ECOLOGY & ENVIRONMENT INC
Form 10-Q
March 17, 2009

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 January 31, 2009

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, a non-accelerated filer, or a smaller reporting company (as defined in Exchange Act Rule 12b-2). (Check one):

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

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

At March 1, 2009, 2,438,495 shares of Registrant's Class A Common Stock (par value $.01) and 1,651,273 shares of Class B Common Stock (par value $.01) were outstanding.

Ecology and Environment, Inc
Consolidated Balance Sheet
Unaudited

Assets		January 31, 2009		July 31, 2008
Current assets:				
Cash and cash equivalents	$	11,140,368	$	14,178,094
Investment securities available for sale		1,204,212		1,173,195
Contract receivables, net		43,460,279		41,545,935
Deferred income taxes		4,361,522		4,450,693
Income tax receivable		15,556		15,556
Other current assets		3,247,340		2,357,307
Total current assets		63,429,277		63,720,780
Property, building and equipment, net		7,905,289		7,873,248
Deferred income taxes		2,144,894		2,386,424
Other assets		1,645,689		1,621,144
Total assets	$	75,125,149	$	75,601,596
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable	$	9,607,700	$	9,509,351
Accrued payroll costs		5,609,211		5,901,980
Income taxes payable		803,359		-
Deferred revenue		191,317		91,822
Current portion of long-term debt and capital lease obligations		721,798		1,377,827
Other accrued liabilities		10,261,334		9,968,490
Total current liabilities		27,194,719		26,849,470
Income taxes payable		2,547,863		2,734,788
Accrued interest and penalties		2,107,776		2,111,988
Long-term debt and capital lease obligations		386,557		481,757
Minority interest		4,660,012		4,169,247
Commitments and contingencies (see note #9)		-		-
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 - 2,677,651 and 2,661,498 shares		26,776		26,615
Class B common stock, par value $.01 per share; authorized - 10,000,000 shares; issued - 1,716,074 and 1,732,227 shares		17,162		17,323
Capital in excess of par value		19,877,712		20,014,257
Retained earnings		21,327,009		19,664,147
Accumulated other comprehensive income (loss)		(231,184)		834,667
Treasury stock - Class A common, 239,156 and 65,340 shares; Class B common, 64,801 and 64,801 shares, at cost		(2,789,253)		(1,302,663)
Total shareholders' equity		38,228,222		39,254,346
Total liabilities and shareholders' equity	$	75,125,149	$	75,601,596

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

Ecology and Environment, Inc.
Consolidated Statement of Income
Unaudited

	Three months ended January 31, 2009	Three months ended January 26, 2008	Six months ended January 31, 2009	Six months ended January 26, 2008
Revenue	$ 34,068,691	$ 24,077,925	$ 67,760,400	$ 49,724,471
Cost of professional services and other direct operating expenses	13,191,705	9,281,029	27,366,618	20,066,750
Subcontract costs	7,312,626	3,739,337	11,965,473	6,384,008
Gross profit	13,564,360	11,057,559	28,428,309	23,273,713
Administrative and indirect operating expenses	8,458,815	7,291,221	16,514,911	14,679,333
Marketing and related costs	2,590,256	2,742,199	5,830,952	5,705,412
Depreciation	390,219	370,176	763,511	722,279
Income from operations	2,125,070	653,963	5,318,935	2,166,689
Interest expense	(129,052)	(110,120)	(245,833)	(231,301)
Interest income	57,508	119,652	134,697	259,670
Other income (expense)	8,129	(13,195)	(20,723)	(33,574)
Net foreign currency exchange gain (loss)	(94,006)	1,086	(94,175)	342
Income from continuing operations before income taxes and minority interest	1,967,649	651,386	5,092,901	2,161,826
Income tax provision	801,281	175,914	1,981,624	584,253
Net income from continuing operations before minority interest	1,166,368	475,472	3,111,277	1,577,573
Minority interest	(197,319)	(345,232)	(665,952)	(946,419)
Net income from continuing operations	969,049	130,240	2,445,325	631,154
Income (loss) from discontinued operations	(6,150)	431	(8,400)	(34)
Income tax benefit (provision) on income (loss) from discontinued operations	2,414	(116)	3,263	9
Net income	$ 965,313	$ 130,555	$ 2,440,188	$ 631,129

