

EACO CORP
Form 10-Q
July 15, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended May 31, 2011

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

**Commission File No. 000-14311
EACO CORPORATION**

(Exact name of registrant as specified in its charter)

Florida
(State of Incorporation)

59-2597349
(I.R.S. Employer
Identification No.)

**1500 NORTH LAKEVIEW AVENUE
ANAHEIM, CALIFORNIA 92807**

(Address of Principal Executive Offices)

(714) 876-2490

(Registrant's Telephone No.)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller
reporting company)

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

As of July 15, 2011, 4,861,590 shares of the registrant's common stock were outstanding.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

EACO Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(in thousands, except for share and per share information)*
(Unaudited)

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
	2011	2010(1)	2011	2010(1)
Distribution sales	\$ 26,475	\$ 24,354	\$ 76,513	\$ 65,788
Cost of goods sold	19,273	17,750	55,850	47,854
Gross profit from distribution operations	7,202	6,604	20,663	17,934
Rental revenue	310	291	933	778
Cost of rental operations	101	476	443	1,334
Gross profit (loss) from rental operations	209	(185)	490	(556)
Operating expenses:				
Selling, general and administrative expenses	6,032	5,587	18,168	16,089
Total operating expenses	6,032	5,587	18,168	16,089
Income from operations	1,379	832	2,985	1,289
Other non-operating income (expense):				
Gain (loss) on sale of trading securities	69	(258)	322	(3,478)
Unrealized gain (loss) on trading securities	(120)	(19)	20	1,407
Interest expense, net	(188)	(189)	(575)	(582)
Net income (loss) before income taxes	1,140	366	2,752	(1,364)
Provision for income taxes	519	51	998	304
Net income (loss)	621	315	1,754	(1,668)
Undeclared cumulative preferred stock dividend	(19)	(19)	(57)	(38)
Net income (loss) attributable to common shareholders	\$ 602	\$ 296	\$ 1,697	\$ (1,706)
Basic and diluted income (loss) per share:				
Continuing operations	\$ 0.12	\$ 0.06	\$ 0.34	\$ (0.34)

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Discontinued operations

Net income (loss) per share	\$ 0.12	\$ 0.06	\$ 0.34	\$ (0.34)
Basic and diluted weighted average common shares outstanding	4,861,590	4,861,590	4,861,590	4,861,590

(1) Retrospectively adjusted to include comparative historical information of Bisco Industries, Inc., an affiliated company under common control by Eaco's majority stockholder acquired by Eaco on March 24, 2010.

* All share and per share information gives effect to the 1 for 25 reverse stock split of the Company's common stock effected on March 23, 2010 and the issuance of 4,705,669 shares effective March 24, 2010 in connection with the merger with Bisco.

See accompanying notes to condensed consolidated financial statements.

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EACO Corporation and Subsidiaries
 Condensed Consolidated Balance Sheets
 (in thousands except share information)

	May 31, 2011 (unaudited)	August 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,661	\$ 1,260
Trade accounts receivable, net	11,911	11,114
Inventory, net	11,904	10,009
Marketable securities, trading	709	817
Prepaid expenses and other current assets	357	260
Deferred tax asset, current	1,093	1,896
Total current assets	27,635	25,356
Non-current Assets:		
Restricted cash	632	866
Real estate properties held for leasing, net	10,127	10,316
Equipment and leasehold improvements, net	991	1,079
Deferred tax asset	3,558	2,561
Other assets, principally deferred charges, net of accumulated amortization	1,197	1,147
Total assets	\$ 44,140	\$ 41,325
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 9,648	\$ 9,226
Accrued expenses and other current liabilities	2,376	1,823
Line of credit		8,900
Liabilities of discontinued operations short-term	147	147
Current portion of long-term debt and obligation under capital lease	798	300
Total current liabilities	12,969	20,396
Non-current Liabilities:		
Liabilities of discontinued operations long-term	2,763	2,928
Deposit liability	147	147
Line of credit	8,478	
Long-term debt	7,269	7,074
Total liabilities	31,626	30,545
Shareholders Equity:		
	1	1

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Convertible preferred stock of \$0.01 par value; authorized 10,000,000 shares; 36,000 shares outstanding at May 31, 2011 and August 31, 2010 (liquidation value \$900)		
Common stock of \$0.01 par value; authorized 8,000,000 shares; 4,861,590 shares outstanding at May 31, 2011 and August 31, 2010	49	49
Additional paid-in capital	12,378	12,378
Accumulated other comprehensive income	619	639
Accumulated deficit	(533)	(2,287)
Total shareholders' equity	12,514	10,780
Total liabilities and shareholders' equity	\$ 44,140	\$ 41,325

See accompanying notes to condensed consolidated financial statements.

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EACO Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Nine Months Ended	
	May 31,	
	2011	2010(1)
Operating activities:		
Net income (loss)	\$ 1,754	\$ (1,668)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	585	617
Net (gain) loss on investments	(342)	2,072
(Increase) decrease in:		
Trade accounts receivable	(797)	(2,135)
Inventory	(1,931)	511
Prepaid expenses and other assets	(167)	(223)
Deferred tax asset	(194)	(33)
Increase (decrease) in:		
Trade accounts payable	422	2,631
Accrued expenses and other current liabilities	553	(910)
Deposit liability		15
Liabilities of discontinued operations	(165)	(184)
Net cash (used in) provided by operating activities	(282)	693
Investing activities:		
Purchase of property and equipment	(252)	(206)
Purchase of marketable securities, trading		(740)
Securities sold	450	
Payment of liabilities for short sales		(1,101)
Release of restricted cash	234	1,549
Net cash provided by (used in) investing activities	432	(498)
Financing activities:		
Settlement of capital lease obligation		(1,562)
Borrowings (payments) on revolving credit facility	(422)	633
Borrowings of long-term debt	1,000	
Payments on long-term debt	(307)	(174)
Net cash provided by (used in) financing activities	271	(1,103)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(20)	23

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	Nine Months Ended May 31,	
	2011	2010(1)
Net increase (decrease) in cash and cash equivalents	401	(885)
Cash and cash equivalents beginning of period	1,260	1,683
Cash and cash equivalents end of period	\$ 1,661	\$ 798
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 580	\$ 594
Cash paid for taxes	\$ 159	\$ 1,398
Non-cash investing activities:		
Deposit applied to purchase of Deland Property	\$	\$ 200

- (1) Retrospectively adjusted to include comparative historical information of Bisco Industries, Inc., an affiliated company under common control by EACO's majority stockholder acquired by EACO on March 24, 2010. See accompanying notes to condensed consolidated financial statements.

