ANNUAL REPORT 2014

ecology and environment, inc.
Global Environmental Specialists

Frank B. Silvestro
Chairman of the Board

Chairman's Observations

This past year was a year of transition for Ecology and Environment, Inc. (E & E), during which we set a course for growth and profitability. Management and staff met the transition challenge with energy and fortitude; operations were streamlined, and costs were reduced. Hence, despite absorbing several millions of dollars of non-recurring transition costs, the bottom line loss compared to fiscal year 2013 was reduced substantially and the benefits will also accrue in the coming year.

Management set ambitious goals for fiscal year 2014. While not all were fully achieved, many important goals were realized and E & E has positive momentum going into fiscal year 2015. Management will continue to focus on organizational efficiency and client service. E & E's improving situation, its capability and reputation, and a growing market points to growth opportunity.

The Board of Directors is also transitioning. The number of board seats was reduced to seven with the resignation without replacement of one of the four founders. Sadly, the death of another director, Tim Butler, necessitated another change. Mr. Michael Betrus was subsequently appointed director and now chairs the Audit Committee.

Given reduced costs and a brightening market, I look for positive results in fiscal year 2015. E & E is well positioned to provide services in the growing western hemisphere marketplace. But if E & E is to realize its full potential for revenue growth and profitability, resources and a revised strategy may be required. There are several doable paths that are open to E & E. As Chairman, my priority is improving shareholder value. I am working with the Board to define and evaluate strategic paths to take this company forward.

CEO and President Reflections on Fiscal Year 2014

Gerald A. Strobel, P.E.
Chief Executive Officer

In the first quarter of fiscal year 2014, E & E began a process of unprecedented actions for instituting leadership changes in the firm as well as retooling the organization for achieving sound financial performance, stability, and growth. Our commitment to change, and the actions that would affect transformation, were sustained through the year and continue today. We're proud of what we've accomplished and are excited about our future.

We have refreshed our vision as a company, and have reaffirmed our commitment to support clients in making a better and safer world, and in bringing value to the communities in which we work, serve, and live. E & E will continue to strive to a higher level of consulting, and provide honorable employment to dedicated professionals.

We are identifying and making inroads to new markets and services. The markets we work in are inherently dynamic. Our extensive experience and wide presence gives us the insight to understand developing markets, anticipate client needs, and move forward in new areas. In fiscal year 2014, we advanced strategic efforts on emerging issues surrounding water scarcity and resiliency planning. Those strategic efforts will continue and expand in the current fiscal year.

We have renewed our emphasis on fostering a business development culture at E & E. We have stepped up a variety of strategic initiatives for engaging emerging environmental trends across a range of sectors, including energy development, transportation, climate adaptation and community resiliency, and water resources

management, among others. Our business development activities take place everywhere we work. Technical staff plays an integral role in developing business by building and maintaining strong client relationships through our responsiveness and providing quality results.

Our organizational structure and business processes continue to evolve. We have accomplished our goal of successfully moving E & E to a new management information system (MIS) by the end of the last fiscal year. The new system is designed to support our specific needs as an international consulting services business.

We reduced total operating expenses $8.7 million (8%) in fiscal year 2014, while at the same time we have been hiring staff in strategic areas for aligning our technical disciplines and skill sets with our changing markets and new opportunities. We put operational efficiencies in place as we strive toward meeting our goals for revenue growth and increased profitability. Our newly deployed MIS was designed to guide and assist our efforts for achieving these cost efficiencies.

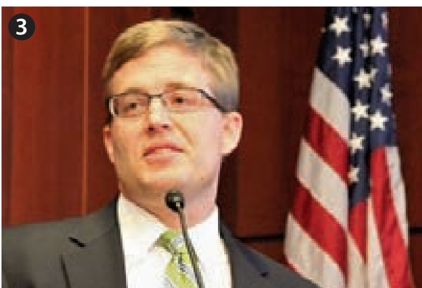
We have developed and put in place a new quality program initiative. E & E has always had a strong commitment to quality. In fiscal year 2014, we undertook a critical review of our quality strategies and processes. The first initiative in that ongoing review process is a Project Quality Management Protocol, which provides specific actions aimed at providing a high level of performance in the services we provide to clients.

Gerard A. Gallagher III
President

Engaged in the Leading Environmental Challenges of Our Time

Mounting challenges facing the human condition on our planet have heightened public, corporate, and government awareness of the interrelationship of energy and natural resources needs, climate change, accidents and disastrous events, environmental impact, economics, living standards and quality of life — the implications of which can profoundly affect public policy, economic development, important development projects, and their proponents and stakeholders. This is our business milieu and we foresee an increasing need for our services.

Our aim is to be at the forefront of meeting the new challenges our clients face. Because of our breadth of experience, demonstrated capability, and effectiveness, we have the comprehensive view to fulfill this essential societal role. E & E's vision is to help our clients in making a better and safer world through developing technically sound solutions to the leading environmental challenges of our time.



1 ***Disease Outbreak Capacity Building*** – *E & E has been working with USAID since 2009, providing technical services to support building local capacities to respond to disease outbreaks in hot-spot locations.*

2 ***Flood Response and Recovery*** – *E & E's flood-response team worked with both local and federal agencies to provide river restoration concepts, design details, and construction oversight services when Colorado's Front Range was pummeled by a rainstorm last year that dropped up to 20 inches of rain in less than 48 hours.*

3 ***Energy Infrastructure Leadership*** – *E & E's Electric Transmission Sector Lead joined other transmission industry leaders in Washington, DC as a presenter at The High-Voltage Grid: Its Operations, Challenges, and Benefits, a Congressional briefing on emerging issues facing electric transmission developers.*

4 ***Coastal Restoration Solutions*** – *E & E is collaborating with The Nature Conservancy's North American Freshwater Team to pursue ecological restoration and habitat enhancement projects in the Great Lakes and other river basins creating shared solutions for some of the nation's most significant freshwater conservation challenges protecting drinking water, reducing flood risk, and building smarter infrastructure.*

5 ***Resilient Communities Planning*** – *E & E developed award-winning reconstruction plans for communities impacted by Hurricane Sandy, Tropical Storm Irene and Tropical Storm Lee, working with local steering committees to record historic storm damage, develop asset inventories, assess risk, and identify specific strategies and actions to mitigate future flood damage to allow the communities to quickly and efficiently recover from storm events.*

6 ***Emergency Operations Planning*** – *Since 2006, E & E has been assisting the State of Oregon, including all 36 counties, all nine federally recognized tribes, and over 100 cities in developing comprehensive, all-hazard emergency operations plans. E & E's plans have become the statewide model for compliant and community-based emergency planning, establishing a common approach to enhance coordination and mutual support during a disaster.*

7 ***Social Impact Assessment*** – *We work with clients and stakeholders around the world to strengthen projects to add genuine value and contribute to an area's quality of life. In preparing an Environmental Impact Assessment of the 220 kV TL Machupicchu-Quencoro-Onocoro-Tintaya Transmission Line in Peru, for example, we built community understanding and addressed local issues through 252 information workshops in 84 communities.*

8 ***Legacy Site Contamination Cleanup*** – *For the Hudson River PCBs site, E & E demonstrated how both regulatory agencies and potentially responsible parties can effectively address large-scale sediment remediation projects. We developed precedent-setting standards for river remediation that protect public interest and provided EPA with vital services throughout the project lifecycle, from award-winning facility siting studies to the development of an expansive and inclusive community involvement and education plan, to helping the EPA develop a new sampling program resulting in more targeted, less costly dredge operations.*

9 ***Renewable Energy Development*** – *E & E has been awarded $3.8 million in contracts with the US Navy to help plan for and locate solar facilities at 12 Naval and 2 Marine Corps installations in the US and at Naval stations in Cuba, Italy, and Spain. When constructed, these high-profile projects will produce approximately 400 megawatts of renewable energy.*

The Evolving Energy Market

Dynamic changes in the energy market have created substantial demand for our environmental services. We work with both public and private sector clients as valued advisers to help them take advantage of the opportunities the changing market presents. Building on our historic position as an energy leader, we develop sound strategies to plan and permit new energy infrastructure and work with clients throughout the full project lifecycle.

We have seen growth in our electric transmission, liquefied natural gas, solar, and pipeline work in fiscal year 2014, and we see opportunities to sustain that growth for future years.

Our renewable energy portfolio is outstanding. The knowledge and relationships we have gained from working with regulators and communities in energy-producing states enhances our ability to tackle other project work.

Plains & Eastern Clean Line Project, Arkansas, Oklahoma, and Tennessee. *Since June 2010, E & E has served as environmental consultant for this key 700-mile overhead +600 kilovolt high voltage direct current (HVDC) transmission line, which will deliver 3,500 megawatts of low-cost wind power from the Oklahoma Panhandle to utilities and customers in the Mid-South and Southeast.*

E & E technical and public involvement specialists assisted Clean Line in siting converter stations and an HVDC transmission line using our proprietary Correlate software and an iterative process, involving more than 100 large group stakeholder meetings to solicit feedback on routing.

Solar Star Project, Kern and Los Angeles Counties, California. *Developing the world's largest photovoltaic project is inevitably fraught with some difficulties. SunPower faced major compliance challenges because its two-part, 579-MW project is being built on 3,000 acres in both Kern and Los Angeles Counties. E & E stepped in to help the client sort out each county's requirements and prioritize needs to facilitate project implementation and maintain compliance under each county's CUP. E & E is now providing compliance monitoring during construction; the project is on track to be in operation by 2015.*

Atlantic Wind Connection Project, Offshore Virginia to New York. *E & E worked with the AWC team on numerous studies and permits to facilitate development of the 7,000-MW high-voltage direct current, subsea transmission system in the Outer-Continental shelf, making landfall in five states along the mid-Atlantic seaboard intended to provide service for planned wind farms to be located off the coasts of Virginia, Delaware, Maryland, and New Jersey.*

The AWC project was the first right-of-way application filed by any developer under new renewable energy regulations and the "Smart from the Start" DOI initiative, and the first federal approval/determination received by an applicant under the new regulations.

Transco Rockaway Delivery Lateral Project, Rockaway, New York. *The Rockaway Lateral is an important addition to the Transco pipeline, the nation's largest capacity interstate natural gas pipeline system and a major supplier of natural gas to New York City. Since the projects inception in 2009, E & E has provided comprehensive environmental review, agency coordination, permit development, and compliance plan implementation services.*

Sustainability, Resiliency, and Climate Adaptation

The world is changing at a rapid pace that is increasing the need for plans and policies, social and economic systems, and built infrastructure that are resilient and adaptable. Whether it be shifting market needs or increasing threat of climate change to our natural, human and built systems, E & E works with communities and organizations to plan for changing conditions and reduce vulnerabilities. Long-term severe drought in western states, for example, is impacting every aspect of community planning from agriculture and energy use to soil erosion and emergency response.

Our multidisciplinary teams engage community stakeholders to first understand and prioritize concerns, then develop integrated solutions that provide multiple benefits and lasting returns. Our goal is to help clients plan and build stronger, more resilient communities.

