

EACO CORP
Form 10-Q
April 16, 2012

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 February 29, 2012

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)

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Florida 59-2597349
(State of Incorporation) (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

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 April 13, 2012, 4,861,590 shares of the registrant's common stock were outstanding.

PART I**FINANCIAL INFORMATION****Item 1. Financial Statements****EACO Corporation and Subsidiaries**

Condensed Consolidated Statements of Income

(in thousands, except for share and per share information)

(Unaudited)

	Three Months Ended		Six Months Ended	
	February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Distribution sales	\$27,114	\$24,694	\$53,264	\$50,038
Cost of goods sold	19,846	18,227	38,780	36,856
Gross profit from distribution operations	7,268	6,467	14,484	13,182
Rental revenue	312	311	623	623
Cost of rental operations	100	107	293	282
Gross profit from rental operations	212	204	330	341
Operating expenses:				
Selling, general and administrative expenses	6,850	5,891	13,324	11,919
Total operating expenses	6,850	5,891	13,324	11,919
Income from operations	630	780	1,490	1,604
Non-operating income (expense):				
Gain on sale of trading securities	62	247	62	253
Unrealized gain (loss) on trading securities	92	(69)	285	140
Interest expense, net	(178)	(190)	(359)	(385)
Total non-operating income (expense)	(24)	(12)	(12)	8
Net income before income taxes	606	768	1,478	1,612
Provision for income taxes	203	235	450	479
Net income	403	533	1,028	1,133
Undeclared cumulative preferred stock dividend	(19)	(19)	(38)	(38)
Net income attributable to common shareholders	\$384	\$514	\$990	\$1,095
Basic and diluted earnings per share	\$0.08	\$0.11	\$0.20	\$0.23
Basic and diluted weighted average common shares outstanding	4,861,590	4,861,590	4,861,590	4,861,590

See accompanying notes to condensed consolidated financial statements.

EACO Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share information)

	February 29, 2012	August 31, 2011
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,858	\$1,368
Restricted cash, current	172	--
Trade accounts receivable, net	13,390	12,348
Inventory, net	11,585	11,389
Marketable securities, trading	761	892
Prepaid expenses and other current assets	456	320
Deferred tax asset, current	1,055	1,062
Total current assets	29,277	27,379
Non-current Assets:		
Restricted cash, non-current	548	632
Real estate properties held for leasing, net	9,929	10,085
Equipment and leasehold improvements, net	953	972
Deferred tax asset	2,318	2,623
Other assets, principally deferred charges, net of accumulated amortization	1,149	1,187
Total assets	\$ 44,174	\$42,878
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 9,287	\$8,541
Accrued expenses and other current liabilities	1,511	2,325
Liability for short sales of trading securities	172	--
Liabilities of discontinued operations – short-term	147	147
Current portion of long-term debt	790	778
Total current liabilities	11,907	11,791
Non-current Liabilities:		
Liabilities of discontinued operations – long-term	2,636	2,708
Deposit liability	147	147
Long-term debt	15,880	15,626
Total liabilities	30,570	30,272
Shareholders' Equity:		
Convertible preferred stock, \$0.01 par value per share; authorized 10,000,000 shares; 36,000 shares outstanding at February 29, 2012 and August 31, 2011 (liquidation value \$900)	1	1
Common stock, \$0.01 par value per share; authorized 8,000,000 shares; 4,861,590 shares outstanding at February 29, 2012 and August 31, 2011	49	49
Additional paid-in capital	12,378	12,378

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Accumulated other comprehensive income	524	554
Retained earnings (accumulated deficit)	652	(376)
Total shareholders' equity	13,604	12,606
Total liabilities and shareholders' equity	\$ 44,174	\$42,878

See accompanying notes to condensed consolidated financial statements.