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EACO CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2011

Note 1. Organization and Basis of Presentation

Organization and Merger with Bisco Industries, Inc.

EACO Corporation (EACO) was organized under the laws of the State of Florida in September 1985. From the inception of EACO through June 2005, the Company s business consisted of operating restaurants in the State of Florida. On June 29, 2005, EACO sold all of its operating restaurants (the Asset Sale) including sixteen restaurant businesses, premises, equipment and other assets used in restaurant operations. The Asset Sale was made pursuant to an asset purchase agreement dated February 22, 2005. The only remaining activity of the restaurant operations relates to the workers compensation liability, which is presented as liabilities of discontinued operations on the Company s balance sheets. Prior to the acquisition of Bisco (described below), EACO s remaining operations principally consisted of managing five real estate properties held for leasing located in Florida and California.

On March 24, 2010, EACO completed the acquisition of Bisco Industries, Inc. (Bisco), a company under the common control of EACO s majority shareholder (Glen F. Ceiley). Bisco is a distributor of electronic components and fasteners with 38 sales offices and six distribution centers located throughout the United States and Canada. Bisco supplies parts used in the manufacture of products in a broad range of industries, including the aerospace, circuit board, communication, computer, fabrication, instrumentation, industrial equipment and marine industries. The acquisition of Bisco (the Acquisition) was consummated pursuant to an Agreement and Plan of Merger dated December 22, 2009 by and among EACO, Bisco Acquisition Corp., Bisco and Glen F. Ceiley (the Agreement). Pursuant to the Agreement, Bisco Acquisition Corp., a wholly-owned subsidiary of EACO, was merged with and into Bisco; Bisco was the surviving corporation in the merger and became a wholly-owned subsidiary of EACO. The transaction was accounted for as a combination of companies under common control using the historical balances of Bisco (See Basis of Presentation below).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates include allowance for doubtful accounts receivable, slow moving and obsolete inventory reserves, recoverability of the carrying value and estimated useful lives of long-lived assets, workers compensation liability and the valuation allowance against deferred tax assets. Actual results could differ from those estimates.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in conformity with GAAP for interim financial information and the rules and regulations of the SEC for interim reporting. In the opinion of management, all adjustments considered necessary in order to make the financial statements not misleading have been included.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations for presentation of interim financial information. Therefore, the condensed interim financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended August 31, 2010. The condensed consolidated balance sheet as of August 31, 2010 and related disclosures were derived from the audited consolidated financial statements as of August 31, 2010. Operating results for the three and nine month periods are not necessarily indicative of the results that may be expected for the year.

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Reclassification

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of EACO Corporation, its wholly-owned subsidiary Bisco Industries, Inc. and Bisco's wholly-owned Canadian subsidiary, Bisco Industries Limited (which are collectively referred to herein as the Company, we, us and our). All significant intercompany transactions and balances have been eliminated in consolidation.

Note 2. Significant Accounting Policies

Restricted Cash

The State of Florida Division of Workers' Compensation (the Division) requires self-insured companies to pledge collateral in favor of the Division in an amount sufficient to cover the projected outstanding liability. In compliance with this requirement, the Company pledged three irrevocable letters of credit totaling \$3,088,000 as of May 31, 2011 and \$3,326,000 as of August 31, 2010. These letters were secured by certificates of deposits totaling \$632,000 at May 31, 2011 and \$866,000 at August 31, 2010 and the Company's real estate property in Sylmar, California.

Trade Accounts Receivable

Trade accounts receivable are carried at original invoice amount, less an estimate for doubtful accounts. The allowance for doubtful accounts was \$183,000 and \$212,800 at May 31, 2011 and August 31, 2010, respectively.

Inventories

Inventories consist of finished goods, primarily electronic fasteners and components stated at the lower of cost or estimated market value. Cost is determined using the average cost method. Inventories are net of a reserve for slow moving or obsolete items of \$771,000 and \$732,000 at May 31, 2011 and August 31, 2010, respectively. The reserve is based upon management's review of inventories on-hand over their expected future utilization and length of time held by the Company.

Revenue Recognition

For the Company's distribution operations, the Company's shipping terms are FOB shipping point. Therefore, management generally recognizes revenue at the time of product shipment. Revenue is considered to be realized or realizable and earned when there is persuasive evidence of a sales arrangement in the form of an executed contract or purchase order, the product has been shipped (and installed when applicable), the sales price is fixed or determinable, and collectability is reasonably assured.

The Company leases its real estate properties to tenants under operating leases with terms exceeding one year. Some of these leases contain scheduled rent increases. We record rent revenue for leases which contain scheduled rent increases on a straight-line basis over the term of the lease.

Table of Contents**Earnings (Loss) Per Common Share**

Basic earnings (loss) per common share for the periods ended May 31, 2011 and 2010 were computed based on the weighted average number of common shares outstanding during each respective period. Diluted earnings (loss) per common share for those periods have been computed based on the weighted average number of common shares outstanding, giving effect to all dilutive potential common shares that were outstanding during the respective periods. Potential common shares represent shares of common stock issuable upon exercise or conversion of options, stock warrants and convertible preferred stock (See Note 4).

