded against capital in excess of par value was approximately $586,000 and $349,000 at April 26, 2008 and July 31, 2007, respectively.

6. 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 can be 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.

7. Shareholders' Equity - Restrictive Agreement

Messrs. Gerhard J. Neumaier, Frank B. Silvestro, Ronald L. Frank and Gerald A. Strobel entered into a Stockholders' Agreement in 1970 which governs the sale of certain shares of common stock owned by them, the former spouse of one of the individuals and some of their children. The agreement provides that prior to accepting a bona fide offer to purchase all or any part of their shares, each party must first allow the other members to the agreement 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.

8. Earnings Per Share

The computation of basic earnings per share reconciled to diluted earnings per share follows:

	Three Months Ended		Nine Months Ended	
	April 26, 2008	April 28, 2007	April 26, 2008	April 28, 2007
Income from continuing operations available to common stockholders	$ 122,656	$ 478,965	$ 753,810	$ 1,831,733
Income (loss) from discontinued operations available to common stockholders	(12)	762	(37)	573,799
Total income available to common stockholders	122,644	479,727	753,773	2,405,532
Weighted-average common shares outstanding (basic)	4,164,117	4,215,776	4,164,417	4,217,035
Basic earnings per share:				
Continuing operations	$ .03	$ .11	$ .18	$ .43
Discontinued operations	---	---	---	.14
Total basic earnings per share	$ .03	$ .11	$ .18	$ .57
Incremental shares from assumed conversions of	45,370	62,531	60,418	46,369

stock options and restricted stock awards								
Adjusted weighted-average common shares outstanding		4,209,487		4,278,307		4,224,835		4,263,404
Diluted earnings per share:								
Continuing operations	$	.03	$	.11	$	.18	$	.43
Discontinued operations		---		---		---		.13
Total diluted earnings per share	$	.03	$	.11	$	.18	$	.56

After consideration of all the rights and privileges of the Class A and Class B stockholders discussed in Note 6, 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.

9. Segment Reporting

Ecology and Environment, Inc. has two reportable segments: consulting services and aquaculture. The consulting services segment provides broad based environmental services encompassing audits and impact assessments, surveys, air and water quality management, environmental engineering, environmental infrastructure planning, and industrial hygiene and occupational health studies to a world wide base of customers. The aquaculture segment consists of a fish farm located in Jordan which produces tilapia fish grown in a controlled environment for markets in the Middle East.

The Company evaluates segment performance and allocates resources based on operating profit before interest income/expense and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intercompany sales from the analytical services segment to the consulting segment were recorded at market selling price, intercompany profits are eliminated. The Company's reportable segments are separate and distinct business units that offer different products. Consulting services are sold on the basis of time charges while analytical services and aquaculture products are sold on the basis of product unit prices.

Reportable segments for nine months ended April 26, 2008 are as follows:

	Continuing Operations				Discontinued Operations		
	Consulting	Aquaculture	Elimination	Total	Consulting	Aquaculture	Total
Total consolidated revenues (1)	$ 77,086,222	$ 51,479	$ -	$ 77,137,701	$ 130,409	$ -	$ 130,409
Depreciation expense	$ 1,091,294	$ -	$ -	$ 1,091,294	$ -	$ -	$ -
Segment profit (loss) before income taxes and minority interest	$ 2,820,813	$ (50,235)	$ -	$ 2,770,578	$ (51)	$ -	$ (51)

Segment assets	$ 69,781,151	$ 100,000	$ -	$ 69,881,151	$ 197,040	$ -	$ 197,040
Expenditures for long-lived assets	$ 1,061,958	$ -	$ -	$ 1,061,958	$ -	$ -	$ -

Geographic Information:

	Revenue	Long-Lived Assets
United States	$ 62,462,701	$ 23,661,220
Foreign countries	14,675,000	2,626,000

(1) Revenue is attributed to countries based on the location of the customers.

Reportable segments for nine months ended April 28, 2007 are as follows:

	Continuing Operations				Discontinued Operations		
	Consulting	Aquaculture	Elimination	Total	Consulting	Aquaculture	Total
Total consolidated revenues (1)	$ 73,922,919	$ 129,641	$ -	$ 74,052,560	$ 816,267	$ -	$ 816,267
Depreciation expense	$ 941,250	$ -	$ -	$ 941,250	$ 25,986	$ -	$ 25,986
Segment profit (loss) before income taxes and minority interest	$ 4,823,740	$ (19,081)	$ -	$ 4,804,659	$ 7,493	$ 985,797	$ 993,290
Segment assets	$ 64,746,783	$ 126,000	$ -	$ 64,872,783	$ 1,164,012	$ -	$ 1,164,012
Expenditures for long-lived assets	$ 941,952	$ -	$ -	$ 941,952	$ -	$ -	$ -

Geographic Information:

	Revenue (1)	Long-Lived Assets
United States	$ 60,640,560	$ 22,909,015
Foreign countries	13,412,000	1,910,000

(1) Revenue is attributed to countries based on the location of the customers.

