ECOLOGY & ENVIRONMENT INC
Form 10-Q
March 21, 2012

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, 2012

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 March 1, 2012, 2,601,562 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.

Ecology and Environment, Inc
Consolidated Balance Sheets

Assets	(Unaudited) January 31, 2012	July 31, 2011
Current assets:		
Cash and cash equivalents	$11,772,412	$8,529,842
Investment securities, available for sale	1,389,097	1,491,459
Contract receivables, net	56,828,686	63,750,870
Deferred income taxes	5,059,942	4,949,368
Income tax receivable	1,400,388	-
Other current assets	2,757,718	2,254,415
Total current assets	79,208,243	80,975,954
Property, building and equipment, net of accumulated depreciation, $19,779,176 and $22,972,422, respectively	11,557,470	9,961,304
Deferred income taxes	1,232,637	1,300,181
Other assets	2,041,886	2,030,203
Total assets	$94,040,236	$94,267,642

Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$10,009,868	$13,097,765
Demand loan payable	6,500,000	-
Accrued payroll costs	8,236,778	9,146,711
Income taxes payable	-	1,195,741
Current portion of long-term debt and capital lease obligations	486,337	1,689,920
Billings in excess of revenue	9,006,547	7,727,725
Other accrued liabilities	4,232,098	6,139,423
Total current liabilities	38,471,628	38,997,285
Income taxes payable	182,856	339,027
Deferred income taxes	525,106	525,106
Long-term debt and capital lease obligations	455,913	448,391
Commitments and contingencies (see note #13)	-	-
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 shares	26,851	26,851
Class B common stock, par value $.01 per share; authorized - 10,000,000 shares; issued - 1,708,574 shares	17,087	17,087
Capital in excess of par value	19,391,501	19,983,029
Retained earnings	31,443,268	30,797,763
Accumulated other comprehensive income	1,231,810	1,527,189
Treasury stock - Class A common, 83,589 and 125,923 shares; Class B common, 64,801 shares, at cost	(1,897,032)	(2,317,515)
Total Ecology and Environment, Inc. shareholders' equity	50,213,485	50,034,404
Noncontrolling interests	4,191,248	3,923,429
Total shareholders' equity	54,404,733	53,957,833
Total liabilities and shareholders' equity	$94,040,236	$94,267,642

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

Ecology and Environment, Inc.
Consolidated Statements of Income
Unaudited

	Three months ended January 31, 2012	Three months ended January 29, 2011	Six months ended January 31, 2012	Six months ended January 29, 2011
Revenue	$40,173,399	$41,833,006	$82,485,205	$84,004,584
Cost of professional services and other direct operating expenses	12,769,082	16,904,362	28,346,785	33,141,683
Subcontract costs	9,587,945	7,941,444	18,700,085	15,169,362
Administrative and indirect operating expenses	11,630,073	10,062,846	22,829,327	20,448,064
Marketing and related costs	3,883,727	3,294,379	7,826,007	7,173,147
Depreciation and amortization	435,202	426,214	876,039	860,098
Income from operations	1,867,370	3,203,761	3,906,962	7,212,230
Interest expense	(83,676)	(90,053)	(163,976)	(171,872)
Interest income	20,184	49,006	31,866	75,197
Other income (expense)	11,245	(14,613)	120,523	(8,183)
Gain on sale of assets	-	58,332	-	58,332
Net foreign exchange gain (loss)	(130,181)	31,421	(126,849)	13,014
Income before income tax provision	1,684,942	3,237,854	3,768,526	7,178,718
Income tax provision	381,867	1,113,457	1,060,184	2,579,952
Net income	$1,303,075	$2,124,397	$2,708,342	$4,598,766
Net income attributable to noncontrolling interests	(799,571)	(366,385)	(1,045,061)	(982,179)
Net income attributable to Ecology and Environment, Inc.	$503,504	$1,758,012	$1,663,281	$3,616,587
Net income per common share: basic and diluted	$0.12	$0.42	$0.39	$0.86
Weighted average common shares outstanding: basic and diluted	4,242,108	4,228,957	4,222,776	4,215,687

