ECOLOGY & ENVIRONMENT INC
Form 10-Q
June 14, 2011

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 30, 2011

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

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 June 1, 2011, 2,596,534 shares of Registrant's Class A Common Stock (par value $.01) and 1,643,773 shares of Class B Common Stock (par value $.01) were outstanding.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

Ecology and Environment, Inc
Consolidated Balance Sheets

Assets	April 30, 2011 (Unaudited)	July 31, 2010 (Audited)
Current assets:		
Cash and cash equivalents	$12,814,944	$14,347,194
Investment securities, available for sale	1,513,232	1,305,739
Contract receivables, net	56,987,590	47,096,456
Deferred income taxes	3,971,800	3,557,156
Other current assets	2,242,268	2,025,001
Total current assets	77,529,834	68,331,546
Property, building and equipment, net of accumulated depreciation, $22,418,772 and $21,040,900	8,952,486	8,664,453
Deferred income taxes	1,274,033	1,291,297
Other assets	2,048,220	1,671,636

Total assets	$89,804,573	$79,958,932
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$8,007,211	$10,863,390
Accrued payroll costs	10,249,213	7,451,310
Income taxes payable	1,122,599	1,083,911
Current portion of long-term debt and capital lease obligations	1,429,293	928,027
Billings in excess of revenue	7,944,003	4,128,118
Other accrued liabilities	6,056,738	4,926,798
Total current liabilities	34,809,057	29,381,554
Income taxes payable	322,706	286,523
Deferred income taxes	289,531	289,531
Long-term debt and capital lease obligations	487,811	767,302
Commitments and contingencies (see note #12)	-	-
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 - 2,685,151 and 2,685,072 shares	26,851	26,850
Class B common stock, par value $.01 per share; authorized - 10,000,000 shares; issued - 1,708,574 and 1,708,653 shares	17,087	17,088
Capital in excess of par value	19,846,272	20,059,200
Retained earnings	29,912,352	25,800,803
Accumulated other comprehensive income	1,289,191	815,906
Treasury stock - Class A common, 88,617 and 136,461 shares; Class B common, 64,801 shares, at cost	(1,662,917)	(1,855,466)
Total Ecology and Environment, Inc. shareholders' equity	49,428,836	44,864,381
Noncontrolling interests	4,466,632	4,369,641
Total shareholders' equity	53,895,468	49,234,022
Total liabilities and shareholders' equity	$89,804,573	$79,958,932

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

Ecology and Environment, Inc.
Consolidated Statements of Income
Unaudited

	Three months ended April 30, 2011	Three months ended May 1, 2010	Nine months ended April 30, 2011	Nine months ended May 1, 2010
Revenue	$41,355,534	$33,349,736	$125,560,118	$103,886,886
Cost of professional services and other direct operating expenses	15,624,627	11,460,818	48,766,310	35,076,531
Subcontract costs	7,834,196	6,478,668	23,003,558	22,887,420
Administrative and indirect operating expenses	11,173,563	9,537,563	31,821,627	28,022,714
Marketing and related costs	4,095,808	3,620,120	11,268,955	10,917,214
Depreciation and amortization	428,312	405,959	1,288,410	1,242,000
Income from operations	2,199,028	1,846,608	9,411,258	5,741,007
Interest expense	(81,497)	(62,236)	(253,369)	(173,123)
Interest income	18,154	24,395	93,351	87,764
Other income (expense)	47,682	(1,523)	39,499	(91,955)
Gain on sale of assets	232,194	-	290,526	809,200
Net foreign exchange gain (loss)	171,475	(26,316)	184,489	(66,827)
Income before income tax provision	2,587,036	1,780,928	9,765,754	6,306,066
Income tax provision	933,279	663,112	3,513,231	2,185,831
Net income	$1,653,757	$1,117,816	$6,252,523	$4,120,235
Net income attributable to noncontrolling interests	(224,373)	(370,473)	(1,206,552)	(1,738,187)
Net income attributable to Ecology and Environment, Inc.	$1,429,384	$747,343	$5,045,971	$2,382,048
Net income per common share: basic and diluted	$0.34	$0.18	$1.19	$0.57
Weighted average common shares outstanding: basic and diluted	4,236,993	4,193,010	4,222,759	4,150,193

