EACO CORP
Form 10-Q
April 19, 2010

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

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

For the quarterly period ended February 28, 2010

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 þ 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 o 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. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

As of April 19, 2010, 4,861,604 shares of the registrant s common stock were outstanding.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

EACO Corporation
Condensed Statements of Operations
(Unaudited)

	Three Months Ended February 28, 2010	Three Months Ended February 28, 2009	Six Months Ended February 28, 2010	Six Months Ended February 28, 2009
Rental income	$ 245,100	$ 226,300	$ 486,700	$ 496,900
Operating expenses:				
Depreciation and amortization	88,100	47,100	197,300	224,500
General and administrative expenses	360,700	611,300	660,200	1,023,300
Loss on impairment of assets		2,057,800		2,057,800
Gain on sublease contract termination		(791,000)		(827,500)
Loss on disposition of equipment		5,000		5,000
Total operating expenses	448,800	1,930,200	857,500	2,483,100
Loss from operations	(203,700)	(1,703,900)	(370,800)	(1,986,200)
Interest and other income	4,000	2,600	5,300	8,100
Interest expense	(215,400)	(276,300)	(435,200)	(544,000)
Net loss	(415,100)	(1,977,600)	(800,700)	(2,522,100)
Undeclared cumulative preferred stock dividend	(19,100)	(19,100)	(38,200)	(38,200)
Net loss attributable to common shareholders	$ (434,200)	$ (1,996,700)	$ (838,900)	$ (2,560,300)
Basic and diluted net loss per share attributable to common shareholders*	$ (2.78)	$ (12.77)	$ (5.36)	$ (16.37)
Basic and diluted weighted average common shares outstanding*	156,410	156,410	156,410	156,410

* Reflects 1 for 25 reverse stock split effected on March 23, 2010 (See Note 8, Subsequent Events).

See accompanying notes to condensed financial statements.

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EACO Corporation
Condensed Balance Sheets

	February 28, 2010 (Unaudited)	August 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 36,200	$ 42,500
Receivables, net		7,200
Prepaid and other current assets	56,500	258,500
Total current assets	92,700	308,200
Certificate of deposit, pledged	769,500	769,500
Real estate properties held for leasing, net	10,466,300	10,298,600
Other assets, principally deferred charges, net of accumulated amortization	610,300	577,100
Total assets	$ 11,938,800	$ 11,953,400
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current Liabilities:		
Accounts payable	$ 362,900	$ 460,200
Accrued expenses	116,300	170,100
Liabilities of discontinued operations short term	147,500	147,500
Current portion of long-term debt and obligation under capital lease	7,448,200	7,559,200
Due to related party	5,454,900	2,723,400
Total current liabilities	13,529,800	11,060,400
Deposit liability	122,200	107,000
Liabilities of discontinued operations long term	3,037,400	3,174,400
Obligation under capital lease		1,561,500
Total liabilities	16,689,400	15,903,300
Commitments and contingencies		
Shareholders deficit:		
Convertible preferred stock of $0.01 par value; authorized 10,000,000 shares; 36,000 shares outstanding (liquidation value $900,000)	400	400
Common stock of $0.01 par value; authorized 8,000,000 shares; 156,410* shares outstanding	39,000	39,000
Additional paid-in capital	10,932,300	10,932,300
Accumulated deficit	(15,722,300)	(14,921,600)

Total shareholders deficit		(4,750,600)		(3,949,900)
Total liabilities and shareholders deficit	$	11,938,800	$	11,953,400

* Reflects 1 for 25 reverse stock split effected on March 23, 2010 (See Note 8, Subsequent Events).

See accompanying notes to condensed financial statements.

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EACO Corporation

Condensed Statements of Cash Flows

	(Unaudited) Six Months Ended February 28, 2010	February 28, 2009
Operating activities:		
Net loss	$ (800,700)	$ (2,522,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	197,300	224,500
Loss on impairment of assets		2,057,800
Gain on sublease contract termination		(827,500)
Loss on disposition of equipment		5,000
(Increase) decrease in:		
Receivables	7,200	
Prepaid expenses	2,000	58,900
Other current assets	(46,900)	335,900
Increase (decrease) in:		
Accounts payable	(97,300)	128,100
Accrued liabilities	(53,800)	(5,600)
Deferred rent		(47,800)
Deposit liability	15,200	(64,400)
Due to related party		92,300
Liabilities of discontinued operations	(137,000)	46,700
Net cash used in operating activities	(914,000)	(518,200)
Investing activities:		
Purchase of Deland property	(151,300)	
Release of restricted cash		363,200
Net cash provided by (used in) investing activities	(151,300)	363,200
Financing activities:		
Proceeds from related party debt	2,731,500	234,500
Settlement of capital lease obligation	(1,561,900)	
Payments on long-term debt	(110,600)	(60,300)
Preferred stock dividend paid		(19,100)
Net cash provided by (used in) financing activities	1,059,000	155,100