The Nature Conservancy Gulf Coast Restoration. *E & E is working with The Nature Conservancy to provide planning, engineering, design, and implementation services for marine conservation projects in the Gulf of Mexico. As part of the Five-year contract, E & E will work collaboratively with The Nature Conservancy on ecosystem restoration, natural infrastructure, and community resiliency projects to be funded by the National Fish and Wildlife Foundation, the RESTORE Act, and other sources.*

Colorado Flood Corridor Master Planning. *To prepare flood-impacted streams for the 2014 runoff season, E & E engineers teamed with local and national agency experts to rapidly assess, design, and implement temporary stabilization measures for immediate threat areas along the Big Thompson River and its tributaries above the Olympus Dam in Estes Park. The result of these proactive efforts was successful performance during the subsequent runoff season with only minor, localized damage reported in vulnerable flood-affected areas.*

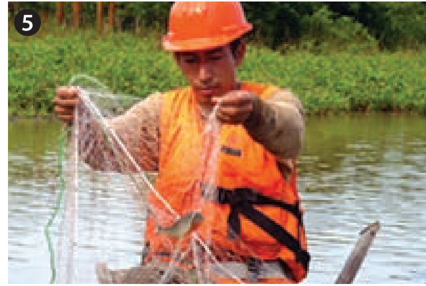
New York Rising Community Reconstruction Plans, Capital and North Country Regions, New York State. *The New York Rising Community Reconstruction Program (NYRCRP) is a bottom-up planning process designed to empower communities that suffered significant damage from Superstorm Sandy, Hurricane Irene, and Tropical Storm Lee. E & E led the development of community reconstruction and resilience plans for five community groupings within the Capital and North Country regions of New York.*

E & E worked with local steering committees from each community to record historic storm damage, develop an asset inventory, assess the risk to priority assets and identify specific strategies, programs, and actions to mitigate future flood damage and to promote quick and efficient community recovery. E & E helped develop plans for the Towns of Jay and Keene and the Village of Waterford that were presented with prestigious NY Rising to the Top awards, providing the communities with additional state funding to implement critical projects.

Growth in Global Markets

Our U.S. and South American subsidiary companies are bringing increasing value to E & E and represent an important and growing part of our business. Our South American companies, in particular, are at the forefront of important work in offshore and onshore energy development, telecommunications infrastructure permitting, and environmental and social impact assessment projects for the extractive industry. In North Africa, our continuing efforts in developing a Green City and Technical University Campus are setting new standards for sustainability on the continent.

As new global markets develop, we are guided by a thoughtful approach to growth that places us in the most attractive markets, maximizing opportunity and managing exposure to risk. As new opportunities emerge, operational improvements are making collaboration between our companies even more efficient.



1 ***Cardones-Polpaico Transmission Line, Central Chile.*** *Gestion Ambiental Consultores, S.A., E & E's Chilean subsidiary, is working to help develop this high profile 753-kilometer transmission line (500 kV) that will reinforce Chile's Central Interconnected System between Cardones' substation located south of the city of Copiapó and Polpaico's substation located north of the city of Santiago. The estimated investment is more than $1 Billion USD.*

2 ***GlobeNet Submarine Fiber Optic Cable System Extension, Colombia.*** *E & E recently completed studies that enabled environmental permitting for installation of a sub-sea fiber-optic cable connecting to telecommunications networks linking Colombia to the Carribbean countries.*

3 ***Ville Verte Mohammed VI (VVM6) Green City and Technical University Campus, Morocco.*** *E & E is providing sustainable design and planning services to support the development of the VVM6 Green City and a new Technical University Campus in Morocco. The Green City is intended to set a new standard for sustainable urban design in the country.*

4 ***Streamgaging Program / Agricultural Use Protection Monitoring, Powder River Basin, Wyoming.*** *We designed, installed, and continue to monitor an expansive streamgaging network in several watersheds of the Powder River Basin. The innovative streamgaging program serves industry reporting needs for multiple gas clients, and streamlines necessary data collection to meet state regulation requirements.*

5 ***Environmental Impact Assessment, Loreto Region, Peru.*** *In Peru, our subsidiary company performed the Environmental Impact Assessment for Block 64 Situche Northwestern Area for the Gran Tierra Energy Project. The project involves the construction and operation of production facilities and energy generation in floating concrete barges, and the construction of access roads, four production platforms with 14 production wells, and nine re-injector wells.*

6 ***Environmental and Social Impact Assessment, Ecuador.*** *E & E's subsidiary company in Ecuador, undertook an Environmental and Social Impact Assessment (ESIA) on behalf of Petroamazonas, EP in primary rainforest in the Ecuadorian Amazon on the boundary of Sumaco Napo-Gallera National Park that intersects the territories of two rainforest indigenous communities.*

7 ***Steve Gardner, P.E., President and CEO of ECSI, LLC, an E & E company,*** *was named 2015 President-Elect of the Society of Mining, Metallurgy, and Exploration (SME), a professional society with more than 15,000 members in 100 countries who represent all professions serving the minerals and mining industries.*

8 ***Extractive Industry Infectious Disease Risk Assessment, Katanga Province, DRC (Congo).*** *The Extractive Industry Infectious Disease Risk Assessment Management (IDEAM) Initiative is part of the United States Agency for International Development (USAID) Emerging Pandemic Threats Program, which aims to pre-empt or combat at their source, emerging infectious disease of animal origin that pose a threat to human health. In support of the IDRAM initiative, E & E has worked with FHI 360, a non-profit human development organization, to develop a toolkit that resource companies can use to examine vulnerabilities to disease and consider mitigation measures to reduce the vulnerability.*

Fiscal Year 2014 at Ecology and Environment, Inc.

Fiscal year 2014 was one of transition for E & E. Our net loss of $1.4 million or $0.32 per share for the year reflected a 35% improvement from the net loss reported for the prior fiscal year. We successfully completed our conversion to a new software operating system. As a result of abandoning our former system, we incurred $2.2 million of incremental software amortization during 2014, which was a primary reason for our fiscal year 2014 loss. This non-cash and non-recurring expense was necessary for us to convert to a more efficient and effective operating system that will support our operations for years to come.

Net contract adjustments recorded as reductions of revenue decreased more than $6 million during 2014. We have developed an improved risk management approach toward assessing project opportunities in foreign markets, which has resulted in lower reserves against contract receivables in these markets. Although we will continue to consider projects around the world, our current business development strategy focuses on our core markets in the United States and South America.

Excluding project-related and depreciation expenses, our operating expenses for fiscal year 2014 were 7% lower than the prior year due to a concerted effort by all of our U.S.-based companies to reduce operating expenses and develop a leaner organizational structure. Management will continue to evaluate and improve our organization and cost structures in fiscal year 2015.

The sequester of the federal government last October had a prolonged adverse effect on volume of available project opportunities during fiscal year 2014. Other factors in the economy delayed the timing of project work orders received under our contracts. New orders increased in the fourth quarter of fiscal year 2014, a trend that has continued into the first quarter of the current fiscal year. Our experienced business development team is continually assessing and re-focusing its efforts to maximize opportunities to win new work and retain existing customers.

Despite net losses over the past two fiscal years, our line of credit and debt balances are low and our liquidity position remains strong. During 2014, we continued our history of consistent dividends paid to our shareholders. We believe we are well positioned to support operational growth without significant increases in expenses or detrimental impacts on our liquidity position.

Financial Highlights

	Fiscal year ending July 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share amounts)				
Revenue, net	$ 128,427	$ 134,937	$ 155,410	$ 169,173	$ 144,098
Loss (income) from operations	(507)	(898)	4,784	12,386	9,893
Net (loss) income attributable to Ecology and Environment, Inc.	(1,383)	(2,130)	774	6,960	4,258
Net (loss) income per common share	(0.32)	(0.50)	0.18	1.65	1.02

Balance Sheet Data

	As of July 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Working capital	$ 31,203	$ 34,288	$ 38,511	$ 41,979	$ 38,950
Total assets	71,708	81,682	97,512	94,268	79,959
Outstanding advances under lines of credit	1,572	6,529	12,309	–	–
Long-term debt and capital lease obligations	842	451	591	2,138	1,695
Ecology and Environment, Inc. shareholders' equity	37,678	43,544	48,146	50,034	44,864
Book value per share	8.80	10.25	11.37	11.85	10.78
Cash dividends paid	2,054	2,037	2,047	1,815	1,684

Fiscal Year 2014 Operations Summary

Overview

For fiscal year 2014, we incurred a loss before income tax provision of $0.4 million, which was $0.5 million lower than the $0.9 million loss incurred during the previous fiscal year. Lower revenues and higher software amortization costs were offset by lower contract adjustments recorded as net reductions from revenue, lower direct project-related costs and lower indirect expenses during fiscal year 2014.

Gross revenue less subcontract costs (refer to table on page 14), which is a key performance measurement for us, decreased $12.7 million (11%) for fiscal year 2014. Lower project work volumes in domestic government, energy, mining and asbestos inspection market sectors were partially offset by growth in mining and energy sectors in our South American operations. We also recorded lower revenue from certain projects in the Middle East for which the Company had minimal project activity during fiscal year 2014.

Net contract adjustments (refer to table on page 15) recorded as a reduction of revenue decreased $6.1 million (97%) during fiscal year 2014, as compared with the prior fiscal year. During fiscal year 2013, we recorded $6.3 million of contract adjustments related to projects in China. During the fourth quarter of fiscal year 2013, management suspended all project activity related to these contracts, and no revenue or contract adjustments were recorded during fiscal year 2014.

Abandonment and Conversion of Operating Software

During fiscal years 2012 and 2013, the Company acquired and developed a new operating and financial software system for use by EEI and its U.S. and foreign subsidiaries. Through July 31, 2013, the Company capitalized $4.1 million of expenditures for the acquisition and development of this system, which was being amortized over a 10 year useful life. During the quarter ended July 31, 2013, management assessed the utility and effectiveness of various modules included in the software package, and determined that these software modules did not meet the needs of users that rely on the system and would not provide any future service potential. As a result, the Company recorded a software impairment charge of $0.8 million during the three months ended July 31, 2013, which was included in administrative and indirect operating expenses on the consolidated statements of operations.

In November 2013, after an extensive assessment process, management decided to abandon the Company's existing operating and financial software system and migrate to new system software. The Company acquired and developed the new software during fiscal year 2014, and began utilizing the new software effective August 1, 2014 for the Company's U.S. operations. The process to evaluate, select and develop new operating and financial software systems for the Company's significant foreign operations is expected to be completed in January 2015. The total capitalized cost of the new software system, when fully developed, is expected to approximate $1.7 million for the Company's U.S. operations and $0.2 million for its foreign operations. The Company recorded software development costs of $1.4 million in property, plant and equipment during the fiscal year ended July 31, 2014.

The Company continued to utilize the previous software system through July 31, 2014, at which time the previous system was abandoned. As a result, amortization of software development costs capitalized for the previous system was accelerated so that the system was completely amortized by July 31, 2014. Total software amortization expense was $2.6 million, $0.4 million, and $0.2 million for the fiscal years ended July 31, 2014, 2013 and 2012, respectively.