Foreign Currency Translation and Transactions

Assets and liabilities recorded in functional currencies other than the U.S. dollar (Canadian dollars for the Company's Canadian subsidiary) are translated into U.S. dollars at the quarter-end rate of exchange. Revenue and expenses are translated at the weighted-average exchange rates for the three and nine months ended May 31, 2011 and 2010, respectively. The resulting translation adjustments are charged or credited directly to accumulated other comprehensive income (loss). The average exchange rates for the three months ended May 31, 2011 and 2010 were \$0.97 and \$1.02 Canadian dollars per one U.S. dollar, respectively. The average exchange rates for the nine months ended May 31, 2011 and 2010 were \$1.00 and \$1.05 Canadian dollars per one U.S. dollar, respectively.

Concentrations

Net sales to customers outside the United States and related trade accounts receivable are approximately 4% and 5% of total sales and trade accounts receivable, respectively, at May 31, 2011 and 6% and 6%, respectively, at August 31, 2010.

No single entity accounted for more than 10% of revenues for the three or nine months ended May 31, 2011 and 2010.

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. Management has evaluated its approach for making operating decisions and assessing the performance of our business and determined that the Company has two reportable segments: Distribution Operations and Rental Real Estate Operations (See Note 6).

Note 3. Debt

The Company has a \$10,000,000 line-of-credit agreement with a bank. Borrowings under this agreement bear interest at either the 30, 60, or 90 day London Inter-Bank Offered Rate (LIBOR) (0.27% for the 60 day LIBOR at May 31, 2011 and August 31, 2010, respectively) plus 1.75% and/or the bank's reference rate (3.25% at May 31, 2011 and August 31, 2010, respectively). Borrowings are secured by substantially all assets of Bisco and are guaranteed by the Company's Chief Executive Officer and Chairman of the Board, Glen F. Ceiley. The agreement has been renewed until March 1, 2013.

The amount outstanding under this line of credit as of May 31, 2011 and August 31, 2010 was \$8,478,000 and \$8,900,000, respectively. Availability under the line of credit was \$1,522,000 and \$1,100,000 at May 31, 2011 and August 31, 2010, respectively.

The credit agreement contains nonfinancial and financial covenants requiring the maintenance of certain financial ratios. As of May 31, 2011 and August 31, 2010, the Company was in compliance with all covenants.

On March 10, 2011, the Company entered into a \$1,000,000 term loan agreement with Community Bank. The proceeds of the loan were used to pay down the Company's line of credit. The term loan is for two years and bears

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interest at the bank's reference rate (3.25% at May 31, 2011). As of May 31, 2011 the outstanding balance was \$918,000.

Note 4. Earnings (Loss) per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted computations for net income (loss) per share attributable to common shareholders:

(In thousands, except share and per share information)	For the Three Months Ended May 31,		For the Nine Months Ended May 31,	
	2011	2010	2011	2010
EPS - basic:				
Net income (loss)	\$ 621	\$ 315	\$ 1,754	\$ (1,668)
Less: preferred stock dividends	(19)	(19)	(57)	(38)
Net income (loss) available for common shareholders	\$ 602	\$ 296	\$ 1,697	\$ (1,706)
Basic and diluted weighted average common shares outstanding	4,861,590	4,861,590	4,861,590	4,861,590
Income (loss) per common share - basic	\$ 0.12	\$ 0.06	\$ 0.34	\$ (0.34)
Income (loss) per common share - diluted	\$ 0.12	\$ 0.06	\$ 0.34	\$ (0.34)

For the three and nine months ended May 31, 2011 and 2010, 40,000 potential common shares have been excluded from the computation of diluted loss per share because their effect would have been anti-dilutive.

Note 5. Related Party Transactions

The Company leases three buildings under operating lease agreements from its majority stockholder. During each of the nine months ended May 31, 2011 and 2010, the Company incurred approximately \$384,000 of expense related to these leases. For each of the three months ended May 31, 2011 and 2010, the Company incurred approximately \$128,000 of expense related to these leases.

Note 6. Segment Reporting

The Company operates in two reportable business segments: Distribution Operations and Rental Real Estate Operations. The Distribution Operations are organized and operated as Bisco Industries, Inc., a wholly owned subsidiary of the Company. Executive management evaluates performance based on gross margins, selling general and administrative expenses and net profits. Management also reviews the returns on the rental real estate properties, inventory, accounts receivable and marketable securities (segment assets).

	For the Three Months Ended May 31, 2011			For the Three Months Ended May 31, 2010		
	Rental Real Estate	Distribution	Total (in thousands)	Rental Real Estate	Distribution	Total
Revenues	\$ 310	\$ 26,475	\$ 26,785	\$ 291	\$ 24,354	\$ 24,645
Cost of revenues	101	19,273	19,374	476	17,750	18,226
Gross profit	209	7,202	7,411	(185)	6,604	6,419
	138	5,894	6,032	54	5,533	5,587

Selling, general and
administrative expenses

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operations are presented as discontinued operations in the accompanying condensed consolidated financial statements. Since June 2005, our operations have principally consisted of managing five rental properties held for

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leasing in Florida and California. As a result of our March 2010 acquisition of Bisco Industries, Inc., we currently operate in two reportable segments: the Rental Real Estate Operations segment, which consists of managing the five rental properties in Florida and California, and the Distribution Operations segment, which consists of the business of Bisco and is alternatively referred to in this report as the Bisco segment. Revenues derived from the Bisco segment represented approximately 99% of the total revenues for the three and nine months ended May 31, 2011 and the year ended August 31, 2010 and is expected to continue to represent the substantial majority of the Company's total revenues for the foreseeable future.

Critical Accounting Policies***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates include allowance for doubtful accounts receivable, slow moving and obsolete inventory reserves, recoverability of the carrying value and estimated useful lives of long-lived assets, workers' compensation liability and the valuation allowance against deferred tax assets. Actual results could differ from those estimates. For additional description of the Company's critical accounting policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended August 31, 2010 as filed with the SEC on December 14, 2010.

Long-Lived Assets

Long-lived assets (principally real estate, equipment and leasehold improvements) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of the impairment review, real estate properties are reviewed on an asset-by-asset basis. Recoverability of real estate property assets is measured by a comparison of the carrying amount of each operating property and related assets to future net cash flows expected to be generated by such assets. For measuring recoverability of distribution operations assets, long-lived assets are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their estimated fair values.