Net increase (decrease) in cash and cash equivalents	(6,300)	100

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	(Unaudited) Six Months Ended February 28, 2010	February 28, 2009
Cash and cash equivalents beginning of year	42,500	2,200
Cash and cash equivalents end of year	$ 36,200	$ 2,300
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 252,000	$ 479,200
Non-cash investing activities:		
Deposit applied to purchase of Deland Property	$ 200,000	

See accompanying notes to condensed financial statements.

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EACO CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
February 28, 2010
(Unaudited)

Note 1. Basis of Presentation and Significant Accounting Policies

Organization

EACO Corporation (hereinafter alternatively referred to as EACO, the Company, we, us, and our) was organized under the laws of the State of Florida in September l985. From the inception of the Company through June 2005, the Company s business consisted of operating restaurants in the State of Florida. On June 29, 2005, the Company 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 claim liability, which is presented as liabilities of discontinued operations on the Company s balance sheets. The Company s continuing operations principally consist of managing four rental properties held for investment located in Florida and California.

EACO filed an amendment to its articles of incorporation with the Secretary of State of the State of Florida, effective March 23, 2010 (the Effective Time), to effect a 1-for-25 reverse split of its outstanding common stock (the Reverse Split). As of the Effective Time, each outstanding share of EACO common stock automatically converted into four one-hundredth (0.04) of a share of common stock. Unless otherwise noted, the number of common shares and per share calculations in this quarterly report reflect the effect of the reverse split. See Note 8, Subsequent Events, for further discussion.

Fiscal Year

On September 29, 2009, the Board of Directors approved a change in the Company s fiscal year end to August 31. Prior to that, the fiscal year was the fifty-two or fifty-three week period ending on the Wednesday nearest to December 31. The Company reported the decision to change its fiscal year end to August 31 in a Form 8-K filed with the Securities and Exchange Commission (the SEC) on October 5, 2009 and filed its transition report on Form 10-K for the eight month transition period ended August 31, 2009.

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 collectability of rent receivables, impairment evaluation of properties, workers compensation liability, the depreciable lives of assets and the valuation allowance against deferred tax assets. Actual results could differ from those estimates.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared by the Company in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the rules and regulations of the SEC for interim reporting. In the opinion of management, all adjustments (which include normal recurring adjustments) considered necessary for a fair presentation of our financial position and results of operations 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 Transition Report on Form 10-K for the eight month period ended August 31, 2009. Amounts related to disclosure of August 31, 2009 balances within these condensed financial statements were derived from the audited financial statements as of August 31, 2009.

Note 2. Recent Accounting Pronouncements

The FASB has issued Accounting Standards Update (ASC) No. 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The FASB also clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. The FASB believes these amendments remove potential conflicts with the SEC s literature. All of the amendments in the ASU were effective upon issuance (February 24, 2010) except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010.

During the first quarter of 2010, the Company adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update ASC No. 2009-01, Amendments based on Statement of Financial Accounting Standards No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (the Codification). The Codification became the single source of authoritative GAAP in the United States, other than rules and interpretive releases issued by the SEC. The Codification reorganized GAAP into a topical format that eliminates the previous GAAP hierarchy and instead established two levels of guidance authoritative and nonauthoritative. All non-grandfathered, non-SEC accounting literature that was not included in the Codification became nonauthoritative. The adoption of the Codification did not change previous GAAP, but rather simplified user access to all authoritative literature related to a particular accounting topic in one place. Accordingly, the adoption had no impact on the company s financial position and results of operations. All prior references to previous GAAP in the company s consolidated financial statements were updated for the new references under the Codification.

In June 2009, the FASB issued guidance as codified in ASC 810-10, Consolidation of Variable Interest Entities (previously SFAS No. 167, Amendments to FASB Interpretation No. 46(R)). This guidance is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities (VIE s) and by requiring additional disclosures about a company s involvement in variable interest entities. This guidance is generally effective for annual periods beginning after November 15, 2009 and for interim periods within that first annual reporting period. We are currently evaluating the potential impact on our financial statements when implemented.