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

Ecology and Environment, Inc
Consolidated Statements of Cash Flows
Unaudited

	Nine months ended April 30,	Nine months ended May 1,

	2011	2010
Cash flows from operating activities:		
Net income	$6,252,523	$4,120,235
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,288,410	1,242,000
Provision for deferred income taxes	(397,380)	(353,250)
Share-based compensation expense	405,881	350,475
Tax impact of share-based compensation	-	102,737
Gain on sale of assets	(290,526)	(809,200)
Provision for contract adjustments	598,259	583,835
Bad debt expense	450,000	-
(Increase) decrease in:		
- contract receivables	(9,355,472)	3,703,257
- other current assets	(123,997)	253,550
- income tax receivable	-	650,090
- other non-current assets	(125,135)	(50,461)
Increase (decrease) in:		
- accounts payable	(2,220,679)	(5,395,638)
- accrued payroll costs	2,677,237	(370,673)
- income taxes payable	74,726	536,477
- billings in excess of revenue	3,815,885	(52,059)
- other accrued liabilities	866,138	(146,168)
Net cash provided by operating activities	3,915,870	4,365,207
Cash flows provided by (used in) investing activities:		
Acquistion of noncontrolling interest of subsidiaries	(590,284)	(1,000,000)
Purchase of Lowham Engineering LLC	-	(200,000)
Purchase of Engineering Consulting Services, Inc., net of cash equivalents of $309,487	(790,513)	-
Purchase of property, building and equipment	(1,049,772)	(1,416,272)
Proceeds from sale of property and equipment	322,807	959,200
Purchase of investment securities	(227,092)	(46,941)
Cash used in investing activities	(2,334,854)	(1,704,013)
Cash flows provided by (used in) financing activities:		
Dividends paid	(1,814,839)	(1,684,482)
Proceeds from debt	484,197	480,936
Repayment of debt and capital lease obligations	(813,093)	(352,436)
Distributions to noncontrolling interests	(615,366)	(755,338)
Proceeds from sale of subsidiary shares to noncontrolling interests	90,368	143,112
Purchase of treasury stock	(635,046)	-
Net cash used in financing activities	(3,303,779)	(2,168,208)
Effect of exchange rate changes on cash and cash equivalents	190,513	196,997
Net increase (decrease) in cash and cash equivalents	(1,532,250)	689,983
Cash and cash equivalents at beginning of period	14,347,194	16,571,186

Cash and cash equivalents at end of period	$12,814,944	$17,261,169

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

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

	Common Stock				Capital in		Accumulated Other	Treasury S	
	Class A		Class B		Excess of	Retained	Comprehensive		
	Shares	Amount	Shares	Amount	Par Value	earnings	Income (loss)	Shares	A
Balance at July 31, 2009	2,677,651	$ 26,776	1,716,074	$ 17,162	$ 20,093,952	$ 23,290,768	$ 441,965	307,091	$ (2
Net income	-	-	-	-	-	4,257,607	-	-	
Foreign currency translation adjustment	-	-	-	-	-	-	423,493	-	
Cash dividends paid ($.42 per share)	-	-	-	-	-	(1,747,572)	-	-	
Unrealized investment gain, net	-	-	-	-	-	-	23,159	-	
Conversion of common stock - B to A	7,421	74	(7,421)	(74)	-	-	-	-	
Issuance of stock under stock award plan	-	-	-	-	(372,172)	-	-	(42,675)	
Share-based compensation expense	-	-	-	-	485,945	-	-	-	
Tax impact of share based compensation	-	-	-	-	102,737	-	-	-	
Sale of subsidiary shares to noncontrolling interests	-	-	-	-	-	-	-	-	
Distributions to	-	-	-	-	-	-	-	-	

noncontrolling interests								
Purchase of additional noncontrolling interests	-	-	-	-	(254,181)	-	(72,711)	(66,667)
Other	-	-	-	-	2,919	-	-	3,513
Balance at July 31, 2010	2,685,072	$ 26,850	1,708,653	$ 17,088	$ 20,059,200	$ 25,800,803	$ 815,906	201,262 $ (
Net income	-	-	-	-	-	5,045,971	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	459,809	-
Cash dividends paid ($.22 per share)	-	-	-	-	-	(934,422)	-	-
Unrealized investment gain, net	-	-	-	-	-	-	(18,325)	-
Conversion of common stock - B to A	79	1	(79)	(1)	-	-	-	-
Repurchase of Class A common stock	-	-	-	-	-	-	-	42,423
Issuance of stock under stock award plan	-	-	-	-	(482,061)	-	-	(54,645)
Share-based compensation expense	-	-	-	-	405,881	-	-	-
Sale of subsidiary shares to noncontrolling interests	-	-	-	-	-	-	-	-
Issuance of shares to noncontrolling interests								
Distributions to noncontrolling interests	-	-	-	-	-	-	-	-
Purchase of additional noncontrolling	-	-	-	-	(136,748)	-	31,801	(35,622)

interests														
Balance at April 30, 2011	2,685,151	$	26,851	1,708,574	$	17,087	$	19,846,272	$	29,912,352	$	1,289,191	153,418	$ (

The accompanying notes are an integral part of these consolidated 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. The Company follows the same accounting policies in preparation of interim reports. 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 consolidated financial statements and the notes thereto included in E & E's 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The consolidated results of operations for the nine months ended April 30, 2011 are not necessarily indicative of the results for any subsequent period or the entire fiscal year ending July 31, 2011.