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

Ecology and Environment, Inc
Consolidated Statements of Cash Flows
Unaudited

	Six months ended January 31, 2012	Six months ended January 29, 2011

Cash flows from operating activities:		
Net income	$2,708,342	$4,598,766
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	876,039	860,098
Benefit for deferred income taxes	(43,030)	(188,116)
Share based compensation expense	379,860	270,588
Tax impact of share-based compensation	105,988	-
Gain on sale of assets	-	(58,332)
Provision for contract adjustments	81,090	584,811
(Increase) decrease in:		
- contract receivables	5,375,266	(6,998,669)
- other current assets	(557,303)	(564,734)
- income tax receivable	(1,400,388)	-
- other non-current assets	(13,341)	(141,418)
Increase (decrease) in:		
- accounts payable	(2,851,075)	(1,884,592)
- accrued payroll costs	(836,922)	730,841
- income taxes payable	(1,374,239)	95,106
- billings in excess of revenue	1,481,525	6,296,177
- other accrued liabilities	(946,090)	266,527
Net cash provided by operating activities	2,985,722	3,867,053
Cash flows provided by (used in) investing activities:		
Acquistion of noncontrolling interest of subsidiaries	(817,549)	(179,521)
Purchase of Engineering Consulting Services, Inc., net of cash equivalents of $309,487	-	(790,513)
Purchase of property, building and equipment	(2,585,926)	(797,554)
Change in accounts payable due to purchase of equipment	10,392	-
Sale (purchase) of investment securities, net	119,888	(29,966)
Net cash used in investing activities	(3,273,195)	(1,797,554)
Cash flows provided by (used in) financing activities:		
Dividends paid	(2,046,657)	(1,814,839)
Proceeds from debt	298,648	431,886
Repayment of debt and capital lease obligations	(637,955)	(722,407)
Proceeds from line of credit	6,500,000	-
Distributions to noncontrolling interests	(345,093)	(406,031)
Proceeds from sale of subsidiary shares to noncontrolling interests	41,634	62,451
Purchase of treasury stock	(363,050)	(254,036)
Net cash provided by (used in) financing activities	3,447,527	(2,702,976)
Effect of exchange rate changes on cash and cash equivalents	82,516	261,465
Net increase in cash and cash equivalents	3,242,570	(372,012)
Cash and cash equivalents at beginning of period	8,529,842	14,229,894
Cash and cash equivalents at end of period	$11,772,412	$13,857,882

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

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

	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasu Stock Sh
Balance at July 31, 2010	2,685,072	$ 26,850	1,708,653	$ 17,088	$ 20,059,200	$ 25,800,803	$ 815,906	201,
Net income	-	-	-	-	-	6,960,263	-	
Foreign currency translation adjustment	-	-	-	-	-	-	686,380	
Cash dividends paid ($.46 per share)	-	-	-	-	-	(1,963,303)	-	
Unrealized investment gain, net	-	-	-	-	-	-	(11,189)	
Conversion of common stock - B to A	79	1	(79)	(1)	-	-	-	
Repurchase of Class A common stock	-	-	-	-	-	-	-	84,
Issuance of stock under stock award plan	-	-	-	-	(482,061)	-	-	(55,0
Share-based compensation expense	-	-	-	-	541,175	-	-	
Sale of subsidiary shares to noncontrolling interests	-	-	-	-	-	-	-	
Issuance of shares to noncontrolling	-	-	-	-	-	-	-	

interests								
Distributions to noncontrolling interests	-	-	-	-	-	-	-	
Purchase of additional noncontrolling interests	-	-	-	-	(135,285)	-	36,092	(39,8
Stock award plan forfeitures	-	-	-	-	-	-	-	
Balance at July 31, 2011	2,685,151	$ 26,851	1,708,574	$ 17,087	$ 19,983,029	$ 30,797,763	$ 1,527,189	190,
Net income	-	-	-	-	-	1,663,281	-	
Foreign currency translation adjustment	-	-	-	-	-	-	(350,490)	
Cash dividends paid ($.24 per share)	-	-	-	-	-	(1,017,776)	-	
Unrealized investment gain, net	-	-	-	-	-	-	19,612	
Repurchase of Class A common stock	-	-	-	-	-	-	-	22,
Issuance of stock under stock award plan	-	-	-	-	(716,662)	-	-	(62,0
Share-based compensation expense	-	-	-	-	379,860	-	-	
Tax impact of share based compensation	-	-	-	-	105,988	-	-	
Sale of subsidiary shares to noncontrolling interests	-	-	-	-	-	-	-	
Distributions to noncontrolling interests	-	-	-	-	-	-	-	
Purchase of additional noncontrolling	-	-	-	-	(360,714)	-	35,499	(5,

interests								
Stock award plan forfeitures	-	-	-	-	-	-	-	2
Balance at January 31, 2012	2,685,151	$ 26,851	1,708,574	$ 17,087	$ 19,391,501	$ 31,443,268	$ 1,231,810	148,

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 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The consolidated results of operations for the six months ended January 31, 2012 are not necessarily indicative of the results for any subsequent period or the entire fiscal year ending July 31, 2012.