10. Commitments and Contingencies

From time to time, the Company is 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 of the Company believes will have a material adverse effect on the Company's results of operations, financial condition, 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.

The Company is involved in other litigation arising in the normal course of business. In the opinion of management, any adverse outcome to other litigation arising in the normal course of business would not have a material impact on the financial results of the Company.

11. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurement" (FAS 157), which established a framework for measuring fair value under generally accepted accounting principles and expands disclosure about fair value measurements. FAS 157 is effective for financial statements issued with fiscal years beginning after November 15, 2007. The Company is assessing the impact that the adoption of FAS 157 may have on its financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (FAS 159). The fair value option established by FAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. FAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is assessing the impact that the adoption of FAS 159 may have on its financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - An amendment of ARB No. 51." This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, for the fiscal year ending July 31, 2010 for the Company). Earlier adoption is prohibited. The Company is currently assessing the effect SFAS No. 160 will have on its financial statements.

12. Adoption of Accounting Principles – Accounting for Uncertainty in Income Taxes

During the first quarter of fiscal year 2008, the Company adopted the FASB Interpretation No. 48 “Uncertainty in Income Taxes” (FIN 48). FIN 48 applies to all tax positions and clarifies the recognition of tax benefits in the financial statements by providing a two-step approach to recognition and measurement. The first step involves assessing whether the tax position is more likely than not to be sustained upon examination based on the technical merits. The second step involves measurement of the amount to recognize. Tax positions that meet the more likely then not threshold are measured at the largest amount of tax benefit greater than 50% likely of being realized upon ultimate finalization with tax authorities.

The Company recorded a decrease to retained earnings as of August 1, 2007 of $2,845,845 as a cumulative effect of a change in accounting principle for the adoption of FIN 48 with corresponding increases to the liability for uncertain tax positions of $2,744,396, the non-current deferred tax asset of $1,116,079, and the liability for interest and penalties associated with uncertain tax positions of $1,205,667. The Company also decreased the current deferred tax assets of $67,869 and minority interest liability of $56,008. At August 1, 2007, E & E had approximately $2,523,443 of gross unrecognized tax benefits that if recognized, would favorably affect the effective income tax rate in future periods. At April 26, 2008, the liability for uncertain tax positions and associated interest and penalties are classified as noncurrent liabilities.

During the three and nine months ended April 26, 2008, the Company did not incur an additional liability with respect to uncertain tax positions. For the three months ended April 26, 2008, the Company recorded an additional liability for interest and penalties associated with uncertain tax positions of $201,000.

The Company’s majority owned subsidiary, the Consortium of International Contracts LLC (CIC) entered into three Environmental Services Agreements (ESA’s) with a public authority of the State of Kuwait which were funded by the United Nations Compensation Commission (UNCC). CIC’s work connected with the ESA’s began in fiscal 2002 and extended into fiscal year 2007. The ESA’s between the client, the Public Authority for Assessment of Compensation for Damages Resulting from Iraqi Aggression (PAAC), and CIC were signed in January of 2002. These ESAs contemplated the receipt of a tax exemption order from Kuwait’s Ministry of Finance declaring that the income generated by CIC, and in turn the Company, to the extent that the Company performed work for CIC under the ESA’s would be exempt from Kuwait income tax. The ESAs also provide that CIC would be entitled to be reimbursed by PAAC for Kuwait income tax costs, if any, as finally determined. CIC was given written notice in May 2002 by PAAC that the tax exemption order contemplated in the ESAs had officially been granted by the Ministry of Finance and that CIC would not be required to obtain a tax clearance certificate. In fiscal year 2007, CIC received notification from PAAC that it should file Kuwait income tax returns, notwithstanding the earlier May 2002 notification letter to the contrary, with the Ministry of Finance in order to facilitate the closure and final payments under the ESAs. Upon notification from PAAC in fiscal year 2007, the Company evaluated their position under the related guidance of FAS 5 “Accounting for Contingencies” and concluded a reasonable estimate could not be identified. While the Company evaluated the likelihood of the probability of success of its tax exempt status, a reasonable estimate of the tax liability of the contracts could not be made due to the subjective nature of the Kuwait tax system on foreign companies. In addition, the Company considered, and still maintains that any additional tax liability would be offset by an obligation for reimbursement from its client PAAC for any income taxes, penalties and interest.

Under the new guidance for uncertain tax positions, the Company does not believe that the tax exempt order claimed by PAAC to have been received, will meet the more likely than not threshold to obtain benefit, and has therefore accrued a cumulative impact of adoption related to the Kuwait income taxes. The Company has continued its assertion of a contractual obligation for reimbursement from PAAC should any tax liability be agreed to with the Kuwait Ministry of Finance, however the assessment of this reimbursement is not permitted under FIN 48. E & E’s management believes that, given the ESA’s provisions, providing for reimbursement of any Kuwait income taxes, this liability recorded for estimated income taxes in Kuwait, may lead to volatility in the Company’s future reported earnings when the Company’s actual exposure is settled.

