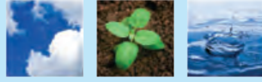


ECOLOGY AND ENVIRONMENT, INC.

ANNUAL REPORT 2015

A Return to Profitability in Fiscal Year 2015

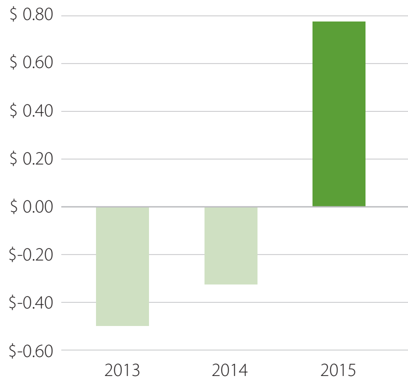
Driven by a 6% increase in revenue from U.S. operations and an 11% reduction in operating expenses, Ecology and Environment, Inc. (E & E) reported consolidated net income of $0.79 per share for the fiscal year ended July 31, 2015, an improvement of $1.11 per share from the net loss of $0.32 per share reported for the prior fiscal year.

Total revenues decreased slightly overall for fiscal year 2015, as compared with the prior fiscal year. Higher revenues from U.S. operations, which represent nearly 70% of consolidated revenues, were offset by a 14% decrease in foreign revenues. In the U.S., higher Department of Defense and energy sector project activity was partially offset by lower government and mining sector activity and by a strategic decision to wind down existing asbestos remediation contracts and forego any new asbestos business. South American operations were adversely affected by lower mining sector activity generally and an economic downturn in Brazil. Management is closely monitoring economic conditions and reducing operating costs in Brazil and elsewhere in South America in response to lower project activity.

A two-year-long initiative to reduce operating expenses and improve operating efficiency continued to have a positive impact on the Company's earnings. Total operating expenses decreased 11% for fiscal year 2015 compared with the previous fiscal year.

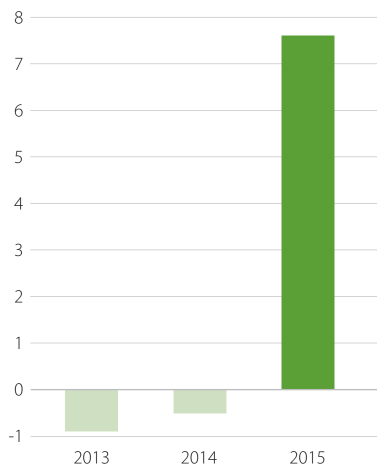
Our liquidity remained strong during fiscal year 2015, with increasing cash and continued low debt balances. We continue to be well positioned to support future growth initiatives without significant increases in operating expenses or detrimental impact on our liquidity position.

Earnings Per Share



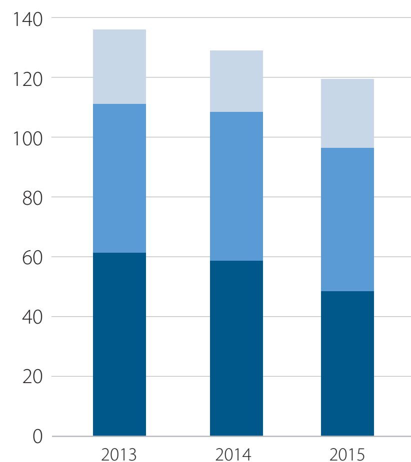
Income from Operations

(in millions)



Total Operating Expenses

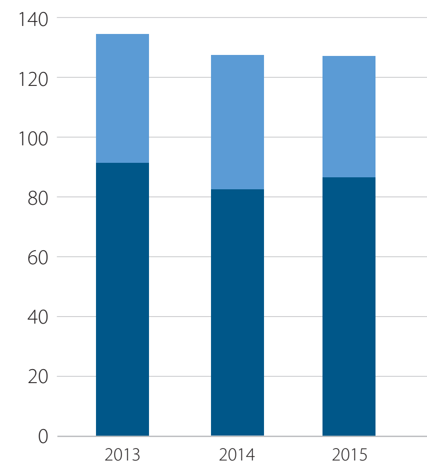
(in millions)



Indirect Operating Expenses | Cost of Professional Services and Other Direct Operating Expenses | Subcontract Costs

Revenues, Net

(in millions)



U.S. | Foreign

In fiscal year 2015, we established goals and we realized them. We committed to critically reviewing our operations and implementing a disciplined course of action to streamline operations and return E & E to profitability, and we saw results. Improved operational efficiencies, an 11% reduction in total operating expenses, a 6% increase in U.S. revenues, and a leaner management structure have all contributed to our sound financial performance this year and positioned us well for growth moving forward.

We placed a greater emphasis on building a more business development-driven company and it has paid off. We exceeded our new order goals and began fiscal year 2016 from a position of strength, with a larger backlog of work than we had a year ago. Importantly, our strong results are not a windfall from one or two major projects but come from a diverse mix of work across several market sectors, which is a healthy and encouraging trend.

In order to bring the highest level of client service to our growing project work, we expanded our team, hiring 96 full-time and on-call skilled technical professionals in fiscal year 2015 to build our capacity and better align our capabilities with the opportunities before us.

We're proud of what we've accomplished over the last year. As we move forward, we are building on our foundational strength and aligning E & E for strategic growth to continue to help our clients in making a better and safer world by developing technically sound, science-based solutions to the leading environmental challenges of our time.

Gerard A. Gallagher III
President and CEO

Frank B. Silvestro
Chairman of the Board

Chairman's Observations

Last year as we entered fiscal year 2015, our transition was well under way and gaining momentum, so I envisioned positive results for the fiscal year and we have, indeed, achieved those results. After several frustrating, losing years, our bottom line swung from - $0.32 to + $0.79 per share, a positive turnaround of $1.11 per share. Full credit and a "well done" are due our new management team, professional staff, and our retired CEO for their achievement.

During fiscal year 2015, we took a number of actions to improve profitability and better focus on viable market sectors and the important issues confronting our clients. We terminated our U.S. asbestos business line. In a separate action, we sold our majority interest in ECSI, our U.S. mining subsidiary, to the minority shareholder. We disbanded our Morocco operations and curtailed Ecology and Environment International Services, Inc. (EEIS), our international services subsidiary for marketing and logistic support.

The Board appointed Gerard A. Gallagher III to the combined office of President and CEO and, pursuant to management recommendation, approved restructured operations and the designation of five new vice presidents. We believe these steps will enhance our corporate capability to address client issues in the coming years. The Board also reviewed and consequently expanded and strengthened our company's governance policy, including our By-Laws, which will be submitted for shareholder approval at the annual meeting of shareholders.

This year, the average global temperature reached the highest level in recorded history and reports of weather extremes filled the airwaves. As the year unfolds, terrorism, world economic malaise, and the upcoming U.S. elections will undoubtedly dominate public concerns. The economic decline in Brazil will impact the performance of our largest South American subsidiary.

We certainly live in challenging times. But the underlying environmental issues, including the extent to which global warming and climate change will impact weather extremes and sea level rise and the need to meet energy needs and better manage water resources, will stimulate client need for balanced, science-based support in planning and decision-making.

It is E & E's mission to help our clients to make a better and safer world and we continue to shape our company and its operations to better assist our clients and serve our shareholders. Despite the potential head winds, I believe E & E will again achieve positive results in fiscal year 2016.

E & E offers a full suite of environmental services to wind energy clients. We have worked on more than 250 wind projects in 38 states capable of producing 6,340 MW of renewable electricity.

Fred J. McKosky, P.E.
Chief Operating Officer

Operational Excellence

We successfully implemented several new initiatives at E & E in fiscal year 2015 to improve reporting, streamline our management structure, increase operational efficiencies, expand our talent base, and introduce new collaboration tools. Through the dedication and enthusiasm of our staff and managers, we are seeing the full value of these efforts.

Advances in department and project reporting are providing more timely budgetary information for our department managers and project teams. Reorganizing to a leaner management structure has allowed us to identify and balance resource demands more effectively, expand professional growth opportunities, and reduce overhead expenses. Improved financial reporting processes for both domestic and foreign subsidiaries are driving greater efficiencies and lowering administrative costs. And we aggressively recruited and hired new talent in accordance with our business plan. We successfully launched a new internal communications and collaboration platform to enhance knowledge sharing, strengthen culture, and streamline the way we work together. We continue to review and improve our quality program to provide the highest level of performance in the services we provide to clients.

E & E has a strong commitment to leading through innovation and continually improving our performance, both internally and with our clients. As we move forward in fiscal year 2016, we will continue to build on our successes to take E & E to the next level.

Cheryl A. Karpowicz, AICP
Senior Vice President, Business Development

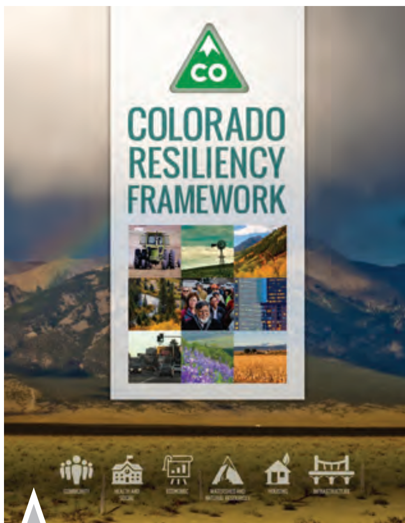
Committed to Our Clients

Our clients face increasingly complicated environmental issues. Whether it's a government agency that needs to design more resilient infrastructure or a project developer whose success depends on meeting regulatory requirements and public expectations, our clients count on E & E for responsive service and strategic advice. At E & E, we work to anticipate the future for our clients. By developing specialized technologies, we are getting better data to our clients virtually in real time. We are collaborating to put the best people on the job. We are investing heavily in training, sharing knowledge, and improving systems. We want to be ready with ideas and strategies to help our clients meet any challenge they may face. Most of all, we are working to earn our clients' trust every day.

E & E is working collaboratively with clients to address the leading environmental challenges of our time.