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 consolidated 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 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 consolidated financial statement presentation for the six months ended January 31, 2012.

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 2005. The Company records an allowance for contract adjustments which is recorded in other accrued liabilities principally represents a reserve for contract adjustments for the fiscal years 1996-2012.

We reduce our contract receivables 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. Revenues are recognized only up to the amount of costs incurred on contract claims when realization is probable, estimatable and reasonable support from the customer exists.

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

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 basis of securities sold is based on the specific identification method. The Company had gross unrealized gains of approximately $44,000 and $24,000 at January 31, 2012 and July 31, 2011, 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 mutual funds.

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 corporate and municipal bonds.

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

The 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 January 31, 2012:

	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale	$ 1,336,223	$ 52,874	$ ---	$ 1,389,097

Financial assets as of July 31, 2011:

	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale	$ 1,438,286	$ 53,173	$ ---	$ 1,491,459

The carrying amount of cash and cash equivalents, contract receivables, notes receivable and accounts payable at January 31, 2012 and July 31, 2011 approximate fair value. Long-term debt consists of bank loans and capitalized equipment leases. The demand loan payable consists of borrowings against the Company's line of credit for working capital requirements. Based on the Company's assessment of the current financial market and corresponding risks associated with the debt and line of credit borrowings, management believes that the carrying amount of the liabilities at January 31, 2012 and July 31, 2011 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. The Company evaluated the significance of transfers between levels based upon the nature of the financial instrument. For the six months ended January 31, 2012 and January 29, 2011, there were no transfers in or out of levels 1, 2 or 3, respectively.

g. 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. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as a component of other income (expense) as incurred. The Company recorded foreign currency transaction gains/(losses) of approximately $(130,000) and $31,000 for the three months ended January 31, 2012 and January 29, 2012, respectively. The Company recorded foreign currency transaction gains/(losses) of approximately $(127,000) and $13,000 for the six months ended January 31, 2012 and January 29, 2011, respectively.

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 2011 or 2012.

h. 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.

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 a valuation allowance of approximately $346,000 has been established on excess foreign tax credit carryforwards, the utilization of which is dependent on future foreign source income.

Additionally, the Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“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.

The estimated effective tax rate for fiscal year 2012 is 28.1%, as compared to the estimated tax rate of 35.9% reported for the six months ended January 31, 2011. The reduction is mainly a result of increased income from “pass-through” entities taxable to noncontrolling partners, as well as increased income from foreign entities in countries with a lower effective tax rate than in the U.S. In addition, an income tax benefit of approximately $172,000 was recognized discretely in the second quarter as a result of favorable settlements in New York and Kuwait.

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 11 to Consolidated Financial Statements for additional information.

j. Comprehensive Income

Comprehensive income is defined as "the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources." The term "comprehensive income" is used to describe the total net earnings plus other comprehensive income. Other comprehensive income includes currency translation adjustments on foreign subsidiaries and unrealized gains or losses on available-for-sale securities.

k. 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.

l. 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 2011. 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 the identification of no goodwill impairment. Goodwill is also assessed for impairment between annual assessments whenever events or circumstances make it more likely than not that an impairment may have occurred. The Company identified no events or changes in circumstances during the year that necessitated an evaluation for an impairment of goodwill.

2. Cash and Cash Equivalents

The Company's policy is to invest cash in excess of operating requirements in income-producing short-term investments. At January 31, 2012 and July 31, 2011, short-term investments consist of money market funds. Short-term investments amounted to approximately $13,000 at January 31, 2012 and $2.0 million at July 31, 2011 and are reflected in cash and cash equivalents in the accompanying consolidated balance sheets and statements of cash flows.