3

EACO Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Six Months Ended	
	February 29, 2012	February 28, 2011
Operating activities:		
Net income	\$1,028	\$1,133
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	409	385
Bad debt expense	46	--
Change in inventory reserve	(50)	--
Net gain on trading securities	(347)	(393)
(Increase) decrease in:		
Trade accounts receivable	(1,088)	(1,106)
Inventory	(146)	(803)
Prepaid expenses and other assets	(126)	(85)
Deferred tax asset	312	--
Increase (decrease) in:		
Trade accounts payable	(36)	428
Accrued expenses and other current liabilities	(814)	(271)
Liabilities of discontinued operations	(72)	(94)
Net cash used in operating activities	(884)	(806)
Investing activities:		
Purchase of property and equipment	(206)	(176)
Sale of marketable securities, trading	478	226
Short sales of marketable securities	172	--
Change in restricted cash	(88)	234
Net cash provided by investing activities	356	284
Financing activities:		
Net borrowings on revolving credit facility	650	600
Bank overdraft	782	143
Payments on long-term debt	(384)	(129)
Net cash provided by financing activities	1,048	614
Effect of foreign currency exchange rate changes on cash and cash equivalents	(30)	37
Net decrease in cash and cash equivalents	490	129
Cash and cash equivalents - beginning of period	1,368	1,260
Cash and cash equivalents - end of period	\$1,858	\$1,389

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Supplemental disclosures of cash flow information:

Cash paid for interest	\$379	\$391
Cash paid for taxes	\$415	\$158

See accompanying notes to condensed consolidated financial statements.

4

EACO CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

February 29, 2012

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 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 41 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.

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 U.S. Securities and Exchange Commission (“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, 2011. The condensed consolidated balance sheet as of August 31, 2011 and related disclosures were derived from the audited consolidated financial statements as of August 31, 2011. Operating results for the three and six month period ended February 29, 2012 are not necessarily indicative of the results that may be expected for future quarterly periods or the entire fiscal year.

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 two irrevocable letters of credit totaling \$3,000,000 as of February 29, 2012 and three irrevocable letters of credit totaling \$3,088,000 as of August 31, 2011. These letters were secured by certificates of deposits totaling \$548,000 and \$632,000 at February 29, 2012 and August 31, 2011, respectively, and the Company's real estate property in Sylmar, California.

The Company also has restricted cash of \$172,000 at February 29, 2012 on deposit with a securities brokerage firm, which relates to the liability for short sales of trading securities. There was no such restricted cash at August 31, 2011.

Trade Accounts Receivable

Trade accounts receivable are carried at original invoice amount, less an estimate for doubtful accounts. The allowance for doubtful accounts was \$269,000 and \$253,000 at February 29, 2012 and August 31, 2011, 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 \$818,000 and \$768,000 at February 29, 2012 and August 31, 2011, 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 generally 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.

Earnings Per Common Share

Basic earnings per common share for the periods ended February 29, 2012 and February 28, 2011 were computed based on the weighted average number of common shares outstanding during each respective period. Diluted earnings 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 conversion of 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 six months ended February 29, 2012 and February 28, 2011. The resulting translation adjustments are charged or credited directly to accumulated other comprehensive income. The average exchange rate for the six months ended February 29, 2012 and February 28, 2011 was \$1.01 Canadian dollars for one U.S. dollar.

Concentrations

Net sales to customers outside the United States were approximately 7% for the six months ended February 29, 2012 and February 28, 2011 and related accounts receivable were approximately 5% at February 29, 2012 and August 31, 2011.

No single entity accounted for more than 10% of revenues for the three or six months ended February 29, 2012 and February 28, 2011.

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 Community Bank. Borrowings under this agreement bear interest at either the 30, 60, or 90 day London Inter-Bank Offered Rate (“LIBOR”) (0.49% and 0.33% for the 90 day LIBOR at February 29, 2012 and August 31, 2011, respectively) plus 1.75% and/or the bank’s reference rate (3.25% at February 29, 2012 and August 31, 2011). 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 February 29, 2012 and August 31, 2011 was \$9,150,000 and \$8,500,000, respectively. Availability under the line of credit was \$850,000 and \$1,500,000 at February 29, 2012 and August 31, 2011, respectively.

The line of credit agreement contains nonfinancial and financial covenants, including the maintenance of certain financial ratios. As of February 29, 2012 and August 31, 2011, 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 interest at the bank’s reference rate (3.25% at February 29, 2012 and August 31, 2011). As of February 29, 2012, the outstanding balance of the term loan was \$549,000.