Atlantic Sunrise Project, Pennsylvania, Maryland, Virginia, North Carolina, and South Carolina. *E & E is playing a key role in Williams Gas Pipelines' 197-mile, $15 million pipeline that will help ease pipeline capacity constraints and bridge the dramatic natural gas spikes that occur during times of heavy demand.*

Kern County Oil & Gas Environmental Impact Report (EIR), Kern County, California. *For Kern County's Planning and Community Development Division, E & E has led the development of a landmark EIR cataloging oil and gas activity across 2.8 million acres, widely considered Kern County's most ambitious environmental review to date.*



Colorado Resiliency Framework, State of Colorado. *E & E worked collaboratively with the Colorado Resiliency and Recovery Office to prepare the Colorado Resiliency Framework, the state's first resiliency plan. This plan represents Colorado's long-term investment and commitment to a more resilient future following the natural disasters that have impacted the state.*

U.S. Navy Solar Environmental Assessments, Navy and Marine Corps. installations in the U.S., Cuba, Italy, and Spain. *E & E has been awarded $6.8 million in contracts with the U.S. Navy to help plan for and locate solar facilities at 17 Naval installations in the U.S. Work related to wind energy development is also being planned to support three Naval stations in Texas under these contracts. The project kicked off in Mid-August 2014, and work will continue through 2016. When constructed, these high-profile projects will produce approximately 500 MWs of renewable energy.*

Hudson River PCB Superfund Site Cleanup, New York State. *E & E plays a vital role on this nationally recognized, $1 billion environmental restoration project, coordinating stakeholder involvement and developing precedent-setting quality-of-life performance standards with U.S. Army Corps of Engineers, Kansas City District for EPA Region 2.*

Northern Pass Transmission Project, Quebec, Canada to Deerfield, New Hampshire. *For this highly controversial $1.4 billion, 187-mile transmission line project, E & E is providing biological, cultural, and other technical analyses, agency consultation, and field data collection to Northeast Utilities via SE Group, for a U.S. Department of Energy third-party EIS.*

AMX1 Submarine Fiber Optic Cable System, Brazil, Colombia, Mexico, Dominican Republic. *For Alcatel Submarine Network's $340-million submarine fiber-optic cable system, which will provide more than 10,800 miles of connectivity and be the world's first system designed for 100-gigabyte-per-second transmission, E & E provided environmental assessment and permitting assistance, including project licensing of the marine and terrestrial portions and permit feasibility studies.*

Toledo Harbor Algal Bloom Study, Toledo, Ohio. *For the U.S. Army Corps of Engineers, Buffalo District, E & E led the team that evaluated the influence of open-lake placement of dredged material on harmful algal blooms in the western Lake Erie basin, setting the standard for future study and analysis.*

The Nature Conservancy Gulf of Mexico Program. *Under a five-year contract to provide coastal restoration planning, design, and monitoring services for TNC's Gulf of Mexico Program, E & E performed a watershed planning study and streambank stabilization design in northwest Florida.*

Itarema Wind Complex, Ceara, Northeastern Brazil. *In additional to implementing required environmental programs for the nine-farm Itarema Wind Complex, Ecology Brazil is working with indigenous Tremembé Almofala populations to minimize and offset project impacts.*

Critical Projects in Liquefied Natural Gas (LNG), Louisiana and Texas. *As the LNG market evolves, E & E is at the forefront of some of the most critical projects in the U.S., including the Delfin LNG Deepwater Port and Magnolia LNG Export Terminal, both in Louisiana, and the Next Decade Rio Grande and Annova LNG projects in Texas.*

Our company's markets are evolving. Climate change, a shifting energy landscape, extreme weather events, and global economics are all shaping public debate. In fiscal year 2015, E & E continued to undertake strategic initiatives to align our business with market trends and stay a step ahead. We saw expansion in several established market sectors and new growth in key emerging markets.

New work in liquefied natural gas (LNG), for example, outpaced our fiscal year goal by more than 300%. The LNG industry in the U.S. has seen dramatic changes, with the rapid development of shale gas resources leading to natural gas production well in excess of domestic needs. This has transformed the marketplace from LNG import terminals being permitted and constructed to one where LNG export terminals are now being built. We have assisted our clients with environmental permitting, impact assessment, and stakeholder engagement on 40 LNG projects, including some of the most high-profile current LNG projects in the U.S. and a growing portfolio of work in Latin America, with five facilities in Chile.

The availability of natural gas is also impacting our pipeline sector, which exceeded expectations in fiscal year 2015 as well. Natural gas availability driven by increased production in shale plays is changing the historic flow of gas in

E & E conducts rare and threatened/endangered species surveys on Goat Island, Niagara Falls, New York.

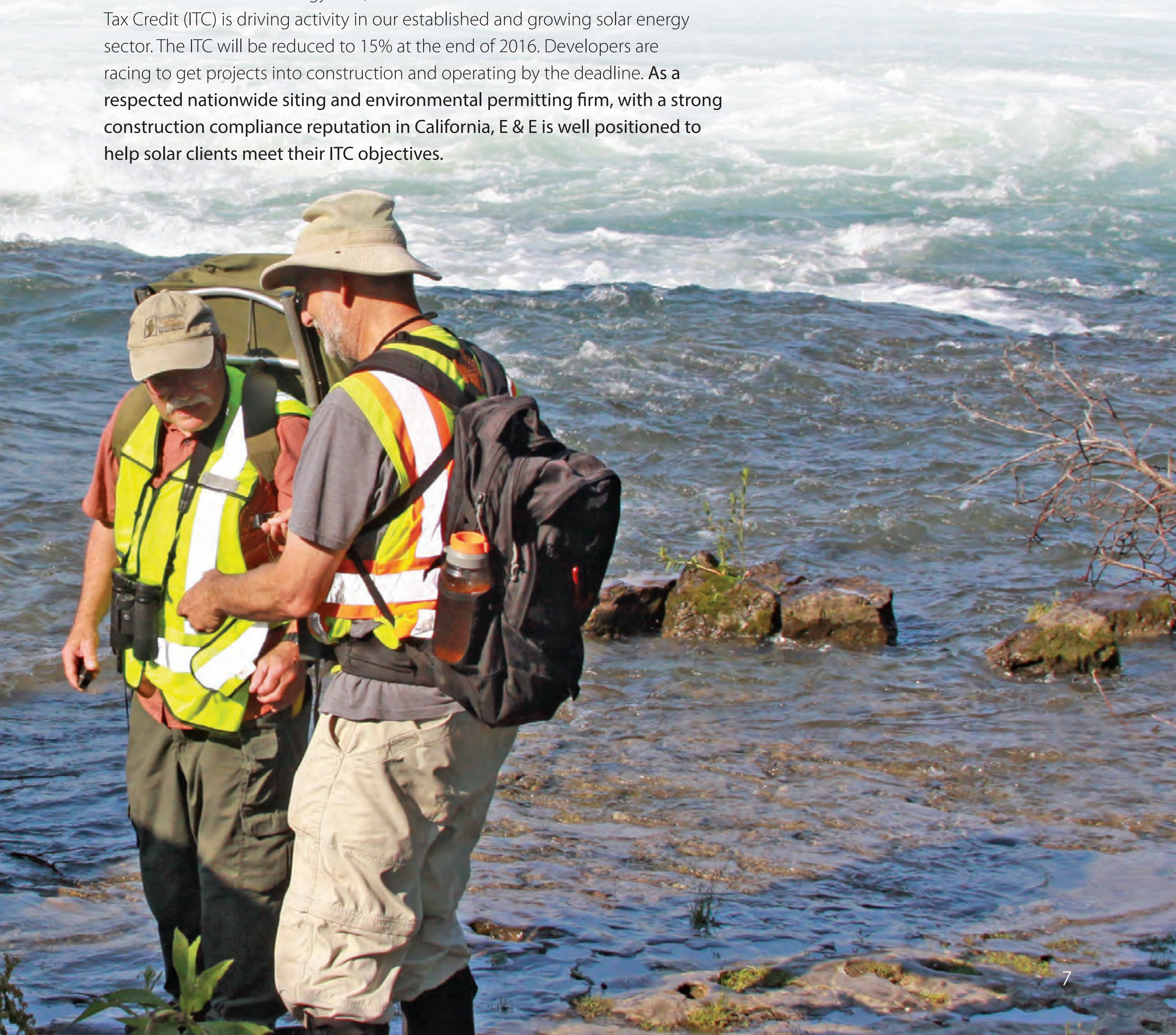
the U.S. as developers race to build new infrastructure, bringing regional pipelines online and making larger interstate systems bidirectional. The dynamic market is also driving significant merger and acquisition activity in the pipeline industry.

Among our other established client sectors, our U.S. Navy work saw impressive growth. We continue to support Navy mission and readiness in traditional environmental planning and encroachment work. Building on that foundation this year, the establishment of the Navy's Renewable Energy Program Office has brought a new focus to our work. **We are helping the Navy realize its goal of securing 1 gigawatt of renewable energy by the end of 2015 while increasing energy security, a critical component of strong national security.** "Our solid relationship with the Navy and our extensive experience in renewable energy has proven to be a great fit this year and has resulted in interesting and important project work for us," said E & E Vice President and Navy Practice Leader Mike Kane.

Also in the renewable energy area, the reduction in the federal solar Investment Tax Credit (ITC) is driving activity in our established and growing solar energy sector. The ITC will be reduced to 15% at the end of 2016. Developers are racing to get projects into construction and operating by the deadline. **As a respected nationwide siting and environmental permitting firm, with a strong construction compliance reputation in California, E & E is well positioned to help solar clients meet their ITC objectives.**

"Our solid relationship with the Navy and our extensive experience in renewable energy has proven to be a great fit this year and has resulted in interesting and important project work for us."

Mike Kane
Vice President and Navy Practice Leader



"Water is one of the defining issues of our generation and of future generations. Climate change, aging infrastructure, and changing regulatory requirements are all influencing the very dynamic water market."

Jason Moretz, Ph.D.
Water Sector Leader

E & E's work in sustainable communities planning supports and guides communities in mitigating the impacts from climate change, adapting to changing conditions, and becoming more resilient to sudden impacts of environmental and other stressors. Our work in the area expanded this year with a groundbreaking effort guiding the Colorado Resiliency and Recovery Office in its development of the Colorado Resiliency Framework. E & E's sustainable communities practices area informs and intersects with our work in several key sectors, providing insight into sustainability and resiliency at both the project and community level. There is a particularly strong nexus with our emergency planning and management work.