Net income per common share: basic								
Continuing operations	$	0.25	$	0.03	$	0.61	$	0.15
Discontinued operations		-		-		-		-
Net income per common share: basic	$	0.25	$	0.03	$	0.61	$	0.15
Net income per common share: diluted								
Continuing operations	$	0.24	$	0.03	$	0.60	$	0.15
Discontinued operations		-		-		-		-
Net income per common share: diluted	$	0.24	$	0.03	$	0.60	$	0.15
Weighted average common shares outstanding: basic		3,951,633		4,164,570		4,016,614		4,164,570
Weighted average common shares outstanding: diluted		4,023,333		4,201,362		4,101,786		4,221,298
The accompanying notes are an integral part of these financial statements.								

Ecology and Environment, Inc
Consolidated Statement of Cash Flows
Unaudited

	Six months ended January 31, 2009	January 26, 2008
Cash flows from operating activities:		
Net income	$ 2,440,188	$ 631,129
Net income (loss) from discontinued operations, net of tax	(5,137)	(25)
Income from continuing operations	2,445,325	631,154
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	763,511	722,279
Deferred income taxes	116,681	(241,563)
Share-based compensation expense	234,593	169,812
Gain on disposition of property and equipment	(8,701)	(19)
Minority interest	665,952	946,419
Provision for contract adjustments	(87,267)	(53,838)
(Increase) decrease in:		
- contracts receivable, net	(3,159,793)	2,800,409
- other current assets	(1,147,407)	(400,517)
- other non-current assets	(32,167)	36,860
Increase (decrease) in:		
- accounts payable	586,838	(3,746,987)
- accrued payroll costs	(185,508)	(727,982)
- income taxes payable	650,431	972,029
- deferred revenue	99,495	(10,361)
- other accrued liabilities	722,310	(1,070,640)
- accrued interest and penalties	(4,212)	253,475
Net cash provided by operating activities	1,660,081	280,530
Cash flows used in investing activities:		
Purchase of property, building and equipment	(991,239)	(533,122)
Payment for the purchase of bond	(18,574)	(95,614)
Cash used in investing activities	(1,009,813)	(628,736)
Cash flows provided by (used in) financing activities:		
Dividends paid	(777,326)	(769,371)
Proceeds from debt	661,501	15,502
Repayment of debt and capital lease obligations	(1,412,730)	(224,991)
Distributions to minority partners	(434,803)	(570,593)
Purchase of treasury stock	(1,832,123)	-

Net cash used in financing activities		(3,795,481)		(1,549,453)
Effect of exchange rate changes on cash and cash equivalents		112,624		202,633
Discontinued Operations				
Net cash used in discontinued operating activities		(5,137)		(16,641)
Net decrease in cash and cash equivalents		(3,037,726)		(1,711,667)
Cash and cash equivalents at beginning of period		14,178,094		15,554,523
Cash and cash equivalents at end of period	$	11,140,368	$	13,842,856

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 Class A Shares	Common Stock Class A Amount	Common Stock Class B Shares	Common Stock Class B Amount	Capital in Excess of Par Value	Retained earnings	Accumulated Other Comprehensive Income (loss)	Treasury Stock Shares	Treasury Stock Amount	Comprehe Incom
ce at 31, 2007	2,661,498	$ 26,615	1,732,227	$ 17,323	$ 20,051,446	$ 22,211,098	$ 299,102	168,821	$ (1,692,496)	$ 5,582
ulative t of ting FIN	-	-	-	-	-	(2,845,845)	-	-	-	
	2,661,498	$ 26,615	1,732,227	$ 17,323	$ 20,051,446	$ 19,365,253	$ 299,102	168,821	$ - 1,692,496	$ 5,582
ncome	-	-	-	-	-	1,834,386	-	-	-	1,834
gn ncy ation ve	-	-	-	-	-	-	536,446	-	-	536
ends paid per)	-	-	-	-	-	(1,535,492)	-	-	-	
alized tment net	-	-	-	-	-	-	(881)	-	-	(
rchase of A non stock	-	-	-	-	-	-	-	536	(5,636)	
nce of under award	-	-	-	-	(412,173)	-	-	(41,094)	412,173	
e-based ensation nse	-	-	-	-	339,625	-	-	-	-	
mpact of based ensation	-	-	-	-	33,457	-	-	-	-	
r	-	-	-	-	1,902	-	-	1,878	(16,704)	
	2,661,498	$ 26,615	1,732,227	$ 17,323	$ 20,014,257	$ 19,664,147	$ 834,667	130,141	$ (1,302,663)	$ 2,369