Revenue Recognition

For the Company's distribution operations, the Company's shipping terms are FOB shipping point. Therefore, management generally recognizes Company revenue at the time of product shipment. Revenue is considered to be realized or realizable and earned when there is persuasive evidence of a sales arrangement in the form of an executed contract or purchase order, the product has been shipped (and installed when applicable), the sales price is fixed or determinable, and collectability is reasonably assured.

The Company leases its real estate properties to tenants under operating leases with terms exceeding one year. Some of these leases contain scheduled rent increases. We record rent revenue for leases which contain scheduled rent increases on a straight-line basis over the term of the lease.

Liabilities of Discontinued Operations

When the Company was active in the restaurant business, the Company self-insured losses for workers' compensation claims up to certain limits. The Company exited the restaurant business in 2005. The liability for workers' compensation represents an estimate of the present value of the ultimate cost of uninsured losses which are unpaid as of the balance sheet dates. This liability is presented as liabilities of discontinued operations in the accompanying condensed consolidated balance sheets. The estimate is continually reviewed and adjustments to the Company's estimated liability, if any, are reflected in discontinued operations. On a periodic basis, the Company obtains an actuarial report which estimates its overall exposure based on historical claims and an evaluation of future

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claims. An actuarial evaluation was last obtained by the Company as of August 31, 2010. No changes to the estimated liability were recorded during the three or nine months ended May 31, 2011 or 2010.

Deferred Tax Assets

The Company's policy for recording a valuation allowance against deferred tax assets is considered critical. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefit, or when future deductibility is uncertain. In accordance with ASC 740,

Accounting for Income Taxes (ASC 740), the Company records net deferred tax assets to the extent management believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income (if any), tax planning strategies and recent financial performance. ASC 740 further states that forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses and/or significant decreases in operations. As a result of the Company's disposal of significant business operations, management concluded that a valuation allowance should be recorded against certain federal and state tax credits. The utilization of these credits requires sufficient taxable income after consideration of net operating loss utilization.

Results of Operations**Comparison of the Three Months Ended May 31, 2011 and 2010 (unaudited)***Distribution Sales and Gross Profit (\$ in thousands)*

	Three Months Ended May		\$	%
	2011	2010		
Distribution sales	\$ 26,475	\$ 24,354	\$ 2,121	8.7%
Cost of goods sold	19,273	17,750	(1,523)	(8.5)
Gross profit	\$ 7,202	\$ 6,604	\$ 598	
Gross profit %	27.2%	27.1%		(0.1)%

Net sales related to the Distribution Operations segment consist primarily of sales of component parts and fasteners, but also include, to a lesser extent, kitting charges and special order fees, and freight charged to its customers. The increase in net sales in the three months ended May 31, 2011 (Q3 2011) as compared to the prior period was largely due to increased unit sales, resulting from an increase in manufacturing in some of the markets in which the Company operates, especially military and aerospace. Additionally, the Company has seen a significant increase in sales to manufacturers in Southeast Asia. The Company added one sales office in Chesterfield, Virginia in the United States in Q3 2011 resulting in an aggregate of 39 sales offices as of May 31, 2011. The Company also increased sales headcount by 13% in Q3 2011 as compared to the three months ended May 31, 2010 (Q3 2010).

Additionally, the Company's sales force is divided into Sales Focus Teams (SFT). These teams generally focus the majority of their time on specific industries, product lines and/or geographic regions and are designed to allow the Company to increase market share in specific areas and, as a result, increase sales. The Company has increased the number of SFTs from 62 at May 31, 2010 to 75 at May 31, 2011, a 21% increase.

Rental Income and Gross Profit (\$ in thousands)

	Three Months Ended May		\$	%
	2011	2010		
Rental revenue	\$ 310	\$ 291	\$ 19	6.5%
Cost of rental operations	101	476	375	78.7
Gross profit	\$ 209	\$ (185)	\$ 394	
Gross profit %	67.4%	(63.5)%		130.9%

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Rental revenue in the Rental Real Estate Operations increased in Q3 2011 as compared to Q3 2010 due to the leasing of the restaurant property in Orange Park, Florida (Orange Park Property) in June 2010. The property had been vacant during Q3 2010. This increase resulted in a gross profit compared to a loss in the prior year period. The cost of rental operations decreased 78.7% in Q3 2011 mainly due to expenses related to the merger of Bisco and EACO in Q3 2010 that did not recur in Q3 2011.

Selling, General and Administrative Expenses (\$ in thousands)

	Three Months Ended May		\$	%
	2011	2010		
Selling, general and administrative expenses	\$ 6,032	\$ 5,587	\$ 445	7.9%
Percent of distribution sales	22.7%	22.9%		(0.2)%

Selling, general and administrative expense (SG&A) consists primarily of payroll and related expenses for the Company's sales and administrative staff, professional fees including accounting, legal and technology costs and expenses, and sales and marketing costs for the Distribution Operations. SG&A in Q3 2011 increased from Q3 2010 largely due to increased bonuses and commissions payable to employees as a result of the increase in net sales and an increase in temporary help and salaries as the Company increased staffing to fulfill increased orders. As a percentage of distribution sales, SG&A decreased as the Company increased the productivity of its current staff, resulting in a smaller increase in percentage of expense as compared to the percentage increase in sales.

Non-operating Income (Expense) (\$ in thousands)

	Three Months Ended May		\$	%
	2011	2010		
Other income (expense):				
Gain (loss) on sale of trading securities	\$ 69	\$ (258)	\$ 327	126.7%
Unrealized loss on trading securities	(120)	(19)	(101)	(531.5)
Interest expense, net	(188)	(189)	1	0.5
Other income (expense), net	\$ (239)	\$ (466)	\$ 227	48.7%
Other income (expense), net as a percent of distribution sales	(0.9)%	(1.9)%		1.0%

Other income (expense), net consists of income or losses on investments in short-term marketable equity securities of publicly-held domestic corporations and interest related to the Company's line of credit and other long-term debt. The Company's investment strategy consists of both long and short positions, as well as utilizing options designed to maximize return. During Q3 2011, the Company recognized \$51,000 in net realized and unrealized losses, which were primarily due to a decrease in several of the positions the Company was holding. The Company experienced declines of \$277,000 during Q3 2010, mainly due to losses associated with short positions the Company was holding during that quarter.