Note 4. Earnings per Share

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

	For the Three Months, February 29, 2012		For the Six Months Ended, February 29, 2012	
	February 28, 2011	February 28, 2011	February 28, 2011	February 28, 2011

(In thousands, except share and per share information)

EPS:				
Net income	\$403	\$ 533	\$1,028	\$ 1,133
Less: preferred stock dividends	(19)	(19)	(38)	(38)
Net income available for common shareholders	\$384	\$ 514	\$990	\$ 1,095
Earnings per common share – basic and diluted	\$0.08	\$ 0.11	\$0.20	\$ 0.23

For the three and six months ended February 29, 2012 and February 28, 2011, 40,000 potential common shares have been excluded from the computation of diluted earnings 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 six months ended February 29, 2012 and February 28, 2011, the Company incurred approximately \$256,000 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

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subsidiary of the Company. Executive management evaluates performance based on gross margins, selling, general and administrative expenses and net income. Management also reviews the returns on the rental real estate properties, inventory, accounts receivable and marketable securities (segment assets).

	For the Three Months Ended February 29, 2012			For the Three Months Ended February 28, 2011		
	Rental Real Estate	Distribution	Total	Rental Real Estate	Distribution	Total
	(in thousands)					
Revenues	\$312	\$ 27,114	\$27,426	\$311	\$ 24,694	\$25,005
Cost of revenues	100	19,846	19,946	107	18,227	18,334
Gross profit	212	7,268	7,480	204	6,467	6,671
Selling, general and administrative expenses	91	6,759	6,850	91	5,800	5,891

	For the Six Months Ended February 29, 2012			For the Six Months Ended February 28, 2011		
	Rental Estate	Distribution	Total	Rental Estate	Distribution	Total
	(in thousands)					
Revenues	\$623	\$ 53,264	\$53,887	\$623	\$ 50,038	\$50,661
Cost of revenues	293	38,780	39,073	282	36,856	37,198
Gross profit	330	14,484	14,814	341	13,182	13,463
Selling, general and administrative expenses	183	13,141	13,324	183	11,736	11,919

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

Cautionary Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements can be identified by the use of terminology such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "plan," "possible," "project," "should," "will" and similar words or expressions. These forward-looking statements include but are not limited to statements regarding our anticipated revenue, expenses, profits and capital needs. These statements are based on our current expectations, estimates and projections and are subject to a number of risks and uncertainties that could cause our actual results to differ materially from those projected or estimated, including but not limited to adverse economic conditions, competitive pressures, unexpected costs and losses from operations or investments, increases in general and administrative costs, our ability to maintain an effective system of internal controls over financial reporting, potential losses from trading in securities, our ability to retain key personnel and relationships with suppliers, the willingness of GE Capital, Community Bank or other lenders to extend financing commitments and the availability of capital resources, repairs or similar expenditures required for existing properties due to weather or acts of God, and the other risks set forth in "Risk Factors" in Part II, Item 1A of this report or identified from time to time in our other filings with the SEC and in public announcements. You should not place undue reliance on these forward-looking statements that speak only as of the date hereof. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, including to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. The inclusion of forward looking statements in this Quarterly Report should not be regarded as a representation by management or any other person that the objectives or plans of the Company will be achieved.

Overview

EACO Corporation was organized under the laws of the State of Florida in September 1985. From the inception of EACO through June 2005, EACO's business consisted of operating restaurants in the State of Florida. On June 29,

2005, EACO sold all of its operating restaurants and other assets used in the restaurant operations. The restaurant operations are presented as discontinued operations in the accompanying condensed consolidated financial statements. Since June 2005 until the acquisition of Bisco in March 2010, our operations have principally consisted of managing five rental properties held for leasing in Florida and California. As a result of our March 2010 acquisition of Bisco, 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 six months ended February 29, 2012 and the year ended August 31, 2011 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, 2011 ("fiscal 2011") as filed with the SEC on November 29, 2011.

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 claims. An actuarial evaluation was last obtained by the Company as of August 31, 2011. No changes to the estimated liability were recorded during the three or six months ended February 29, 2012 or February 28, 2011.