The Company files numerous consolidated and separate income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for years through fiscal 2006. The Company's tax matters for the fiscal years 2007 and 2008 remain subject to examination by the Internal Revenue Service. The Company's New York State tax matters have been concluded for years through fiscal 2005. The Company's tax matters in other material jurisdictions remain subject to examination by the respective state, local, and foreign tax jurisdiction authorities. No waivers have been executed that would extend the period subject to examination beyond the period prescribed by statute.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in administrative and indirect operating expenses. For the three and nine months ended April 26, 2008, E & E recognized interest and penalties of approximately $201,000 and $451,000, respectively. For the three months ended April 26, 2008, E & E incurred a foreign exchange loss of $219,000 to adjust the FIN48 Kuwait tax reserve to current exchange rates.

It is reasonably possible that the liability associated with our unrecognized tax benefits will increase or decrease within the next twelve months. These changes will most likely be the result of the Kuwait tax matter described above. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

13. Other Accrued Liabilities

	April 26, 2008	July 31, 2007
Allowance for contract adjustments	$ 3,996,609	$ 3,925,525
Billings in excess of revenue	2,780,066	3,995,645
Other	1,085,515	945,537
	$ 7,862,190	$ 8,866,707

14. Venezuela – Discontinued Operations

During the fourth quarter of 2007, due to a continuing deterioration in business and political conditions in Venezuela and the likelihood that E&E's Venezuelan subsidiary would no longer be able to compete for contracts within the country, the Company evaluated its investment in its Venezuelan subsidiary and recognized a write-off of $1.1 million ($146,000 after tax or $.03 per share) to reflect the estimated reduction in the value of the net assets of the Company's Venezuela subsidiary. During the first quarter of 2008 the Company decided to close its subsidiary in Venezuela effective as soon as possible and, accordingly, has reclassified its operations as discontinued. The cessation of business in Venezuela has resulted in termination benefits for employees according to in-country regulations and other charges which have not been significant.

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

Liquidity and Capital Resources

Operating activities consumed $644,000 of cash during the first nine months of fiscal year 2008. Accounts payable decreased $3.6 million during the first nine months of fiscal year 2008 attributable to the payment of outstanding payables due to the strong cash position of the Company and a decrease in subcontract costs within the parent company. Accrued payroll costs decreased $797,000 during fiscal year 2008 mainly due to the payment of corporate bonuses to eligible employees and the timing of the issuance of paychecks to parent company employees. Other accrued liabilities decreased $1.0 million during the first nine months of fiscal year 2008 mainly due to a decrease in billings in excess over revenue. Offsetting these were sources of cash from contracts receivables, income taxes payable and minority interest. Contracts receivable decreased $714,000 and income taxes payable increased $1.3 million during the first nine months of fiscal year 2008.

Financing activities consumed $1.5 million of cash during the first nine months of fiscal year 2008. The Company paid dividends in the amount of $766,000 or $.18 per share and $525,000 in distributions to minority partners during the first nine month of fiscal year 2008. Cash outflow on long-term debt and capital lease obligations was $124,000 consisting mainly of repayment of loans and capital leases held by the Walsh Environmental subsidiary, Walsh Peru.

The Company maintains an unsecured line of credit of $20.0 million with a bank at 1/2% below the prevailing prime rate. A second line of credit is available at another bank for up to $13.5 million, exclusively for letters of credit. There were two additional lines of credit established during fiscal year 2007, The Company established one for up to $5.0 million exclusively for letters of credit. Another line of credit was established at Walsh Environmental for up to $750,000 exclusively for working capital and letters of credit. The Company has outstanding letters of credit (LOC's) at April 26, 2008 in the amount of $1.2 million. These LOC's were obtained to secure advance payments and performance guarantees, primarily for contracts in the Middle East. After LOC's, there are no outstanding borrowings under the lines of credit and there is $38.0 million of line still available at April 26, 2008. There are no significant additional working capital requirements pending at April 26, 2008. The Company believes that cash flows from operations and borrowings against the line of credit will be sufficient to cover all working capital requirements for at least the next twelve months and the foreseeable future.