ance at 31, 2008										
ncome	-	-	-	-	-	2,440,188	-	-	-	2,440
gn ncy ation ve	-	-	-	-	-	-	(1,073,451)	-	-	(1,073
ends paid per)	-	-	-	-	-	(777,326)	-	-	-	
alized tment net	-	-	-	-	-	-	7,600	-	-	7
ersion of non stock A	16,153	161	(16,153)	(161)	-	-	-	-	-	
rchase of A non stock	-	-	-	-	-	-	-	207,941	(1,832,123)	
nce of under award	-	-	-	-	(376,176)	-	-	(37,580)	376,176	
e-based ensation nse	-	-	-	-	234,593	-	-	-	-	
r	-	-	-	-	5,038	-	-	3,455	(30,643)	
ance at ary 31,	2,677,651	$ 26,776	1,716,074	$ 17,162	$ 19,877,712	$ 21,327,009	$ (231,184)	303,957	$ (2,789,253)	$ 1,374

ccompanying 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 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for the six months ended January 31, 2009 are not necessarily indicative of the results for any subsequent period or the entire fiscal year ending July 31, 2009.

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. Reclassifications

Certain prior year amounts were reclassified to conform to the 2009 financial statement presentation.

d. 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.

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 1996-2009.

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.

e. Investment securities

Investment securities have been classified as available for sale and are stated at estimated fair value. Unrealized gains or losses related to investment securities available for sale are reflected in accumulated other comprehensive income, net of applicable income taxes in the consolidated balance sheet and statement of changes in shareholders' equity. The cost of securities sold is based on the specific identification method. Effective August 1, 2008, the Company has adopted the current portion of the Financial Accounting Standards Board (FASB) Statement No. 157, "Fair Value Measurement" (SFAS 157). The methodologies used to calculate the fair value of the investments held within the Company's portfolio qualify under the Level 1 measurement requirements of SFAS 157. In February 2008, the FASB agreed to a one-year deferral for the implementation of SFAS No. 157 for non-financial assets and liabilities to fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 157 will have on its operating results and financial condition.

f. 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 2008-2009.

g. 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.

The estimated effective tax rate for fiscal year 2009 is 38.9%, up from the 38.0% reported for fiscal year 2008.

h. 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.

i. 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.

j. 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 $70,000 and $85,000 for the first six months of fiscal year 2009 and 2008, respectively. Cash paid for income taxes was approximately $995,000 and $924,000 for the first six months of fiscal year 2009 and 2008, 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.

k. 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

	January 31, 2009	July 31, 2008
United States government -		
Billed	$ 2,538,418	$ 3,431,437
Unbilled	4,922,138	2,669,211
	7,460,556	6,100,648
Industrial customers and state and municipal governments -		
Billed	22,748,873	20,811,500
Unbilled	15,185,012	16,690,360
	37,933,885	37,501,860
Less allowance for doubtful accounts and contract adjustments	(1,934,161)	(2,056,573)
	$ 43,460,280	$ 41,545,935

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. Within the above billed balances are contractual retainages in the amount of approximately $308,000 at January 31, 2009 and $290,000 at July 31, 2008. Management anticipates that the January 31, 2009 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 $3.5 million at January 31, 2009 and $3.5 million at July 31, 2008.

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 at January 31, 2009 and July 31, 2008. Also included in other accrued liabilities is a reclassification of billings in excess of recognized revenues of approximately $4.6 million at January 31, 2009 and $4.6 million at July 31, 2008. 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 unsecured lines of credit available for working capital and letters of credit of $19 million with various banks at one-half percent below the prevailing prime rate. Other lines are available solely for letters of credit in the amount of $18.5 million. The Brazilian subsidiary in July 2008 borrowed $1 million under a four month term note at 5.19% annualized interest rate. The Brazilian loan was paid off in December 2008. The Company guarantees the Walsh Environmental line of credit. The banks have reaffirmed the Company’s lines of credit within the past twelve months. At January 31, 2009 and July 31, 2008 the company had letters of credit outstanding totaling approximately $1.2 million. Borrowings by the Brazilian subsidiary for working capital were $0 and $1.0 million at January 31, 2009 and July 31, 2008, respectively. After letters of credit and loans, there was $36.6 million of line still available at January 31, 2009.