3. Contract Receivables, net

		January 31, 2012		July 31, 2011
Billed	$	41,760,248	$	42,636,632
Unbilled		22,800,510		27,869,325
		64,560,758		70,505,957
Allowance for doubtful accounts and contract adjustments		(7,732,072)		(6,755,087)
	$	56,828,686	$	63,750,870

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 are receivables due under the contracts with organizations in Kuwait of $14.4 million and $12.4 million at January 31, 2012 and July 31, 2011, respectively. Of the outstanding balances, approximately $.7 million and $1.8 million were included in billings in excess of revenue as of January 31, 2012 and July 31, 2011, respectively. Management anticipates that the January 31, 2012 unbilled receivables will be substantially billed and collected within one year. Within the above billed balances are contractual retainages in the amount of approximately $305,000 at January 31, 2012 and $222,000 at July 31, 2011. Management anticipates that the January 31, 2012 retainage balance will be substantially collected within one year.

4. 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 January 31, 2012. 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 Environmental Scientists and Engineers, LLC (Walsh). Its lenders have reaffirmed the Company’s lines of credit within the past twelve months. At January 31, 2012 and July 31, 2011 the Company had letters of credit and loans outstanding totaling approximately $9.2 million and $4.1 million, respectively. After letters of credit and loans, there was $24.8 million of availability under the lines of credit at January 31, 2012, of which $14.0 million is available for working capital.

5. Debt and Capital Lease Obligations

Debt inclusive of capital lease obligations consists of the following:

	January 31, 2012	July 31, 2011

Various bank loans and advances at interest rates ranging from 5% to 14%	$ 609,328	$ 1,907,369
Capital lease obligations at varying interest rates averaging 11%	332,922	230,942
	942,250	2,138,311
Current portion of long-term debt and capital lease obligations	(486,337)	(1,689,920)
Long-term debt and capital lease obligations	$ 455,913	$ 448,391

The aggregate maturities of long-term debt and capital lease obligations at January 31, 2012 are as follows:

	Amount
February 2012 – January 2013	$ 486,337
February 2013 – January 2014	414,542
February 2014 – January 2015	38,295
February 2015 – January 2016	3,076
February 2016 – January 2017	---
Thereafter	---
	$ 942,250

6. Income Taxes

The estimated effective tax rate for fiscal year 2012 is 28.1%, as compared to the estimated tax rate of 35.9% reported for the six months ended January 29, 2011. The reduction is mainly a result of increased income from "pass-through" entities taxable to noncontrolling partners, as well as increased income from foreign entities in countries with a lower effective tax rate than in the U.S. In addition, an income tax benefit was recognized discretely in the second quarter as a result of favorable settlements in New York and Kuwait.

7. Other Accrued Liabilities

	January 31, 2012	July 31, 2011
Allowance for contract adjustments	$ 2,986,915	$ 3,882,810
Other	1,245,183	2,256,613
	$ 4,232,098	$ 6,139,423

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.

8. 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 62,099 shares valued at approximately $.9 million in October 2011 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 $330,000 and $225,000 at January 31, 2012 and July 31, 2011, respectively. Total gross compensation expense is recognized over the vesting period. Unrecognized compensation expense was approximately $ 1.2 million and $.7 million at January 31, 2012 and July 31, 2011, respectively.

9. Shareholders' Equity

a. 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.

b. Cash Dividend

The Company declared cash dividends of approximately $1.0 million and $2.0 million in 2012 and 2011, respectively. Within accounts payable, the Company recorded outstanding dividend payables at July 31, 2011 of approximately $1.0 million.

c. Stock Repurchase

The Company’s Board of Directors approved a 200,000 share repurchase program in August 2010 in which 93,173 shares remain available for repurchase.

d. 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. The Company’s noncontrolling interest is now disclosed as a separate component of the Company’s consolidated equity on the balance sheets. Earnings and other comprehensive income are separately attributed to both the controlling and noncontrolling interests. Earnings per share is calculated based on net income attributable to the Company’s controlling interest.

On January 4, 2012, the Company purchased an additional 1.3% of Walsh from noncontrolling shareholders for approximately $254,000. Two thirds of the purchase price was paid in cash while the remaining one third was paid for with E&E stock. On December 14, 2011, the Company purchased an additional 4.0% of E&E do Brasil from noncontrolling shareholders for approximately $180,000. The entire purchase price was paid in cash. On November 18, 2011, the Company purchased an additional 3.9% of Walsh Peru from noncontrolling shareholders for approximately $432,000. The entire purchase price was paid in cash. On June 6, 2011, the Company purchased an additional 1.1% of Walsh from noncontrolling shareholders for approximately $219,000. Two thirds of the purchase price was paid in cash while the remaining one third was paid for with E&E stock. On March 18, 2011 the Company purchased an additional equity of 5.5% of 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 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 resulted in a $667,000 noncontrolling interest in ECSI.