Results of Operations

Revenue

Fiscal Year 2008 vs 2007

Revenues for the third quarter of fiscal year 2008 were $27.4 million, an increase of $1.1 million from the $26.3 million reported for the prior year. Revenues from the Company's majority owned subsidiary E&E do Brasil were $1.7 million for the third quarter of fiscal year 2008, an increase of $500,000 from the $1.2 million reported in the third quarter of fiscal year 2007. The increase in E&E do Brasil revenues was mainly attributable to increased work in the public and private power industries. Revenues of the parent company E&E, Inc increased $700,000 during the third quarter of fiscal year 2008 due to increases in work from commercial and state clients. Revenues from state clients increased $.7 million from the $6.3 million reported during the third quarter of the prior year. The increase in state revenue was mainly attributable to an increase in work levels on contracts in Florida. Revenues from commercial clients were $5.5 million for the third quarter of fiscal year 2008, an increase of $1.4 million from the $4.1 million reported during the prior year. The increase in commercial revenue was mainly attributable to an increase in work levels on contracts in the energy sector. Offsetting these increases were decreases in work at the parent company in the federal government sectors. Revenue from federal government clients was $3.8 million during the third quarter of fiscal year 2008, a decrease $1.4 from the $5.2 million reported in the prior year.

Revenue for the nine months of fiscal year 2008 was $77.1 million, an increase of $3.0 million from the $74.1 million reported in the first nine months of the prior year. The increase was mainly attributable to increases in work performed for state clients at the parent company and by EEI's majority owned subsidiaries Walsh Environmental and E&E do Brasil. Revenues from state clients of the parent company were $19.7 million, up $2.8 million from the $16.9 million reported in the prior year. The increase in state revenue was mainly attributable to an increase in work levels on contracts in New York and California. Revenues from Walsh Environmental were $19.4 million for the first nine months of fiscal year 2008, an increase of 10% from the $17.6 million reported in the first nine months of fiscal year 2007. The increase in Walsh Environmental revenues was mainly attributable to increased activity in the environmental remediation and asbestos markets. Revenues from E&E do Brasil were $5.0 million for the first nine months of fiscal year 2008, an increase of $1.6 million or 47% over the prior year due mainly to increased work in the public and private power industries. Offsetting these increases for the first nine months of fiscal year 2008 were reduced revenues in the parent company from work performed on contracts with various commercial and federal government clients. Revenue from commercial clients of the parent company were $13.3 million during the first nine months of fiscal year 2008, a decrease $.8 million from the $14.1 million reported in the prior year. Revenue from federal government clients of the parent company were $11.2 million during the first nine months of fiscal year 2008, a decrease $2.6 million from the $13.8 million reported in the first nine month of fiscal year 2007.

Fiscal Year 2007 vs 2006

The Company reported a decrease of $751,000 in revenue during the third quarter of fiscal year 2007 mainly attributable to a $3.6 million decrease in work performed on contracts associated with the relief efforts for the Gulf Coast hurricanes and a $.4 million decrease in work performed on the Company's Region 9 Superfund Technical Assessment and Response Team (START) contract which ended in fiscal year 2006. Although the relief efforts on hurricane Katrina and Rita are complete, the Company continues to work in the Gulf Coast Region on projects to restore the wetlands that were damaged by the hurricanes. During the third quarter of fiscal year 2007, revenues from state clients decreased $.9 million from the $7.2 million reported during the third quarter of the prior year. The decrease in state revenue was mainly attributable to a drop in work levels on contracts in New York and Florida. Offsetting these decreases, Walsh Environmental reported revenue of $6.5 million during the third quarter of fiscal year 2007, up 41% from the $4.6 million reported in the prior year. The increase in Walsh Environmental was a result of higher revenues from its energy, mining and transportation sectors. E&E do Brasil reported revenue of $1.2 million during the third quarter of fiscal year 2007, up 71% from the $.7 million reported in the prior year due to an increase in work on energy related projects. The Company reported an increase of $2.1 million in other government work, mainly due to increased activity on United States Department of Defense contracts.

The Company reported revenue of $74.1 million for the first nine months of fiscal year 2007, consistent with the $74.0 million reported in the prior year. Work performed on the contracts associated with the relief efforts of hurricanes Katrina and Rita decreased $8.6 million during the first nine months of fiscal year 2007. Work performed on the Company's contracts in Saudi Arabia and Kuwait decreased $2.7 or 74% from the prior year. The contracts in Saudi Arabia are 100% complete and the contracts in Kuwait are substantially complete. An additional decrease of $1.5 million in fiscal year 2007 is attributable to the completion of the Region 9 START contract in fiscal year 2006. Offsetting these decreases, Walsh Environmental reported revenue of $17.6 million for the first nine months of fiscal year 2007, up 35% from the $13.0 million reported in the prior year as a result of higher revenues from its energy, mining and transportation sectors. E&E do Brasil reported revenue of $3.4 million for the first nine months of fiscal year 2007, up 70% from the $2.0 million reported in the prior year due to energy related projects. The Company reported an increase of $5.1 million in other government work, mainly due to increased activity on United States Department of Defense contracts.