Note 3. Real Estate Properties

In May 2009, the Company was sued by the landlord of the Deland Property. In the suit, the landlord claimed damages related to the capital lease for rent not paid by the Company, plus penalties and interest. On July 31, 2009, the landlord and the Company agreed to a settlement on the Deland Property and the related capital lease. For a total sum of $2,123,000 and payment of $22,500 in closing costs the landlord agreed to sell the Deland Property to the Company and release the Company from any further obligations under the lease. The agreement required a non-refundable deposit of $200,000 to be paid five days after the signing of the agreement, with the remaining $1,945,500 due sixty days after the signing of the agreement. The purchase of the property was completed on September 29, 2009. Payments related to both the $200,000 deposit and final $1,945,500 payment were borrowed by the Company from Bisco Industries (Bisco), an affiliated entity wholly owned by the Company s majority stockholder and Chief Executive Officer, Glenn F. Ceiley, (CEO), under separate note agreements. The notes accrue interest at 7.5% per annum and are due in April 2010 and June 2010.

The settlement resulted in the extinguishments of the capital lease obligation of approximately $1,561,500 and the liability for past due rents of $232,700, and the difference between the settlement amount and the amounts paid on the liabilities noted above was capitalized as additional Deland property value in the amount of $351,300. Of the $351,300, $193,200 was allocated to building and $158,100 was allocated to the land.

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Note 4. Related Party Transactions

During the six months ended February 28, 2010, the Company received bridge loans from Bisco in the amount of $2,423,000 and the Company accrued interest on these bridge loans of approximately $168,600, respectively. The balance of the bridge loans was approximately $5,152,400 and $2,560,800 as of February 28, 2010 and August 31, 2009, respectively. Bisco s sole shareholder and President is Glen F. Ceiley, the Company s Chief Executive Officer, majority shareholder and Chairman of the Board. The bridge loans do not provide for regularly scheduled payments; however, any remaining outstanding principal balance plus accrued interest at an annual rate of 7.5% is due six months from the date of each note. The loans have been extended by the Company beyond six months and are due between April 2010 and June 2010.

As of February 28, 2010 and August 31, 2009, interest accrued on the outstanding bridge loans was $220,700 and $52,100 and is presented as a component of due to related party on the accompanying condensed balance sheets.

The Company currently has a management agreement with Bisco, which provides administration and accounting services. During the three and six months ended February 28, 2010, the Company incurred approximately $38,600, and $75,400, respectively, for those services. During the three and six months ended February 28, 2009, the Company incurred approximately $15,200 and $42,500, respectively, for those services. Such amounts are included in general and administrative expenses in the accompanying statements of operations. The amounts due to Bisco for these services and others at February 28, 2010 and August 31, 2009 were $302,500 and $162,700, respectively, and are included in due to related party in the accompanying balance sheets.

Note 5. Earnings (Loss) Per Share

The following is a quarterly reconciliation of the numerators and denominators of the basic and diluted earnings per share (EPS) computations for net loss from continuing operations attributable to common shareholders:

	Unaudited			
	Three months Ended		Six Months Ended	
	Feb. 28, 2010	Feb. 28, 2009	Feb. 28, 2010	Feb. 28, 2009
EPS basic and diluted:				
Net loss	$ (415,100)	$ (1,977,600)	$ (800,700)	$ (2,522,100)
Less undeclared cumulative preferred stock dividends	(19,100)	(19,100)	(38,200)	(38,200)
Net loss attributable to common shareholders	$ (434,200)	$ (1,996,700)	$ (838,900)	$ (2,560,300)
Weighted average shares outstanding*	156,410	156,410	156,410	156,410
Loss per common share basic and diluted*	$ (2.78)	$ (12.77)	$ (5.36)	$ (16.37)

* Reflects 1 for 25 reverse stock split effected on March 23, 2010 (See Note 8, Subsequent Events).

For the three and six months ended February 28, 2010 and 2009, there were 40,000 and 41,000, respectively, potentially dilutive common shares from outstanding stock options and convertible preferred stock that have not been included in the computation of diluted loss per common share due to their anti-dilutive effect and therefore the weighted average basic and diluted common shares outstanding are the same..

Note 6. Liabilities of Discontinued Operations

The liabilities of discontinued operations consist of the estimated liabilities associated with the Company s former self insured worker s compensation program. The liabilities of discontinued operations were $3,184,900 and $3,321,900 at February 28, 2010 and August 31, 2009, respectively.