Water scarcity is a leading driver in the rapidly changing water market. "Water is one of the defining issues of our generation and of future generations," said Jason Moretz, Ph.D., E & E's water sector leader. "Climate change, aging infrastructure, and changing regulatory requirements are all influencing a very dynamic water market." The traditional water market, dominated by "concrete and pipes" solutions, is evolving toward more multidisciplinary, watershed-level approaches. Traditional water planning efforts are changing from top-down decision-making approaches to a bottom-up stakeholder involvement process that increasingly considers innovative, non-engineered solutions. These are E & E core strengths and represent a positive market trend going forward.

This year E & E advanced its ecological restoration work along the Gulf coast, building on our work restoring habitats and ecosystems in the Great Lakes, Florida Everglades, the mountain streams of Colorado, and the coastal watersheds of New York following damage from Hurricane Sandy. Key funding programs made available through settlement awards as a result of the Deepwater Horizon 2010 oil spill are driving the market on the Gulf coast. The final $18.7 billion global settlement will result in funding significant projects to restore Gulf coastal resources over the next couple of decades. "Based on the anticipated growth of ecosystem restoration opportunities from the Deepwater settlement, E & E hired coastal restoration specialists and created new partnerships needed to grow our portfolio of restoration projects along the Gulf coast," said Doug Heatwole, E & E

We save clients time and money by expediting field efforts and improving the quality of data by using mobile technologies to deploy easy-to-use applications from centralized servers to improve work flows, increase productivity, streamline QA/QC efforts, and enhance operational coordination.

Vice President and restoration sector leader. "Now, with the sustained funding guaranteed by the BP settlement, we are well positioned to play a role in the planning and implementation of these important projects."

With the U.S. Army Corps of Engineers (USACE) Buffalo, **E & E is leading the way in ecological restoration and invasive species management in the Great Lakes region.** We are involved in several stream, nearshore, upland, and stream bank restoration projects throughout the Great Lakes and are at the forefront of the USACE Invasive Species Program working in Tonawanda Creek to prevent introducing the invasive aquatic plant, *Hydrilla* into the Great Lakes.

Our South American companies continue to focus on providing environmental and social impact assessment for key energy infrastructure projects. E & E is also a preferred provider to the telecommunications industry, supporting more than 50,000 miles of fiber optic cables to provide worldwide connectivity.

In fiscal year 2015, E & E was awarded several large, multi-year contracts including a $15 million Navy contract for encroachment work, a $21.4 million contract extension with the USACE Kansas City District, and a $7.8 million contract with the Illinois Department of Transportation, in addition to ongoing contracts with, among others, the U.S. Environmental Protection Agency, the Bureau of Land Management, and the Florida Department of Environmental Protection.

Key to the execution of work on these contracts, and in all of our client work, is our focus on operational excellence. We commit to understanding both the technical requirements of a project and the larger context in which the project is undertaken. In fiscal year 2015, our work in these key areas allowed us to work closely with clients to solve problems and overcome challenges as if they were our own. As industries and markets evolve in 2016, we are well positioned to continue to work with our clients in addressing the leading environmental challenges of our time.

"Now, with the sustained funding guaranteed by the BP settlement, we are well positioned to play a role in the planning and implementation of these important projects."

Doug Heatwole
Vice President and Restoration Sector Leader

E & E's subsidiary in Brazil, ecology and environment do brasil, monitored water quality for the Itarema Wind Complex in Ceara, northeastern Brazil.

Fiscal Year 2015 Operations Overview

Consolidated net income attributable to Ecology and Environment, Inc. increased to $3.4 million for the fiscal year ended July 31, 2015 from a loss of $1.4 million for the prior fiscal year. Slightly lower net revenues for the current year were more than offset by significantly lower operating costs.

Net revenue from U.S. operations increased $4.6 million (6%) in fiscal year 2015, as compared with the prior year. Higher Department of Defense and energy sector project activity were partially offset by lower government and mining sector activity, and by a strategic decision to wind down existing asbestos remediation contracts and forego any new asbestos business. Net revenue from foreign operations decreased $6.2 million (14%) during the current year, as higher energy sector project activity in Peru was more than offset by lower energy and mining sector activity elsewhere in South America.

Total operating expenses (excluding subcontract costs) decreased $12.3 million (11%) during fiscal year 2015, as compared with the prior year. As a result of ongoing initiatives to review the Company's organizational and cost infrastructure which began in fiscal year 2013, management has successfully improved the Company's operating and cost efficiency and effectiveness. In addition, the Company reported significantly lower depreciation and amortization expense during fiscal year 2015 as a result of a successful conversion to its new accounting system effective August 1, 2014.

Operating Expense Management

Total indirect operating expenses decreased 17% during fiscal year 2015, compared with the previous year, due to managed cost reductions in our U.S. operations and in various foreign subsidiaries. During fiscal years 2015, 2014 and 2013, we 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 of EEI* and its U.S. subsidiaries decreased by a combined 6% and 16% during fiscal years 2015 and 2014, respectively, while the number of full time employees in foreign operations declined 13% and 8% during fiscal years 2015 and 2014, 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.

Conversion of Operating Software

In November 2013, management decided to abandon the Company's previous operating and financial software system and migrate to new system software. The Company acquired and developed new software during fiscal year 2014, and began utilizing the new software effective August 1, 2014 for its U.S. operations. The Company continued to utilize the previous software system through July 31, 2014, at which time the previous system was abandoned and completely amortized. Total software amortization expense decreased to $0.1 million during fiscal year 2015 from $2.6 million for the prior year.

Brazilian Operations

In recent months, our Brazilian operations have been adversely affected by an economic downturn and weakening of the Brazilian Real in relation to the U.S. dollar. Fiscal year 2015 net revenues from our Brazilian operations declined $4.8 million (40%) from the prior year. Reductions in direct and indirect operating expenses partially offset the reduction in revenues.

The total scope and duration of the downturn and the ultimate impact that it will have on our Brazilian operations is uncertain. EEI management is monitoring economic conditions and the business climate in Brazil, and is working closely with management in Brazil to develop a sound strategy to minimize adverse impacts on operations, including plans to further reduce operating costs while achieving improved operating efficiencies.

Sale of Subsidiary

In August 2010, EEI acquired a 60% ownership interest in a newly formed entity, ECSI, LLC ("ECSI"), a Lexington, Kentucky based engineering and environmental consulting services company. EEI paid $1.0 million for its ownership interest, and the noncontrolling interests contributed cash, other assets and liabilities for their 40% ownership interest. ECSI recorded $0.1 million of goodwill on the transaction date. ECSI's total assets were $1.1 million and $1.6 million at July 31, 2015 and 2014, respectively.

In October 2015, EEI sold its 60% interest in ECSI to ECSI's minority shareholders for $0.3 million. EEI recognized a loss on its investment in ECSI of approximately $0.4 million in administrative and indirect operating expenses during the fourth quarter of fiscal year 2015. The sale of ECSI is not expected to have a material impact on the Company's financial condition, results of operations or cash flows during reporting periods subsequent to July 31, 2015.

Liquidity and Capital Resources

Cash and cash equivalents increased $1.8 million during fiscal year 2015. Excluding the payment of $2.1 million of cash dividends, which were approved on a discretionary basis by the Company's Board of Directors, cash generated from operations exceeded cash required to fund investing and financing activities by $4.2 million during the year. Fiscal year 2015 expenditures for property, building and equipment and for net repayments of lines of credit declined $1.2 million and $4.1million from the prior year, respectively.

Unsecured lines of credit of $32.8 million and $34.4 million were available for working capital and letters of credit at July 31, 2015 and 2014, respectively. Total amounts used under lines of credit were $1.8 million and $3.5 million at July 31, 2015 and 2014, respectively. Contractual interest rates ranged from 2.50% to 15.60% at July 31, 2015. Our lenders have reaffirmed the lines of credit within the past twelve months.

During fiscal year 2014, the Company generated a net operating loss carryforward of $1.7 million for income tax purposes, which was fully utilized through reductions in federal income tax payments during fiscal year 2015.

We believe that cash flows from U.S. operations, available cash balances in our domestic subsidiaries and our available 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 operations and business expansion opportunities outside the U.S. Excess cash accumulated by any foreign subsidiary, beyond that necessary to fund operations

**References to "EEI" refer to Ecology and Environment, Inc. a New York Corporation. References to "the Company," "we," "us," "our," or similar terms, refer to EEI together with it's consolidated subsidiaries.*

or business expansion, may be repatriated to the U.S. at the discretion of the Board of Directors of the respective entities. We would be required to accrue and pay taxes on any amounts repatriated to the U.S. from foreign subsidiaries.

In recent months, our Brazilian subsidiary has been adversely affected by an economic downturn and weakening of the Brazilian Real in relation to the U.S. dollar. The total scope and duration of the downturn and the ultimate impact that it will have on our Brazilian operations are uncertain. In the event that our Brazilian subsidiary is unable to generate adequate cash flow to fund its operations, additional funding from EEI, other subsidiaries or lending institutions will be considered.

In December 2014, a South American subsidiary of Walsh Environmental Scientists & Engineers, LLC ("Walsh") declared total dividends to its shareholders of $2.0 million, of which $1.5 million was payable to Walsh. After local taxes, approximately $1.4 million of cash was repatriated to the U.S. and made available for the Company's U.S. operations during fiscal year 2015 as a result of this dividend.

Contract Receivables Concentration Risk

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

	Balance at July 31, 2015	
Region	Contract Receivables	Allowance for Doubtful Accounts and Contract Adjustments
United States, Canada and South America	$43,212,684	$ 626,210
Middle East and Africa	5,066,789	4,894,453
Asia	124,584	17,238
Totals	$48,404,057	$5,537,901

	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

Combined contract receivables related to projects in the Middle East, Africa and Asia represented 11% and 14% of total contract receivables at July 31, 2015 and 2014, respectively, while the combined allowance for doubtful accounts and contract adjustments related to these projects represented 89% and 74%, 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. During fiscal years 2014 and 2015, the Company significantly curtailed its operations and projects in these regions in order to focus on more profitable operations in the United States and South America.

During fiscal year 2015, we continued to experience difficulties with settlement and close-out of a specific project in the Middle East. As a result, management decided to increase the related allowance for contract adjustments by $1.2 million during fiscal year 2015, to $4.9 million as of July 31, 2015. The related receivable balance is 100% reserved as of July 31, 2015, and no additional reserves are expected to be recorded during future periods. We continue to maintain open dialogue with this client, and to seek assistance through all possible official channels, in order to ensure a favorable settlement of this contract receivable balance.