Income From Continuing Operations Before Income Taxes and Minority Interest

Fiscal Year 2008 vs 2007

The Company's income from continuing operations before income taxes and minority interest was $609,000 for the third quarter of fiscal year 2008, down 59% from the $1.5 million reported in the third quarter of fiscal year 2007. Gross profits increased slightly during the second quarter of fiscal year 2008 as a result of the increased revenue reported at E&E do Brasil and the parent company. The slight increase in gross profits were offset by increased costs associated with the Company's FIN 48 Kuwait tax accrual as well as higher indirect costs at the Company's subsidiary E&E do Brasil. For the three months ended April 26, 2008, E&E recorded an additional FIN 48 accrual of $420,000 or $.08 per share after tax. The FIN 48 accrual included additional interest and penalties of approximately $201,000 ($.04 per share after tax) as well as a foreign exchange loss of $219,000 ($.04 per share after tax) to adjust the FIN48 Kuwait tax reserve to current exchange rates. This expense is related to the contested Kuwait taxes. The Company has continued its assertion of a contractual obligation for reimbursement from the Public

Authority for Assessment of Compensation for Damages Resulting from Iraqi Aggression (PAAC) should any tax liability be agreed to with the Kuwait Ministry of Finance, however the assessment of this reimbursement in not permitted under FIN 48. E&E do Brasil reported an increase of $244,000 in indirect costs during the third quarter of fiscal year 2008 due to increase in staffing and additional office space needed to accommodate the increased work load. The parent company has experienced significant increases in labor utilization since the end of the third quarter and expects this upsurge in direct hours to continue throughout the balance of the fourth quarter.

The Company's income from continuing operations before income taxes and minority interest was $2.8 million for the first nine months of fiscal year 2008, down 42% from the $4.8 million reported in the first nine months of fiscal year 2007. Gross profits increased as a result of the increased revenues reported at Walsh Environmental and E & E do Brasil and a decrease in corporate wide subcontractor costs. The increased gross profits were offset by higher indirect costs during the first nine months of fiscal year 2008. Consolidated indirect costs increased $2.2 million during the first nine months of fiscal year 2008 as a result of an increase in marketing and bid and proposal costs and costs associated with increased staffing levels at Walsh Environmental, E&E do Brasil and the parent company. Marketing and bid and proposal costs were $8.7 million for the first nine months of fiscal year 2008, an increase of $.9 million from the $7.8 million reported in the prior year. The Company continues to increase business development costs worldwide to capitalize on the global demands for energy and environmental infrastructure improvements. These expenditures should result in increased contract bookings and revenues in future periods. For the nine months ended April 26, 2008, E&E accrued additional interest and penalties of approximately $451,000 ($.09 per share after tax) related to the FIN 48 tax accrual as well as a foreign exchange loss of $219,000 ($.04 per share after tax) to adjust the FIN48 Kuwait tax reserve to current exchange rates.

Fiscal Year 2007 vs 2006

The Company's income from continuing operations before income taxes and minority interest was $1.5 million for the third quarter of fiscal year 2007, consistent with the $1.4 million reported in the third quarter of fiscal year 2006. Gross margins increased during the third quarter of fiscal year 2007 due to an increase in private sector work, a decrease in subcontract costs of the parent company, and increased revenues from the Walsh Environmental subsidiaries and E&E do Brasil. Subcontracts costs decreased $2.2 million during the third quarter of fiscal year 2007 due to the completion of the hurricane work and field projects related to state work in Illinois. The increase in gross margins was offset by higher indirect costs incurred by the parent company. Administrative and indirect operating expenses were $7.4 million during the third quarter of fiscal year 2007, up from the $6.3 million reported during the prior year. Marketing and proposal costs were $2.9 million during the third quarter of fiscal year 2007, an increase of 12% from the $2.6 million reported during the third quarter of fiscal year 2006. The increase in indirect costs was mainly attributable to a decrease in staff utilization for the parent company and increased bid and proposal work brought about by significant opportunities in the energy sector relating to alternative energy and clean technologies. The Company has continued to increase business development costs worldwide to capitalize on the global demands for energy and environmental infrastructure improvements. Interest income increased $117,000 from the $36,000 reported during the third quarter of fiscal year 2006, consistent with the increased cash generated by the Company from the completion of major projects and the sale of the shrimp farm.

The Company's income from continuing operations before income taxes and minority interest was $4.8 million for the first nine months of fiscal year 2007, up 9% from the $4.4 million reported in fiscal year 2006. Gross margins increased during fiscal year 2007 due to higher margin work, a decrease in subcontract costs of the parent company, and increased revenues from the Walsh Environmental subsidiaries and E&E do Brasil. Subcontracts costs decreased $2.0 million during the first nine months of fiscal year 2007 due to the completion of the hurricane work and field projects related to state work in New York and Illinois. The increase in gross margins was offset by higher indirect costs incurred by the parent company. Administrative and indirect operating expenses were $20.3 million during the first nine months of fiscal year 2007, up from the $17.9 million reported during the prior year. Marketing and proposal costs were $7.8 million during fiscal year 2007, an increase of 10% from the $7.1 million reported during the first nine months of fiscal year 2006. The increase in indirect costs was mainly attributable to a decrease in staff utilization for the parent company and increased bid and proposal work brought about by significant opportunities in the energy sector relating to alternative energy and clean technologies. Interest income was $397,000 for the first nine months of fiscal year 2007, up 201% from the $132,000 reported during the prior year. The increase in interest income is consistent with the increased cash generated by the Company from the completion of major projects and the sale of the shrimp farm.