Most transactions with noncontrolling shareholders for the six months ended January 31, 2012 and fiscal year ended July 31, 2011 were made at book value, which management believes approximates fair value. The purchase of the Walsh Peru and E&E do Brasil shares, were at a calculated value in excess of book value which management believes approximated the fair value.

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

	Six months ended January 31, 2012	Fiscal year ended July 31, 2011
Transfers to noncontrolling interest:		
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
Sale of 600 Gustavson common shares	41,634	---
Total transfers to noncontrolling interest	41,634	757,368
Transfers from noncontrolling interest:		
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)
Purchase of 426 Walsh common shares	---	(197,945)
Purchase of 100 Walsh common shares	---	(41,091)
Purchase of 152 Walsh common shares	(73,748)	---
Purchase of 496 Walsh common shares	(269,064)	---
Purchase of 5,389 Brazil common shares	77,539	---
Purchase of 26,482 Walsh Peru common shares	(212,634)	---
Total transfers from noncontrolling interest	(477,907)	(1,531,623)
Transfers to (from) noncontrolling interest	$ (436,273)	$ (774,255)

10. 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.

11. Earnings Per Share

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

	Three months ended		Six months ended	
	January 31, 2012	January 29, 2011	January 31, 2012	January 29, 2011
Total income available to common stockholders	$ 503,504	$ 1,758,012	$ 1,663,281	$ 3,616,587
Dividend declared	1,017,776	934,422	1,017,776	934,422
Undistributed earnings	(514,272)	823,590	645,505	2,682,165

Weighted-average common shares outstanding (basic)	4,242,108	4,228,957	4,222,776	4,215,687
Distributed earnings per share	$ .24	$ .22	$ .24	$ .22
Undistributed earnings per share	(.12)	.20	.15	.64
Total earnings per share	.12	.42	.39	.86

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.

12. Segment Reporting

Segment information as of January 31, 2012 approximates the following:

Geographic information:

	Revenue (1) Three months ended	Revenue (1) Six months ended	Gross Long-Lived Assets
United States	$ 24,516,000	$ 52,946,000	$ 26,014,000
Foreign countries	15,657,000	29,539,000	5,323,000

(1) Revenue is attributed to countries based on the location of the customers. Revenues in the most significant foreign countries for the three and six months ended January 31, 2012 include $5.5 million and $10.1 million in Peru, $3.6 million and $6.9 million in Brazil and $2.2 million and $4.6 million in Chile, respectively.

Segment information as of January 29, 2011 approximates the following:

Geographic information:

	Revenue (1) Three months ended	Revenue (1) Six months ended	Gross Long-Lived Assets
United States	$ 27,068,000	$ 54,607,000	$ 26,360,000
Foreign countries	14,765,000	29,398,000	4,626,000

(1) Revenue is attributed to countries based on the location of the customers. Revenues in the most significant foreign countries for the three and six months ended January 29, 2011 include $4.1 million and $10.5 million in Peru, $3.1 million and $5.9 million in Brazil and $3.1 million and $5.4 million in Kuwait, respectively.

As of July 31, 2011, the gross long-lived assets reported were $27.9 million in the United States and $5.1 million in foreign countries.

13. 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.

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 72 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 $297,000 USD at January 31, 2012. 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 has imposed fines against those individuals that, in the aggregate, are equal to the fine imposed against E & E Brasil. E & E Brasil has filed administrative responses with the Institute for itself and its employees that: (a) 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 attended one meeting where depositions were taken. The Company believes that these administrative proceedings in Brazil will not have an adverse material effect upon the operations of the Company.

14. 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 $157,000 and $164,000 for the six months ended January 31, 2012 and January 29, 2011, respectively. Cash paid for income taxes amounted to approximately $3.2 million and $2.2 million for the six months ended January 31, 2012 and January 29, 2011, respectively. Of the $2.0 million in dividends paid by the Company for the six month period ended January 31, 2012, approximately $1.0 million was accrued for in accounts payable as of July 31, 2011. Of the $1.8 million in dividends paid by the Company for the six month period ended January 29, 2011, approximately $.9 million was accrued for in accounts payable as of July 31, 2010. On December 14, 2011, the Company increased its capital investment in its Brazilian subsidiary (Ecology and Environment do Brasil, Ltda.) by $1.5 million USD, which increased the Company’s ownership in the entity to 68%. The Company also purchased an additional 4% of the entity from its president for approximately $180,000 USD, which increased the Company’s ownership in the entity to 72%. The Brazilian company has experienced increased revenue growth and the additional investment will be used for working capital needs in the country.