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, in July 2004 the Company provided the Division with a $1 million letter of credit (LOC) from a bank with an expiration date of May 30, 2009. In May 2009, the LOC was renewed for one year with an expiration date of May 30, 2010. Based upon the bank s evaluation of the Company s credit and to avoid collateralization requirements, the LOC is guaranteed on behalf of the Company by Bisco. In addition, the Company pledged letters of credit totaling $2,769,500 to the Division expiring in December 2010 to meet the Division s collateral requirement of $3,769,500. The December 2010 LOC s are secured by a certificate of deposit of $769,500 and the Company s Sylmar Property.

Note 7. Commitments and Contingencies

Income Taxes

The Company had no material adjustments to its unrecognized tax benefits during the three and six months ended February 28, 2010**.**

Legal Matters

In May 2009, the Company was sued by the landlord of the Deland Property. In the suit, the landlord claimed damages related to the capital lease for rent not paid by the Company, plus penalties and interest. On July 31, 2009, the landlord and the Company agreed to a settlement on the Deland Property and the related lease. See Note 3 above for further discussion.

Long Term Debt Covenant Violation

The GE Capital loan is secured by the Company s Orange Park Property. The Community Bank loan is secured by the Sylmar Property and a personal guarantee of the Company s CEO. The Zion s Bank loan is secured by the Company s Brooksville Property.

The loan from Zion s Bank requires the Company to comply with certain financial covenants and ratios measured annually beginning with the 12-month period ended December 31, 2008, as defined in the loan agreement. As of February 28, 2010 and August 31, 2009, the Company was not in compliance with one covenant of the loan agreement. The defaulted covenant prohibited EACO from incurring any additional debt during the loan measurement period. The Company violated this covenant through borrowings from Bisco to fund operations throughout the course of fiscal 2009 and the three and six months ended February 28, 2010. Zion s Bank has not granted the Company a waiver regarding these defaults. Although Zion s Bank has not accelerated payment of the loan, the full amount due under the mortgage is reported as a current liability in the accompanying February 28, 2010 and August 31, 2009 balance sheets. Zion s Bank has indicated they will not take any action regarding the breach; however, they reserve any and all rights they have under the mortgage agreement.

Violation of the Zion Bank debt covenant triggered a cross default provision with the GE Capital and Community Bank loans. As a result and because the Company did not obtain waivers from those creditors, such loans have been classified as current liabilities as of February 28, 2010 and August 31, 2009.

As of February 28, 2010, the Company was current on the payments of principal and interest required by the debt agreements described above. Management believes that the possibility of foreclosure of any of the properties which collateralize such debt is remote. Should the properties be foreclosed upon, the Company risks losing all of its related revenue stream.

Lease Obligations

As a result of the purchase of the Deland property the Company no longer has capital or operating lease obligations. See Note 3 above for further discussion.

Note 8. Subsequent Events

Deland Property Tenant

On March 1, 2010, the Company leased the Deland, Florida Property to a restaurant tenant. The lease has a term of seven years with one three year option. The rent is $15,200 per month and increases by 2.6% per year starting in year 3. The Company receives only the rental payment and is responsible for all other lease costs, including utilities and taxes. The tenant has a purchase option on the property anytime in the first five years for $1.9 million.

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Reverse Split of EACO Common Stock

EACO filed an amendment to its articles of incorporation with the Secretary of State of the State of Florida, effective March 23, 2010 (the Effective Time), to effect a 1-for-25 reverse split of its outstanding common stock (the Reverse Split). As of the Effective Time, each outstanding share of EACO common stock automatically converted into four one-hundredth (0.04) of a share of common stock. No fractional shares were issued upon such automatic conversion of the common stock. If any fractional share of common stock would have been delivered upon such conversion to any shareholder, such shareholder was paid an amount in cash equal to the fair market value of such fractional share as of the Effective Time, as determined in good faith by the Board of Directors of EACO. Immediately prior to the Effective Time, 3,910,264 shares (pre-reverse split) of common stock were outstanding; upon the Effective Time, such shares converted into approximately 156,410 shares (post-reverse split) of common stock.

The Reverse Split did not affect the number or par value of the authorized shares of common stock, which remain at 8,000,000 shares of common stock, $0.01 par value per share. As a result, the Reverse Split effectively increased the proportion of authorized shares which are unissued relative to those which are issued. In addition, the Reverse Split did not affect the number or par value of the authorized shares of preferred stock of EACO, which remain at 10,000,000 shares of preferred stock, $0.01 par value per share, of which 40,000 shares are designated Series A Cumulative Convertible Preferred Stock. However, the Reverse Split increased the conversion price of the outstanding Series A Cumulative Convertible Preferred Stock from $0.90 to $22.50, and reduced the number of shares of common stock into which the outstanding shares of preferred stock may be converted, from 1,000,000 shares to 40,000 shares (not including any accrued dividends on such shares which may be converted).