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 Accounting Standards Codification ("ASC") 740, "Accounting for Income Taxes", 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, in June 2005, 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 February 29, 2012 and February 28, 2011 (unaudited)******Distribution Sales and Gross Profit (\$ in thousands)***

	Three Months Ended		\$	%	
	February 29, 2012	February 28, 2011	Change	Change	
Distribution sales	\$27,114	\$24,694	\$2,420	9.8	%
Cost of goods sold	19,846	18,227	(1,619)	(8.9)
Gross profit	\$7,268	\$6,467	\$801		
Gross profit %	26.8 %	26.1 %		0.7	%

Distribution 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 charges by the

Company to its customers. The increase in distribution sales in the three months ended February 29, 2012 (“Q2 2012”) as compared to the prior year period was largely due to increased unit sales, resulting from an increase in sales headcount of 13% in the three months ended February 29, 2012 as compared to the three months ended February 28, 2011 (“Q2 2011”). The Company added three sales offices in Virginia, Missouri and Georgia in the latter half of fiscal 2011. These offices were open in Q2 2012, but not in Q2 2011.

Additionally, the Company’s sales force is divided into Sales Focus Teams (“SFTs”). These teams generally focus the majority of their time on specific industries, product lines and/or geographic regions and are designed to assist the Company in increasing market share in specific areas and, as a result, increase sales. The Company has increased the number of SFTs from 74 at February 28, 2011 to 82 at February 29, 2012, an 11% increase. The increase in SFTs was supported by an increase in salespeople, with the Company growing from 254 salespeople at February 28, 2011 to 286 salespeople at February 29, 2012, a 13% increase.

The Company also increased margins in Q2 2012 mainly due to a decrease in the Company’s freight costs as compared to the prior year period as a result of a renegotiation of the Company’s contract with its main carrier during the first quarter of the fiscal year ending August 31, 2012 (“fiscal 2012”).

Rental Income and Gross Profit (\$ in thousands)

	Three Months Ended		\$	%	
	February 29, 2012	February 28, 2011	Change	Change	
Rental revenue	\$312	\$ 311	\$ 1	0.3	%
Cost of rental operations	100	107	7	6.5	
Gross profit	\$212	\$ 204	\$ 8		
Gross profit %	67.9%	65.6	%	2.3	%

The changes in rental revenue and costs from Q2 2011 to Q2 2012 were not significant.

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

	Three Months Ended		\$ Change	%	
	February 29, 2012	February 28, 2011		Change	Change
Selling, general and administrative expenses	\$6,850	\$ 5,891	\$ 959	16.3	%
Percent of distribution sales	25.3 %	23.9 %		1.4	%

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 Q2 2012 increased from Q2 2011 largely due to increased salaries and salaries related expenses as the Company increased sales headcount by 32 employees or 13%, in Q2 2012 as compared to Q2 2011. As a percentage of distribution sales, SG&A increased because the Company’s new employees require time and training to achieve productivity.

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

	Three Months Ended		\$ Change	%	
	February 29, 2012	February 28, 2011		Change	Change
Other income (expense):					
Gain on sale of trading securities	\$62	\$ 247	\$ (185)	(74.9)	%
Unrealized gain (loss) on trading securities	92	(69)	161	233.3	
Interest expense, net	(178)	(190)	12	6.3	
Other income (expense), net	\$(24)	\$ (12)	\$ (12)		
Other income (expense), net as a percent of distribution sales	0.1 %	0.0 %		0.1	%

Other income (expense), net primarily 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 improve returns. During Q2 2012, the Company recognized \$154,000 in net realized and unrealized gains. The Company experienced net realized and unrealized gains of \$178,000 during Q2 2011. Gains in both periods were due to increases in the Company’s holdings and a consistent investment strategy in both periods.

Income Tax Provision (\$ in thousands)

	Three Months Ended		\$	%	
	February 29, 2012	February 28, 2011	Change	Change	
Income tax provision	\$203	\$ 235	\$ 32	13.6	%
Percent of net income	33.4%	30.5 %		2.9	%

The provision for income taxes decreased by \$32,000 in the three month period ended February 29, 2012 over the prior year period, which resulted from lower pre-tax income and a decrease in the valuation allowance recognized in the current period as compared to the prior year period.