4. Long-Term Debt and Capital Lease Obligations

Debt inclusive of capital lease obligations at January 31, 2009 and July 31, 2008 consists of the following:

	January 31, 2009	July 31, 2008
Various bank loans and advances at interest rates ranging from 5% to 14%	$ 871,934	$ 1,702,392
Capital lease obligations at varying interest rates averaging 11%	236,421	157,192
	1,108,355	1,859,584
Less: current portion of debt and capital lease obligations	(721,799)	(1,377,827)
Long-term debt and capital lease obligations	$ 386,556	$ 481,757

The aggregate maturities of long-term debt and capital lease obligations at January 31, 2009 are as follows:

	Amount
Feb 2009 – Jan 2010	$ 721,799
Feb 2010 – Jan 2011	235,031
Feb 2011 – Jan 2012	74,486
Feb 2012 – Jan 2013	31,704
Feb 2013 – Jan 2014	33,660
Thereafter	11,675
	$ 1,108,355

5. Stock Award 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 terminated 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 awarded 37,580 shares valued at $414,507 in October 2008 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 January 31, 2009 and July 31, 2008 was $122,000. Total gross compensation expense is recognized over the vesting period. Unrecognized compensation expense was approximately $664,000 and $496,000 at January 31, 2009 and July 31, 2008, 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:

	Six Months Ended	
	January 31, 2009	January 26, 2008

Income from continuing operations available to common stockholders	$	2,445,325	$	631,154
Loss from discontinued operations available to common stockholders		(5,137)		(25)
Total income available to common stockholders		2,440,188		631,129
Weighted-average common shares outstanding (basic)		4,016,614		4,164,570
Basic earnings per share:				
Continuing operations	$	.61	$	.15
Discontinued operations		---		---
Total basic earnings per share	$	.61	$	.15
Incremental shares from assumed conversions of restricted stock awards		85,172		56,728
Adjusted weighted-average common shares outstanding		4,101,786		4,221,298
Diluted earnings per share:				
Continuing operations	$	.60	$	.15
Discontinued operations		---		---
Total diluted earnings per share	$	.60	$	.15

After consideration of all the rights and privileges of the Class A and Class B stockholders discussed in Note 9, 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. Commitments and Contingencies

The Company received a tax assessment from the Kuwait Ministry of Finance dated March 15, 2009 in the amount of approximately $2.65 million compared to a liability accrued for this tax, including interest and penalties, of $4.3 million. The company has 30 days to evaluate this assessment and either file an objection or pay the tax. Due to the complexities of the contractual considerations related to the assessment of this tax, the Company will use this 30 day period to evaluate its options.

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.

10. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, which established a framework for measuring fair value under generally accepted accounting principles and expands disclosure about fair value measurements. In February 2008, the FASB agreed to a one-year deferral for the implementation of SFAS No. 157 for non-financial assets and liabilities to fiscal years beginning after November 15, 2008. The current portion of SFAS 157 has been adopted for the Company’s 2009 fiscal year without significant impact. The Company is currently evaluating the impact, if any, that the adoption of the deferred portion of SFAS No. 157 will have on its operating results and financial condition.

In February 2007, the FASB issued Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (SFAS 159). The fair value option established by SFAS 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. SFAS 159 has been adopted for the Company’s 2009 fiscal year.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements - An amendment of ARB No. 51." This statement amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling 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 non-controlling 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 non-controlling 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 160 will have on its financial statements.

In December 2007, the FASB issued SFAS No. 141 R (revised 2007), “Business Combinations “ (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for the Company beginning August 1, 2009 and will change the accounting for business combinations on a prospective basis. The Company is assessing the impact that the adoption of SFAS 141R may have on its financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities”. This FSP provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. This FSP is effective for the Company beginning August 1, 2009. The Company is assessing the impact that the adoption of EITF 03-6-1 may have on its financial statements.