Liquidity and Capital Resources

Cash and cash equivalents decreased $2.6 million during fiscal year 2014, primarily due to the following non-operating expenditures that were approved by the Board of Directors on a discretionary basis:

- $2.1 million for dividend payments to shareholders;
- $0.7 million for acquisition of all remaining minority interests in Walsh Environmental Scientists & Engineers, LLC ("Walsh"); and
- $0.2 million for purchases of treasury stock.

Excluding these discretionary cash outflows, net cash generated from operations of $8.1 million during fiscal year 2014 was adequate to fund investing and financing activities required to maintain our current operations and to reduce our outstanding lines of credit by $5.0 million during the period.

We believe that cash flows from U.S. operations, available cash and cash equivalent balances in our domestic subsidiaries and remaining amounts available under lines of credit will be sufficient to cover working capital requirements of our U.S. operations during the next twelve months and the foreseeable future. Our foreign subsidiaries typically generate adequate cash flow to fund their operations. We intend to reinvest net cash generated from undistributed foreign earnings into opportunities outside the U.S. If the foreign cash and cash equivalents were needed to fund domestic operations, we would be required to accrue and pay taxes on any amounts repatriated.

Contract Receivables, net

Contract receivables, net are summarized in the following table.

	Balance at July 31,	
	2014	2013
Contract Receivables:		
Billed	$26,863,708	$36,284,950
Unbilled	23,694,451	16,441,857
	50,558,159	52,726,807
Allowance for doubtful accounts and contract adjustments	(6,126,854)	(5,592,800)
Contract receivables, net	$44,431,305	$47,134,007

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

	Balance at July 31, 2014	
Region	Contract Receivables	Allowance for Doubtful Accounts and Contract Adjustments
United States, Canada and South America	$43,394,442	$1,611,068
Middle East and Africa	7,010,225	4,386,240
Asia	153,492	129,546
Totals	$50,558,159	$6,126,854

	Balance at July 31, 2013	
Region	Contract Receivables	Allowance for Doubtful Accounts and Contract Adjustments
United States, Canada and South America	$41,302,180	$ 1,576,746
Middle East and Africa	10,876,151	3,886,508
Asia	548,476	129,546
Totals	$52,726,807	$ 5,592,800

Combined contract receivables related to projects in the Middle East, Africa and Asia represented 14% and 22% of total contract receivables at July 31, 2014 and 2013, respectively, while the combined allowance for doubtful accounts and contract adjustments related to these projects represented 74% and 72%, respectively, of the total allowance for doubtful accounts and contract adjustments at those same period end dates. These allowance percentages highlight the Company's experience of heightened operating risks (i.e., political, regulatory and cultural risks) within these foreign regions in comparison with similar risks in the United States, Canada and South America. These heightened operating risks have resulted in increased collection risks and the Company expending resources that it may not recover for several months, or at all.

	Fiscal Year Ended July 31,		
	2014	2013	2012
Revenue by entity:			
EEI and its wholly owned subsidiaries (excluding Walsh)	$ 69,446,427	$ 82,358,140	$ 85,150,365
Walsh and EEI's majority-owned subsidiaries:			
Walsh	33,168,180	28,263,579	39,295,981
Ecology & Environment do Brasil, Ltda ("E & E Brasil")	13,811,391	15,125,046	15,702,130
Gestion Ambiental Consultores S.A. ("GAC")	8,808,052	10,640,382	11,298,271
ECSI, LLC ("ECSI")	3,366,793	4,869,394	5,539,993
Total gross revenue	128,600,843	141,256,541	156,986,740
Net contract adjustments recorded as a reduction from revenue	(173,967)	(6,319, 650)	(1,576,641)
Revenue, net per consolidated statements of operations	$128,426,876	$134,936,891	$155,410,099
Gross revenue less subcontract costs, by entity:			
EEI and its wholly owned subsidiaries (excluding Walsh)	$ 59,627,259	$ 69,691,641	$ 72,290,708
Walsh and EEI's majority-owned subsidiaries:			
Walsh	20,796,673	20,796,180	26,003,190
E & E Brasil	12,833,626	13,778,136	14,433,459
GAC	6,958,103	7,327,335	6,620,988
ECSI	3,272,119	4,621,818	5,323,216
Total	$103,487,780	$116,215,110	$124,671,561

Revenue, net

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

Fiscal Year 2014 Versus 2013

The decrease in consolidated gross revenue for fiscal year 2014, as compared with the prior fiscal year, primarily resulted from the net impact of the following activity:

- Lower revenue for EEI and its wholly-owned subsidiaries (excluding Walsh) for fiscal year 2014 resulted primarily from the following activity:
  - EEI recorded $3.8 million of gross revenue related to projects in China during fiscal year 2013. All project activity related to these contracts was suspended during the fourth quarter of fiscal year 2013, and no revenue related to these projects was recorded during fiscal year 2014; and
  - generally lower sales volume, particularly within domestic state and federal government markets, as expired contracts were not renewed or replaced with new work.

- Consolidated Walsh revenue for fiscal year 2014 was relatively unchanged from the prior fiscal year, which was the net result of the following activity:
  - higher energy sector revenues from Walsh's South American operations; which was partially offset by
  - lower sales volumes from asbestos inspection, energy and mining sectors in the U.S., as expiring contracts were not renewed or replaced by new work.
- Lower E & E Brasil revenue for fiscal year 2014 was primarily due to lower sales volumes in the energy transmission sector and weakening of the local currency (Reais) against the U.S. dollar.
- Lower GAC revenue for fiscal year 2014 mainly resulted from the following net activity:
  - lower sales volume from the commercial mining market, mainly due to a general decline in the Chilean economy; and
  - a decline in the value of the Chilean Peso against the U.S. dollar throughout the year; which were partially offset by
  - lower utilization of subcontracted labor, which resulted in higher utilization of GAC employees.
- Lower ECSI revenue during fiscal year 2014 mainly resulted from lower sales volumes in the mining sector, as projects completed during fiscal year 2013 were not renewed or replaced during the current year.

Contract Adjustments

Net contract adjustments recorded as reductions from revenue are summarized by region in the following table.

	Fiscal Year Ended July 31,		
Region	2014	2013	2012
United States, Canada and South America	$ 309,651	$ (73,534)	$ 355,643
Middle East and Africa	(483,618)	72,024	(1,314,058)
Asia	—	(6,318,140)	(618,226)
Totals	$ (173,967)	$(6,319,650)	$ (1,576,641)

Fiscal Year 2014 Activity

Net contract adjustments recorded for projects in the U.S., Canada and South America includes net adjustments resulting from revenues that are deemed to be unrealizable or that may become unrealizable in the future, as well as adjustments to estimated liabilities for project disallowances that are recorded in other accrued liabilities. During fiscal year 2014, as a result of a revised estimate of a settlement liability recorded in a prior fiscal year, we recorded a $0.3 million reduction on our reserves for project disallowances recorded in other accrued liabilities.

Net contract adjustments recorded for projects in the Middle East and Africa mainly resulted from a $1.5 million increase in the reserve for contract adjustments associated with a specific project in the Middle East, which was partially offset by $1.0 million of reserve reversals resulting from cash receipts or approvals of task orders related to receivables that had been previously reserved

Operating Expenses

During fiscal years 2014 and 2013, management at EEI and its U.S. subsidiaries critically reviewed technical and indirect staffing levels, other expenses necessary to support current project work levels and key administrative processes, particularly in our domestic subsidiaries and operations. As a result of this review, the number of full time employees in various technical and indirect departments at EEI and its U.S. subsidiaries decreased by a combined 16% and 9% during fiscal years 2014 and 2013, respectively. Utilization of contracted services was also reviewed and reduced at EEI. Management continues to critically evaluate its organizational and cost structure to identify ways to operate more efficiently and cost effectively.

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

	Fiscal Year Ended July 31,		
	2014	2013	2012
EEI and all of its wholly owned subsidiaries (excluding Walsh)	$26,407,023	$29,408,179	$33,152,707
Walsh and EEI's majority-owned subsidiaries:			
Walsh	5,118,715	6,034,926	7,709,299
E & E Brasil	7,322,385	7,524,216	8,413,975
GAC	5,133,125	5,258,000	4,499,132
ECSI	1,183,785	1,529,296	1,857,168
Total cost of professional services and other direct operating expenses	$45,165,033	$49,754,617	$55,632,281

Indirect operating expenses include administrative and indirect operating expenses, as well as marketing and related costs. Combined indirect operating expenses by business entity, excluding depreciation and amortization expenses, are summarized in the following table.

	Fiscal Year Ended July 31,		
	2014	2013	2012
EEI and all of its wholly owned subsidiaries (excluding Walsh)	$32,907,360	$36,239,243	$38,957,028
Walsh and EEI's majority-owned subsidiaries:			
Walsh	12,690,944	12,707,123	12,953,357
E & E Brasil	4,946,171	5,480,397	4,847,879
GAC	1,376,842	1,161,575	923,723
ECSI	2,559,021	3,021,712	2,836,756
Total administrative and indirect operating expenses and marketing and related costs	$54,480,338	$58,610,050	$60,518,743

Fiscal Year 2014 Versus 2013

The consolidated cost of professional services and other direct operating expenses decreased $4.6 million (9%) during fiscal year 2014, as compared with the prior fiscal year. These net decreases were primarily due to lower consolidated revenues and lower service levels provided during the current year, and managed reductions in technical staff levels in U.S. operations. Expense reductions in the U.S. were partially offset by a higher volume of

project activity and related expenses in certain South American subsidiaries.

Consolidated administrative and indirect operating expenses and marketing and related costs decreased $4.1 million (7%) during fiscal year 2014. During fiscal years 2013 and 2014, management at EEI and its U.S. subsidiaries critically reviewed key administrative processes, reduced indirect staffing levels, and reduced utilization of contracted services in certain indirect departments. These cost reductions in the U.S. were partially offset by higher indirect expenses to support growth in certain South American subsidiaries.

Depreciation and amortization expense increased $1.7 million (72%) during fiscal year 2014 primarily due to accelerated amortization of the Company's previous operating software system, which was abandoned at the end of fiscal year 2014 in favor of a new software system.

Income Taxes

The income tax provision (benefit) resulting from domestic and foreign operations is summarized in the following table.

	Fiscal Year Ended July 31,		
	2014	2013	2012
Income tax (benefit) provision from:			
Domestic operations	$ (802,558)	$ (782,672)	$ 65,885
Foreign operations	1,145,621	1,036,906	1,292,031
Income tax provision, as reported on the consolidated statements of operations	$ 343,063	$ 254,234	$ 1,357,916

A reconciliation of the income tax provision using the statutory U.S. income tax rate compared with the actual income tax provision reported on the consolidated statements of operations is summarized in the following table.