Results of Operations

Revenue, net

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

	Fiscal Year Ended July 31,		
	2015	2014	2013
Revenue by entity:			
EEI and its wholly owned subsidiaries (excluding Walsh)	$79,171,962	$ 69,446,427	$ 82,419,263
Walsh and EEI's majority-owned subsidiaries:			
Walsh and its majority-owned subsidiaries	31,490,613	33,168,180	28,263,579
Ecology & Environment do Brasil, Ltda ("E & E Brasil")	7,814,499	13,811,391	15,125,046
Gestion Ambiental Consultores S.A. ("GAC")	6,544,846	8,808,052	10,640,382
ECSI, LLC ("ECSI")	2,512,814	3,366,793	4,869,394
Total gross revenue	127,534,734	128,600,843	141,317,664
Net contract adjustments recorded as a reduction from revenue	(795,013)	(173,967)	(6,380,773)
Revenue, net per consolidated statements of operations	$126,739,721	$128,426,876	$134,936,891
Gross revenue less subcontract costs, by entity:			
EEI and its wholly owned subsidiaries (excluding Walsh)	$ 64,915,257	$ 59,627,259	$ 69,752,784
Walsh and EEI's majority-owned subsidiaries:			
Walsh and its majority-owned subsidiaries	23,828,369	25,900,485	22,117,316
E & E Brasil	7,157,284	12,014,002	12,527,325
GAC	5,849,187	6,958,103	7,327,335
ECSI	2,457,955	3,272,119	4,621,818
Total	$104,208,052	$107,771,968	$116,346,578

The overall decrease in consolidated revenue less subcontract costs for the fiscal year ended July 31, 2015, as compared with the prior fiscal year, resulted from the net impact of the following entity activity:

- Higher Parent Company and wholly-owned subsidiary revenue (excluding Walsh) resulted from higher Department of Defense and energy sector revenues in the U.S., which was partially offset by lower government and commercial sales volumes in the U.S.
- Lower Walsh revenue primarily resulted from a strategic decision to wind down existing asbestos remediation contracts and forego any new asbestos business, and from lower sales activity in energy and mining sectors in the U.S., which were partially offset by higher energy sector sales volume from operations in Peru.
- Lower E&E Brasil revenue was primarily due to lower sales volume in the energy transmission sector, as transmission projects completed during fiscal years 2015 and 2014 were not renewed or replaced. A weaker Brazilian economy and a weaker Real in relation to the U.S. dollar also contributed to the overall decrease in revenues.
- Lower GAC revenue was primarily due to lower mining sector revenues, as mining projects completed during fiscal years 2015 and 2014 were not renewed or replaced.
- Lower ECSI revenue primarily resulted from lower sales volume in the mining sector, as mining projects completed during the prior fiscal year were not renewed or replaced.

Contract Adjustments

Net contract adjustments recorded as a reduction of revenue include adjustments to 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. Contract adjustments related to projects in the United States, Canada and South America typically result from cost overruns from current or recently completed projects, or from recoveries of cost overruns recorded as contract adjustments in prior reporting periods. Contract adjustments related to projects in the Middle East, Africa and Asia typically result from difficulties encountered while attempting to settle claims and issues that may be several years old.

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

	Fiscal Year Ended July 31,		
Region	2015	2014	2013
United States, Canada and South America	$ 235,908	$ 309,651	$ (134,657)
Middle East and Africa	(1,013,683)	(483,618)	72,024
Asia	(17,238)	—	(6,318,140)
Totals	$ (795,013)	$ (173,967)	$(6,380,773)

Fiscal Year 2015 Activity

Net contract adjustments recorded for projects in the Middle East and Africa resulted from the following net activity:

- The Company has experienced ongoing difficulties with settlement and close-out of a specific project in the Middle East. As a result, management decided to increase the related allowance $1.2 million during fiscal year 2015, to $4.9 million or 100% of the related contract receivable balance as of July 31, 2015. Management continues to maintain open dialogue with this client, and to seek assistance through all possible official channels, in order to ensure a favorable settlement of this contract receivable balance.
- The Company also has experienced difficulties with settlement and close-out of various projects completed for a specific client in Africa. At July 31, 2014, the Company recorded total allowance for contract adjustments of $0.8 million, or 49% of total related contract receivables at that date. During fiscal year 2015, the Company received settlement for $0.3 million of contract receivables that were previously 100% reserved. In addition, during the fourth quarter of fiscal year 2015, the Company decided to write-off $0.5 million of contract receivables that were previously 100% reserved.

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.

Direct Operating Expenses

The cost of professional services and other direct operating expenses on the consolidated statements of operations represents labor and other direct costs of providing services to our clients under our project agreements. We refer to these expenses as "direct operating expenses." 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,		
	2015	2014	2013
EEI and its wholly owned subsidiaries (excluding Walsh)	$28,231,361	$26,407,023	$29,408,179
Walsh and EEI's majority-owned subsidiaries:			
Walsh and its majority-owned subsidiaries	10,263,323	10,222,527	7,356,082
E & E Brasil	4,036,558	6,502,761	6,273,405
GAC	3,819,930	5,133,125	5,258,000
ECSI	1,148,999	1,183,785	1,529,296
Total cost of professional services and other direct operating expenses	$47,500,171	$49,449,221	$49,824,962

Direct operating expenses decreased $1.9 million (4%) during fiscal year 2015, as compared with the prior year. Lower project-related sales volumes and related costs in EEI's Brazilian and Chilean operations were partially offset by higher project service levels and costs in EEI's domestic operations and in Walsh's Peruvian operations.

Indirect Operating Expenses

Administrative and indirect operating expenses and marketing and related costs on the consolidated statements of operations represent administrative and other operating costs not directly associated with the generation of revenue. We refer to these costs as "indirect operating expenses." Indirect operating expenses by business entity are summarized in the following table.

	Fiscal Year Ended July 31,		
	2015	2014	2013
EEI and its wholly owned subsidiaries (excluding Walsh)	$30,505,779	$32,907,360	$36,239,243
Walsh and EEI's majority-owned subsidiaries:			
Walsh and its majority-owned subsidiaries	9,596,864	12,690,944	12,707,123
E & E Brasil	3,645,257	4,946,171	5,480,397
GAC	1,294,151	1,376,842	1,161,575
ECSI	1,799,545	2,559,021	3,021,712
Total administrative and indirect operating expenses and marketing and related costs	$46,841,596	$54,480,338	$58,610,050

EEI and its direct and indirect subsidiaries may, at the discretion of their respective Board of Directors, award incentive compensation to Directors, senior management and other employees in the form of cash bonuses. Cash bonus expense may vary significantly from year to year depending on company financial performance. The Company recorded $2.8 million and $1.2 million of incentive compensation expense in indirect operating expenses during fiscal years 2015 and 2014, respectively, as a result of cash bonus awards.

In October 2015, EEI sold its 60% interest in ECSI to ECSI's minority shareholders for $0.3 million. EEI recognized a loss on its investment in ECSI of approximately $0.4 million in administrative and indirect operating expenses during the fourth quarter of fiscal year 2015. Also during fiscal year 2015, management completed an assessment of goodwill recorded on the acquisition date, and recorded $0.1 million of goodwill impairment loss in administrative and indirect operating expenses.

Excluding higher expenses associated with cash bonuses and the sale of ECSI noted above, indirect operating expenses decreased $9.7 million (18%) during fiscal year 2015. During fiscal year 2015, management continued its critical review of direct and indirect staffing levels and key administrative processes at EEI and all of its significant domestic and foreign subsidiaries, resulting in improved operating efficiency and cost reductions. The Company also realized a full year benefit of efficiencies and cost reductions initiated in prior fiscal years.

Depreciation and Amortization

Depreciation and amortization expense decreased $2.7 million (65%) during fiscal year 2015, primarily due to lower amortization of the Company's principal operating software. The Company acquired and developed new operating system software during fiscal year 2014, and began utilizing the new software effective August 1, 2014 for its U.S. operations. 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 $0.1 million and $2.6 million for fiscal years 2015 and 2014, respectively.

Income Taxes

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

	Fiscal Year Ended July 31,		
	2015	2014	2013
Income tax provision (benefit) from:			
Domestic operations	$ 2,118,074	$ (802,558)	$ (782,672)
Foreign operations	1,650,347	1,145,621	1,036,906
Income tax provision, as reported on the consolidated statements of operations	$ 3,768,421	$ 343,063	$ 254,234

Higher taxable income from U.S. operations, which increased to income of $3.5 million for fiscal year 2015 from a loss of $4.3 million for the prior year, was the primary driver of the increase in the income tax provision for the current year. Higher foreign sourced taxable income and higher book to tax differences from U.S. and foreign sources also contributed to the overall increase in tax provision for fiscal year 2015.

Recent Accounting Pronouncements

Accounting Pronouncements Adopted During the Fiscal Year Ended July 31, 2015

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.

Accounting Pronouncements Not Yet Adopted as of July 31, 2015

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 was to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within the annual reporting period. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date ("ASU 2015-14"). The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. The Company intends to adopt the provisions of ASU 2014-09 effective August 1, 2018.

ASU 2014-09 requires retrospective application by either restating each prior period presented in the financial statements, or 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 its impact or selected a transition method.

In August 2014, FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40) ("ASU 2014-15"). ASU 2014-15 requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). ASU 2014-15 provides guidance for management's evaluation, including guidance regarding when substantial doubt about an entity's ability to continue as a going concern exists, and when such doubt may be alleviated by management's plans that are intended to mitigate those relevant conditions or events. ASU 2014-15 also provides guidance regarding appropriate financial statement disclosures regarding conditions or events that raised substantial doubt about the entity's ability to continue as a going concern, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, and management's plans that are intended to mitigate those conditions or events. The provisions of ASU 2014-15 are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company intends to adopt ASU 2014-15 effective August 1, 2016. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In January 2015, FASB issued ASU No. 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20) ("ASU 2015-01"). ASU 2015-01 eliminates the concept of extraordinary items from U.S. generally accepted accounting principles. While reporting entities will no longer be required to assess whether an underlying event or transaction is extraordinary, presentation and disclosure guidance for items that are unusual in nature or occur infrequently are retained, and are expanded to include items that are both unusual in nature and infrequently occurring. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company adopted the provisions of ASU 2015-01 effective August 1, 2015. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

Critical Accounting Policies

The preceding discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The significant accounting policies used in the preparation of our consolidated financial statements are more fully described in the consolidated financial statements beginning on page 19 of this Annual Report.