Income Tax Provision (\$ in thousands)

	Three Months Ended		\$	%
	2011	2010		
Income tax provision	\$ 519	\$ 51	\$ (468)	917.6%
Percent of net sales	1.9%	0.2%		1.7%

The provision for income taxes increased by \$468,000 in the three month period ended May 31, 2011 over the prior year period, which resulted from higher pre-tax income in the current period as compared to the prior year period. The effective tax rates for the three months ended May 31, 2011 and 2010 were 45.5% and 13.9%, respectively.

Table of Contents**Comparison of the Nine Months Ended May 31, 2011 and 2010 (unaudited)***Distribution Sales and Gross Profit (\$ in thousands)*

	Nine Months Ended May		\$	%
	2011	2010		
Distribution sales	\$ 76,513	\$ 65,788	\$ 10,725	16.3%
Cost of goods sold	55,850	47,854	(7,996)	(16.7)
Gross profit from distribution operations	\$ 20,663	\$ 17,934	\$ 2,729	
Gross profit %	27.0%	27.2%		(0.2)%

Net sales increased in the nine months ended May 31, 2011 largely due to increased unit sales, resulting from an increase in manufacturing in some of the markets in which the Company operates, especially military and aerospace. Additionally, the Company has generated a significant increase in sales to manufacturers in Southeast Asia in the current fiscal year. The Company added one additional sales office in the United States in the first nine months of 2011 as it did for the first nine months of 2010. The Company increased sales headcount by 13% from May 31, 2010 to May 31, 2011.

Rental Income and Gross Profit (\$ in thousands)

	Nine Months Ended May		\$	%
	2011	2010		
Rental revenue	\$ 933	\$ 778	\$ 155	19.9%
Cost of rental operations	443	1,334	891	66.7
Gross profit (loss) from rental operations	\$ 490	\$ (556)	\$ 1,046	
Gross profit %	52.5%	(71.4)%		123.9%

Rental revenue in the Rental Real Estate Operations increased in the nine months ended May 31, 2011 primarily due to the leasing of the Company's real property in Deland, Florida in March 2010 and the Orange Park Property in June 2010. Both properties had been vacant for all or part of the first nine months of 2010. This increase resulted in a gross profit compared to a loss in the prior year period. The cost of rental operations decreased 78.7% in Q3 2011 due mainly to expenses related to the merger of Bisco and EACO in 2010 that did not recur in 2011. The Company had higher expenses in 2010 related to maintaining vacant properties. All properties were leased for all or part of 2011.

Selling, General and Administrative Expenses (\$ in thousands)

	Nine Months Ended May		\$	%
	2011	2010		
Selling, general and administrative expenses	\$ 18,168	\$ 16,089	\$ 2,079	12.9%
Percent of distribution sales	23.7%	24.4%		(0.7)%

Selling, general and administrative expense in the nine months ended May 31, 2011 increased in absolute dollars from the nine months ended May 31, 2010 largely due to increased bonuses and commissions payable to employees as a result of the increase in net sales and an increase in temporary help and salaries as the Company increased staffing to fulfill increased orders. SG&A decreased as a percentage of distribution sales as the Company increased the productivity of its current staff resulting in a smaller increase in percentage of expense as compared to the percentage increase in sales.

Non-operating Income (Expense) (\$ in thousands)

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	Nine Months Ended May		\$	%
	2011	2010		
Other income (expense):				
Gain (loss) on sale of trading securities	\$ 322	\$ (3,478)	\$ 3,800	109.2%
Unrealized gain on trading securities	20	1,407	(1,387)	98.5
Interest expense, net	(575)	(582)	7	1.2
Other income (expense), net	\$ (233)	\$ (2,653)	\$ 2,420	91.2%
Other income (expense), net as a percent of distribution sales	0.3%	(4.0)%		4.3%
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Other income (expense), net consists of income or losses on investments in short-term marketable equity securities of publicly-held domestic corporations and interest related to the Company's line of credit and other long-term debt. The Company's investment strategy consists of both long and short positions, as well as utilizing options to maximize return. During the nine months ended May 31, 2011, the Company recognized \$340,000 in net realized and unrealized gains, which were primarily due to the sharp increase in several of the positions the Company was holding. The Company experienced declines of \$2,071,000 during the nine months ended May 31, 2010, due mainly to losses associated with short positions the Company was holding throughout such period.

Income Tax Provision (\$ in thousands)

	Nine Months Ended		\$	%
	May 31,			
	2011	2010	Change	Change
Income tax provision	\$ 998	\$ 304	\$ 694	228.2%
Percent of net sales	1.3%	0.4%		0.9%

The provision for income taxes increased by \$694,000 in the nine month period ended May 31, 2011 over the prior year period, which resulted from higher pre-tax income in the current period as compared to a loss in the prior year period. The effective tax rates for the nine months ended May 31, 2011 and 2010 were 36.2% and 22.2%, respectively.

Liquidity and Capital Resources

The Company has a \$10,000,000 line-of-credit agreement with a bank. Borrowings under this agreement bear interest at either the 30, 60, or 90 day London Inter-Bank Offered Rate (LIBOR) (0.27% for the 60 day LIBOR at May 31, 2011 and August 31, 2010, respectively) plus 1.75% and/or the bank's reference rate (3.25% at May 31, 2011 and August 31, 2010, respectively). Borrowings are secured by substantially all assets of Bisco and are guaranteed by the Company's Chief Executive Officer and Chairman of the Board, Glen F. Ceiley. The line of credit agreement has been renewed until March 1, 2013.