	Fiscal Year Ended July 31,		
	2014	2013	2012
Income tax (benefit)provision at the U.S. federal statutory income tax rate	$(152,113)	$(329,057)	$1,495,206
Income from "pass-through" entities taxable to noncontrolling partners	35,309	(102,933)	(255,065)
International rate differences	(143,493)	(197,217)	(329,825)
Other foreign taxes, net of federal benefit	(34,419)	94,528	211,088
Foreign dividend income	596,631	481,287	329,825
State taxes, net of federal benefit	27,739	3,871	13,193
Re-evaluation and settlements of tax contingencies	(19,533)	(58,105)	(180,304)
Peru non-deductible expenses	44,077	173,707	211,000
Canada valuation allowance	(83,257)	130,950	—
Other permanent differences	72,122	57,203	(137,202)
Income tax provision, as reported on the consolidated statements of operations	$343,063	$254,234	$1,357,916

Fiscal Year 2014 Versus 2013

The majority of the income or loss generated by the Company occurs in tax jurisdictions with combined income tax rates between 30 percent and 40 percent. However, the mix of domestic and foreign earnings that created a small consolidated pre-tax loss, and the impact of permanent book-to-tax differences that are recognized regardless of pre-tax income or loss, resulted in an unusual negative effective income tax rate for fiscal year 2014. The most significant of these permanent differences resulted from foreign dividend income that is taxed in the U.S. as a result of a reduced foreign tax credit created from the Company's overall foreign loss.

During the fiscal year ended July 31, 2014 and 2013, the Company generated operating losses in the U.S. of $1.7 million and $3.8 million, respectively. The net operating loss from fiscal year 2014 will be carried forward to future fiscal years. The net operating loss from fiscal year 2013 was carried back to an earlier year and was fully utilized. As of July 31, 2014, net operating losses attributable to operations in Brazil, Canada and China and net operating losses for state income tax purposes still exist.

Critical Accounting Policies

The preceding discussion and analysis of our financial condition and results of operating results are based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. Many of our significant accounting policies require complex judgments to estimate values of assets and liabilities. In making these judgments, management must make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Because changes in such estimates and assumptions could significantly affect our reported financial position and results of operations, detailed policies and control procedures have been established to ensure that valuation methods, including judgments made as part of such methods, are well controlled, independently reviewed, and are applied consistently from period to period.

On an on-going basis, we evaluate our estimates to ensure that they are based on assumptions that we believe to be reasonable under current circumstances. Our actual results may differ from these estimates and assumptions.

Of the significant policies used to prepare our consolidated financial statements, the items discussed below require critical accounting estimates involving a high degree of judgment and complexity. For all of these critical policies, we caution that future events rarely develop exactly as forecasted, and the best estimates routinely require adjustment. This information should be read in conjunction with our consolidated financial statements included herein.

Revenue Recognition

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

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

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

Revenues associated with these contract types are summarized in the following table.

	Twelve Months Ended July 31,		
	2014	2013	2012
Time and materials	$ 69,136,988	$ 64,522,639	$ 76,889,583
Fixed price	50,077,507	58,244,072	67,638,479
Cost-plus	9,212,381	12,170,180	10,882,037
Total revenue	$128,426,876	$134,936,891	$155,410,099

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. Time and materials contracts generally represent the time spent by our professional staff at stated or negotiated billing rates, plus materials used during project work. Many time and materials contracts contain "not to exceed" provisions that effectively cap the amount of revenue that we can bill to the client. In order to record revenue that exceeds the billing cap, we must obtain written approval from the client for expanded scope or increased pricing.

Fixed price contracts are accounted for using the percentage-of-completion method, wherein revenue is recognized as project progress occurs. 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 provide for payment of allowable incurred costs, to the extent prescribed in the contract, plus fees that we record as revenue. These contracts establish an estimate of total cost and an invoicing ceiling that the contractor may not exceed without the approval of the client. Cost-plus contracts present a lower risk, but generally provide lower returns and often include more onerous terms and conditions.

Our project management teams continuously monitor the budgets, costs to date and estimated costs to complete project work. If the estimated costs at completion on any contract indicates that a loss will be incurred, the entire estimated loss is charged to operations as a reduction of revenue in the period the loss becomes evident.

The percentage of completion revenue recognition method requires the use of estimates and judgment regarding a project's expected revenues, costs and the extent of progress towards completion. We have 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, actual completion costs may vary significantly 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 a variety of estimates which can be difficult to accurately determine until a project is significantly underway.

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.

Our 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 our 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.

We maintain an allowance for project disallowances in other accrued liabilities for potential cost disallowances resulting from

government audits and project close-outs. Government audits have been completed and final rates have been negotiated for fiscal years through 2007. We have estimated our exposure based on completed audits, historical experience and discussions with the government auditors. If these estimates or their related assumptions change, we may be required to adjust its recorded allowance for project disallowances.

Allowance for Doubtful Accounts and Contract Adjustments

We reduce our contract receivables by recording an allowance for doubtful accounts for estimated credit losses resulting from a client's inability or unwillingness to pay valid obligations to us. The resulting provision for bad debts is recorded within administrative and indirect operating expenses on the consolidated statements of operations. The likelihood that the client will pay is based on the judgment of those closest to the related project and the client. At a minimum, management considers the following factors to determine the collectability of contract receivables for any specific project:

- Client acknowledgment of amount owed to us;
- Client liquidity/ability to pay;
- Historical experience with collections from the client;
- Amount of time elapsed since last payment; and
- Economic, geopolitical and cultural considerations for the home country of the client.

We recognize that there is a high degree of subjectivity and imprecision inherent in the process of estimating future credit losses that are based on historical trends and client data. As a result, actual credit losses can differ from these estimates.

We also reduce contract receivables by establishing an allowance for contract adjustments related to revenues that are deemed to be unrealizable, or that may become unrealizable in the future. Management reviews contract receivables and determines allowances amounts based on:

- Our operating performance related to the adequacy of the services performed under the contract;
- The status of change orders and claims;
- Our historical experience with the client for settling change orders and claims; and
- Economic, geopolitical and cultural considerations for the home country of the client.

Because of the high degree of subjectivity and imprecision inherent in the process of estimating allowances that are based on historical trends and client data, actual contract losses can differ from these estimates.

Goodwill

Goodwill of $1.2 million on our consolidated balance sheets represents the excess of purchase price over the fair value of identifiable net assets acquired in various business acquisitions. Goodwill is not amortized, but is reviewed for impairment annually during the fourth quarter of our fiscal year, or more frequently if events, transactions or changes in circumstances indicate that the carrying amount may not be recoverable. We utilize a discounted cash flows methodology for determining the fair value of the business units to which goodwill has been assigned. Our discounted cash flows methodology includes the following critical assumptions:

- Growth rates applied to projected earnings
- Discount rates and terminal year growth rates applied to future cash flow projections

Our impairment testing of goodwill is considered to be a critical accounting estimate due to the significant judgment required for certain assumptions utilized in the models to determine fair value. Assumptions used involve a high degree of subjectivity that is based on historical experience and internal forecasts of future results. Actual results in future periods may not necessarily approximate historical experience or forecasts.

We completed our annual goodwill impairment test as of July 31, 2014, and concluded that our recorded goodwill was not at risk for impairment as of that date. As of July 31, 2014, the estimated fair values exceeded the carrying values of each of the individual business units to which goodwill has been assigned.

Income Taxes

We operate within multiple tax jurisdictions in the United States and in foreign countries. The calculations of income tax expense or benefit and related balance sheet amounts involve a high degree of management judgment regarding estimates of the timing and probability of recognition of revenue and deductions. The interpretation of tax laws involves uncertainty, since tax authorities may interpret laws differently than we do. We are subject to audit in all of our tax jurisdictions, which may involve complex issues and may require an extended period of time to resolve. Ultimate resolution of tax matters may result in favorable or unfavorable impacts to our net income and/or cash flows. In management's opinion, adequate reserves have been recorded for any future taxes that may be owed as a result of examination by any taxing authority.

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. We recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in administrative and indirect operating expenses. 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. Based on available evidence, management has estimated that uncertain tax positions did not exceed $0.1 million at July 31, 2014 or 2013.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using enacted tax rates expected to be in effect for the year in which the temporary differences are expected to reverse. Our policy is to establish a valuation allowance if it is "more likely than not" that the related tax benefits will not be realized. At July 31, 2014 and 2013, we determined based on available evidence, including historical financial results for the last

three years and forecasts of future results, that it is "more likely than not" that a portion of these items may not be recoverable in the future. Accordingly, we recorded total valuation allowances of $0.4 million and $0.6 million at July 31, 2014 and 2013, respectively, as a reduction of deferred tax assets.

The valuation allowance related to deferred tax assets is considered to be a critical estimate because, in assessing the likelihood of realization of deferred tax assets, management considers taxable income trends and forecasts. Actual income taxes expensed and/or paid could vary from estimated amounts due to the impacts of various factors, including:

- changes to tax laws enacted by taxing authorities;
- final review of filed tax returns by taxing authorities; and
- actual financial condition and results of operations for future periods that could differ from forecasted amounts.

Inflation

During the fiscal years ended July 31, 2014, 2013 and 2012, inflation did not have a material impact on our business because a significant amount of our contracts are either cost based or contain commercial rates for services that are adjusted annually.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of July 31, 2014 or 2013.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Ecology and Environment, Inc.

We have audited the accompanying consolidated balance sheets of Ecology and Environment, Inc. and its subsidiaries (collectively, the Company) as of July 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the three-year period ended July 31, 2014. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of July 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended July 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

Pittsburgh, Pennsylvania

October 29, 2014

Consolidated Balance Sheets

	Balance at July 31,	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 6,889,243	$ 9,444,660
Investment securities available for sale	1,407,277	1,463,864
Contract receivables, net of allowance for doubtful accounts and contract adjustments of $6,126,854 and $5,592,800, respectively	44,431,305	47,134,007
Deferred income taxes	4,534,437	4,308,538
Income tax receivable	1,107,983	4,355,260
Other current assets	1,589,646	1,784,826
Total current assets	59,959,891	68,491,155
Property, building and equipment, net of accumulated depreciation of $28,615,915 and $24,569,139, respectively	7,941,455	10,122,801
Deferred income taxes	1,865,798	1,089,060
Other assets	1,941,178	1,978,668
Total assets	$71,708,322	$81,681,684

	2014	2013
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$9,874,649	$ 9,864,138
Line of credit	1,572,466	6,528,691
Accrued payroll costs	7,650,077	7,102,910
Current portion of long-term debt and capital lease obligations	420,737	199,658
Billings in excess of revenue	5,003,413	6,437,730
Other accrued liabilities	4,235,262	4,070,073
Total current liabilities	28,756,604	34,203,200
Income taxes payable	107,035	124,793
Deferred income taxes	631,083	462,787
Long-term debt and capital lease obligations	421,769	251,614
Commitments and contingencies (Note 18)	—	—
Shareholders' equity:		
Preferred stock, par value $.01 per share (2,000,000 shares authorized; no shares issued)	—	—
Class A common stock, par value $.01 per share (6,000,000 shares authorized; 2,685,151 shares issued)	26,851	26,851
Class B common stock, par value $.01 per share; (10,000,000 shares authorized; 1,708,574 shares issued)	17,087	17,087
Capital in excess of par value	17,124,339	20,016,873
Retained earnings	21,916,575	25,365,853
Accumulated other comprehensive income	(182,735)	(84,527)
Treasury stock, at cost (Class A common: 40,553 and 79,110 shares, respectively; Class B common: 64,801 shares)	(1,223,899)	(1,798,233)
Total Ecology and Environment, Inc., shareholders' equity	37,678,218	43,543,904
Noncontrolling interests	4,113,613	3,095,386
Total shareholders' equity	41,791,831	46,639,290
Total liabilities and shareholders' equity	$71,708,322	$81,681,684