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

Substantially all of the Company's revenue is derived from environmental consulting work, which is principally derived from the sale of labor hours. 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. 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.

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

	Twelve Months Ended July 31,		
	2015	2014	2013
Time and materials	$ 61,444,412	$ 69,136,988	$ 64,522,639
Fixed price	54,912,492	50,077,507	58,244,072
Cost-plus	10,382,817	9,212,381	12,170,180
Total revenue	$126,739,721	$128,426,876	$134,936,891

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 cost at completion for 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 2009. 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 our 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.

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 were less than $0.1 million at July 31, 2015 and 2014.

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, 2015 and 2014, 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 $0.6 million and $0.4 million at July 31, 2015 and 2014, 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, 2015, 2014 and 2013, 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 had outstanding letters of credit to support operations of $1.1 million and $1.9 million drawn under our lines of credit at July 31, 2015 and 2014, respectively. Other than these letters of credit, we did not have any off-balance sheet arrangements as of July 31, 2015 or 2014.

Principal Market for the Company'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. Quarterly 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, 2015	High	Low
First Quarter (commencing August 1, 2014 - October 31, 2014)	$10.72	$9.42
Second Quarter (commencing November 1, 2014 - January 31, 2015)	11.34	8.35
Third Quarter (commencing February 1, 2015 - April 30, 2015)	10.79	8.28
Fourth Quarter (commencing May 1, 2015 - July 31, 2015)	11.40	8.66

Fiscal Year Ended July 31, 2014	High	Low
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
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

As of September 30, 2015, 2,981,768 shares of the Company's Class A Common Stock were outstanding and there were 309 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, 2015, 1,304,911 shares of the Company's Class B Common Stock were outstanding and there were 56 holders of record of the Class B Common Stock.

Including the fiscal year ended July 31, 2015, the Company has declared semi-annual dividends for 29 consecutive years. The Company declared dividends totaling $0.48 per common share during the fiscal years ended July 31, 2015, 2014 and 2013.

Photo by: Linda Schmidt, Bids and Proposals Data Manager, Buffalo, 17 Years with E & E

Annual Report on Form 10-K

The information included within this Annual Report, including the audited financial statements that follow, is for the general information of the Company's shareholders. It is not intended to be used in connection with any sale or purchase of securities. Additional information regarding the Company's financial position and results of operations may be obtained from the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on October 29, 2015.

The Company's Securities and Exchange Commission filings may be obtained without charge by accessing the Investor Relations section of the Company's website at http://ene.com/investor-relations, at http://www.sec.gov or by sending a written request to:

Mr. H. John Mye, Chief Financial Officer
Ecology and Environment, Inc.
368 Pleasant View Drive
Lancaster, NY 14086-1397

Audited Financial Statements

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, 2015 and 2014, 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, 2015. 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 the 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, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended July 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania

October 29, 2015

Consolidated Balance Sheets

	Balance at July 31,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	$ 8,703,347	$ 6,889,243
Investment securities available for sale	1,433,732	1,407,277
Contract receivables, net of allowance for doubtful accounts and contract adjustments of $5,537,901 and $6,126,854, respectively	42,866,156	44,431,305
Deferred income taxes	3,878,401	4,534,437
Income tax receivable	297,246	1,107,983
Other current assets	1,330,996	1,422,561
Total current assets	58,509,878	59,792,806
Property, buildings and equipment, net of accumulated depreciation of $23,438,269 and $28,615,915, respectively	7,113,694	7,941,455
Deferred income taxes	933,890	1,865,798
Other assets	1,931,875	2,108,263
Total assets	$ 68,489,337	$ 71,708,322

	2015	2014
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 10,409,656	$ 9,874,649
Line of credit	672,272	1,572,466
Accrued payroll costs	8,687,643	7,650,077
Current portion of long-term debt and capital lease obligations	551,148	420,737
Billings in excess of revenue	2,618,453	5,003,413
Other accrued liabilities	3,931,284	4,235,262
Total current liabilities	26,870,456	28,756,604
Income taxes payable	107,035	107,035
Deferred income taxes	631,889	631,083
Long-term debt and capital lease obligations	395,098	421,769
Commitments and contingencies (Note 19)	—	—
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; 3,023,206 and 2,685,151 shares issued)	30,232	26,851
Class B common stock, par value $.01 per share; (10,000,000 shares authorized; 1,370,519 and 1,708,574 shares issued)	13,706	17,087
Capital in excess of par value	16,575,286	17,124,339
Retained earnings	23,246,483	21,916,575
Accumulated other comprehensive loss	(1,726,339)	(182,735)
Treasury stock, at cost (Class A common: 42,245 and 40,553 shares; Class B common: 64,801 shares)	(1,223,899)	(1,223,899)
Total Ecology and Environment, Inc., shareholders' equity	36,915,469	37,678,218
Noncontrolling interests	3,569,390	4,113,613
Total shareholders' equity	40,484,859	41,791,831
Total liabilities and shareholders' equity	$ 68,489,337	$ 71,708,322

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

Consolidated Statements of Operations

	Fiscal Year Ended July 31,		
	2015	2014	2013
Revenue, net	$126,739,721	$128,426,876	$134,936,891
Cost of professional services and other direct operating expenses	47,500,171	49,449,221	49,824,962
Subcontract costs	23,326,682	20,828,875	24,971,086
Administrative and indirect operating expenses	35,408,924	41,464,204	44,563,873
Marketing and related costs	11,432,672	13,016,134	14,046,177
Depreciation and amortization	1,467,270	4,175,801	2,428,844
Income (loss) from operations	7,604,002	(507,359)	(898,051)
Interest income	84,970	154,441	244,191
Interest expense	(115,885)	(150,315)	(303,403)
Other income (expense)	75,626	67,587	(40,127)
Gain on sale of assets and investment securities	186,089	13,045	80,415
Net foreign exchange gain (loss)	133,703	(24,789)	(50,839)
Income (loss) before income tax provision	7,968,505	(447,390)	(967,814)
Income tax provision	3,768,421	343,063	254,234
Net income (loss)	$ 4,200,084	$ (790,453)	$ (1,222,048)
Net income attributable to the noncontrolling interest	(804,441)	(592,203)	(908,386)
Net income (loss) attributable to Ecology and Environment, Inc.	$ 3,395,643	$ (1,382,656)	$ (2,130,434)
Net income (loss) per common share: basic and diluted	$0.79	$ (0.32)	$ (0.50)
Weighted average common shares outstanding: diluted	$ 4,287,775	$ 4,283,984	$ 4,261,623

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

Photo by: Doug Heatwole, Vice President, Pensacola Office, 31 Years with E & E

Consolidated Statements of Comprehensive Income (Loss)

	Fiscal Year Ended July 31,		
	2015	2014	2013
Net income (loss) including noncontrolling interests	$ 4,200,084	$ (790,453)	$ (1,222,048)
Foreign currency translation adjustments	(2,151,970)	(298,200)	(883,865)
Unrealized investment (losses) gains, net	(4,036)	1,412	(28,675)
Comprehensive income (loss)	2,044,078	(1,087,241)	(2,134,588)
Comprehensive income (loss) attributable to noncontrolling interests	(192,039)	(457,916)	(792,215)
Comprehensive income (loss) attributable to Ecology and Environment, Inc.	$ 1,852,039	$ (1,545,157)	$ (2,926,803)

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

Photo by: Gina Edwards, Technical Editor, Tallahassee Office, 31 Years with E & E

Consolidated Statements of Cash Flows

	Fiscal Year Ended July 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income (loss)	$ 4,200,084	$ (790,453)	$ (1,222,048)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Impairment of long-lived assets	—	—	846,000
Impairment of goodwill	103,547	—	—
Impairment of investment in ECSI	355,000	—	—
Depreciation and amortization	1,467,270	4,175,801	2,428,844
Deferred income tax provision (benefit)	1,154,118	(817,896)	203,165
Share based compensation expense	59,189	353,295	507,796
Tax impact of share-based compensation	(91,849)	(31,695)	(74,429)
Gain on sale of assets and investment securities	(186,089)	(13,045)	(80,415)
Net provision for (recovery of) contract adjustments and doubtful accounts	(413,071)	173,967	6,319,650
Net bad debt (recovery) expense	(326,420)	90,087	(287,426)
Decrease (increase) in:			
- contract receivables	(934,618)	1,855,027	7,228,782
- other current assets	(439,775)	192,013	(97,563)
- income tax receivable	270,360	3,247,277	(1,832,096)
- other non-current assets	47,725	29,656	6,951
(Decrease) increase in:			
- accounts payable	1,052,195	23,739	(628,189)
- accrued payroll costs	1,805,254	630,156	(172,087)
- income taxes payable	132,236	(41,155)	(69,230)
- billings in excess of revenue	(1,908,679)	(1,419,481)	(1,430,143)
- other accrued liabilities	201,838	445,505	295,562
Net cash provided by operating activities	6,548,315	8,102,798	11,943,124
Cash flows from investing activities:			
Acquisition of noncontrolling interest of subsidiaries	(50,000)	(689,361)	(595,556)
Purchase of property, building, and equipment	(734,710)	(1,964,663)	(1,845,241)
Proceeds from sale of property, building, and equipment	254,785	—	—
Proceeds from sale of investments	—	—	1,554,425
(Purchase) sale of investment securities	(33,181)	52,675	(1,671,284)
Net cash used in investing activities	(563,106)	(2,601,349)	(2,557,656)
Cash flows from financing activities:			
Dividends paid	(2,066,142)	(2,053,506)	(2,037,323)
Proceeds from debt and capital lease obligations	384,397	544,027	255,487
Repayment of debt and capital lease obligations	(753,525)	(710,009)	(853,127)
Net repayments under of lines of credit	(869,655)	(4,956,225)	(5,782,992)
Distributions to noncontrolling interests	(536,731)	(664,703)	(1,532,912)
Purchase of treasury stock	—	(173,278)	—
Net cash used in financing activities	(3,841,656)	(8,013,694)	(9,950,867)
Effect of exchange rate changes on cash and cash equivalents	(329,449)	(43,172)	(457,711)
Net increase (decrease) in cash and cash equivalents	1,814,104	(2,555,417)	(1,023,110)
Cash and cash equivalents at beginning of period	6,889,243	9,444,660	10,467,770
Cash and cash equivalents at end of period	$ 8,703,347	$ 6,889,243	$ 9,444,660
Supplemental disclosure of cash flow information:			
Cash paid (received) during the period for:			
- Interest	$ 109,587	$ 145,880	$ 301,154
- Income Taxes	1,541,755	(2,303,231)	1,596,760
Supplemental disclosure of non-cash items:			
Dividends declared and not paid	1,032,665	1,033,071	1,018,783
Acquistion of noncontrolling interest of subsidiaries (loans and stock)	233,220	1,072,944	212,401
Change in accounts payable due to equipment purchases	—	—	670,678
Proceeds from capital lease obligations	322,231	42,707	256,288