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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions as of the date of the financial statements, which affect the reported values of assets and liabilities and revenues and expenses and disclosures of contingent assets and liabilities. Actual results may differ from those estimates.

c. Reclassifications

Certain prior year amounts were reclassified to conform to the fiscal year 2011 consolidated financial statement presentation.

d. Revenue Recognition

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

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

Substantially all of the Company's cost-type work is with federal governmental agencies and, as such, is subject to audits after contract completion. Under these cost-type contracts, provisions for adjustments to accrued revenue are recognized on a quarterly basis and based on past audit settlement history. Government audits have been completed and final rates have been negotiated through fiscal year 2001. The Company records an allowance for contract adjustments which principally represents a reserve for contract adjustments for the fiscal years 1996-2011.

We reduce our accounts receivable and costs and estimated 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 and profit are recognized on change orders when it is probable that the change order will be approved and the amount can be reasonably estimated. 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. Sales and cost of sales at the Company’s South American subsidiaries exclude tax assessments by governmental authorities, which are collected by the Company from its customers and then remitted to governmental authorities.

e. Investment securities

Investment securities have been classified as available for sale and are stated at 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 sheets and statements of changes in shareholders' equity. The cost of securities sold is based on the specific identification method. The Company had gross unrealized gains of approximately $17,000 and $36,000 at April 30, 2011 and July 31, 2010, respectively.

f. Fair value of financial instruments

The Company records and discloses certain financial assets and liabilities at their fair value. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Company has not elected a fair value option on any assets or liabilities.

The three levels of the hierarchy are as follows:

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

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

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

The following table presents the level within the fair value hierarchy at which the Company's financial assets are measured on a recurring basis.

Financial assets as of April 30, 2011:

	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale	56,194	1,457,038	---	1,513,232

Financial assets as of July 31, 2010:

	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale	50,895	1,254,844	---	1,305,739

The carrying amount of cash and cash equivalents, contract receivables and accounts payable at April 30, 2011 and July 31, 2010 approximate fair value. Long-term debt consists of bank loans and capitalized equipment leases. Based on the Company's assessment of the current financial market and corresponding risks associated with the debt, management believes that the carrying amount of long-term debt at April 30, 2011 and July 31, 2010 approximates fair value. There were no financial instruments classified as level 3.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. We evaluated the significance of transfers between levels based upon the nature of the financial instrument. For the period ended April 30, 2011, there were no transfers in or out of levels 1, 2 or 3.

g. 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 the nine months ended April 30, 2011 and the fiscal year ended July 31, 2010.

h. Income Taxes

The Company follows the asset and liabilities approach to account for income taxes. This approach requires the recognition of deferred tax assets and liabilities 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 change 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, accrued compensation and fixed assets. The Company periodically evaluates the likelihood of realization of deferred tax assets, and has determined that no valuation allowance is necessary.

Additionally, the FASB ASC Topic Income Taxes, prescribes a recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. This topic also provides guidance on derecognition, classification, interest and penalties, accounting in interim period, disclosure and transition.

A tax position is a position in a previously filed tax return or a position expected to be taken in a future tax filing that is reflected in measuring current or deferred income tax assets and liabilities. Tax positions shall be recognized only when it is more likely than not (likelihood of greater than 50%), based on technical merits, that the position will be sustained. Tax positions that meet the more likely than not threshold should be measured using a probability weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. Whether the more-likely-than-not recognition threshold is met for a tax position, is a matter of judgment based on the individual facts and circumstances of that position evaluated in light of all available evidence. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in administrative and indirect operating expenses. As of April 30, 2011 and July 31, 2010 the Company has not recognized any material positions in the consolidated financial statements.

i. Earnings Per Share (EPS)

Basic and diluted EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. 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 shares are equal amounts. See Note 10 to Consolidated Financial Statements for additional information.

j. Impairment of Long-Lived Assets

The Company assesses recoverability of the carrying value of long-lived assets 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. The Company identified no events or changes in circumstances that necessitated an evaluation for an impairment of long lived assets.

k. Goodwill

The total goodwill of approximately $1.2 million is subject to an annual assessment for impairment. The Company's most recent annual impairment assessment for goodwill was completed during the fourth quarter of fiscal year 2010. The results of this assessment showed that the fair values of the reporting units, using a discounted cash flow method, to which goodwill is assigned was in excess of the book values of the respective reporting units, resulting in no goodwill impairment. Goodwill is also assessed for impairment between annual assessments whenever events or circumstances make it more likely than not that an impairment may have occurred. The Company identified no events or changes in circumstances that necessitated an evaluation for an impairment of goodwill. The Company recorded additional goodwill of $.2 million during the first six months of fiscal year 2011 related to the acquisition of Engineering Consulting Services Inc., LLC (ECSI). See Note 14 to Consolidated Financial Statements for additional information.