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

Consolidated Statements of Operations

	Fiscal Year Ended July 31,		
	2014	2013	2012
Revenue, net	$128,426,876	$134,936,891	$155,410,099
Cost of professional services and other direct operating expenses	45,165,033	49,754,617	55,632,281
Subcontract costs	25,113,063	25,041,431	32,315,179
Administrative and indirect operating expenses	41,464,204	44,563,873	44,917,631
Marketing and related costs	13,016,134	14,046,177	15,601,112
Depreciation and amortization	4,175,801	2,428,844	2,160,062
(Loss) Income from operations	(507,359)	(898,051)	4,783,834
Interest income	154,441	244,191	174,743
Interest expense	(150,315)	(303,403)	(364,305)
Other income (expense)	67,587	(40,127)	206,813
Gain on sale of assets and investment securities	13,045	80,415	—
Net foreign exchange loss	(24,789)	(50,839)	(403,419)
(Loss) Income before income tax provision	(447,390)	(967,814)	4,397,666
Income tax provision	343,063	254,234	1,357,916
Net (loss) income	$ (790,453)	$ (1,222,048)	$ 3,039,750
Net income attributable to the noncontrolling interest	(592,203)	(908,386)	(2,266,171)
Net (loss) income attributable to Ecology and Environment, Inc.	$ (1,382,656)	$ (2,130,434)	$ 773,579
Net (loss) income per common share: basic and diluted	$ (0.32)	$ (0.50)	$ 0.18
Weighted average common shares outstanding: basic and diluted	$ 4,283,984	$ 4,247,821	$ 4,233,883

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

Consolidated Statements of Comprehensive Income (Loss)

	Fiscal Year Ended July 31,		
	2014	2013	2012
Comprehensive (loss) income			
Net (loss) income including noncontrolling interests	$ (790,453)	$(1,222,048)	$ 3,039,750
Foreign currency translation adjustments	(298,200)	(883,865)	(708,489)
Unrealized investment gains, net	1,412	(28,675)	17,597
Comprehensive (loss) income	(1,087,241)	(2,134,588)	2,348,858
Comprehensive income attributable to noncontrolling interests	(457,916)	(792,215)	(2,390,626)
Comprehensive loss attributable to Ecology and Environment, Inc.	$(1,545,157)	$(2,926,803)	$ (41,768)

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

Consolidated Statements of Cash Flows

	Fiscal Year Ended July 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net (loss) income	$(790,453)	$(1,222,048)	$ 3,039,750
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Impairment of long-lived assets	—	846,000	—
Depreciation and amortization	4,175,801	2,428,844	2,160,062
(Provision) benefit for deferred income taxes	(817,896)	203,165	113,717
Share based compensation expense	353,295	507,796	731,583
Tax impact of share-based compensation	(31,695)	(74,429)	105,988
Gain on sale of assets and investment securities	(13,045)	(80,415)	—
Provision for contract adjustments and doubtful accounts	173,967	6,319,650	1,635,311
Bad debt expense	90,087	(287,426)	689,657
Decrease (increase) in:			
- contract receivables	1,855,027	7,228,782	(2,287,607)
- other current assets	192,013	(97,563)	314,587
- income tax receivable	3,247,277	(1,832,096)	(2,502,431)
- other non-current assets	29,656	6,951	31,973
(Decrease) increase in:			
- accounts payable	23,739	(628,189)	(1,859,530)
- accrued payroll costs	630,156	(172,087)	(1,458,928)
- income taxes payable	(41,155)	(69,230)	(1,375,614)
- billings in excess of revenue	(1,419,481)	(1,430,143)	1,237,329
- other accrued liabilities	445,505	295,562	(936,135)
Net cash provided by (used in) operating activities	8,102,798	11,943,124	(360,288)
Cash flows from investing activities:			
Acquisition of noncontrolling interest of subsidiaries	(689,361)	(595,556)	(908,892)
Purchase of property, building and equipment	(1,964,663)	(1,845,241)	(4,727,033)
Proceeds from sale of investments	—	1,554,425	138,141
Sale (purchase) of investment securities	52,675	(1,671,284)	(35,614)
Net cash used in investing activities	(2,601,349)	(2,557,656)	(5,533,398)
Cash flows from financing activities:			
Dividends paid	(2,053,506)	(2,037,323)	(2,046,657)
Proceeds from debt	544,027	255,487	145,401
Repayment of debt and capital lease obligations	(710,009)	(853,127)	(974,644)
Net (repayments of) borrowings under of lines of credit	(4,956,225)	(5,782,992)	12,309,335
Distributions to noncontrolling interests	(664,703)	(1,532,912)	(1,123,896)
Proceeds from sale of subsidiary shares to noncontrolling interests	—	—	41,634
Purchase of treasury stock	(173,278)	—	(363,050)
Net cash (used in) provided by financing activities	(8,013,694)	(9,950,867)	7,988,123
Effect of exchange rate changes on cash and cash equivalents	(43,172)	(457,711)	(156,509)
Net (decrease) increase in cash and cash equivalents	(2,555,417)	(1,023,110)	1,937,928
Cash and cash equivalents at beginning of period	9,444,660	10,467,770	8,529,842
Cash and cash equivalents at end of period	$6,889,243	$ 9,444,660	$10,467,770
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
- Interest	$145,880	$ 301,154	$ 395,146
- Income Taxes	(2,303,231)	1,596,760	6,510,514
Supplemental disclosure of non-cash items:			
Dividends declared and not paid	1,033,071	1,018,783	1,028,881
Acquistion of noncontrolling interest of subsidiaries (loans and stock)	1,072,944	212,401	795,856
Change in accounts payable due to equipment purchases	—	670,678	(283,071)

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

Consolidated Statements of Changes in Shareholders' Equity

	Common Stock			Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Treasury Stock		Noncontrolling Interests
	Class	Shares	Amount				Shares	Amount	
Balance at July 31, 2011	A B	2,685,151 1,708,574	$26,851 $17,087	$19,983,029	$30,797,763	$1,527,189	190,724	$(2,317,515)	$3,923,429
Net income		—	—	—	773,579	—	—	—	2,266,171
Foreign currency translation adjustment		—	—	—	—	(871,476)	—	—	124,455
Cash dividends paid ($0.48 per share)		—	—	—	(2,036,559)	—	—	—	—
Unrealized investment gain, net		—	—	—	—	17,597	—	—	—
Repurchase of Class A common stock		—	—	—	—	—	22,825	(363,050)	—
Issuance of stock under stock award plan		—	—	(716,662)	—	—	(62,099)	716,662	—
Share-based compensation expense		—	—	731,583	—	—	—	—	—
Tax impact of share based compensation		—	—	105,988	—	—	—	—	—
Sale of subsidiary shares to noncontrolling interests		—	—	—	—	—	—	—	41,634
Distributions to noncontrolling interests		—	—	—	—	—	—	—	(1,123,896)
Purchase of additional noncontrolling interests		—	—	(351,946)	—	38,532	(5,208)	66,871	(619,775)
Stock award plan forfeitures		—	—	—	—	—	3,289	—	—
Balance at July 31, 2012	A B	2,685,151 1,708,574	$26,851 $17,087	$19,751,992	$29,534,783	$711,842	149,531	$(1,897,032)	$4,612,018
Net (loss) income		—	—	—	(2,130,434)	—	—	—	908,386
Foreign currency translation adjustment		—	—	—	—	(790,464)	—	—	(116,171)
Cash dividends paid ($0.48 per share)		—	—	—	(2,038,496)	—	—	—	—
Unrealized investment loss, net		—	—	—	—	(28,675)	—	—	—
Share-based compensation expense		—	—	507,796	—	—	—	—	—
Tax impact of share based compensation		—	—	(74,429)	—	—	—	—	—
Distributions to noncontrolling interests		—	—	—	—	—	—	—	(1,532,912)
Purchase of additional noncontrolling interests		—	—	(168,486)	—	22,770	(7,804)	98,799	(775,935)
Stock award plan forfeitures		—	—	—	—	—	2,184	—	—
Balance at July 31, 2013	A B	2,685,151 1,708,574	$26,851 $17,087	$20,016,873	$25,365,853	$(84,527)	143,911	$(1,798,233)	$3,095,386
Net (loss) Income		—	—	—	(1,382,656)	—	—	—	592,203
Foreign currency translation adjustment		—	—	—	—	(163,913)	—	—	(134,287)
Cash dividends declared ($0.48 per share)		—	—	—	(2,066,622)	—	—	—	—
Unrealized investment gain, net		—	—	—	—	1,412	—	—	—
Repurchase of Class A common stock		—	—	—	—	—	16,091	(173,278)	—
Issuance of stock under stock award plan		—	—	(194,454)	—	—	(16,387)	194,454	—
Share-based compensation expense		—	—	353,295	—	—	—	—	—
Tax impact of share based compensation		—	—	(31,695)	—	—	—	—	—
Distributions to noncontrolling interests		—	—	—	—	—	—	—	(664,703)
Reclassification adjustment for prior period acquisitions of noncontrolling interests		—	—	(2,414,027)	—	—	—	—	2,381,666
Purchase of additional noncontrolling interests		—	—	(605,653)	—	64,293	(44,260)	553,158	(1,156,652)
Stock award plan forfeitures		—	—	—	—	—	5,999	—	—
Balance at July 31, 2014	A B	2,685,151 1,708,574	$26,851 $17,087	$17,124,339	$21,916,575	$(182,735)	105,354	$(1,223,899)	$4,113,613

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

Notes to Consolidated Financial Statements

1. Organization and Basis of Presentation

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

The consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America. The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of such information. All such adjustments are of a normal recurring nature. Certain prior year amounts were reclassified to conform to the consolidated financial statement presentation for the fiscal year ended July 31, 2014.

2. Recent Accounting Pronouncements

Accounting Pronouncements Not Yet Adopted as of July 31, 2014

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

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

3. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the EEI and its wholly owned and majority owned subsidiaries. All intercompany transactions and balances have been eliminated.

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.

Revenue Recognition and Contract Receivables, Net

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

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

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

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

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

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

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

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

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

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

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

Investment Securities Available for Sale

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 recorded in accumulated other comprehensive income, net of applicable income taxes in the accompanying consolidated balance sheets and consolidated statements of changes in shareholders' equity. The cost basis of securities sold is based on the specific identification method.

Property, Building and Equipment, Depreciation and Amortization

Property, building and equipment are stated at the lower of depreciated or amortized cost or fair value. Land and land improvements are not depreciated or amortized. Methods of depreciation or amortization and useful lives for all other long-lived assets are summarized in the following table.

	Depreciation/Amortization Method	Useful Lives
Buildings	Straight-line	32-40 Years
Building Improvements	Straight-line	7-15 Years
Field Equipment	Straight-line	3-7 Years
Computer equipment	Straight-line and Accelerated	3-7 Years
Computer software	Straight-line	10 Years
Office furniture and equipment	Straight-line	3-7 Years
Vehicles	Straight-line	3-5 Years
Leasehold improvements	Straight-line	(1)

(1) Leasehold improvements are amortized for book purposes over the terms of the leases or the estimated useful lives of the assets, whichever is shorter.