The amount outstanding under this line of credit as of May 31, 2011 and August 31, 2010 was \$8,478,000 and \$8,900,000, respectively. Availability under the line of credit was \$1,522,000 and \$1,100,000 at May 31, 2011 and August 31, 2010, respectively.

The credit agreement contains nonfinancial and financial covenants requiring the maintenance of certain financial ratios. As of May 31, 2011, the Company was in compliance with all such covenants.

On March 10, 2011, the Company entered into a \$1,000,000 term loan agreement with Community Bank. The proceeds of the loan were used to pay down the Company's line of credit. The term loan is for two years and bears interest at the bank's reference rate (3.25% at May 31, 2011). As of May 31, 2011 the outstanding balance was \$918,000.

The Company's Rental Real Estate Operations are funded primarily by rents received from the tenants of its five rental properties. Any cash requirements in excess of the rental income required by the Rental Real Estate Operations have historically been funded by borrowings from Bisco. These borrowings and related interest have been eliminated in the accompanying condensed consolidated financial statements.

Cash Flows from Operating Activities

The Company's principal uses of cash during the nine months ended May 31, 2011 included (i) income from operations; and (ii) an increase in receivables and inventory related to the Company's increased sales activity for the period.

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Cash Flows from Investing Activities

Cash flow provided by investing activities was \$432,000 for the nine months ended May 31, 2011. This was due to the release of restricted cash related to a reduction in the collateral requirement for the Company's self insured worker's compensation program by the Florida Self-Insurers Guaranty Association, Inc. The Company also saw cash provided from gains generated from its securities trading of \$450,000. These amounts were offset by purchases of equipment. During the nine months ended May 31, 2010, the Company used \$498,000 in investing activities, primarily due to the poor performance of the Company's securities trading.

Cash Flows from Financing Activities

Cash provided in financing activities for the nine months ended May 31, 2011 was \$271,000 as compared with cash used in financing activities of \$1,103,000 for the nine months ended May 31, 2010. Cash provided by financing activities consists mainly of borrowings on the Company's line of credit to fund operations in fiscal 2011. In 2010, the Company settled its final long-term capital lease obligation with a portion of the amount being funded by borrowings on the Company's line of credit.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that are reasonably likely to have a current or future effect on the financial position, revenues, results of operations, liquidity or capital expenditures.

Contractual Financial Obligations

In addition to using cash flow from operations, the Company finances its operations through borrowings or the issuance of debt, and previously by entering into leases. These financial obligations are recorded in accordance with accounting rules applicable to the underlying transactions, with the result that amounts owed under debt agreements and capital leases are recorded as liabilities on the balance sheet while lease obligations recorded as operating leases are disclosed in the Notes to the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended August 31, 2010 as filed with the SEC on December 14, 2010.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information required under this item.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. As required by Rule 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's Chief Executive Officer, who also serves as the Company's principal financial officer. Based upon that evaluation, the Company's Chief Executive Officer has concluded that the Company's disclosure controls and procedures were not effective as of the end of the period covered in this report in alerting management to material information regarding the Company's financial statements and disclosure obligations in order to allow the Company to meet its reporting requirements under the Exchange Act in a timely manner. This evaluation is based, in part, on similar findings as discussed in detail in Item 9A(T) in the Company's Annual Report on Form 10-K for the year ended August 31, 2010.

Changes in internal control over financial reporting. There have been no changes in internal control over financial reporting during the fiscal quarter covered by this report that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be subject to legal proceedings and claims which arise in the normal course of our business. Any such matters and disputes could be costly and time consuming, subject us to damages or equitable remedies, and divert our management and key personnel from our business operations. Except as described below, we currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our consolidated results of operations, financial position or cash flows.

In September 2010, we received a notice from the Internal Revenue Service (IRS), assessing a civil penalty against us in the amount of \$775,161 as a result of the IRS' claim that it did not receive W-2 forms for EACO's employees for the 2005 calendar year. We have been engaged in discussions with the IRS regarding this assessment and submitted copies of EACO's 2005 W-2 forms in October 2010. We are seeking an abatement of the penalty. On March 21, 2011, we received a notice from the IRS indicating that it has not abated the penalty based on the W-2 forms we provided. The notice provided for an appeals process permitting us to submit additional information for purposes of appealing the penalty. We believe the 2005 W-2s were filed on a timely basis and the Company filed an appeal on May 19, 2011. We cannot assure you that any abatement will be granted, and we may be required to pay the penalty plus interest from October 2010.

Item 1A. Risk Factors

Our business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this report and in our other filings with the SEC, including our Annual Report on Form 10-K and subsequent reports on Forms 10-Q and 8-K. If any of the risks actually occur, our business, financial condition, or results of operations could be seriously harmed. In that event, the market price for shares of our common stock may decline, and you could lose all or part of your investment.

Changes and uncertainties in the economy have harmed and could continue to harm our operating results.

As a result of the recent economic downturn and continuing economic uncertainties, our operating results, and the economic strength of our customers and suppliers, are increasingly difficult to predict. Purchases of our products by our customers is affected by many factors, including, among others, general economic conditions, interest rates, inflation, liquidity in the credit markets, unemployment trends, geopolitical events, and other factors. Although we sell our products to customers in a broad range of industries, the significant weakening of economic conditions on a global scale has caused some of our customers to experience a slowdown that has had adverse effects on our sales and operating results. Changes and uncertainties in the economy also increase the risk of uncollectible accounts receivable. The pricing we receive from suppliers may also be impacted by general economic conditions. Continued and future changes and uncertainties in the economic climate in the United States and elsewhere could have a similar negative impact on the rate and amounts of purchases by our current and potential customers, create price inflation for our products, or otherwise have a negative impact on our expenses, gross margins and revenues, and could hinder our growth.

If we fail to develop and maintain an effective system of internal controls over financial reporting or are not able to adequately address certain identified material weaknesses in our system of internal controls, we may not be able to report our financial results accurately or timely or detect fraud, which could have a material adverse effect on the market price of our common stock and our business.