2. Contract Receivables, net

	April 30, 2011	July 31, 2010
United States government -		
Billed	$ 2,648,805	$ 2,445,658
Unbilled	2,532,910	3,528,728
	5,181,715	5,974,386
Industrial customers and state and municipal governments -		
Billed	33,947,078	22,772,335
Unbilled	22,280,729	21,723,408
	56,227,807	44,495,743
Allowance for doubtful accounts and contract adjustments	(4,421,932)	(3,373,673)

	$ 56,987,590	$ 47,096,456

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. Included in the balance of receivables for industrial customers and state and municipal customers are receivables due under the contracts with organizations in Kuwait of $9.7 million and $3.0 million at April 30, 2011 and July 31, 2010, respectively which have generated the increase within the billed and unbilled balances. Of the outstanding balances, approximately $2.0 million and $.7 million were included in billings in excess of revenue as of April 30, 2011 and July 31, 2010, respectively. Management anticipates that the April 30, 2011 unbilled receivables will be substantially billed and collected within one year. Within the above billed balances are contractual retainages in the amount of approximately $228,000 at April 30, 2011 and $546,000 at July 31, 2010. Management anticipates that the April 30, 2011 retainage balance will be substantially collected within one year.

3. Line of Credit

The Company maintains an unsecured line of credit available for working capital and letters of credit of $20.5 million at interest rates ranging from 3% to 5% at April 30, 2011. Other lines are available solely for letters of credit in the amount of $13.5 million. The Company guarantees the line of credit of Walsh. Its lenders have reaffirmed the Company's lines of credit within the past twelve months. At April 30, 2011 and July 31, 2010 the Company had letters of credit outstanding totaling approximately $4.1 million and $4.9 million, respectively. After letters of credit and loans, there was $29.9 million of availability under the lines of credit at April 30, 2011.

4. Debt and Capital Lease Obligations

Debt inclusive of capital lease obligations consists of the following:

	April 30, 2011	July 31, 2010
Various bank loans and advances at interest rates ranging from 5% to 14%	$ 1,675,659	$ 1,450,247
Capital lease obligations at varying interest rates averaging 11%	241,445	245,082
	1,917,104	1,695,329
Current portion of long-term debt and capital lease obligations	(1,429,293)	(928,027)
Long-term debt and capital lease obligations	$ 487,811	$ 767,302

The aggregate maturities of long-term debt and capital lease obligations at April 30, 2011 are as follows:

	Amount
May 2011 – April 2012	$ 1,429,293
May 2012 – April 2013	342,111
May 2013 – April 2014	94,638
May 2014 – April 2015	35,776
May 2015 – April 2016	15,286
Thereafter	---

	$	1,917,104

5. Income Taxes

The estimated effective tax rate for fiscal year 2011 is 36.0%, as compared to the estimated tax rate of 34.7% reported for the nine months ended May 1, 2010.

6. Other Accrued Liabilities

	April 30, 2011	July 31, 2010
Allowance for contract adjustments	$ 3,805,225	$ 3,483,876
Other	2,251,513	1,442,922
	$ 6,056,738	$ 4,926,798

Included in other accrued liabilities is an allowance for contract adjustments relating to potential cost disallowances on amounts billed and collected in current and prior years' projects. The allowance for contract adjustments is recorded for contract disputes and government audits when the amounts are estimatable.

7. Stock Award Plan

Ecology and Environment, Inc. has adopted a 1998 Stock Award Plan effective March 16, 1998 (1998 Plan). To supplement the 1998 Plan, a 2003 Stock Award Plan (2003 Plan) was approved by the shareholders at the Annual Meeting held in January 2004 and a 2007 Stock Award Plan (2007 Plan) was approved by the shareholders at the Annual Meeting held in January of 2008 (the 1998 Plan, 2003 Plan and the 2007 Plan collectively referred to as the Award Plan). The 2003 Plan was approved retroactive to October 16, 2003 and terminated on October 15, 2008 and the 2007 Plan was approved retroactive to October 18, 2007 and will terminate October 17, 2012. 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 55,041 shares valued at approximately $.7 million in October 2010 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 was $225,000 at April 30, 2011 and July 31, 2010. Total gross compensation expense is recognized over the vesting period. Unrecognized compensation expense was approximately $.8 million and $.6 million at April 30, 2011 and July 31, 2010, respectively.

8. 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.

Noncontrolling Interest

On August 1, 2009, the Company adopted authoritative accounting guidance that requires the ownership interests in subsidiaries held by parties other than the parent, and income attributable to those parties, be clearly identified and distinguished in the parent’s consolidated financial statements. Consequently, the Company’s noncontrolling interest is now disclosed as a separate component of the Company’s consolidated equity on the balance sheets, rather than a “mezzanine” item between liabilities and equity. Further, earnings and other comprehensive income are now separately attributed to both the controlling and noncontrolling interests. Earnings per share continues to be calculated based on net income attributable to the Company’s controlling interest.