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, 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 declared ($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
Net Income		—	—	—	3,395,643	—	—	—	804,441
Foreign currency translation adjustment		—	—	—	—	(1,539,568)	—	—	(612,402)
Cash dividends declared ($0.48 per share)		—	—	—	(2,065,735)	—	—	—	—
Unrealized investment loss, net		—	—	—	—	(4,036)	—	—	—
Conversion of Class B to Class A common stock	A B	338,055 (338,055)	3,381 (3,381)		—	—	—	—	—
Share-based compensation expense		—	—	59,189	—	—	—	—	—
Tax impact of share based compensation		—	—	(91,849)	—	—	—	—	—
Tax impact of noncontrolling interests		—	—	(428,299)	—	—	—	—	—
Distributions to noncontrolling interests		—	—	—	—	—	—	—	(536,731)
Purchase of additional noncontrolling interests		—	—	(88,094)	—	—	—	—	(199,531)
Stock award plan forfeitures		—	—		—	—	1,692	—	—
Balance at July 31, 2015	A B	3,023,206 1,370,519	$30,232 $13,706	$16,575,286	$23,246,483	$(1,726,339)	107,046	$(1,223,899)	$3,569,390

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 18 wholly owned and majority owned operating subsidiaries in 11 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 thousands of 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 ("U.S. GAAP"). 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.

2. Recent Accounting Pronouncements

Accounting Pronouncements Adopted During the Fiscal Year Ended July 31, 2015

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.

Accounting Pronouncements Not Yet Adopted as of July 31, 2015

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 was to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within the annual reporting period. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date ("ASU 2015-14"). The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. The Company intends to adopt the provisions of ASU 2014-09 effective August 1, 2018.

ASU 2014-09 requires retrospective application by either restating each prior period presented in the financial statements or 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 its impact or selected a transition method.

In August 2014, FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40) ("ASU 2014-15"). ASU 2014-15 requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). ASU 2014-15 provides guidance for management's evaluation, including guidance regarding when substantial doubt about an entity's ability to continue as a going concern exists and when such doubt may be alleviated by management's plans that are intended to mitigate those relevant conditions or events. ASU 2014-15 also provides guidance regarding appropriate financial statement disclosures regarding conditions or events that raised substantial doubt about the entity's ability to continue as a going concern, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, and management's plans that are intended to mitigate those conditions or events. The provisions of ASU 2014-15 are effective for the annual period ending after December 15, 2016 and for annual periods and interim periods thereafter. Early application is permitted. The Company intends to adopt ASU 2014-15 effective August 1, 2016. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In January 2015, FASB issued ASU No. 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20) ("ASU 2015-01"). ASU 2015-01 eliminates the concept of extraordinary items from U.S. generally accepted accounting principles. While reporting entities will no longer be required to assess whether

an underlying event or transaction is extraordinary, presentation and disclosure guidance for items that are unusual in nature or occur infrequently are retained and are expanded to include items that are both unusual in nature and infrequently occurring. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company adopted the provisions of ASU 2015-01 effective August 1, 2015. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

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 U.S. GAAP 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, which 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, predominant 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 2009. The Company records an allowance for project disallowances in other accrued liabilities for potential disallowances resulting from government audits (refer to Note 12 of these consolidated financial statements). Allowances for project disallowances are recorded when the amounts are estimable. Resolution of these amounts is dependent upon the results of government audits and other formal contract close-out procedures.

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 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.

The Company also 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.

Refer to Note 6 of these consolidated financial statements for additional disclosures regarding the Company's contract receivables, net.

Investment Securities Available for Sale

Investment securities classified as available for sale are stated at fair value. The cost basis of securities sold is based on the specific identification method.

Unrealized gains or losses related to investment securities available for sale are recorded in accumulated other comprehensive loss, net of applicable income taxes, in the accompanying consolidated balance sheets and consolidated statements of changes in shareholders' equity. Reclassification adjustments out of accumulated other comprehensive loss 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.

Investment securities available for sale includes mutual funds 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.

Refer to Note 5 of these consolidated financial statements for additional disclosures regarding the Company's investment securities available for sale.

Property, Buildings and Equipment, Depreciation, and Amortization

Property, buildings, 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 has 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 following software-related costs are 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, buildings, and equipment.

Goodwill

Goodwill 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 to the recorded book value of the respective reporting units. The estimated fair value of reporting units is calculated using a discounted cash flow method. 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.

Refer to Note 8 of these consolidated financial statements for additional disclosures regarding the Company's recorded 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.

Income Taxes

The Company follows the asset and liability approach to account for income taxes. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis 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.

As of July 31, 2015, no provision has been recorded 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. Excess cash accumulated by any foreign subsidiary, beyond that necessary to fund operations or business expansion, may be repatriated to the U.S. at the discretion of the Board of Directors of the respective entities. The Company would be required to accrue and pay taxes on any amounts repatriated to the U.S. from foreign subsidiaries.

Income tax expense includes U.S. and international income taxes, determined using the applicable statutory rates. A deferred tax asset is recognized for all deductible temporary differences and net operating loss carryforwards, and a deferred tax liability is recognized for all taxable temporary differences.

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, U.S. GAAP 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 11 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 "EEI Defined Contribution Plan"). The annual expense of the EEI Defined Contribution Plan is based on a percentage of eligible wages as authorized by EEI's Board of Directors.

EEI also has a supplemental retirement plan that provides post-retirement health care coverage for EEI's four founders and their spouses (the "EEI Supplemental Retirement Plan"). The annual expense of the plan is determined based on discounted annual cost estimates over the estimated life expectancy of the founders and their spouses.

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 and the employees of two of its majority-owned subsidiaries (the "Walsh Defined Contribution Plan"). The respective entities contribute a percentage of eligible wages up to a maximum of 4%.

Refer to Note 16 of these consolidated financial statements for additional disclosures regarding the Company's defined contribution plans.

Stock-Based Compensation

The Company expenses the value of 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 13 of these consolidated financial statements for additional disclosures regarding the Company's stock award plan.

Earnings per Share

Basic and diluted earnings per share ("EPS") is computed by dividing the net income (loss) 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 (refer to Note 14 of these consolidated financial statements), 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 computation of earnings per share pursuant to the two-class method. As a result, unvested restricted shares are included in the weighted average shares outstanding calculation.

Refer to Note 17 of these consolidated financial statements for additional disclosures regarding the Company's earnings per share.

Comprehensive Income (Loss)

Comprehensive income or loss represents the change in shareholders' equity during a period, excluding changes arising from transactions with shareholders. Comprehensive income or loss includes net income (loss) from the consolidated statements of operations, plus (less) other comprehensive income (loss) during a reporting period.

Other comprehensive income (loss) represents the net effect of accounting transactions that are recognized directly in shareholders' equity, such as the net impact of currency translation adjustments from foreign operations and unrealized gains (losses) on available-for-sale securities.

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 gains (losses) of $0.1 million, less than $(0.1) million, and $(0.1) million for the fiscal years ended July 31, 2015, 2014, and 2013, 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, 2015, 2014, or 2013.

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 less than $0.1 million and $0.3 million were included in cash and cash equivalents in the accompanying consolidated balance sheets and consolidated statements of cash flows at July 31, 2015 and 2014, respectively.

5. 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.

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. There were no transfers in or out of levels 1, 2, or 3 during fiscal years 2015, 2014 or 2013.

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, 2015:				
Investment securities available for sale	$1,433,732	$ —	$ —	$1,433,732
Balance at July 31, 2014:				
Investment securities available for sale	$1,407,277	$ —	$ —	$1,407,277

The Company recorded gross unrealized gains of less than $0.1 million related to these funds in accumulated other comprehensive income (loss) at July 31, 2015 and 2014 and 2013.

The carrying amount of cash and cash equivalents approximated fair value at July 31, 2015 and 2014. 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, 2015 and 2014. These liabilities were classified as level 2 instruments at both dates.

6. Contract Receivables, net

Contract receivables, net are summarized in the following table.

	Balance at July 31,	
	2015	2014
Contract Receivables:		
Billed	$22,915,726	$26,863,708
Unbilled	25,488,331	23,694,451
	48,404,057	50,558,159
Allowance for doubtful accounts and contract adjustments	(5,537,901)	(6,126,854)
Contract receivables, net	$42,866,156	$44,431,305

Billed contract receivables included contractual retainage balances of $0.5 million and $0.3 million at July 31, 2015 and 2014, respectively. Management anticipates that unbilled contract receivables at July 31, 2015 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, 2015	
Region	Contract Receivables	Allowance for Doubtful Accounts and Contract Adjustments
United States, Canada, and South America	$43,212,684	$ 626,210
Middle East and Africa	5,066,789	4,894,453
Asia	124,584	17,238
Totals	$48,404,057	$5,537,901

	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

Combined contract receivables related to projects in the Middle East, Africa, and Asia represented 11% and 14% of total contract receivables at July 31, 2015 and 2014, respectively, while the combined allowance for doubtful accounts and contract adjustments related to these projects represented 89% and 74%, respectively, of the total allowance for doubtful accounts and contract adjustments at those same period end dates. These allowance percentages highlight the Company's 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.