We have from time to time had material weaknesses in our internal controls over financial reporting due to a lack of process related to the preparation of our financial statements, the lack of segregation of duties and a lack of sufficient control in the area of financial reporting oversight and review and the lack of appropriate personnel to ensure the complete and proper application of GAAP as it relates to certain routine accounting transactions. If we fail to adequately address these material weaknesses or experience additional material weaknesses in the future, we may not be able to improve our system of internal control over financial reporting to comply with the reporting

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requirements applicable to public companies in the United States. It is possible that we or our auditors will identify additional material weaknesses and/or significant deficiencies in the future in our system of internal control over financial reporting. Our failure to address any deficiencies or weaknesses in our internal control over financial reporting or to properly maintain an effective system of internal control over financial reporting could impact our ability to prevent fraud or to issue our financial statements in a timely manner that presents fairly in accordance with GAAP, our financial condition and results of operations. The existence of any such deficiencies and/or weaknesses, even if cured, may also lead to the loss of investor confidence in the reliability of our financial statements, could harm our business and negatively impact the trading price of our common stock. Such deficiencies or material weaknesses may also subject us to lawsuits, investigations and other penalties.

We have incurred significant losses in the past from trading in securities, and we may incur such losses in the future, which may also cause us to be in violation of covenants under our loan agreements.

Bisco has historically funded its operations from cash generated from its operations and/or by trading in marketable domestic equity securities. Bisco's investment strategy includes taking both long and short positions, as well as utilizing options to maximize return. This strategy can lead to significant losses based on market conditions and trends. We may incur losses in future periods from such trading activities, which could materially and adversely affect our liquidity and financial condition.

In addition, unanticipated losses from our trading activities may cause Bisco to be in violation of certain covenants under its line of credit and term loan agreements with Community Bank. The agreements are secured by substantially all of Bisco's assets and is guaranteed by Mr. Ceiley, our Chairman and CEO. The loan agreements contain covenants which require that, on a quarterly basis, Bisco's losses from trading in securities not exceed its pre-tax operating income. We cannot assure you that unanticipated losses from our trading activities will not cause us to violate the covenant in the future or that the bank will grant a waiver for any such default or that it will not exercise its remedies, which could include the acceleration of the obligation's maturity date and foreclosure on Bisco's assets, with respect to any such noncompliance, which could have a material adverse effect on our business and operations.

We rely heavily on our internal information systems, which, if not properly functioning, could materially and adversely affect our business.

Our information systems have been in place for many years, and are subject to system failures as well problems caused by human error, which could have a material adverse effect on our business. Many of our systems consist of a number of legacy or internally developed applications, which can be more difficult to upgrade to commercially available software. It may be time consuming for us to retrieve data that is necessary for management to evaluate our systems of control and information flow. In the future, management may decide to convert our information systems to a single enterprise solution. Such a conversion, while it would enhance the accessibility and reliability of our data, could be costly and would not be without risk of data loss, delay or business interruption. Maintaining and operating these systems requires continuous investments. Failure of any of these internal information systems or material difficulties in upgrading these information systems could have material adverse effects on our business and our timely compliance with our reporting obligations.

We may not be able to attract and retain key personnel.

Our future performance will depend to a significant extent upon the efforts and abilities of certain key management and other personnel, including Glen Ceiley, our Chairman of the Board and Chief Executive Officer, as well as other executive officers and senior management. The loss of service of one or more of our key management members could have a material adverse effect on our business.

We do not have long-term supply agreements or guaranteed price or delivery arrangements with the majority of our suppliers.

In most cases, we have no guaranteed price or delivery arrangements with our suppliers. Consequently we may experience inventory shortages on certain products. Furthermore, our industry occasionally experiences significant product supply shortages and customer order backlogs due to the inability of certain manufacturers to supply

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products as needed. We cannot assure you that suppliers will maintain an adequate supply of products to fulfill our orders on a timely basis, or at all, or that we will be able to obtain particular products on favorable terms or at all. Additionally, we cannot assure you that product lines currently offered by suppliers will continue to be available to us. A decline in the supply or continued availability of the products of our suppliers, or a significant increase in the price of those products, could reduce our sales and negatively affect our operating results.

Our supply agreements are generally terminable at the suppliers' discretion.

Substantially all of the agreements we have with our suppliers, including our authorized distributor agreements, are terminable with little or no notice and without any penalty. Suppliers that currently sell their products through us could decide to sell, or increase their sales of, their products directly or through other distributors or channels. Any termination, interruption or adverse modification of our relationship with a key supplier or a significant number of other suppliers would likely adversely affect our operating income, cash flow and future prospects.

The competitive pressures we face could have a material adverse effect on our business.

The market for our products and services is very competitive. We compete for customers with other distributors, as well as with many of our suppliers. A failure to maintain and enhance our competitive position could adversely affect our business and prospects. Furthermore, our efforts to compete in the marketplace could cause deterioration of gross profit margins and, thus, overall profitability. Some of our competitors may have greater financial, personnel, capacity and other resources or a more extensive customer base than we do.

Our estimate of the potential for opening offices in new geographic areas could be incorrect.

One of our primary growth strategies for our Distribution Operations segment is to grow our business through the introduction of sales offices into new geographic markets. Based on our analysis of demographics in the United States, Canada and Mexico, we currently estimate there is potential market opportunity in North America to support additional sales offices. We cannot guarantee that our estimates are accurate or that we will open enough offices to capitalize on the full market opportunity. In addition, a particular local market's ability to support a sales office may change because of a change due to competition, or local economic conditions.

We may be unable to meet our goals regarding new office openings.

Our growth, in part, is primarily dependent on our ability to attract new customers. Historically, the most effective way to attract new customers has been opening new sales offices. Our current business strategy focuses on opening a specified number of new sales offices each year, and quickly growing each new sales office. Given the current economic slowdown, we may not be able to open or grow new offices at our projected rates. Failure to do so could negatively impact our long-term growth.