On March 18, 2011 the Company purchased an additional equity of 5.5% of its majority owned subsidiary, Walsh Environmental Scientists & Engineers, LLC (Walsh), from noncontrolling shareholders for approximately $1,156,000. The terms of the sale are the same as the purchase in fiscal year 2010, where the company paid one third in cash, one third in a two-year note, and issued E&E stock for the remaining one third of the sale price. On December 27, 2010, the Company purchased an additional 1.2% of Walsh from noncontrolling shareholders for approximately $257,000. Two thirds of the purchase price was paid in cash while the remaining one third was paid for with E&E stock. On August 23, 2010, for approximately $1.1 million, the Company purchased assets and assumed liabilities from Engineering Consulting Services, Inc. and contributed them in exchange for a 60% ownership interest in the newly formed entity Engineering Consulting Services, Inc., LLC (ECSI). As part of this transaction, the noncontrolling interest contributed the remaining 40% of the net assets which created a $667,000 noncontrolling interest in ECSI.

On March 1, 2010, Walsh purchased an 80% ownership interest in Lowham - Walsh Environmental Services LLC. This transaction was an asset purchase of the former Lowham Engineering LLC in Wyoming. Walsh contributed cash and assets into the newly formed entity and issued a five year promissory note bearing a six percent annualized interest rate for the assets of the former company. On January 28, 2010 the Company purchased an additional equity of 18.7% or approximately $2,360,000 of Walsh from noncontrolling shareholders for $3,000,000. One third of the purchase price was paid in cash, one third was paid with the Company's stock, and the remainder was taken as loans carrying an interest rate of 5% to be repaid over a two year period. The purchase price that was paid to the noncontrolling shareholders was at a premium over the book value of the stock.

All other transactions with noncontrolling shareholders for the nine months ended April 30, 2011 and fiscal year ended July 31, 2010 were made at book value, which management believes approximates book value.

Effects of changes in E & E's ownership interest in its subsidiaries on E & E’s equity:

	Nine months ended April 30, 2011	Fiscal year ended July 31, 2010
Transfers to noncontrolling interest:		
Sale of 160 Walsh common shares	$ ---	$ 40,850
Sale of 196 Walsh common shares	---	50,040
Sale of 200 Lowham – Walsh common shares	---	52,222

Sale of 15,000 Walsh Peru common shares	---	84,450
Sale of 900 Gustavson common shares	62,451	---
Issuance of 667 ECSI common shares	667,000	---
Sale of 75 Lowham – Walsh common shares	27,917	---
Total transfers to noncontrolling interest	757,368	227,562
Transfers from noncontrolling interest:		
Purchase of 182 Walsh common shares	---	(59,486)
Purchase of 7,343 Walsh common shares	---	(2,289,778)
Purchase of 11,000 Walsh Peru common shares	---	(126,830)
Purchase of 50 Gestion Ambiental Consultores common shares	---	(50,000)
Purchase of 20 Walsh common shares	(7,776)	---
Purchase of 496 Walsh common shares	(208,156)	---
Purchase of 2,205 Walsh common shares	(974,750)	---
Purchase of 243 Walsh common shares	(101,905)	---
Total transfers from noncontrolling interest	(1,292,587)	(2,526,094)
Net transfers from noncontrolling interest	$ (535,219)	$ (2,298,532)

9. 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 the certain covered 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.

10. Earnings Per Share

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

	Three months ended		Nine months ended	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
Total income available to common stockholders	$ 1,429,384	$ 747,343	$ 5,045,971	$ 2,382,048
Dividend declared	---	---	934,422	867,155
Undistributed earnings	1,429,384	747,343	4,111,549	1,514,893
Weighted-average common shares outstanding (basic)	4,236,993	4,193,010	4,222,759	4,150,193
Distributed earnings per share	$ .34	$ .18	$ .22	$ .21
Undistributed earnings per share	---	---	.97	.36
Total earnings per share	.34	.18	1.19	.57

After consideration of all the rights and privileges of the Class A and Class B stockholders discussed in Note 8, 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.

Effective August 1, 2009, the Company has determined that its unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities. These securities shall be included in the computation of earnings per share pursuant to the two-class method. The resulting impact was to include unvested restricted shares in the basic weighted average shares outstanding calculation.

11. Segment Reporting

Segment information for nine months ended April 30, 2011 approximates the following:

Geographic information:

	Revenue (1)	Gross Long-Lived Assets
United States	$ 83,476,000	$ 26,542,000
Foreign countries	42,084,000	4,829,000

(1) Revenues are attributed to countries based on the location of the customers. Revenues in foreign countries includes $7.7 million in Kuwait and $13.3 million in Peru.

Segment information for nine months ended May 1, 2010 approximates the following:

Geographic information:

	Revenue (1)	Gross Long-Lived Assets
United States	$ 73,773,000	$ 25,787,000
Foreign countries	30,113,000	3,156,000

(1) Revenues are attributed to countries based on the location of the customers. Revenues in foreign countries includes $3.2 million in Kuwait and $13.8 million in Peru.

12. Commitments and Contingencies

From time to time, the Company is a named defendant in legal actions arising out of the normal course of business. The Company is not a party to any pending legal proceeding the resolution of which the management 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.