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.

15. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05 Comprehensive Income (Topic 220): Presentation of Comprehensive Income (“ASU 2011-05”). ASU 2011-05 increases the prominence of other comprehensive income in financial statements. Under ASU 2011-05, companies will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. ASU 2011-05 eliminates the option to present other comprehensive income in the statement of changes in equity and is applied retrospectively. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-05 to have a significant impact on its consolidated financial statements.

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

Liquidity and Capital Resources

Operating activities provided cash flow of $3.0 million during the first six months of fiscal year 2012. This was mainly attributable to net income of $2.7 million, a decrease in accounts receivable of $5.4 million, and a decrease in billings in excess of revenue of $1.5 million. Receivables decreased due to the reduction in revenue. Accounts payable, accrued payroll costs and accrued income taxes consumed $6.5 million of cash during the period due to the payment of accrued bonuses and the timing of payments for operating costs and subcontracts.

Investment activities consumed $3.3 million of cash which was used mainly for the purchase of an enterprise wide planning and reporting system and to purchase additional interest in the majority owned subsidiaries Walsh Environmental Scientists and Engineers, LLC (Walsh) and E&E do Brasil (Brasil).

Financing activities provided $3.4 million of cash for the period mainly from net debt proceeds of $6.2 million less dividend payments of $2.0 million, the purchase of treasury stock for $.4 million and distributions to non-controlling interests of $.3 million.

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 January 31, 2012. 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 January 31, 2012 and July 31, 2011 the Company had letters of credit and loans outstanding totaling approximately $9.2 million and $4.1 million, respectively. After letters of credit and loans, there was $24.8 million of availability under the lines of credit at January 31, 2012, of which $14.0 million is available for working capital. The Company maintained a cash balance of $11.8 million at January 31, 2012, however borrowings of $6.5 million against the Company's line of credit were necessary during the quarter due to the cash requirements at the Parent

Company and the overall access of certain cash balances within the Company's international subsidiaries. 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

Second Quarter and Year to Date 2012 vs 2011

Revenue for the second quarter of fiscal year 2012 was $40.2 million, down slightly from the $41.8 million reported for the second quarter of fiscal year 2011. Revenue at the Parent Company was $18.8 million, a decrease of $4.9 million or 21% due mainly to decreases in the Company's domestic energy markets as a result of the completion of a significant project. This decrease was partially offset by increases in revenue at the Company's subsidiaries of $3.3 million due mainly to revenue increases of $2.3 million at the Walsh companies and a $.5 million increase at E&E do Brazil. The increased revenue at Walsh was mainly from work in the mining and oil and gas markets. The increase in revenue at the Company's subsidiary E&E do Brasil was due to modifications received on contracts in the transmission and oil markets for which costs were expended in prior periods.

Revenue for the first six months of fiscal year 2012 was $82.5 million, a decrease of $1.5 million from the prior year. Revenue at the Parent Company was $41.5 million, down $6.3 million or 13% from the $47.8 million in the first six months of 2011 due to reduced revenues from the commercial energy market. Walsh reported increased revenue of $2.3 million from oil, gas, and mining sectors. E&E do Brasil and the Company's Chilean subsidiary Gestion Ambiental Consultores (GAC) each reported increases of $1.0 million on increased work in the transmission and mining sectors. Revenues for the first six months of fiscal year 2012 included a favorable settlement of government contract rates covering the years 2002 through 2005 of approximately $.3 million.

Income Before Income Taxes

Second Quarter and Year to Date 2012 vs 2011

The Company's income before income taxes was $1.7 million for the second quarter of fiscal year 2012, a decrease of $1.5 million from the $3.2 million reported in the second quarter of 2011. Revenue less subcontract costs were $30.6 million, a decrease of $3.3 million from the $33.9 million reported in the second quarter of the prior year. Gross profits (revenue less cost of professional services, other direct operating expenses and subcontract costs) increased $.9 million during the second quarter of fiscal year 2012 due to the recognition of $.9 million of revenue on contract modifications in E&E do Brasil for work expensed in prior periods. Indirect costs increased 16% due to lower staff utilization in the Parent Company and Walsh. Foreign exchange losses were $130,000 for the quarter due to fluctuation in the exchange rates on receivables carried in Kuwaiti Dinar translated to US dollars.