*Comparison of the Six Months Ended February 29, 2012 and February 28, 2011 (unaudited)**Distribution Sales and Gross Profit (\$ in thousands)*

	Six Months Ended		\$	%	
	February 29, 2012	February 28, 2011	Change	Change	
Distribution sales	\$53,264	\$50,038	\$3,226	6.4	%
Cost of goods sold	38,780	36,856	(1,924)	(5.2)
Gross profit	\$14,484	\$13,182	\$1,302		
Gross profit %	27.2 %	26.3 %		0.9	%

Distribution sales related to the Distribution Operations segment increased in the six months ended February 29, 2012 as compared to the prior year period largely due to increased unit sales, resulting from an increase in sales headcount of 13% in the six months ended February 29, 2012 as compared to the six months ended February 28, 2011. The Company added three sales offices in Virginia, Missouri and Georgia in the latter half of fiscal 2011. These offices were open in the first half of fiscal 2012, but not in the first half of fiscal 2011.

Additionally, the Company has increased the number of Sales Focus Teams from 74 at February 28, 2011 to 82 at February 29, 2012, an 11% increase, which the Company believes allowed it to increase sales.

The Company also increased margins in the six months ended February 29, 2012 over the same prior year period due to (a) the Company focusing more on increased margins, primarily in the first quarter of fiscal 2012 and (b) a decrease in the Company's freight costs as compared to the prior year period as a result of a renegotiation of the Company's contract with its main carrier.

Rental Income and Gross Profit (\$ in thousands)

	Six Months Ended		\$	%
	February 29, 2012	February 28, 2011	Change	Change
Rental revenue	\$623	\$ 623	\$ 0	0.0 %
Cost of rental operations	293	282	(11)	(3.9)
Gross profit	\$330	\$ 341	\$ (11)	
Gross profit %	53.0%	54.7 %		(1.7)%

The changes in rental revenue and costs from the six months ending February 28, 2011 to February 29, 2012 were not significant.

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

	Six Months Ended	%
		Change

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	February 29, 2012	February 28, 2011	\$ Change		
Selling, general and administrative expenses	\$ 13,324	\$ 11,919	\$ 1,405	11.8	%
Percent of distribution sales	25.0 %	23.8 %		1.2	%

SG&A in the six months ended February 29, 2012 increased from the six months ended February 28, 2011 largely due to increased salaries and salaries related expenses as the Company increased sales headcount 13% in the first six months of fiscal 2012 as compared to the first six months of fiscal 2011. As a percentage of distribution sales, SG&A increased because the Company's new employees require time and training to achieve productivity.

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

	Six Months Ended February 29, 2012	February 28, 2011	\$ Change	% Change
Other income (expense):				
Gain on sale of trading securities	\$ 62	\$ 253	\$ (191)	(75.5)%
Unrealized gain on trading securities	285	140	145	103.6
Interest expense, net	(359)	(385)	26	6.8
Other income (expense), net	\$(12)	\$ 8	\$(20)	
Other income (expense), net as a percent of distribution sales	0.0 %	0.0 %		0.0 %

During the six months ended February 29, 2012, the Company recognized \$347,000 in net realized and unrealized gains. The Company experienced net realized and unrealized gains of \$393,000 during the six months ended February 28, 2011. Gains in both periods were due to increases in the Company's holdings and a consistent investment strategy in both periods.

Income Tax Provision (\$ in thousands)

	Six Months Ended		\$	%	
	February 29, 2012	February 28, 2011	Change	Change	
Income tax provision	\$450	\$ 479	\$ 29	6.1	%
Percent of net income	30.4%	29.7 %		0.7	%

The provision for income taxes decreased by \$29,000 in the six month period ended February 29, 2012 over the prior year period, which primarily resulted from lower pre-tax income and a decrease in the valuation allowance recognized in the current period as compared to the prior year period.