13. Supplemental Cash Flow Information Disclosure

For purposes of the consolidated statements 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 amounted to approximately $240,000 and $224,000 for the nine month period ended April 30, 2011 and fiscal year ended July 31, 2010, respectively. Cash paid for income taxes amounted to approximately $3.1 million and $1.5 million for the nine month period ended April 30, 2011 and fiscal year ended July 31, 2010, respectively. Of the $1.8 million in dividends paid by the Company in the nine month period ended April 30, 2011, approximately $.9 million was accrued in other accrued liabilities as of July 31, 2010. Of the $1.7 million in dividends paid by the Company in the nine month period ended May 1, 2010, approximately $.8 million was included in other accrued liabilities as of July 31, 2009.

On March 18, 2011 the Company purchased an additional equity of 5.5% of its majority owned subsidiary Walsh from noncontrolling shareholders for approximately $1,156,000. The Company paid one third in cash, one third in a two-year note, and issued E&E stock for the remaining one third of the sale price. On December 27, 2010, the Company purchased an additional 1.2% of its majority owned subsidiary Walsh for approximately $257,000. Two thirds of this purchase price was paid in cash while the remaining one third was paid for with E & E stock. On August 23, 2010, the Company purchased a 60% ownership in the assets held by ECSI. The Company paid $1.0 million in cash for this ownership interest, and the noncontrolling partnership group ECSI, Inc. contributed cash, other assets, and liabilities for its 40% ($667,000) noncontrolling share of the new entity.

14. Transactions

On August 23, 2010, the Company purchased a 60% ownership interest in a newly formed entity ECSI, LLC. This is a Lexington, Kentucky based engineering and environmental consulting services company that specializes in mining work. The Company paid $1.0 million in cash for its 60% ownership interest, and the noncontrolling partnership group, ECSI, Inc., contributed cash, other assets, and liabilities for its 40% ownership share. The operating agreement contains a priority profit allocation between the Company and ESCI, Inc. for the first five years of operation. Additionally, in connection with the agreement, the Company has restricted for issuance $.1 million of shares to be awarded to a key employee over a 5 year period, of which the first 20% vested on August 13, 2010.

A noncontrolling interest of $667,000 representing the 40% noncontrolling share was recorded at the acquisition date. This new entity is included in the consolidated financial results of the Company from the date of acquisition. The Company acquired assets of property, plant, and equipment, accounts receivable, and other assets including trade names and customer relationships and goodwill and assumed liabilities of accounts payable and accrued payroll.

On January 27, 2011 the company entered into an agreement with the Economic & Social Association of Retired Servicemen and Veterans to sell all of the assets of the Jordanian Fish Farm (AMARACO). The sale price for the farm was 230,000 Jordanian Dinars (~$322,000 USD) in cash, which was received in the third quarter. The company has realized a gain of approximately $290,000 on the sale of the fish farm.

In addition to other immaterial transactions during the year, on March 18, 2011 the Company acquired another 5.5% of its majority owned subsidiary Walsh Environmental Scientists & Engineers, LLC. The terms of the sale are the same as the purchase in fiscal year 2010, where the Company paid one third in cash, one third in a two year note, and issue E&E stock for the remaining one third of the sale price. With this purchase E&E's ownership share in Walsh was increased to approximately 84% of that company. The total purchase price was approximately $1,156,000.

15. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board updated the authoritative guidance for fair value measurements with new disclosure requirements. These requirements include disclosures on the roll-forward of activities on purchases, sales, issuance, and settlements of Level 3 (measurements based on significant unobservable inputs) assets and liabilities. The new disclosures are effective for annual reporting periods beginning after December

15, 2010. The Company does not believe the adoption of this guidance will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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

Liquidity and Capital Resources

Operating activities provided $3.9 million of cash during the first nine months of fiscal year 2011. This was mainly attributable to the reported $6.3 million in net income, an increase in accrued payroll costs, an increase in billings in excess of revenue and an increase in other accrued liabilities. Billings in excess of revenue increased $3.8 million during the first nine months of fiscal year 2011mainly attributable to balances on contracts with organizations in Kuwait and contracts at the majority owned subsidiary E&E do Brasil. Accrued payroll costs increased $2.7 million during the first nine months due to an additional week of payroll accrued at Ecology and Environment, Inc. (Parent Company) at April 30, 2011. Other accrued liabilities increased $.9 million during the first nine months of fiscal year 2011. Offsetting these was an increase in contract receivables and a decrease in accounts payables. Contract receivables increased $9.4 million during the first nine months of fiscal year 2011 due to increased receivables from contracts in the Middle East and the formation of Ecology and Environment, Inc.'s ("E&E" or the "Company") subsidiary Engineering Consulting Services Inc., LLC (ECSI) during the first quarter of the current fiscal year. The Company believes these will be collected. Accounts payable decreased $2.2 million during the first nine months of fiscal year 2011 primarily due to the decreased subcontracted work.