Merger with Bisco Industries, Inc.

During the eight months ended August 31, 2009, the Company engaged financial advisors to evaluate alternative strategies to increase shareholder value, including a merger with Bisco Industries, Inc. (Bisco), an affiliated entity wholly owned by the Company s majority stockholder and Chief Executive Officer, Glenn F. Ceiley, (CEO). Bisco is a distributor of electronic components and fasteners with 37 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.

On March 24, 2010, EACO completed the acquisition of Bisco. 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.

In connection with the Acquisition, EACO issued an aggregate of 4,705,669 shares of its common stock (the Merger Shares) to the sole shareholder of Bisco in exchange for all of the outstanding capital stock of Bisco. 36,000 shares of the Merger Shares will be held in escrow by EACO for twelve months as security for the indemnification obligations of the former Bisco shareholder to EACO as set forth in the Agreement.

Bisco s sole shareholder was Glen F. Ceiley. After the Acquisition and the issuance to him of the Merger Shares, Mr. Ceiley owns 98.9% of the outstanding common stock of EACO. Mr. Ceiley also owns 36,000 shares of the Series A Cumulative Convertible Preferred Stock of EACO. In addition, under a management agreement with EACO, Bisco handles the day to day operations of EACO and provides administration and accounting services through a steering committee. The steering committee consists of Mr. Ceiley and certain senior executives of Bisco.

The unaudited pro forma condensed combined balance sheet as of February 28, 2010 presented below reflects the merger and related events as if they had been consummated on February 28, 2010. Such financial statement combines the historical EACO and Bisco balance sheets as of February 28, 2010. The unaudited historical balance sheet of Bisco as of February 28, 2010 has been prepared in conformity with GAAP in all material respects. Such pro forma financial information is presented for informational purposes only and is not intended to represent or necessarily be indicative of the financial condition that would have been achieved if the merger had been completed as of the date indicated, and should not be taken as representative of the future financial condition of the combined entities.

Preparation of the unaudited pro forma balance sheet required management to make certain judgments and estimates to determine the pro forma adjustments such as the estimated utilization of EACO net operating loss carry forwards (NOL).

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and resulting recognition of other deferred tax assets and liabilities; however, the ultimate realization of the NOLs is dependent upon final determination from the Company s tax advisors that the merger constituted a tax free reorganization and the NOLs will not be limited as a result of the merger.

The pro forma balance sheet does not reflect any cost savings or operating synergies that may result from the merger or the expenses required to achieve any such cost savings or operating synergies.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
as of FEBRUARY 28, 2010
ASSETS

	Eaco Corporation (Historical)	Bisco Industries, Inc. and Subsidiary (Historical)	Pro Forma Adjustments		Pro Forma Combined
CURRENT ASSETS:					
Cash and cash equivalents	$ 36,200	$ 728,400	$		$ 764,600
Trade accounts receivable, net		10,742,700			10,742,700
Inventory, net		9,648,900			9,648,900
Marketable securities, trading		656,200			656,200
Prepaid expenses and other current assets	56,500	247,100			303,600
Related party receivable		5,437,100	(5,437,100)	**Note A**	
Deferred tax asset		199,400		**Note B**	199,400
Total current assets	92,700	27,659,800	(5,437,100)		22,315,400
NON-CURRENT ASSETS:					
Real estate properties leased or held for leasing, net	10,466,300				10,466,300
Property, plant and equipment, net		1,163,200			1,163,200
Other assets, net of accumulated amortization	610,300	305,400			915,700
Restricted cash	769,500	540,400			1,309,900
Deferred tax asset		667,600	5,433,100	**Note B**	6,100,700
Other assets		94,600			94,600
Total non-current assets	11,846,100	2,771,200	5,433,100		20,050,400
TOTAL ASSETS	$ 11,938,800	$ 30,431,000	$ (4,000)		$ 42,365,800

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UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
as of FEBRUARY 28, 2010
LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIT)

	Eaco Corporation (Historical)	Bisco Industries, Inc. and Subsidiary (Historical)	Pro Forma Adjustments	Pro Forma Combined
CURRENT LIABILITIES:				
Bank overdraft	$	$ 1,139,800	$	$ 1,139,800
Line of credit		9,794,400		9,794,400
Trade accounts payable	362,900			