Income Taxes

During the first quarter of fiscal year 2008, the Company adopted the FASB Interpretation No. 48 "Uncertainty in Income Taxes" (FIN 48). FIN 48 applies to all tax positions and clarifies the recognition of tax benefits in the financial statements by providing a two-step approach to recognition and measurement. The first step involves assessing whether the tax position is more likely than not to be sustained upon examination based on the technical merits. The second step involves measurement of the amount to recognize. Tax positions that meet the more likely then not threshold are measured at the largest amount of tax benefit greater than 50% likely of being realized upon ultimate finalization with tax authorities.

The Company recorded a decrease to retained earnings as of August 1, 2007 of $2,845,845 as a cumulative effect of a change in accounting principle for the adoption of FIN 48 with corresponding increases to the liability for uncertain tax positions of $2,744,396, the non-current deferred tax asset of $1,116,079, and the liability for interest and penalties associated with uncertain tax positions of $1,205,667. The Company also decreased the current deferred tax assets of $67,869 and minority interest liability of $56,008. At August 1, 2007, E & E had approximately $2,523,443 of gross unrecognized tax benefits that if recognized, would favorably affect the effective income tax rate in future periods. At April 26, 2008, the liability for uncertain tax positions and associated interest and penalties are classified as noncurrent liabilities.

During the three and nine months ended April 26, 2008, the Company did not incur an additional liability with respect to uncertain tax positions. For the three months ended April 26, 2008, the Company recorded an additional liability for interest and penalties associated with uncertain tax positions of $201,000.

The Company's majority owned subsidiary, the Consortium of International Contracts LLC (CIC) entered into three Environmental Services Agreements (ESA's) with a public authority of the State of Kuwait which were funded by the United Nations Compensation Commission (UNCC). CIC's work connected with the ESA's began in fiscal 2002 and extended into fiscal year 2007. The ESA's between the client, the Public Authority for Assessment of Compensation for Damages Resulting from Iraqi Aggression (PAAC), and CIC were signed in January of 2002. These ESAs contemplated the receipt of a tax exemption order from Kuwait's Ministry of Finance declaring that the income generated by CIC, and in turn the Company, to the extent that the Company performed work for CIC under the ESA's would be exempt from Kuwait income tax. The ESAs also provide that CIC would be entitled to be reimbursed by PAAC for Kuwait income tax costs, if any, as finally determined. CIC was given written notice in May 2002 by PAAC that the tax exemption order contemplated in the ESAs had officially been granted by the Ministry of Finance and that CIC would not be required to obtain a tax clearance certificate. In fiscal year 2007, CIC received notification from PAAC that it should file Kuwait income tax returns, notwithstanding the earlier May 2002 notification letter to the contrary, with the Ministry of Finance in order to facilitate the closure and final payments under the ESAs. Upon notification from PAAC in fiscal year 2007, the Company evaluated their position under the related guidance of FAS 5 "Accounting for Contingencies" and concluded a reasonable estimate could not be identified. While the Company evaluated the likelihood of the probability of success of its tax exempt status, a reasonable estimate of the tax liability of the contracts could not be made due to the subjective nature of the Kuwait tax system on foreign companies. In addition, the Company considered, and still maintains that any additional tax liability would be offset by an obligation for reimbursement from its client PAAC for any income taxes, penalties and interest.

Under the new guidance for uncertain tax positions, the Company does not believe that the tax exempt order claimed by PAAC to have been received, will meet the more likely than not threshold to obtain benefit, and has therefore accrued a cumulative impact of adoption related to the Kuwait income taxes. The Company has continued its assertion of a contractual obligation for reimbursement from PAAC should any tax liability be agreed to with the Kuwait Ministry of Finance, however the assessment of this reimbursement is not permitted under FIN 48. E & E's management believes that, given the ESA's provisions, providing for reimbursement of any Kuwait income taxes, this liability recorded for estimated income taxes in Kuwait, may lead to volatility in the Company's future reported earnings when the Company's actual exposure is settled.