Expenditures for maintenance and repairs are charged to expense as incurred. Expenditures for improvements are capitalized when either the value or useful life of the related asset have been increased. When property or equipment is retired or sold, any gain or loss on the transaction is reflected in the current year's earnings.

The Company capitalizes costs of software acquisition and development projects, including costs related to software design, configuration, coding, installation, testing and parallel processing. Capitalized software costs are recorded in fixed assets, net of accumulated amortization, on the consolidated balance sheets. Capitalized software development costs generally include:

- external direct costs of materials and services consumed to obtain or develop software for internal use;
- payroll and payroll-related costs for employees who are directly associated with and who devote time to the project, to the extent of time spent directly on the project;
- costs to obtain or develop software that allows for access or conversion of old data by new systems;
- costs of upgrades and/or enhancements that result in additional functionality for existing software; and
- interest costs incurred while developing internal-use software that could have been avoided if the expenditures had not been made.

The costs of computer software obtained or developed for internal use is amortized on a straight-line basis over the estimated useful life of the software. Amortization begins when the software and all related software modules on which it is functionally dependent are ready for their intended use. Amortization expense is recorded in depreciation and amortization in the consolidated statements of operations. The Company's amortization period does not exceed ten years for any capitalized software project.

The following software-related costs are generally expensed as incurred and recorded in general and administrative expenses on the consolidated statements of operations:

- research costs, such as costs related to the determination of needed technology and the formulation, evaluation and selection of alternatives;
- costs to determine system performance requirements for a proposed software project;
- costs of selecting a vendor for acquired software;
- costs of selecting a consultant to assist in the development or installation of new software;
- internal or external training costs related to software;
- internal or external maintenance costs related to software;
- costs associated with the process of converting data from old to new systems, including purging or cleansing existing data, reconciling or balancing of data in the old and new systems and creation of new data;
- updates and minor modifications; and
- fees paid for general systems consulting and overall control reviews that are not directly associated with the development of software.

Capitalized software costs are evaluated for recoverability/impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, including when:

- existing software is not expected to provide future service potential;
- it is no longer probable that software under development will be completed and placed in service; and
- costs of developing or modifying internal-use software significantly exceed expected development costs or costs of comparable third-party software.

Refer to Note 7 of these consolidated financial statements for additional disclosures regarding the Company's property, building and equipment.

Fair Value of Financial Instruments

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

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

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

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

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Refer to Note 5 of these consolidated financial statements for additional disclosures regarding the fair value of the Company's financial instruments.

Goodwill

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

Goodwill is also assessed for impairment between annual assessments whenever events or circumstances make it more likely than not that an impairment may have occurred. The Company identified no events or changes in circumstances during the fiscal year ended July 31, 2014 that necessitated an evaluation for impairment of goodwill.

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.

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 incurred. The Company recorded foreign currency transaction (losses) gains of less than $(0.1) million, $(0.1) million and $(0.4) million for the fiscal years ended July 31, 2014, 2013 and 2012, 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. The Company did not record any highly inflationary economy translation adjustments for the fiscal years ended July 31, 2014, 2013 or 2012.

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 the applicable statutory rates. 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 and accrued expenses. The Company periodically evaluates the likelihood of realization of deferred tax assets, and provides for a valuation allowance when necessary.

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. 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.

Refer to Note 10 of these consolidated financial statements for additional disclosures regarding income taxes.

Defined Contribution Plans

EEI has a non-contributory defined contribution plan providing deferred benefits for substantially all of its employees. The annual expense of the defined contribution plan is based on a percentage of eligible wages as authorized by EEI's Board of Directors.

Walsh Environmental Scientists & Engineers, LLC ("Walsh"), a wholly-owned subsidiary of EEI, has a defined contribution plan providing deferred benefits for substantially all of its employees. Walsh contributes a percentage of eligible wages up to a maximum of 4%.

Refer to Note 15 of these consolidated financial statements for additional disclosures regarding the Company's defined contribution plans.

Stock-Based Compensation

The company expenses the value of employee stock awards over the vesting period of the respective award. Share-based awards are measured at fair value on the respective grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest is not reversed if the awards expire without being exercised.

Refer to Note 12 of these consolidated financial statements for additional disclosures regarding the Company's stock-based compensation plans.

Earnings per Share

Basic and diluted earnings per share ("EPS") is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. The Company allocates undistributed earnings between the classes on a one-to-one basis when computing EPS. As a result, basic and fully diluted earnings per Class A and Class B shares are equal amounts. Refer to Note 16 of these consolidated financial statements for additional disclosures regarding EPS.

Comprehensive (Loss) Income

Comprehensive (loss) 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." Comprehensive (loss) income includes total net earnings plus other comprehensive (loss) income during a reporting period. Other comprehensive (loss) income includes currency translation adjustments on foreign subsidiaries and unrealized gains or losses on available-for-sale securities.

4. Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. The Company invests cash in excess of operating requirements in income-producing short-term investments. Money market funds of $0.3 million and $1.5 million were included in cash and cash equivalents in the accompanying consolidated balance sheets and consolidated statements of cash flows at July 31, 2014 and 2013, respectively. Bank overdrafts of $0.7 million were classified as accounts payable at July 31, 2013.

5. Fair Value of Financial Instruments

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

Assets	Level 1	Level 2	Level 3	Total
Balance at July 31, 2014:				
Investment securities available for sale	$1,407,277	$ —	$ —	$1,407,277
Balance at July 31, 2013:				
Investment securities available for sale	$1,463,864	$ —	$ —	$1,463,864

Investment securities available for sale includes mutual funds are valued at the net asset value of shares ("NAV") held by the Company at period end. Mutual funds held by the Company are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price, and are deemed to be actively traded. Reclassification adjustments out of accumulated other comprehensive (loss) income resulting from realized gains or losses from the sale of investment securities available for sale are included in gain on sale of assets and investment securities on the accompanying consolidated statements of operations. The Company recorded gross unrealized gains of less than $0.1 million related to these funds in accumulated other comprehensive (loss) income at July 31, 2014 and 2013.

The carrying amount of cash and cash equivalents approximated fair value at July 31, 2014 and 2013. These assets were classified as level 1 instruments at both dates.

Long-term debt consists of bank loans and capitalized equipment leases. Lines of credit consist of borrowings for working capital requirements. Based on the Company's assessment of the current financial market and corresponding risks associated with the debt and line of credit borrowings, management believes that the carrying amount of these liabilities approximated fair value at July 31, 2014 and 2013. These liabilities were classified as level 2 instruments at both dates.

There were no financial instruments classified as level 3 at July 31, 2014 or 2013.

6. Contract Receivables, net

Contract receivables, net are summarized in the following table.

	Balance at July 31,	
	2014	2013
Contract Receivables:		
Billed	$26,863,708	$36,284,950
Unbilled	23,694,451	16,441,857
	50,558,159	52,726,807
Allowance for doubtful accounts and contract adjustments	(6,126,854)	(5,592,800)
Contract receivables, net	$44,431,305	$47,134,007

Billed contract receivables did not include any contractual retainage balances at July 31, 2014 or 2013. Management anticipates that the July 31, 2014 unbilled receivables will be substantially billed and collected within one year.

Contract Receivable Concentrations

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

	Balance at July 31, 2014	
Region	Contract Receivables	Allowance for Doubtful Accounts and Contract Adjustments
United States, Canada and South America	$43,394,442	$1,611,068
Middle East and Africa	7,010,225	4,386,240
Asia	153,492	129,546
Totals	$50,558,159	$6,126,068

	Balance at July 31, 2013	
Region	Contract Receivables	Allowance for Doubtful Accounts and Contract Adjustments
United States, Canada and South America	$41,302,180	$ 1,576,746
Middle East and Africa	10,876,151	3,886,508
Asia	548,476	129,546
Totals	$52,726,807	$ 5,592,800

Combined contract receivables related to projects in the Middle East, Africa and Asia represented 14% and 22% of total contract receivables at July 31, 2014 and 2013, respectively, while the combined allowance for doubtful accounts and contract adjustments related to these projects represented 74% and 72%, respectively, of the total allowance for doubtful accounts and contract adjustments at those same period end dates. These

allowance percentages highlight the Company's experience of heightened operating risks (i.e., political, regulatory and cultural risks) within these foreign regions in comparison with similar risks in the United States, Canada and South America. These heightened operating risks have resulted in increased collection risks and the Company expending resources that it may not recover for several months, or at all.

Middle East and Africa

During fiscal year 2014, the Company collected $4.1 million of cash related to aged receivables in the Middle East and Africa. However, the Company also recorded net increases of $0.5 million to the allowance for contract adjustments due mainly to continued issues with a specific problem project in the Middle East.

Allowance for Doubtful Accounts and Contract Adjustments

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

	Fiscal Year Ended July 31,		
	2014	2013	2012
Balance at beginning of period	$5,592,800	$10,238,391	$ 6,755,087
Net increase (decrease) due to adjustments in the allowance for:			
Contract adjustments (1)	473,967	6,319,650	1,635,311
Doubtful accounts (2)	90,087	(287,426)	689,657
Transfer of reserves (to) from allowance for project disallowances (3)	(30,000)	61,123	1,158,336
Specific write-off of contract receivables and reserves during the period (4)	—	(10,738,938)	—
Balance at end of period	$ 6,126,854	$ 5,592,800	$10,238,391

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

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

(3) The allowance for project disallowances is included in other accrued liabilities on the consolidated balance sheets. Refer to Note 11 of these consolidated financial statements.

(4) Approximately $7.3 million of contract receivables related to projects in China and $3.4 million of contract receivables from projects in the Middle East and Africa were fully reserved and written off during the last quarter of fiscal year 2013, resulting in corresponding decreases in contract receivables and the allowance for contract adjustments during fiscal year 2013.

7. Property, Building and Equipment, net

Property, plant and equipment is summarized in the following table.

	Balance at July 31,	
	2014	2013
Land and land improvements	$ 393,051	$ 393,051
Buildings and building improvements	12,231,788	12,231,788
Field Equipment	3,273,725	3,128,859
Computer equipment	9,128,027	8,931,030
Computer software	5,030,472	3,617,527
Office furniture and equipment	4,095,659	4,023,004
Vehicles	1,658,273	1,548,901
Other	746,375	817,780
	36,557,370	34,691,940
Accumulated depreciation and amortization.	(28,615,915)	(24,569,139)
Property, building and equipment, net	$ 7,941,455	$10,122,801

During fiscal years 2012 and 2013, the Company acquired and developed a new operating and financial software system for use by EEI and its U.S. and foreign subsidiaries. Through July 31, 2013, the Company capitalized $4.1 million of expenditures for the acquisition and development of this system, which was being amortized over a 10 year useful life. During the quarter ended July 31, 2013, management assessed the utility and effectiveness of various modules included in the software package, and determined that certain software modules do not meet the needs of users that rely on the system and will not provide any future service potential. As a result, the Company recorded a software impairment charge of $0.8 million during the three months ended July 31, 2013, which was included in administrative and indirect operating expenses on the accompanying consolidated statements of operations.