11. Other Accrued Liabilities

	January 31, 2009	July 31, 2008
Allowance for contract adjustments	$ 4,005,125	$ 3,969,980
Billings in excess of revenue	4,608,636	4,642,578
Other	1,647,573	1,355,932
	$ 10,261,334	$ 9,968,490

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

Liquidity and Capital Resources

Operating activities provided $1.7 million of cash during the first six months of fiscal year 2009. This increase was mainly attributable to the reported $2.4 million in net income and a $.7 million increase in income taxes payable due to the increased profitability during the first six months of fiscal year 2009. Other accrued liabilities increased $.7 million during the first six months of fiscal year 2009. Accounts payable increased $.6 million during the first six months of fiscal year 2009 attributable to the increased work levels throughout the Company. Offsetting these were increases in accounts receivable and other current assets. Accounts receivable increased $3.2 million during the first six months of fiscal year 2009 due to increased revenues. Other current assets increased $1.1 million due to an increase in prepaid insurance and prepaid project costs.

Financing activities consumed $3.8 million of cash during the first six months of fiscal year 2009. The Company paid dividends in the amount of $777,000 or $.19 per share and repurchased 207,941 shares of the Class A common stock for $1.8 million. Net cash outflow on long-term debt and capital lease obligations was $751,000 due mainly to the repayment of a $1.0 million loan by E&E do Brasil. Distributions to minority partners during the first six months of fiscal year 2009 were approximately $435,000.

The Company maintains unsecured lines of credit available for working capital and letters of credit of $19 million with various banks at one-half percent below the prevailing prime rate. Other lines are available solely for letters of credit in the amount of $18.5 million. The Brazilian subsidiary in July 2008 borrowed $1 million under a four month term note at 5.19% annualized interest rate. The Brazilian loan was paid off in December 2008. The Company guarantees the Walsh Environmental line of credit. The banks have reaffirmed the Company's lines of credit within the past twelve months. At January 31, 2009 and July 31, 2008 the Company had letters of credit outstanding totaling approximately $1.2 million. Borrowings by the Brazilian subsidiary for working capital were $0 and $1.0 million at January 31, 2009 and July 31, 2008, respectively. After letters of credit and loans, there was $36.6 million of line still available at January 31, 2009. 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 2009 vs 2008

Revenues for the second quarter of fiscal year 2009 were $34.1 million, an increase of $10.0 million from the $24.1 million reported for the second quarter of fiscal year 2008. Revenues from the Company's majority owned subsidiary Walsh Environmental were $9.6 million for the second quarter of fiscal year 2009, an increase of $3.1 million from the $6.5 million reported in the second quarter of fiscal year 2008. The increase in Walsh Environmental revenues was mainly attributable to increased activity in the environmental remediation and energy markets. Revenues of the parent company E&E, Inc increased $6.4 million during the second quarter of fiscal year 2009. The increase in revenue was attributable to increased work on contracts in the Company's commercial and federal government sectors. Revenues from commercial clients of E&E were $6.8 million for the second quarter of fiscal year 2009, an increase of $3.2 million from the $3.6 million reported during the second quarter of the prior year. The increase in commercial revenue was mainly attributable to an increase in work levels on contracts in the energy sector. Revenue from federal government clients of E&E were $8.7 million during the second quarter of fiscal year 2009, an increase of $3.8 million from the $4.9 million reported in the second quarter of fiscal year 2008. The increase in federal government revenue was mainly attributable to an increase in work levels on various contracts with the United States Department of Defense (DOD) and United States Environmental Protection Agency (EPA). Offsetting these increases was a decrease in work at the parent company in the state sector. Revenue from state clients of the parent company was $5.6 million during the second quarter of fiscal year 2009, a decrease of $.6 million from the $6.2 million reported in the prior year.

Revenues for the first six months of fiscal year 2009 were $67.8 million, an increase of $18.1 million from the $49.7 million reported for the prior year. Revenues from the Company's majority owned subsidiary Walsh Environmental were $17.6 million for the first six months of fiscal year 2009, an increase of $4.5 million from the $13.1 million reported in the prior year. The increase in Walsh Environmental revenues was mainly attributable to increased activity in the environmental remediation, asbestos and energy markets. Revenues of the parent company E&E, Inc were $43.7 million, an increased of $13.0 million from the $30.7 million reported for the first six months of fiscal year 2008. The increase in revenue was attributable to increased work on contracts in the Company's commercial and federal government sectors. Revenues from commercial clients of E&E were $14.6 million for the first six months of fiscal year 2009, an increase of $6.8 million from the $7.8 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. Revenue from federal government clients of E&E were $16.1 million during the first six months of fiscal year 2009, an increase of $6.1 million from the $10.0 million reported in the prior year. The increase in federal government revenue was mainly attributable to an increase in work levels on various contracts with DOD and EPA.