Opening sales offices in new markets presents increased risks that may prevent us from being profitable in these new locations, and/or may adversely affect our operating results.

Our new sales offices do not typically achieve operating results comparable to our existing offices until after several years of operation. The added expenses relating to payroll, occupancy, and transportation costs can impact our ability to leverage earnings. In addition, offices in new geographic areas face additional challenges to achieving profitability. In new markets, we have less familiarity with local customer preferences and customers in these markets are less familiar with our name and capabilities. Entry into new markets may also bring us into competition with new, unfamiliar competitors. These challenges associated with opening new offices in new markets may have an adverse effect on our business and operating results.

We may not be able to identify new products and product lines, or obtain new product on favorable terms and prices.

Our success depends in part on our ability to develop product expertise and identify future products and product lines that complement existing products and product lines and that respond to our customers' needs. We may not be able to compete effectively unless our product selection keeps up with trends in the markets in which we compete.

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Our ability to successfully attract and retain qualified sales personnel is uncertain.

Our success depends in large part on our ability to attract, motivate, and retain a sufficient number of qualified sales employees, who understand and appreciate our strategy and culture and are able to adequately represent us to our customers. Qualified individuals of the requisite caliber and number needed to fill these positions may be in short supply in some areas, and the turnover rate in the industry is high. If we are unable to hire and retain personnel capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and product knowledge, our sales could be materially adversely affected. Additionally, competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees. An inability to recruit and retain a sufficient number of qualified individuals in the future may also delay the planned openings of new offices. Any such delays, material increases in existing employee turnover rates, or increases in labor costs, could have a material adverse effect on our business, financial condition or operating results.

We generally do not have long-term sales contracts with our customers.

Most of our sales are made on a purchase order basis, rather than through long-term sales contracts. A variety of conditions, both specific to each customer and generally affecting each customer's industry, may cause customers to reduce, cancel or delay orders that were either previously made or anticipated, go bankrupt or fail, or default on their payments. Significant or numerous cancellations, reductions, delays in orders by customers, losses of customers, and/or customer defaults on payment could materially adversely affect our business.

Increases in energy costs and the cost of raw materials used in our products could impact our cost of goods and distribution and occupancy expenses, which would result in lower operating margins.

Costs of raw materials used in our products and energy costs have been rising during the last several years, which has resulted in increased production costs for our suppliers. These suppliers typically look to pass their increased costs along to us through price increases. The shipping costs for our distribution operation have risen as well. While we typically try to pass increased supplier prices and shipping costs through to our customers or to modify our activities to mitigate the impact, we may not be successful. Failure to fully pass these increased prices and costs through to our customers or to modify our activities to mitigate the impact would have an adverse effect on our operating margins.

We may fail to realize some or all of the anticipated benefits of the merger with Bisco, which may adversely affect the value of our common stock.

The success of the recent merger transaction with Bisco, pursuant to which Bisco became our wholly-owned subsidiary, will depend, in part, on our ability to successfully integrate the two companies and realize the anticipated benefits from consolidation. Although Bisco has been handling the day-to-day operation of EACO for the past several years, Bisco and EACO have operated independently. It is possible that the actual consolidation of the two companies will be disruptive to the operations of either or both companies, or result in additional and unforeseen expenses and have an adverse effect on our combined business and results of operations, which may affect the value of the shares of our common stock. In addition, any unforeseen restriction or delay on our ability to use the net operating loss carryforwards of EACO would prevent us from fully realizing the anticipated tax benefits from consolidation within the anticipated time frame and harm our financial results.

The Company's Chairman and CEO holds almost all of our voting stock and the influence of our other public stockholders over the election of directors and significant corporate actions will be significantly limited.

Glen Ceiley, our Chairman and CEO, owns approximately 99% of our outstanding voting stock. Mr. Ceiley is able to exert significant influence over the outcome of almost all corporate matters, including significant corporate transactions requiring a stockholder vote, such as a merger or a sale of the Company or our assets. This concentration of ownership and influence in management and board decision-making could also harm the price of our common stock by, among other things, discouraging a potential acquirer from seeking to acquire shares of our common stock (whether by making a tender offer or otherwise) or otherwise attempting to obtain control of the Company.

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Sales of our common stock by Glen Ceiley could cause the price of our common stock to decline.

There is currently no established trading market for our common stock, and the volume of any sales is generally low. As of May 31, 2011, the number of shares held by non-affiliates of Mr. Ceiley or Bisco is less than 50,000 shares. If Mr. Ceiley sells or seeks to sell a substantial number of his shares of our common stock in the future, the market price of our common stock could decline. The perception among investors that these sales may occur could produce the same effect.

Inclement weather and other disruptions to the transportation network could impact our distribution system.

Our ability to provide efficient shipment of products to our customers is an integral component of our overall business strategy. Disruptions at distribution centers or shipping ports may affect our ability to both maintain core products in inventory and deliver products to our customers on a timely basis, which may in turn adversely affect our results of operations. In addition, severe weather conditions could adversely impact demand for our products in particularly hard hit regions.

Our advertising and marketing efforts may be costly and may not achieve desired results.

We incur substantial expense in connection with our advertising and marketing efforts. Postage represents a significant advertising expense for us because we generally mail fliers to current and potential customers through the U.S. Postal Service. Any future increases in postal rates will increase our mailing expenses and could have a material adverse effect on our business, financial condition and results of operations.

We may not have adequate or cost-effective liquidity or capital resources.

Our ability to satisfy our cash needs depends on our ability to generate cash from operations and to access to our line of credit and the capital markets, which are subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We may need to satisfy our cash needs through external financing. However, external financing may not be available on acceptable terms or at all.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of this report on Form 10-Q.

No.	Exhibit
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EACO CORPORATION
(Registrant)

Date: July 15, 2011

/s/ Glen Ceiley
Glen Ceiley
Chief Executive Officer
(Principal Executive Officer & Principal Financial
Officer)

/s/ Michael Bains
Michael Bains
Controller and Assistant Secretary
(Principal Accounting Officer)

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EXHIBIT INDEX

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