Contract adjustments related to projects in the United States, Canada, and South America typically result from cost overruns related to current or recently completed projects or from recoveries of cost overruns recorded as contract adjustments in prior reporting periods. Contract adjustments related to projects in the Middle East, Africa, and Asia typically result from difficulties encountered while attempting to settle and closeout claims that may be several years old.

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,		
	2015	2014	2013
Balance at beginning of period	$6,126,854	$5,592,800	$10,238,391
Net increase (decrease) due to adjustments in the allowance for:			
Contract adjustments [1]	(262,533)	473,967	6,319,650
Doubtful accounts [2]	(326,420)	90,087	(287,426)
Transfer of reserves (to) from allowance for project disallowances [3]	—	(30,000)	61,123
Specific write-off of contract receivables and reserves during the period [4]	—	—	(10,738,938)
Balance at end of period	$5,537,901	$6,126,854	$ 5,592,800

[1] Increases (decreases) to the allowance for contract adjustments on the consolidated balance sheets are 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 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 12 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 fiscal year 2013, resulting in corresponding decreases in contract receivables and the allowance for contract adjustments during fiscal year 2013.

7. Property, Buildings, and Equipment, net

Property, buildings, and equipment are summarized in the following table.

	Balance at July 31, 2015	Balance at July 31, 2014
Land and land improvements	$ 393,051	$ 393,051
Buildings and building improvements	10,368,394	12,231,788
Field equipment	2,785,749	3,273,725
Computer equipment	4,685,106	9,128,027
Computer software	6,112,262	5,030,472
Office furniture and equipment	4,076,347	4,095,659
Vehicles	1,438,755	1,658,273
Other	692,299	746,375
	30,551,963	36,557,370
Accumulated depreciation and amortization.	(23,438,269)	(28,615,915)
Property, building, and equipment, net	$ 7,113,694	$ 7,941,455

In November 2013, management decided to abandon the Company's existing operating and financial software system and migrate to new system software. The Company acquired and developed new software during fiscal year 2014 and began utilizing the new software effective August 1, 2014 for its U.S. operations. Although the core software modules were operating effectively as of August 1, 2014, certain operational and reporting capabilities of the new system continued to be developed during fiscal year 2015. The process to develop new operating and financial software systems for the Company's significant foreign subsidiaries was completed during the third quarter of fiscal year 2015. The Company recorded software development costs of $0.2 million and $1.5 million in property, plant, and equipment during fiscal years 2015 and 2014, respectively.

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 $0.1 million, $2.6 million, and $0.4 million for fiscal years 2015, 2014 and 2013, respectively.

8. Goodwill

Goodwill of $1.1 and $1.2 million is included in other assets on the accompanying consolidated balance sheets at July 31, 2015 and 2014, respectively. The Company's most recent annual impairment assessment for goodwill was completed during the fourth quarter of fiscal year 2015. The results of this assessment showed that the fair values of the reporting units to which goodwill is assigned were in excess of the book values of the respective reporting units at year-end, resulting in the identification of no additional goodwill impairment.

However, during the fiscal year ended July 31, 2015, the Company recorded a $0.1 million impairment loss in administrative and indirect operating expenses related to a reporting unit that experienced recurring operating losses over the course of several recent reporting quarters and for which projections completed by management indicated that operating losses were expected to continue into the foreseeable future.

9. Lines of Credit

Unsecured lines of credit are summarized in the following table.

	Balance at July 31, 2015	Balance at July 31, 2014
Outstanding cash draws, recorded as lines of credit on the accompanying consolidated balance sheets	$ 672,272	$ 1,572,466
Outstanding letters of credit to support operations	1,144,031	1,944,994
Total amounts used under lines of credit	1,816,303	3,517,460
Remaining amounts available under lines of credit	30,992,697	30,851,540
Total approved unsecured lines of credit	$32,809,000	$34,369,000

Contractual interest rates ranged from 2.50% to 15.60% at July 31, 2015. The Company's lenders have reaffirmed the lines of credit within the past twelve months.

10. Debt and Capital Lease Obligations

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

	Balance at July 31, 2015	Balance at July 31, 2014
Various loans and advances (interest rates ranging from 3.25% to 12%)	$ 635,598	$ 676,874
Capital lease obligations (interest rates ranging from 7.36% to 14%)	310,648	165,632
	946,246	842,506
Current portion of long-term debt and capital lease obligations	(551,148)	(420,737)
Long-term debt and capital lease obligations	$ 395,098	$ 421,769

The aggregate maturities of long-term debt and capital lease obligations as of July 31, 2015 are summarized in the following table.

August 2015 – July 2016	$551,148
August 2016 – July 2017	215,519
August 2017 – July 2018	148,166
August 2018 – July 2019	12,161
Thereafter	19,252
Total	$946,246

11. Income Taxes

Income (loss) before income tax provision is summarized in the following table.

	Fiscal Year Ended July 31, 2015	2014	2013
Domestic	$3,499,841	$(4,305,768)	$(3,055,338)
Foreign	4,468,664	3,858,378	2,087,524
	$7,968,505	$ (447,390)	$ (967,814)

The income tax provision is summarized in the following table.

	Fiscal Year Ended July 31,		
	2015	2014	2013
Current:			
Federal	$ 486,669	$ 86,062	$(985,865)
State	80,594	62,761	181,434
Foreign	2,047,040	1,012,136	855,500
Total current	2,614,303	1,160,959	51,069
Deferred:			
Federal	1,378,509	(975,519)	200,197
State	172,302	24,138	(178,438)
Foreign	(396,693)	133,485	181,406
Total deferred	1,154,118	(817,896)	203,165
Total income tax provsion	$ 3,768,421	$ 343,063	$ 254,234

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,		
	2015	2014	2013
Income tax (benefit) provision at the U.S. federal statutory income tax rate	$ 2,709,334	$(152,113)	$ (329,057)
Income from "pass-through" entities taxable to noncontrolling partners	30,604	35,309	(102,933)
International rate differences	(338,221)	(143,493)	(197,217)
Other foreign taxes, net of federal benefit	160,963	(34,419)	94,528
Foreign dividend income	508,572	596,631	481,287
State taxes, net of federal benefit	166,168	27,739	3,871
Re-evaluation and settlements of tax contingencies	—	(19,533)	(58,105)
Peru non-deductible expenses	166,769	44,077	173,707
Canada valuation allowance	156,492	(83,257)	130,950
Other permanent differences	207,740	72,122	57,203
Income tax provision, as reported on the consolidated statements of operations	$ 3,768,421	$ 343,063	$ 254,234

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

	Balance at July 31, 2015	
	Current	Noncurrent
Deferred tax assets:		
Contract and other reserves	$ 3,257,103	$ —
Fixed assets and intangibles	—	—
Valuation allowance	(371,270)	(189,053)
Accrued compensation and expenses	776,337	59,955
Net operating loss carryforwards	—	737,146
Foreign and state income taxes	—	56,581
Foreign tax credit	—	296,326
Federal benefit from foreign tax audits	212,407	—
Other	192,960	$ 260,586
Net deferred tax assets	$ 4,067,537	$1,221,541
Deferred tax liabilities:		
Federal expense on state deferred taxes	$ (189,136)	$ (36,055)
Fixed assets and intangibles	—	(341,065)
Federal expense from foreign accounting differences	—	(542,420)
Net deferred tax liabilities	$ (189,136)	$ (919,540)

	Balance at July 31, 2014	
	Current	Noncurrent
Deferred tax assets:		
Contract and other reserves	$ 3,409,209	$ —
Fixed assets and intangibles	—	58,934
Valuation allowance	(192,213)	(206,070)
Accrued compensation and expenses	1,250,286	378,657
Net operating loss carryforwards	—	1,213,010
Foreign and state income taxes	—	54,398
Foreign tax credit	—	296,326
Federal benefit from foreign tax audits	—	—
Other	251,678	74,370
Net deferred tax assets	$ 4,718,960	$ 1,869,625
Deferred tax liabilities:		
Federal expense on state deferred taxes	$ (184,523)	$ (103,098)
Fixed assets and intangibles	—	—
Federal expense from foreign accounting differences	—	(531,812)
Net deferred tax liabilities	$ (184,523)	$ (634,910)

During the fiscal year ended July 31, 2014, the Company generated a net operating loss in the U.S. of $1.7 million, which was carried forward and fully utilized in fiscal year 2015. As of July 31, 2015, net operating losses attributable to operations in Brazil, Canada, and China and net operating losses for state income tax purposes still existed.

The Company recorded a valuation allowance of $0.6 million and $0.4 million at July 31, 2015 and 2014, 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, 2015, the Company's operations in Chile, Peru, and Ecuador had $6.2 million of combined 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 through 2015 remain subject to examination by the IRS. 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.

At July 31, 2015, 2014, and 2013, the Company had $0.1 million of uncertain tax positions ("UTPs") resulting from gross unrecognized tax benefits 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 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 $0.1 million related to liabilities for UTPs during fiscal years 2015, 2014, and 2013. The Company had approximately $0.1 million of accrued interest and penalties at July 31, 2015 and 2014.

12. Other Accrued Liabilities

Other accrued liabilities are summarized in the following table.

	Balance at July 31,	
	2015	2014
Allowance for project disallowances	$ 2,242,813	$ 2,393,351
Other	1,688,471	1,841,911
Total other accrued liabilities	$ 3,931,284	$ 4,235,262

Activity within the allowance for project disallowances is summarized in the following table.

	Fiscal Year Ended July 31,		
	2015	2014	2013
Balance at beginning of period	$ 2,393,351	$ 2,663,351	$ 2,724,474
Reduction of reserves recorded in prior fiscal years	(150,538)	(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)
Balance at end of period	$ 2,242,813	$ 2,393,351	$ 2,663,351

The reduction in the allowance for project disallowances during fiscal years 2015 and 2014 resulted from settlement of an allowance recorded in prior fiscal years. This settlement resulted in payment of less than $0.1 million during fiscal year 2015 and adjustments of $0.1 million and $0.3 million recorded during fiscal years 2015 and 2014, respectively, as additions to revenue, net in the accompanying consolidated statements of operations.