Liquidity and Capital Resources

The Company has a \$10,000,000 line of credit agreement with Community Bank. Borrowings under this agreement bear interest at either the 30, 60, or 90 day LIBOR (0.49% and 0.33% for the 90 day LIBOR at February 29, 2012 and August 31, 2011, respectively) plus 1.75% and/or the bank's reference rate (3.25% at February 29, 2012 and August 31, 2011). 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 with Community Bank was renewed until March 1, 2013.

The amount outstanding under this line of credit as of February 29, 2012 and August 31, 2011 was \$9,150,000 and \$8,500,000, respectively. Availability under the line of credit was \$850,000 and \$1,500,000 at February 29, 2012 and August 31, 2011, respectively.

The line of credit agreement contains nonfinancial and financial covenants requiring the maintenance of certain financial ratios. As of February 29, 2012, 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 expires in March 2013 and bears interest at the bank's reference rate (3.25% at February 29, 2012 and August 31, 2011). As of February 29, 2012, the outstanding balance of this term loan was \$507,000.

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 six months ended February 29, 2012 included an increase in accounts receivable related to the Company's increased sales activity for the period. The Company also decreased accrued expenses due to payment of annual bonuses in the six months ended February 29, 2012 related to the fiscal year ended August 31, 2011 and estimated income tax payments made related to the Company's fiscal 2011 tax year.

Cash Flows from Investing Activities

Cash provided by investing activities was \$356,000 for the six months ended February 29, 2012. This was due primarily to proceeds from sales of marketable securities holdings during the year offset by the purchases of equipment by the Company during the period and by the net decrease in restricted cash resulting from the release in October 2011 by Florida Self-Insurers Guaranty Association, Inc. of restricted cash in the amount of \$84,000 related to the Company's self-insured workers' compensation program.

Cash Flows from Financing Activities

Cash provided by financing activities for the six months ended February 29, 2012 was \$1,048,000 as compared with \$614,000 for the six months ended February 28, 2011. Cash provided by financing activities consists mainly of proceeds from borrowings on the Company's line of credit to fund operations in fiscal 2012 and 2011. Additionally, the Company's bank overdraft increased at February 29, 2012 as compared to February 28, 2011.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that are reasonably likely to have a material 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. 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 Consolidated 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, 2011 as filed with the SEC on November 29, 2011.

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 effective as of the end of the period covered in this report.

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.

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. 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.

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 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 maintain an effective system of internal controls over financial reporting or experience additional 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 deficiencies in the process related to the preparation of our financial statements, segregation of duties, sufficient control in the area of financial reporting oversight and review, and appropriate personnel to ensure the complete and proper application of GAAP as it relates to certain routine accounting transactions. Although we believe we have addressed these material weaknesses as of August 31, 2011, we may experience additional material weaknesses or significant deficiencies in the future and may fail to maintain a system of internal control over financial reporting that complies with the reporting requirements applicable to public companies in the United States. 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 are 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 occur in the future, and any such losses could cause us to violate our covenants 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 as 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 and costly 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 expensive 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 of Bisco. 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 products as needed. We cannot assure you that suppliers will maintain an adequate supply of products to fulfill our orders on a timely basis, at a recoverable cost, 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 strategy of expanding into new geographic areas is risky and could be costly.

One of our primary growth strategies for our Distribution Operations segment is to grow our business through the opening 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 or that any new offices will be successful. 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 or hire the qualified sales personnel necessary to make such new offices successful. Failure to do so could negatively impact our long-term growth and market share.

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 products lines, or obtain new product on favorable terms and prices or at all.

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.

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 the costs of energy, shipping and 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.

The Company's Chairman and CEO holds almost all of our voting stock and can control the election of directors and significant corporate actions.

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.

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 February 29, 2012, the number of shares held by non-affiliates of Mr. Ceiley or Bisco is less than 55,000 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 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. Mine Safety Disclosures

Not applicable.

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.

20

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: April 16, 2012 By: /s/ **Glen Ceiley**
Glen Ceiley

Chief Executive Officer

(Principal Executive Officer & Principal Financial Officer)

By: /s/ **Michael Bains**
Michael Bains

Controller and Assistant Secretary

(Principal Accounting Officer)

EXHIBIT INDEX

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22