Investment activities consumed $2.3 million of cash during the first nine months of fiscal year 2011 mainly attributable to the Company's acquisition of $.6 million of noncontrolling interest from its subsidiaries, the Company's $1.1 million ($.8 million net) purchase of ECSI and the purchases of property, building and equipment of $1.0 million during the first nine months of fiscal year 2011.

Financing activities consumed $3.3 million of cash during the first nine months of fiscal year 2011. The Company paid dividends in the amount of $1.8 million of which approximately $.9 million was accrued as of July 31, 2010. Distributions to noncontrolling interests during the first nine months of fiscal year 2011 were approximately $.6 million. The Company purchased treasury stock in the amount $.6 million during the first nine months of fiscal year 2011. Net cash outflow on long-term debt and capital lease obligations was $.3 million due mainly to the repayment of $.5 million on a loan at the Parent Company.

The Company maintains an unsecured line of credit available for working capital and letters of credit of $20.5 million at interest rates ranging from 3% to 5% at April 30, 2011. Other lines are available solely for letters of credit in the amount of $13.5 million. The Company guarantees the line of credit of Walsh. Its lenders have reaffirmed the Company's lines of credit within the past twelve months. At April 30, 2011 and July 31, 2010 the Company had letters of credit outstanding totaling approximately $4.1 million and $4.9 million, respectively. After letters of credit and loans, there was $29.9 million of availability under the lines of credit at April 30, 2011. The Company believes that cash flows from operations and borrowings against the lines 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

Third Quarter and Year to Date 2011 vs 2010

Revenue for the third quarter of fiscal year 2011 was $41.4 million, an increase of $8.1 million from the $33.3 million reported for the third quarter of fiscal year 2010. Revenue at the Parent Company was $25.0 million during the third quarter of fiscal year 2011, an increase of $5.1 million attributable to work performed on contracts in the Company's energy and international sectors offset by decreases in work in the state sector. The inclusion of ECSI, formed in August 2010, contributed revenue of $1.4 million for the third quarter of fiscal year 2011. The Company's Chilean subsidiary Gestion Ambiental Consultores (GAC) reported revenue of $1.9 million during the third quarter of fiscal year 2011, an increase of $1.0 million or 111% from the $.9 million reported in the third quarter of fiscal year 2010 due to increased work in mining and extractive industries.

Revenues for the first nine months of fiscal year 2011 were $125.6 million, an increase of $21.7 million from the $103.9 million reported for the first nine months of fiscal year 2010. Revenue at the Parent Company was $72.6 million during the first nine months of fiscal year 2011, an increase of $13.8 million attributable to a significant increase in work performed on contracts in the Company's energy and international sectors offset by smaller decreases in work in the federal government and state sectors. The formation of ECSI contributed revenue of $4.0 million for the first nine months of fiscal year 2011. GAC reported revenue of $5.7 million during the first nine months of fiscal year 2011, an increase of $3.0 million or 111% from the $2.7 million reported in the prior year. The increase in revenue was attributable to increased work on contracts in mining and extractive industries. Walsh reported revenue of $29.7 million during the first nine months of fiscal year 2011, a decrease of $2.2 million or 7% from the $31.9 million reported in the first nine months of fiscal year 2010 mainly attributable to the completion of work associated with a large redevelopment project completed in the second quarter of fiscal year 2010.

Income Before Income Taxes

Third Quarter and Year to Date 2011 vs 2010

The Company's income before income taxes was $2.6 million for the third quarter of fiscal year 2011, an increase of $.8 million from the $1.8 million reported in the third quarter of 2010. Income from operations for the third quarter of fiscal year 2011 was $2.2 million, up 22% from the $1.8 million reported in third quarter of fiscal year 2010. These increases were mainly attributable to the increased energy market work in the Parent Company. Indirect costs increased $1.8 million during the third quarter of fiscal year 2011 mainly attributable to the formation of ECSI and increased marketing costs at the Parent Company and increased staffing at the Company's majority owned subsidiary E&E do Brasil. ECSI reported indirect costs of $.7 million for the third quarter of fiscal year 2011.

The Company's income before income taxes was $9.8 million for the first nine months of fiscal year 2011, an increase of $3.5 million from the $6.3 million reported in the first nine month of the prior year. Revenue less subcontract costs were $102.1 million, an increase of $22.0 million or 27% from the $80.1 million reported in the prior year. Income from operations for the first nine months of fiscal year 2011 was $9.4 million, up 65% from the $5.7 million reported in first nine months fiscal year 2010. These increases were mainly attributable to the increased energy market work in the Parent Company. Indirect costs increased $3.7 million during the first nine months of fiscal year 2011 attributable to increased staffing levels and business development costs throughout the Company and the inclusion of ECSI's indirect costs of $1.8 million for the first nine months of fiscal year 2011. The Company recorded a sale of land during the first quarter of fiscal year 2010 for a gain of $809,000 ($453,000 after tax) which positively impacted earnings by $.11 per share compared to a $290,000 gain on the sale of the assets of AMARCO in current fiscal year.

