EACO CORP
Form 10-Q
April 16, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x 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

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

For the transition period from _______ to _______

Commission File No. **000-14311**

EACO CORPORATION

(Exact name of registrant as specified in its charter)

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 x No o

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 x No o

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 o   Accelerated filer o   Non-accelerated filer o   Smaller reporting company x

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

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

1

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
ASSETS	(unaudited)	
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

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

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