The Company files numerous consolidated and separate income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for years through fiscal 2006. The Company's tax matters for the fiscal years 2007 and 2008 remain subject to examination by the Internal Revenue Service. The Company's New York State tax matters have been concluded for years through fiscal 2005. The Company's tax matters in other material jurisdictions remain subject to examination by the respective state, local, and foreign tax jurisdiction authorities. No waivers have been executed that would extend the period subject to examination beyond the period prescribed by statute.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in administrative and indirect operating expenses. For the three and nine months ended April 26, 2008, E & E incurred interest and penalties of approximately $201,000 and $451,000, respectively. For the three months ended April 26, 2008, E & E incurred a foreign exchange loss of $219,000 to adjust the FIN48 Kuwait tax reserve to current exchange rates.

It is reasonably possible that the liability associated with our unrecognized tax benefits will increase or decrease within the next twelve months. These changes will most likely be the result of the Kuwait tax matter described above. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

The estimated effective tax rate for fiscal year 2008 is 29.3%, up from the 2.3% reported for fiscal year 2007. This is due mainly to tax benefits recognized on the write-off of the investment in Venezuela and a reduction in the Company's estimated tax liabilities as a result of the completion of audits in fiscal year 2007.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurement" (FAS 157), which established a framework for measuring fair value under generally accepted accounting principles and expands disclosure about fair value measurements. FAS 157 is effective for financial statements issued with fiscal years beginning after November 15, 2007. The Company is assessing the impact that the adoption of FAS 157 may have on its financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (FAS 159). The fair value option established by FAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. FAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is assessing the impact that the adoption of FAS 159 may have on its financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - An amendment of ARB No. 51." This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, for the fiscal year ending July 31, 2010 for the Company). Earlier adoption is prohibited. The Company is currently assessing the effect SFAS No. 160 will have on its financial statements.

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, 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.

Revenue recognition

The Company’s 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 we enter into with our clients. The revenues recognized, therefore, are derived from our ability to charge clients for those services under the contracts.

The Company employs three major types of contracts: “cost-plus contracts,” “fixed-price contracts” and “time-and-materials contracts.” Within each of the major contract types are variations on the basic contract mechanism. Fixed-price contracts generally present the highest level of financial and performance risk, but often also provide the highest potential financial returns. Cost-plus contracts present a lower risk, but generally provide lower returns and often include more onerous terms and conditions. Time-and-materials contracts generally represent the time spent by our professional staff at stated or negotiated billing rates.

Fixed price contracts are accounted for on the “percentage-of-completion” method, wherein revenue is recognized as project progress occurs. 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. 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.

The use of the percentage of completion revenue recognition method requires the use of estimates and judgment regarding the project’s expected revenues, costs and the extent of progress towards completion. The Company has a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenue and contract completion costs. However, due to uncertainties inherent in the estimation process, it is possible that completion costs may vary from estimates.

Most of our percentage-of-completion projects follow a method which approximates the “cost-to-cost” method of determining the percentage of completion. Under the cost-to-cost method, we make periodic estimates of our progress towards project completion by analyzing costs incurred to date, plus an estimate of the amount of costs that we expect to incur until the completion of the project. Revenue is then calculated on a cumulative basis (project-to-date) as the total contract value multiplied by the current percentage-of-completion. The revenue for the current period is calculated as cumulative revenues less project revenues already recognized. The recognition of revenues and profit is dependent upon the accuracy of a variety of estimates. Such estimates are based on various judgments we make with respect to those factors and are difficult to accurately determine until the project is significantly underway.

For some contracts, using the cost-to-cost method in estimating percentage-of-completion may overstate the progress on the project. For projects where the cost-to-cost method does not appropriately reflect the progress on the projects, we use alternative methods such as actual labor hours, for measuring progress on the project and recognize revenue accordingly. For instance, in a project where a large amount of equipment is purchased or an extensive amount of mobilization is involved, including these costs in calculating the percentage-of-completion may overstate the actual progress on the project. For these types of projects, actual labor hours spent on the project may be a more appropriate measure of the progress on the project.

The Company's contracts with the U.S. government contain provisions requiring compliance with the Federal Acquisition Regulation (FAR), and the Cost Accounting Standards (CAS). These regulations are generally applicable to all of the Company's federal government contracts and are partially or fully incorporated in many local and state agency contracts. They limit the recovery of certain specified indirect costs on contracts subject to the FAR. Cost-plus contracts covered by the FAR provide for upward or downward adjustments if actual recoverable costs differ from the estimate billed. Most of our federal government contracts are subject to termination at the convenience of the client. Contracts typically provide for reimbursement of costs incurred and payment of fees earned through the date of such termination.

Federal government contracts are subject to the FAR and some state and local governmental agencies require audits, which are performed for the most part by either the EPA Office of Inspector General (EPAOIG) or the Defense Contract Audit Agency (DCAA). The EPAOIG and DCAA audit overhead rates, cost proposals, incurred government contract costs, and internal control systems. During the course of its audits, the EPAOIG or DCAA may question incurred costs if it believes we have accounted for such costs in a manner inconsistent with the requirements of the FAR or CAS and recommend that our U.S. government financial administrative contracting officer disallow such costs. Historically, we have not experienced significant disallowed costs as a result of such audits. However, we can provide no assurance that the EPAOIG audits will not result in material disallowances of incurred costs in the future.