Income Taxes

The estimated effective tax rate for fiscal year 2011 is 36.0%, as compared to the estimated tax rate of 34.7% reported for the nine months ended May 1, 2010 and 37.3% as reported for the fiscal year ended July 31, 2010. The change in the estimated tax rate is a direct result of changes in taxable income levels in the various jurisdictions in which the Company operates.

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 entered into with our clients. The revenues recognized, therefore, are derived from our ability to charge clients for those services under the contracts. Sales and cost of sales at the Company’s South American subsidiaries exclude tax assessments by governmental authorities, which are collected by the Company from its customers and then remitted to governmental authorities.

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 estimated 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 and allowance for contract adjustments 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.

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.

Uncertain Tax Positions

A tax position is a position in a previously filed tax return or a position expected to be taken in a future tax filing that is reflected in measuring current or deferred income tax assets and liabilities. Tax positions shall be recognized only when it is more likely than not (likelihood of greater than 50%), based on technical merits, that the position will be sustained. Tax positions that meet the more likely than not threshold should be measured using a probability weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. Whether the more-likely-than-not recognition threshold is met for a tax position, is a matter of judgment based on the individual facts and circumstances of that position evaluated in light of all available evidence. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in administrative and indirect operating expenses.

Changes in Corporate Entities

On March 18, 2011 the Company purchased an additional equity of 5.5% of Walsh from noncontrolling shareholders for approximately $1,156,000. The terms of the sale are the same as the purchase in fiscal year 2010, where the company paid one third in cash, one third in a two-year note, and issued E&E stock for the remaining one third of the sale price. With this purchase E&E's ownership share in Walsh increased to approximately 84% of that company.

On December 27, 2010, the Company purchased an additional 1.2% of Walsh from noncontrolling shareholders for approximately $257,000. Two thirds of the purchase price was paid in cash while the remaining one third was paid for with E&E stock. With this purchase, E&E's ownership share in Walsh increased to approximately 77%.

On August 23, 2010 the Company purchased a 60% ownership interest in ECSI, LLC. This is a Lexington, Kentucky based engineering and environmental consulting company that specializes in mining work. The Company paid $1.0 million for this ownership interest. The newly formed company is consolidated into the Company's financial reporting for the first quarter of fiscal year 2011.

On March 1, 2010 Walsh purchased an 80% ownership interest in Lowham - Walsh Environmental Services LLC. This transaction was an asset purchase of the former Lowham Engineering LLC in Wyoming. Walsh contributed cash and assets into the newly formed entity and issued a five year promissory note bearing a six percent annualized interest rate for the assets of the former company.

On January 28, 2010 the Company purchased an additional equity of 18.7% of Walsh from noncontrolling shareholders for $3,000,000. One third of the purchase price was paid in cash, one third was paid with the Company's stock, and the remainder was taken as loans carrying an interest rate of 5% to be repaid over a two year period. The purchase price that was paid to the noncontrolling shareholders was at a premium over the book value of the stock.

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

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the

SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

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

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

Internal Controls

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended April 30, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is 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.

On February 4, 2011 the Chico Mendes Institute of Biodiversity Conservation of Brazil (the "Institute") issued a Notice of Infraction to Ecology and Environment do Brasil LTDA ("E&E Brasil"). E&E Brasil is a 51 percent majority-owned subsidiary of Ecology and Environment, Inc. The Notice of Infraction concerns the taking and collecting species of wild animal specimens without authorization by the competent authority and imposes a fine of 520,000 Reals, which has a value of approximately $300,000 USD. No claim has been made against Ecology and Environment, Inc. The Institute has also filed Notices of Infraction against four employees of E&E Brasil alleging the same claims and imposes fines against those individuals that, in the aggregate, are equal to the fine imposed against E&E Brasil. E&E Brasil has filed administrative responses with the Institute for itself and its employees that: (a) denies the jurisdiction of the Institute, (b) states that the Notice of Infraction is constitutionally vague and (c) affirmatively stated that E&E Brasil had obtained the necessary permits for the surveys and collections of specimens under applicable Brazilian regulations and that the protected conservation area is not clearly marked to show its boundaries. At this time, E&E Brasil has not received a reply from the Institute to its administrative responses. The Company believes that these administrative proceedings in Brazil will not have an adverse material effect upon the operations 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 six month period ended April 30, 2011:

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, 2010 – April 30, 2011	42,423	$15.08	42,423	157,577

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 October 29, 2010 to announce the issuance of a press release setting forth its results of operations and financial condition for the year ending July 31, 2010.

Registrant filed a Form 8-K report on January 20, 2011 to report a Submission of Matters to a Vote of Security Holders. The Company held its Annual Meeting of Stockholders. At the meeting, stockholders elected two (2) Class A nominees and six (6) Class B nominees for election as Directors of the Company.

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 14, 2011	By:	/s/ H. John Mye III H. John Mye III Vice President, Treasurer and Chief Financial Officer – Principal Financial and Accounting Officer