The Company's income before income taxes was $3.8 million in fiscal year 2012 compared to $7.2 million for fiscal year 2011, a decrease of $3.4 million or 47%. Revenue less subcontract costs were $63.7 million, a decrease of $5.1 million or 7% from the $68.8 million reported in the prior year. Gross profits remained steady at $35.5 million but indirect costs increased 11% from $27.6 million to $30.6 million. The majority of these increases are the result of lower staff utilization in the Parent Company and Walsh.

Income Taxes

The estimated effective tax rate for fiscal year 2012 is 28.1%, as compared to the estimated tax rate of 35.9% reported for the six months ended January 29, 2011. The reduction is mainly a result of increased income from “pass-through” entities taxable to noncontrolling partners, as well as increased income from foreign entities in countries with a lower effective tax rate than in the U.S. In addition, an income tax benefit of approximately $172,000 was recognized discretely in the second quarter as a result of favorable settlements in New York and Kuwait.

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 2005. 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 contract receivables 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 January 4, 2012, the Company purchased an additional 1.3% of Walsh from noncontrolling shareholders for approximately $254,000. 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 86% of that company.

On December 14, 2011, the Company increased its capital investment in its Brazilian subsidiary (Ecology and Environment do Brasil, Ltda.) by $1.5 million USD, which increased the Company's ownership in the entity to 68%.

The Company also purchased an additional 4% of the entity from its president for approximately $180,000 USD, which increased the Company's ownership in the entity to 72%. The Brazilian company has experienced increased revenue growth and the additional investment will be used for working capital needs in the country.

On November 18, 2011, the Company purchased an additional 3.9% of Walsh Peru from noncontrolling shareholders for approximately $432,000. The entire purchase price was paid in cash.

On June 6, 2011, the Company purchased an additional 1.1% of Walsh from noncontrolling shareholders for approximately $219,000. 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 85% of that company.

On March 18, 2011 the Company purchased 5.5% of 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 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 the Company purchased a 60% ownership interest in ECSI, LLC, a Lexington, Kentucky based engineering and environmental consulting company that specializes in mining work. The Company paid $1.0 million for this ownership interest and contributed the assets into a newly formed company. The company was consolidated into the Company's financial reporting beginning in the first quarter of fiscal year 2011.

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

During the quarter we have implemented an Enterprise Resource Planning (ERP) system that resulted in a material change in internal controls over financial reporting. This new system, went online January 1, 2012, and will support our global accounting operations consisting of planning, accounting and management reporting modules. We believe the implementation was necessary to support increase volumes and transaction complexities related to the growth of our business, particularly with our domestic and international subsidiaries, as well as to reduce the number of manual processes. The new system, which required minimal customizations by the Company, was purchased from a leading internationally respected software provider of enterprise software solutions. The Company has engaged a leading business and technology consulting firm to implement the new system. The implementation of the system included a three phased approach where business process walk-throughs were performed in order to test processes and transactions and to train users. Post-implementation reviews are being conducted by management to ensure that internal controls surrounding the system implementation process, the applications, and the closing process were properly designed to prevent material financial statement errors. In addition to our recurring account reconciliations and reviews as part of our normal close process, we also performed incremental substantive procedures during the quarter, including analytical assessments to validate the accuracy of key financial balances and amounts and review of key reports used in the financial reporting close process.

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is 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 72 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 $297,000 USD at January 31, 2012. 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 has imposed fines against those individuals that, in the aggregate, are equal to the fine imposed against E & E Brasil. E & E Brasil has filed administrative responses with the Institute for itself and its employees that: (a) 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 attended one meeting where depositions were taken. 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 January 31, 2012:

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, 2011 –	22,825	$16.71		

January 31, 2012	22,825	93,173

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 31, 2011 to announce the issuance of a press release setting forth its results of operations and financial condition for the three months ending October 29, 2011.

Registrant filed a Form 8-K report on January 19, 2012 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:	March 21, 2012	By:	/s/ H. John Mye III H. John Mye III

Vice President, Treasurer and Chief Financial Officer –
Principal Financial and Accounting Officer