The Company maintains reserves for cost disallowances on its cost based contracts as a result of government audits. The Company recently settled fiscal years 1996 thru 2001 for amounts within the anticipated range. Final rates have been negotiated under these audits through 2001. The Company has estimated its exposure based on completed audits, historical experience and discussions with the government auditors. If these estimates or their related assumptions change, the Company may be required to record additional charges for disallowed costs on its government contracts.

Allowance for Doubtful Accounts and Contract Adjustments

We reduce our accounts receivable and costs and accrued earnings in excess of billings on contracts in process by establishing an allowance for amounts that, in the future, may become uncollectible or unrealizable, respectively. We determine our estimated allowance for uncollectible amounts based on management's judgments regarding our operating performance related to the adequacy of the services performed, the status of change orders and claims, our experience settling change orders and claims and the financial condition of our clients, which may be dependent on the type of client and current economic conditions that the client may be subject to.

Deferred Income Taxes

We use the asset and liability approach for financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances based on our judgments and estimates are established when necessary to reduce deferred tax assets to the amount expected to be realized in future operating results. Management believes that realization of deferred tax assets in excess of the valuation allowance is more likely than not. Our estimates are based on facts and circumstances in existence as well as interpretations of existing tax regulations and laws applied to the facts and circumstances, with the help of professional tax advisors. Therefore, we estimate and provide for amounts of additional income taxes that may be assessed by the various taxing authorities.

Changes in Corporate Entities

On September 1, 2007 Gustavson Associates LLC purchased from minority unit holder, Prospect Resources, their remaining 50 ownership units. Prospect was paid $466,708 for its units with 25% of the amount paid in cash, and the assumption of a three year note with a six percent annualized interest rate. The purchase price that was paid was at a premium over the capital value of the units. This excess created additional goodwill of $255,578 which was recorded in the first quarter.

On May 15, 2007 one of the Walsh Peruvian minority shareholders sold 14% of their shares in that subsidiary for $332,000. Half of the shares were repurchased by the Peruvian company, and the other half was purchased by Walsh Environmental Scientists and Engineers, LLC (the majority shareholder). Both of the transactions were completed for the same terms and conditions. Half of the purchase price was paid in cash and the remainder was taken as loans to be repaid over a two and a half year period. The purchase price that was paid was at a premium over the book value of the stock. This has created additional goodwill of approximately $147,000 that was recorded in the fourth quarter.

On January 9, 2007 the Company sold its interest in the shrimp farm in Costa Rica to the Roozen Group for $2,500,000 in cash. There was a pretax gain on the sale of the farm of approximately $960,000 after deducting costs of the sale. This gain is included in the accompanying financial statements under discontinued operations.

On December 29, 2006 a capital infusion of $500,000 was made to E & E do Brasil, Ltda. order to fund working capital requirements resulting from the subsidiary’s significant growth. On the same date the Company entered into a loan agreement for $120,000 each with its two Brazilian partners. The loans were granted to allow them to maintain their ownership percentage in E & E do Brasil, Ltda. (a limited partnership). The loans made to the partners are payable to Ecology and Environment, Inc., and are five year loans with annual principal repayments, and twelve per cent interest costs due on the outstanding balance. The loans are secured by the partners' shares.

Inflation

Inflation has not had a material impact on the Company’s business because a significant amount of the Company’s contracts are either cost based or contain commercial rates for services that are adjusted annually.

Item 4. Controls and Procedures

Company management, with the participation of the chief executive officer and chief financial officer, evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of April 26, 2008. In designing and evaluating the Company's disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that, as of April 26, 2008, the Company's disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to its chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to Company’s management, including its principal executive and principal financial officers, or persons providing similar functions, as appropriate to allow timely decisions regarding required disclosure. There have been no significant changes in internal controls over financial reporting during the period covered by this report.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is 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 of the Company believes will have a material adverse effect on the Company's results of operations, financial condition, 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.

The Company is involved in other litigation arising in the normal course of business. In the opinion of management, any adverse outcome to other litigation arising in the normal course of business would not have a material impact on the financial results of the Company.

Item 2. Changes in Securities and Use of Proceeds

(e) Purchased Equity Securities. The Company did not purchase any common stock during the first nine months of its fiscal year ending July 31, 2008.

Item 3. Defaults Upon Senior Securities

The Registrant has no information for Item 3 that is required to be presented.

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

The Registrant has no information for Item 4 that is required to be presented.

Item 5. Other Information

The Registrant has no information for Item 5 that is required to be presented.

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 did not file a Form 8-K report during the third quarter ended April 26, 2008.

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 10, 2008	By:	/s/ H. John Mye, III H. John Mye, III Vice President, Treasurer and Chief Financial Officer - Principal Financial Officer