13. Incentive Compensation

EEI and its direct and indirect subsidiaries may, at the discretion of their respective Board of Directors, award incentive compensation to Directors, senior management, and other employees based on the respective company's financial performance and the individual's job performance. Incentive compensation may be awarded as cash bonuses, Class A Common Stock issued under EEI's Stock Award Plan (defined below), or a combination of both cash and stock. The Company recorded $3.0 million, $1.4 million, and $1.4 million of incentive compensation expense during the fiscal years ended July 31, 2015, 2014 and 2013, respectively, as a result of cash bonus awards.

In October 2013, EEI awarded Class A Common Stock to employees under the Stock Award Plan, which was valued at $0.2 million. EEI did not award any Class A Common Stock to employees under its incentive compensation program during the fiscal years ended July 31, 2015 or 2013.

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 "Stock Award Plan". The Stock 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 Stock Award Plan is not a qualified plan Section 401(a) of the Internal Revenue Code. Total gross compensation expense related to stock awards is recognized over the vesting period of awards granted.

The Company awarded 62,099 Class A shares valued at $0.9 million in October 2011, which had a three-year vesting period and were fully vested in August 2014. The Company awarded 16,387 Class A shares valued at $0.2 million in October 2013, which have a three-year vesting period and will be fully vested in August 2016. The Company recorded non-cash compensation expense of less than $0.1 million, $0.4 million, and $0.5 million during the fiscal years ended July 31, 2015, 2014 and 2013, respectively, in connection with all outstanding stock compensation awards. Total unearned compensation costs related to outstanding stock awards were $0.1 million at July 31, 2015. The "pool" of excess tax benefits accumulated in Capital in Excess of Par Value was $0.1 million at July 31, 2015 and 2014.

In September 2015, the Company issued 4,533 Class A shares valued at less than $0.1 million to three directors as additional compensation for their roles as Chairman and members of the Company's Audit Committee. These stock awards vested immediately upon issuance, subject to certain restrictions regarding transfer of the shares that will expire no later than August 1, 2016.

14. 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, 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 $2.1 million during the fiscal years ended July 31, 2015, 2014 and 2013. The Company paid dividends of $1.0 million in August 2015 and 2014 that were declared and accrued in prior periods.

Stock Repurchase Program

In August 2010, the Company's Board of Directors approved a program for repurchase of 200,000 shares of Class A common stock (the "Stock Repurchase Program"). As of July 31, 2015, the Company repurchased 122,918 shares of Class A stock, and 77,082 shares had yet to be repurchased under the Stock Repurchase Program. The Company did not acquire any Class A shares under the Stock Repurchase Program during fiscal year 2015. The Company acquired 16,091 shares of Class A stock under the Stock Repurchase Program during fiscal year 2014 for a total acquisition cost of approximately $0.2 million.

Photo by: Brian Stoos, Environmental Specialist, Buffalo Office, 11 Years with E & E

Noncontrolling Interests

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

Transactions with noncontrolling shareholders for the fiscal years ended July 31, 2015, 2014 and 2013, which were recorded at amounts that approximated fair value, are summarized in the following table.

	Fiscal Year ended July 31,		
	2015	2014	2013
Purchases of noncontrolling interests:			
Purchase of 2,800 Gustavson common shares [1]	$ 199,531	$ —	$ —
Purchase of 344 Walsh common shares [2]	—	5,653	—
Purchase of 3,705 Walsh common shares [3]	—	1,120,749	—
Purchase of 100 Walsh common shares [4]	—	30,250	—
Purchase of 50 Walsh common shares	—	—	18,316
Purchase of 25 Lowman common shares	—	—	8,737
Purchase of 495 Walsh common shares	—	—	243,653
Purchase of 2,800 Gustavson common shares	—	—	293,102
Purchase of 370 Walsh common shares	—	—	182,125
Purchase of 75 Lowham common shares	—	—	30,002
Total purchases of noncontrolling interests [5]	$ 199,531	$1,156,652	$ 775,935

[1] In January 2015, Gustavson Associates, LLC ("Gustavson"), a majority owned indirect subsidiary of EEI, purchased an additional 7.2% of its outstanding common shares from noncontrolling shareholders for $0.3 million. The purchase price was paid as follows: (i) approximately $0.1 million of cash paid on the transaction date; and (ii) approximately $0.2 million payable in three annual installments plus interest accrued at 6% per annum. EEI's indirect ownership of Gustavson increased to 83.6% as a result of this transaction.

[2] In January 2014, EEI purchased an additional 0.9% of Walsh from noncontrolling shareholders for $0.1 million in cash. Walsh became a wholly-owned subsidiary of EEI as a result of these transactions.

[3] 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 payable in two annual installments plus interest accrued at 3.25% per annum.

[4] In October 2013, EEI purchased an additional 0.2% of Walsh for less than $0.1 million in cash.

[5] Purchases of noncontrolling interests are recorded as reductions of shareholders' equity on the consolidated statements of shareholders' equity.

15. Operating 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. 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 $3.5 million, $3.9 million, and $4.2 million for fiscal years 2015, 2014 and 2013, respectively.

Future minimum rental commitments under these leases as of July 31, 2015 are summarized in the following table.

Fiscal Year Ended July 31,	Amount
2016	$2,670,005
2017	2,156,948
2018	2,125,154
2019	1,725,524
2020	1,170,331
Thereafter	1,848,566

16. Defined Contribution Plans

Contributions to the EEI Defined Contribution Plan and EEI Supplemental Retirement Plan are discretionary and determined annually by its Board of Directors. The Walsh 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 $1.2 million, $1.7 million, and $2.2 million for fiscal years 2015, 2014 and 2013, respectively.

17. Earnings Per Share

The computation of basic and diluted EPS is included in the following table.

	Fiscal Year Ended July 31,		
	2015	2014	2013
Net (loss) income attributable to Ecology and Environment, Inc.	$ 3,395,643	$(1,382,656)	$(2,130,434)
Dividend declared	2,065,735	2,066,622	2,038,496
Undistributed earnings	$ 1,329,908	$(3,449,278)	$(4,168,930)
Weighted-average common shares outstanding (basic and diluted)	4,287,775	4,283,984	4,247,821
Distributed earnings per share	$ 0.48	$ 0.48	$ 0.48
Undistributed earnings per share	0.31	(0.80)	(0.98)
Total earnings per share	$ 0.79	$ (0.32)	$ (0.50)

18. 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,		
	2015	2014	2013
Revenue by geographic location:			
United States	$86,923,379	$82,370,480	$91,451,247
Foreign countries [1]	39,816,342	46,056,396	43,485,644

[1] Significant foreign revenues included revenues in Peru ($22.8 million, $19.5 million, and $11.5 million for fiscal years 2015, 2014, and 2013, respectively), Brazil ($7.8 million, $13.8 million, and $15.1 million for fiscal years 2015, 2014, and 2013, respectively) and Chile ($6.5 million, $8.8 million, and $10.6 million for fiscal years 2015, 2014, and 2013, respectively).

	Balance at July 31,		
	2015	2014	2013
Long-Lived assets by geographic location:			
United States	$25,294,053	$31,170,634	$29,508,055
Foreign countries	5,257,910	5,386,736	5,183,885

19. Commitments and Contingencies

Legal Proceedings

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

On February 4, 2011, the Chico Mendes Institute of Biodiversity Conservation of Brazil (the "Institute") issued a Notice of Infraction to ecology and environment do brasil Ltda ("E & E Brasil"), a majority-owned subsidiary of EEI. 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, 2015 and 2014. No claim has been made against EEI. 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) deny the jurisdiction of the Institute; (b) state that the Notice of Infraction is constitutionally vague; and (c) affirmatively state 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. To date, E & E Brasil has attended one meeting where depositions were taken; the claim of violations against one of the four employees was dismissed; two of the four employees have fines assessed against them, which are being appealed; and the remaining one employee and E & E Brasil are awaiting agency determinations. If fines are assessed against the remaining one employee and/or E & E Brasil, appeals will be filed. Management believes that these administrative proceedings will not have a material adverse impact on the operations of the Company.

Contract Termination Provisions

Certain contracts contain termination provisions under which the customer may, without penalty, terminate the contracts upon written notice to the Company. In the event of termination, the Company would be paid only termination costs in accordance with the particular contract. Generally, termination costs include unpaid costs incurred to date, earned fees, and any additional costs directly allocable to the termination. The Company did not experience early termination of any material contracts during fiscal years 2015 or 2014.

20. Sale of Subsidiary

In August 2010, EEI acquired a 60% ownership interest in a newly formed entity, ECSI, LLC ("ECSI"), a Lexington, Kentucky-based engineering and environmental consulting services company. EEI paid $1.0 million for its ownership interest, and the noncontrolling interests contributed cash, other assets and liabilities for their 40% ownership interest. ECSI recorded $0.1 million of goodwill on the transaction date. ECSI's total assets were $1.1 million and $1.6 million at July 31, 2015 and 2014, respectively.

EEI's share of net (loss) income reported by ECSI was $(0.3) million, $(0.3) million and less than $0.1 million for the fiscal years ended July 31, 2015, 2014, and 2013, respectively. Projections completed by management during the second quarter of fiscal year 2015 indicated that operating losses were expected to continue into the foreseeable future. As a result of management's assessment, EEI determined that $0.1 million of goodwill recorded as a result of the acquisition was impaired. During fiscal year 2015, the Company recorded a $0.1 million impairment loss in administrative and indirect operating expenses on the accompanying consolidated statements of operations.

In October 2015, EEI sold its 60% interest in ECSI to ECSI's minority shareholders for $0.3 million. EEI recognized a loss on valuation of its investment in ECSI of approximately $0.4 million in administrative and indirect operating expenses on the accompanying consolidated statements of operations during the fourth quarter of fiscal year 2015. The offsetting allowance for loss on valuation of investment in ECSI was recorded in other assets on the accompanying consolidated balance sheets at July 31, 2015.

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as of October 31, 2015

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Founder, Chairman of the Board

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Founder

Ronald L. Frank
Founder

Gerard A. Gallagher, Jr.
Retired Company Officer

Michael C. Gross
Insurance Broker and
NYS Tax Auditor

Michael R. Cellino, MD
Partner, Buffalo Medical Group

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

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Chief Operating Officer,
Senior Vice President

Frank B. Silvestro
Executive Vice President

Ronald L. Frank
Executive Vice President, Secretary

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Photo by: Mike Morgante, P.E., Civil Engineer, Buffalo Office, 21 years with E & E

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