In November 2013, after an extensive assessment process, management decided to abandon the Company's existing operating and financial software system and migrate to new system software. The Company acquired and developed the new software during fiscal year 2014, and began utilizing the new software effective August 1, 2014 for the Company's U.S. operations. The process to evaluate, select and develop new operating and financial software systems for the Company's significant foreign operations is expected to be completed in January 2015. The Company recorded software development costs of $1.4 million in property, plant and equipment during the fiscal year ended July 31, 2014.

The Company continued to utilize the previous software system through July 31, 2014, at which time the previous system was abandoned. As a result, amortization of software development costs capitalized for the previous system was accelerated so that the system was completely amortized by July 31, 2014. Total software amortization expense was $2.6 million, $0.4 million, and $0.2 million for the fiscal years ended July 31, 2014, 2013 and 2012, respectively.

8. Lines of Credit

Unsecured lines of credit are summarized in the following table.

	Balance at July 31,	
	2014	2013
Outstanding cash draws, recorded as lines of credit on the accompanying consolidated balance sheets	$ 1,572,466	$ 6,528,691
Outstanding letters of credit to support operations	1,944,994	3,080,938
Total amounts used under lines of credit	3,517,460	9,609,629
Remaining amounts available under lines of credit	30,851,540	24,759,371
Total approved unsecured lines of credit	$34,369,000	$34,369,000

Contractual interest rates ranged from 2.50% to 3.00% at July 31, 2014. The Company's lenders have reaffirmed the lines of credit within the past twelve months.

9. Debt and Capital Lease Obligations

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

	Balance at July 31,	
	2014	2013
Various loans and advances at interest rates ranging from 3.25% to 14%	$ 676,874	$ 276,934
Capital lease obligations at varying interest rates averaging 11%	165,632	174,338
	842,506	451,272
Current portion of long-term debt and capital lease obligations	(420,737)	(199,658)
Long-term debt and capital lease obligations	$ 421,769	$ 251,614

The aggregate maturities of long-term debt and capital lease obligations as of July 31, 2014 are summarized in the following table.

August 2014 – July 2015	$420,737
August 2015 – July 2016	375,724
August 2016 – July 2017	35,697
August 2017 – July 2018	10,348
Thereafter	—
Total	$842,506

10. Income Taxes

Income (loss) from continuing operations before provision (benefit) for income taxes and noncontrolling interest is summarized in the following table.

	Fiscal Year Ended July 31,		
	2014	2013	2012
Domestic	$(4,305,768)	$(3,055,338)	$ (993,959)
Foreign	3,858,378	2,087,524	5,391,625
	$ (447,390)	$ (967,814)	$4,397,666

The income tax provision is summarized in the following table.

	Fiscal Year Ended July 31,		
	2014	2013	2012
Current:			
Federal	$ 86,062	$(985,865)	$ (175,203)
State	62,761	181,434	(232,800)
Foreign	1,012,136	855,500	1,652,202
Total current	1,160,959	51,069	1,244,199
Deferred:			
Federal	(975,519)	200,197	509,161
State	24,138	(178,438)	(35,273)
Foreign	133,485	181,406	(360,171)
Total deferred	(817,896)	203,165	113,717
Total income tax provsion	$ 343,063	$ 254,234	$1,357,916

A reconciliation of the income tax provision using the statutory U.S. income tax rate compared with the actual income tax provision reported on the consolidated statements of operations is summarized in the following table.

	Fiscal Year Ended July 31,		
	2014	2013	2012
Income tax (benefit) provision at the U.S. federal statutory income tax rate	$ (152,113)	$(329,057)	$1,495,206
Income from "pass-through" entities taxable to noncontrolling partners	35,309	(102,933)	(255,065)
International rate differences	(143,493)	(197,217)	(329,825)
Other foreign taxes, net of federal benefit	(34,419)	94,528	211,088
Foreign dividend income	596,631	481,287	329,825
State taxes, net of federal benefit	27,739	3,871	13,193
Re-evaluation and settlements of tax contingencies	(19,533)	(58,105)	(180,304)
Peru non-deductible expenses	44,077	173,707	211,000
Canada valuation allowance	(83,257)	130,950	—
Other permanent differences	72,122	57,203	(137,202)
Income tax provision, as reported on the consolidated statements of operations	$ 343,063	$ 254,234	$1,357,916

The significant components of deferred tax assets and liabilities are summarized in the following table.

	Balane at July 31, 2014	
	Current	Noncurrent
Deferred tax assets:		
Contract and other reserves	$ 3,409,234	$ —
Accrued compensation and expenses	1,250,286	378,632
Net operating loss carryforwards	—	1,213,010
Foreign and state income taxes	—	54,398
Federal benefit on state deferred taxes	(184,523)	(103,098)
Foreign tax credit	—	296,326
Valuation Allowance	(192,213)	(206,070)
Other	—	74,370
Net deferred tax assets	$ 4,282,784	$1,707,568
Deferred tax liabilities:		
Fixed assets and intangibles	$ —	$ 58,934
Other	251,678	(531,812)
Net deferred tax liabilities	$ 251,678	$ (472,878)

	Balane at July 31, 2013	
	Current	Noncurrent
Deferred tax assets:		
Contract and other reserves	$3,273,465	$ —
Accrued compensation and expenses	1,349,318	476,214
Net operating loss carryforwards	—	613,097
Foreign and state income taxes	—	52,375
Federal benefit on state deferred taxes	(183,987)	(110,520)
Foreign tax credit	—	461,154
Valuation Allowance	(343,245)	(287,751)
Other	—	89,208
Net deferred tax assets	$4,095,551	$1,293,777
Deferred tax liabilities:		
Fixed assets and intangibles	$ —	$ (308,845)
Other	212,987	(358,659)
Net deferred tax liabilities	$ 212,987	$ (667,504)

For fiscal years 2014 and 2013, there was no one item that significantly impacted the change in the deferred tax assets and liabilities. The Company recorded a valuation allowance of $0.4 million and $0.6 million at July 31, 2014 and 2013, respectively, which was primarily related to excess foreign tax credit carryforwards, the utilization of which is dependent on future foreign source income, and to operating losses in Asia and Canada.

The Company has not recorded income taxes applicable to undistributed earnings of all foreign subsidiaries that are indefinitely reinvested in those operations. At July 31, 2014, the Company's operations in Chile, Peru and Ecuador had $5.4 million of undistributed earnings that were indefinitely reinvested in those operations.

The Company files numerous consolidated and separate income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. During fiscal year 2013, the IRS completed the examination of fiscal year 2010 and 2011 income tax returns, which were settled without material adjustment. The Company's tax matters for the fiscal years 2012, 2013 and 2014 remain subject to examination by the IRS. During fiscal year 2012, the Company was audited by New York State for fiscal years 2008 through 2010, which resulted in no adjustments. The Company's tax matters in other material jurisdictions remain subject to examination by the respective state, local, and foreign tax jurisdiction authorities. No waivers have been executed that would extend the period subject to examination beyond the period prescribed by statute.

During the fiscal year ended July 31, 2014 and 2013, the Company generated operating losses in the U.S. of $1.7 million and $3.8 million, respectively. The net operating loss from fiscal year 2014 will be carried forward to future fiscal years. The net operating loss from fiscal year 2013 was carried back to an earlier year and was fully utilized. As of July 31, 2014, net operating losses attributable to operations in Brazil, Canada and China and net operating losses for state income tax purposes still exist.

At July 31, 2014, 2013 and 2012, the Company had $0.1 million of gross unrecognized tax benefits ("UTPs") that if realized, would favorably affect the effective income tax rate in future periods. It is reasonably possible that the liability associated with UTPs will increase or decrease within the next twelve months. At this time, an estimate of the range of the reasonably possible outcomes cannot be made. The Company's UTPs are summarized in the following table.

	Fiscal Year Ended July 31,		
	2014	2013	2012
Balance at beginning of period	$ 91,100	$131,300	$530,500
Additions for tax positions of prior years	—	—	23,100
Reductions for tax positions of prior years for:			
- Changes in judgment	—	(23,100)	—
- Settlements during the period	(17,700)	(29,000)	(422,300)
- Changes in non-controlling interests	—	11,900	—
Balance at end of period	$ 73,400	$ 91,100	$131,300

The net liability for UTPs and associated interest and penalties are included in noncurrent income taxes payable on the accompanying consolidated balance sheets. The Company recognized interest and penalties expense of approximately $0.1million related to liabilities for UTPs during fiscal years 2014, 2013 and 2012. The Company had approximately $0.1 million of accrued interest and penalties at July 31, 2014 and 2013.

11. Other Accrued Liabilities

Other accrued liabilities are summarized in the following table.

	Balance at July 31,	
	2014	2013
Allowance for project disallowances	$ 2,393,351	$ 2,663,351
Other	1,841,911	1,406,722
Total other accrued liabilities	$ 4,235,262	$ 4,070,073

The allowance for project disallowances represents potential disallowances of amounts billed and collected resulting from contract close-outs and government audits. Allowances for project disallowances are recorded when the amounts are estimable. Activity within the allowance for project disallowances is summarized in the following table.

	Fiscal Year Ended July 31,		
	2014	2013	2012
Balance at beginning of period	$ 2,663,351	$ 2,724,474	$ 3,882,810
Reduction of reserves recorded in prior fiscal years	(300,000)	—	—
Net change due to government audits during the period, recorded as a transfer of reserves (to) from allowance for doubtful accounts and contract adjustments	30,000	(61,123)	(1,158,336)
Balance at end of period	$ 2,393,351	$ 2,663,351	$ 2,724,474

12. Stock Award Plan

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

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

The 1998 Award Plan and all supplemental plans are collectively referred to as the "Award Plan". The Award Plan permits grants of the award for a period of five (5) years from the date of adoption by the Board of Directors. The Award Plan is not a qualified plan Section 401(a) of the Internal Revenue Code.

The Company awarded 62,099 Class A shares valued at $0.9 million in October 2011 and 16,387 Class A shares valued at $0.2 million in July 2013 pursuant to the Award Plan. These awards have a three year vesting period. Total gross compensation expense is recognized over the vesting period. The Company recorded non-cash compensation expense of $0.4 million, $0.5 million and $0.7 million during the fiscal years ended July 31, 2014, 2013 and 2012, respectively, in connection with outstanding stock compensation awards. The Company expects to record less than $0.1 million of non-cash compensation expense during the fiscal year ended July 31, 2015. The "pool" of excess tax benefits accumulated in Capital in Excess of Par Value was $0.1 million and $0.2 million at July 31, 2014 and 2013, respectively.

13. Shareholders' Equity

Class A and Class B Common Stock

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

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

Restrictive Shareholder Agreement

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

Cash Dividends

The Company declared and paid cash dividends of $2.0 million during the fiscal years ended July 31, 2014, 2013 and 2012. The Company paid dividends of $1.0 million in August 2014 and 2013 that were declared and accrued in prior periods.

Stock Repurchase

In August 2010, the Company's Board of Directors approved a program for repurchase of 200,000 shares of Class A common stock. During the fiscal year ended July 31, 2014, the Company acquired 16,091 shares of Class A stock under this program for a total acquisition cost of approximately $0.2 million. As of July 31, 2014, 122,918 Class A shares were repurchased and 77,082 shares had yet to be repurchased under this program.