Fiscal Year 2008 vs 2007

Revenues for the second quarter of fiscal year 2008 were consistent with the revenues reported for the prior year. Revenues from the Company's majority owned subsidiary Walsh Environmental were $6.5 million for the second quarter of fiscal year 2008, an increase of $1.0 million from the $5.5 million reported in the second quarter 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 state clients of the parent company were $6.2 million, up $800,000 from the $5.4 million reported in the prior year. The increase in state revenue was mainly attributable to an increase in work levels on contracts in Florida and Washington. Offsetting these increases were decreases in work at the parent company in the commercial and federal government sectors. Revenue from commercial clients of the parent company was $3.6 million during the second quarter of fiscal year 2008, a decrease $1.0 million from the $4.6 million reported in the prior year. Revenue from federal government clients was $3.9 million during the second quarter of fiscal year 2008, a decrease $700,000 from the $4.6 million reported in the prior year. The decrease in federal government revenue was mainly due to decreased activity on United States Department of Defense contracts.

Revenue for the six months of fiscal year 2008 was $49.8 million, an increase of $1.5 million from the $48.3 million reported in the first six months of the prior year. The increase was mainly attributable to increases in work performed by 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 $12.7 million, up $2.1 million from the $10.6 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 Washington. Revenues from Walsh Environmental were $13.2 million for the first six months of fiscal year 2008, an increase of 19% from the $11.1 million reported in the first six 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 $3.2 million for the first six months of fiscal year 2008, an increase of $1.1 million or 52% over the prior year due mainly to increased work in the public and private power industries. Offsetting these increases for the first six 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 $7.8 million during the first six months of fiscal year 2008, a decrease $2.2 million from the $10.0 million reported in the prior year. Revenue from federal government clients of the parent company were $7.5 million during the first six months of fiscal year 2008, a decrease $1.1 million from the $8.6 million reported in the first six month of fiscal year 2007.

Income From Continuing Operations Before Income Taxes and Minority Interest

Fiscal Year 2009 vs 2008

The Company's income from continuing operations before income taxes and minority interest was $2.0 million for the second quarter of fiscal year 2009, an increase of $1.3 million or 186% from the $.7 million reported in the second quarter of fiscal year 2008. Gross profits increased $2.5 million during the second quarter of fiscal year 2009 as a result of the increased revenue reported at the parent company E&E, Inc. and Walsh Environmental, offset by an increase in corporate wide subcontractor costs. The increased gross profits were offset by higher indirect costs at the parent company E&E, Inc. and the Company's subsidiary E&E do Brasil. The increase in indirect costs was mainly attributable to an increase in staffing levels due to their overall business growth. For the three months ended January 31, 2009, E&E accrued additional expenses of approximately $75,000 ($.01 per share) related to the FASB Interpretation No. 48 "Uncertainty in Income Taxes" ("FIN 48") tax accrual. The majority of this expense is interest related to Kuwait taxes. E&E recorded a foreign exchange gain of $256,000 ($.04 per share after tax) to adjust the FIN 48 Kuwait tax reserve recorded by the parent company to current exchange rates. E&E do Brasil recorded an exchange loss of $385,000 ($0.05 per share after tax during the second quarter of fiscal year 2009 due to the repayment of a $1.0 million loan.

The Company's income from continuing operations before income taxes and minority interest was $5.1 million for the first six months of fiscal year 2009, an increase of $2.9 million or 132% from the $2.2 million reported in the first six months of fiscal year 2008. Gross profits increased 22% as a result of the increased revenues reported at E&E and Walsh Environmental, offset by an increase in corporate wide subcontractor costs. The increased gross profits were offset by higher indirect costs attributable to increased staffing levels and increased business development costs worldwide. E&E has experienced significant increases in labor utilization during the first six months of fiscal year 2009 due to the increased work volume. For the first six months of fiscal year 2009, E&E accrued additional expenses of approximately $156,000 ($.02 per share after tax) related to the FIN 48 tax accrual.