Noncontrolling Interests

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

Transactions with noncontrolling shareholders for the fiscal years ended July 31, 2014, 2013 and 2012 were recorded at amounts that approximated fair value. Effects on shareholders' equity resulting from changes in EEI's ownership interest in its subsidiaries are summarized in the following table.

	Fiscal Year ended July 31,		
	2014	2013	2012
Sales of noncontrolling interest:			
Sale of 600 Gustavson common shares	$ —	$ —	$ 41,634
Total sales of noncontrolling interests (10)	—	—	$ 41,634
Purchases of noncontrolling interests:			
Purchase of 344 Walsh common shares (1)	(5,653)	—	—
Purchase of 3,705 Walsh common shares (2)	(1,120,749)	—	—
Purchase of 100 Walsh common shares (3)	(30,250)	—	—
Purchase of 50 Walsh common shares (4)	—	(18,316)	—
Purchase of 25 Lowham common shares (5)	—	(8,737)	—
Purchase of 495 Walsh common shares (6)	—	(243,653)	—
Purchase of 2,800 Gustavson common shares (7)	—	(293,102)	—
Purchase of 370 Walsh common shares (8)	—	(182,125)	—
Purchase of 75 Lowham common shares (9)	—	(30,002)	—
Purchase of 25 Gestion Ambiental Consultores common shares	—	—	(7,452)
Purchase of 166 Walsh common shares	—	—	(97,634)
Purchase of 496 Walsh common shares	—	—	(277,514)
Purchase of 5,389 Brazil common shares	—	—	77,539
Purchase of 26,482 Walsh Peru common shares	—	—	(238,677)
Purchase of 152 Walsh common shares	—	—	(76,037)
Total purchases of noncontrolling interests (10)	(1,156,652)	(775,935)	(619,775)
Net transfers from noncontrolling interests	$(1,156,652)	$ (775,935)	$(578,141)

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

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

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

(4) In April 2013, EEI purchased an additional 0.1% of Walsh from noncontrolling shareholders for less than $0.1 million in cash.

(5) In March 2013, Lowham-Walsh Engineering & Environment Services LLC ("Lowham"), a subsidiary of Walsh, purchased shares from noncontrolling shareholders for less than $0.1 million in cash.

(6) In January 2013, EEI purchased an additional 1.3% of Walsh from noncontrolling shareholders for $0.2 million. Two thirds of the purchase price was paid in cash while the remaining one third was paid for with EEI stock.

(7) In December 2012, Gustavson Associates, LLC ("Gustavson") purchased an additional 6.7% of its shares from noncontrolling shareholders for $0.4 million. Half of the purchase price was paid in cash and Gustavson issued a three year note for the other half.

(8) In December 2012, EEI purchased an additional 0.9% of Walsh from noncontrolling shareholders for $0.2 million in cash.

(9) During the three months ending October 31, 2012, Lowham purchased shares from noncontrolling shareholders for less than $0.1 million in cash.

(10) Sales (purchases) of additional noncontrolling interests are recorded as additions (reductions) of shareholders' equity on the consolidated statements of changes in shareholders' equity.

14. Lease Commitments

The Company rents certain office facilities and equipment under non-cancelable operating leases and certain other facilities for servicing project sites over the term of the related long-term government contracts. Future minimum rental commitments under these leases as of July 31, 2014 are summarized in the following table.

Fiscal Year Ended July 31,	Amount
2015	$2,546,713
2016	1,916,230
2017	1,680,192
2018	1,642,781
2019	1,283,343
Thereafter	2,426,378

Lease agreements may contain step rent provisions and/or free rent concessions. Lease payments based on a price index have rent expense recognized on a straight line or substantially equivalent basis, and are included in the calculation of minimum lease payments. Gross rental expense associated with lease commitments was $3.9 million, $4.2 million and $3.6 million for the fiscal years ended July 31, 2014, 2013 and 2012, respectively.

15. Defined Contribution Plans

Contributions to EEI's defined contribution plan and supplemental retirement plan are discretionary and determined annually by its Board of Directors. Walsh's defined contribution plan provides for mandatory employer contributions to match 100% of employee contributions up to 4% of each participant's compensation. The total expense under the plans was $1.7 million, $2.2 million, and $1.8 million for the fiscal years ended July 31, 2014, 2013 and 2012, respectively.

16. Earnings Per Share

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

The Company has determined that its unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities. These securities are included in the weighted average shares outstanding calculation.

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

	Fiscal Year Ended July 31,		
	2014	2013	2012
Net (loss) income attributable to Ecology and Environment, Inc.	$(1,382,656)	$(2,130,434)	$ 773,579
Dividend declared	2,066,622	2,038,496	2,036,559
Undistributed earnings	$(3,449,278)	$(4,168,930)	$(1,262,980)
Weighted-average common shares outstanding (basic and diluted)	4,283,984	4,247,821	4,233,883
Distributed earnings per share	$ 0.48	$ 0.48	$ 0.48
Undistributed earnings per share	(0.80)	(0.98)	(0.30)
Total earnings per share	$ (0.32)	$ (0.50)	$ 0.18

17. Segment Reporting

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

	Fiscal Years Ended July 31,		
	2014	2013	2012
Revenue by geographic location:			
United States	$82,370,480	$91,451,247	$98,558,099
Foreign countries	46,056,396	43,485,644	56,852,000

(1) Significant foreign revenues included revenues in Peru ($19.5 million, $11.5 million and $17.2 million for fiscal years 2014, 2013 and 2012, respectively), Brazil ($13.8 million, $15.1 million and $15.7 million for fiscal years 2014, 2013 and 2012, respectively) and Chile ($8.8 million, $10.6 million and $11.3 million for fiscal years 2014, 2013 and 2012, respectively).

	Balance at July 31,		
	2014	2013	2012
Long-Lived Assets by geographic location:			
United States	$31,170,634	$29,508,055	$29,506,036
Foreign countries	5,386,736	5,183,885	5,191,000

18. Commitments and Contingencies

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

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

On September 21, 2012, the Colorado Department of Public Health and Environment (the "Department") issued a proposed Compliance Order on Consent (the " Proposed Consent Order") to the City and County of Denver ("Denver") and to Walsh Environmental Scientists and Engineers, LLC ("Walsh"). Walsh is a majority-owned subsidiary of Ecology and Environment, Inc. The Proposed Consent Order concerns construction improvement activities of certain property owned by Denver which was the subject of asbestos remediation. Denver had entered into a contract with Walsh for Walsh to provide certain environmental consulting services (asbestos monitoring services) in connection with the asbestos containment and/or removal performed by other contractors at Denver's real property. Without admitting liability or the Department's version of the underlying facts, Walsh on February 13, 2013 entered into a Compliance Order on Consent with the

Department and paid a penalty of less than $0.1 million and paid for a Supplemental Environmental Project to benefit the public at large in an amount less than $0.1 million. Denver was served with a final Compliance Order and Assessment of Administrative Penalty against Denver alone for approximately $0.2 million. Under Walsh's environmental consulting contract with Denver, Walsh has agreed to indemnify Denver for certain liabilities where Walsh could potentially be held responsible for a portion of the penalty imposed upon Denver. Walsh has put its professional liability and general liability carriers on notice of this indemnification claim by Denver. The Company believes that this administrative proceeding involving Walsh will not have an adverse material effect upon the operations of the Company.

On February 4, 2011, the Chico Mendes Institute of Biodiversity Conservation of Brazil (the "Institute") issued a Notice of Infraction to E & E Brasil. E & E Brasil is a 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 Reais, which had a value of approximately $0.2 million at July 31, 2014. 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.

Market for E & E's Common Equity and Related Stockholder Matters

The Company's Class A Common Stock is listed on NASDAQ. There is no separate market for the Company's Class B Common Stock. The range of high and low prices for the Company's Class A Common Stock, as reported by NASDAQ, are summarized in the following table.

Fiscal Year Ended July 31, 2014	High	Low	Per Share Dividend Declared
First Quarter (commencing August 1, 2013 - October 31, 2013)	$ 12.25	$ 10.52	—
Second Quarter (commencing November 1, 2013 - January 31, 2014)	11.88	10.41	$ 0.24
Third Quarter (commencing February 1, 2014 - April 30, 2014)	12.78	9.02	—
Fourth Quarter (commencing May 1, 2014 - July 31, 2014)	11.25	9.49	$ 0.24

Fiscal Year Ended July 31, 2013	High	Low	Per Share Dividend Declared
First Quarter (commencing August 1, 2012 - October 31, 2012)	$ 13.00	$ 11.60	—
Second Quarter (commencing November 1, 2012 - January 31, 2013)	13.36	10.70	$ 0.24
Third Quarter (commencing February 1, 2013 - April 30, 2013)	14.42	11.75	—
Fourth Quarter (commencing May 1, 2013 - July 31, 2013)	13.00	10.05	$ 0.24

As of September 30, 2014, 2,659,174 shares of the Company's Class A Common Stock were outstanding and there were 345 holders of record of the Company's Class A Common Stock. We estimate that the Company has a significantly greater number of Class A Common Stock shareholders because a substantial number of the Company's shares are held in street name.

As of September 30, 2014, 1,629,197 shares of the Company's Class B Common Stock were outstanding and there were 57 holders of record of the Class B Common Stock.

Changes to the composition of the E & E Board of Directors in fiscal year 2014. Gerhard J. Neumaier resigned from the E & E Board of Directors in September 2013. Timothy Butler, who served on E & E's Board since 2003, passed away in April 2014. He served on the Audit Committee as the designated financial expert. Michael S. Betrus, CPA, joined the Board of Directors as a member of the Audit Committee in May 2014. Mr. Betrus has over 35 years of experience in accounting, financial management, contractual oversight, and budget forecasting. He is currently the Senior Vice President and Chief Financial Officer of Power Drives, Inc.

BOARD OF DIRECTORS
as of October 31, 2014

Frank B. Silvestro
Founder, Chairman of the Board

Gerald A. Strobel, P.E.
Founder

Ronald L. Frank
Founder

Gerard A. Gallagher, Jr.
Retired Company Officer

Michael C. Gross
Insurance Broker and
NYS Tax Auditor

Ross M. Cellino
Attorney

Michael S. Betrus
CFO, Senior Vice President of
Power Drives, Inc.

CORPORATE OFFICERS

Gerald A. Strobel, P.E.
Chief Executive Officer,
Executive Vice President

Gerard A. Gallagher III
President

Fred J. McKosky, P.E.
Chief Operating Officer,
Senior Vice President

Frank B. Silvestro
Executive Vice President

Ronald L. Frank
Executive Vice President, Secretary

H. John Mye, P.E.
Vice President, Treasurer
and Chief Financial Officer

Laurence M. Brickman, Ph.D.
Senior Vice President

Kevin Donovan
Senior Vice President

Cheryl A. Karpowicz, AICP
Senior Vice President

Nancy Aungst
Vice President

Timothy J. Grady, P.E.
Vice President

George A. Rusk, Esq.
Vice President

Carmine A. Tronolone
Vice President

Colleen C. Mullaney-Westfall, Esq.
Assistant Secretary

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FORM 10-K

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Mr. H. John Mye, Chief Financial Officer
Ecology and Environment, Inc.
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