Fiscal Year 2008 vs 2007

The Company's income from continuing operations before income taxes and minority interest was $651,000 for the second quarter of fiscal year 2008, down 57% from the $1.5 million reported in the second 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 Walsh Environmental and a decrease in corporate wide subcontractor costs. The increased gross profits were offset by higher indirect costs at the Company's subsidiaries Walsh Environmental and E&E do Brasil as well as increased staffing levels and business development and proposal costs worldwide within the parent company. Contract bookings for the first six months of fiscal year 2008 increased 14% over the prior year. Staff levels companywide increased as a result of anticipated manpower needs for the remainder of the fiscal year. The volume of proposals increased 51% while the value of the proposals submitted increased 83% to $172 million compared to $94 million in the prior year. Walsh Environmental reported indirect costs of $2.6 million for the second quarter of fiscal year 2008, an increase of $800,000 from the $1.8 million reported in the prior year. The increase in indirect costs was attributable to increased staffing levels and increased operational expenses related to their overall business growth. For the three months ended January 26, 2008, E&E accrued additional interest and penalties of approximately $146,000 ($.03 per share) related to the FIN 48 tax accrual. The majority of this expense is related to the Kuwait taxes. In the second quarter of fiscal year 2007, the Company sold its interest in the shrimp farm located in Costa Rica. After deducting costs of the sale, there was an after tax gain recorded on the sale of the farm of approximately $553,000 or $.13 per share and was included in discontinued operations.

The Company's income from continuing operations before income taxes and minority interest was $2.2 million for the first six months of fiscal year 2008, down 33% from the $3.3 million reported in the first six 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 six months of fiscal year 2008. Consolidated indirect costs increased $2.6 million during the first six months of fiscal year 2008 as a result of increased marketing and bid and proposal costs and costs associated with increased staffing levels at Walsh Environmental and E&E do Brasil. Marketing and bid and proposal costs were $5.7 million for the first six months of fiscal year 2008, an increase of $801,000 from the $4.9 million reported in the prior year. For the six months ended January 26, 2008, E&E accrued additional interest and penalties of approximately $253,000 ($.04 per share) related to the FIN 48 tax accrual. The majority of this FIN 48 obligation is related to the Kuwait taxes.

Income Taxes

The estimated effective tax rate for fiscal year 2009 is 38.9%, up from the 38.0% reported for fiscal year 2008.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, which established a framework for measuring fair value under generally accepted accounting principles and expands disclosure about fair value measurements. In February 2008, the FASB agreed to a one-year deferral for the implementation of SFAS No. 157 for non-financial assets and liabilities to fiscal years beginning after November 15, 2008. The current portion of SFAS 157 has been adopted for the Company's 2009 fiscal year without significant impact. The Company is currently evaluating the impact, if any, that the adoption of the deferred portion of SFAS No. 157 will have on its operating results and financial condition.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). The fair value option established by SFAS 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. SFAS 159 has been adopted for the Company's 2009 fiscal year.

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 160 will have on its financial statements.

In December 2007, the FASB issued SFAS No. 141 R (revised 2007), "Business Combinations " (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for the Company beginning August 1, 2009 and will change the accounting for business combinations on a prospective basis. The Company is assessing the impact that the adoption of SFAS 141R may have on its financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities". This FSP provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. This FSP is effective for the Company beginning August 1, 2009. The Company is assessing the impact that the adoption of EITF 03-6-1 may 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 the Defense Contract Audit Agency (DCAA). The DCAA audits overhead rates, cost proposals, incurred government contract costs, and internal control systems. During the course of its audits, the 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 such 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. Government audits have been completed and final rates have been negotiated through fiscal year 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 of fiscal year 2008.

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 the end of the period covered by this report. 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 the end of the period covered by this report, 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 that have materially affected, or are reasonably likely to materially affect the Company’s 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 following table summarizes the Company's purchases of its common stock during the period ended January 31, 2009:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
August 1, 2008 – January 31, 2009	207,941	$8.81	207,941	163

(1) The Company purchased 207,941 shares of its Class A common stock during the first six months of its fiscal year ended July 31, 2009, pursuant to a 200,000 share repurchase program approved at the Board of Directors meeting held in January 2004. In February 2006, the Board of Directors authorized the repurchase of an additional 200,000 shares.

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 filed a Form 8-K report on August 26, 2008 to announce the Company's move from the American Stock Exchange (AMEX) to the National Association of Securities Dealers Automated Quotations (NASDAQ).

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: March 17, 2009	By:	/s/ H. John Mye, III H. John Mye, III Vice President, Treasurer and Chief Financial Officer – Principal Financial Officer