EACO CORP
Form 10-KT/A
March 10, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K/A
(Amendment No. 1)

o **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended _____

þ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from January 1, 2009 through August 31, 2009

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)

Registrant s telephone number, including area code: (714) 876-2490

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.01 Par Value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether 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 (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 Act). o

The aggregate market value of the registrant s common stock as of July 1, 2009 (based upon the average bid and asked price of the common stock on that date) held by non-affiliates of the registrant was approximately $135,000.

As of December 1, 2009, 3,910,264 shares of the registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

No documents required to be listed hereunder are incorporated by reference in this report on Form 10-K.

EXPLANATORY NOTE

EACO Corporation (the Company) is filing this Amendment No. 1 to its Transition Report on Form 10-K for the eight months ended August 31, 2009 (the Original Report), filed with the Securities and Exchange Commission (the SEC) on December 23, 2009, solely to add the audited consolidated balance sheet as of January 2, 2008, the audited consolidated statements of operations, cash flows and shareholders (deficit) equity for the fiscal years ended December 31, 2008 and January 2, 2008, and the related management s discussion and analysis of financial condition and results of operations, all of which had been previously filed with the SEC on the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008. Except as stated in this paragraph, this amendment does not update or change any other items or disclosures in the Original Report or reflect events that occurred after the date of the Original Report. We have also included the certifications required under Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results Of Operations***

Critical Accounting Policies

Revenue Recognition

The Company leases its 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, in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases .

Receivables are carried net of an allowance for uncollectible receivables. An allowance is maintained for estimated losses resulting from the inability of any tenant to meet their contractual obligations under their lease agreements. We determine the adequacy of this allowance by continually evaluating individual tenants receivables considering the tenant s financial condition and security deposits, and current economic conditions. An allowance for uncollectible accounts of $0 and $53,400 as of August 31, 2009 and December 31, 2008, respectively, was determined to be necessary to reduce receivables to our estimate of the amount recoverable.

Impairment of Long Lived Assets

The Company s accounting policy for the recognition of impairment losses on long-lived assets is considered critical. The Company s policy is to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the purpose of the impairment review, assets are tested on an individual basis. The recoverability of the assets is measured by a comparison of the carrying value of each asset to the future net undiscounted cash flows expected to be generated by such assets. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds their estimated fair value. During the eight months ended August 31, 2009 and August 31, 2008, the Company did not record an impairment charge on its rental property assets although an impairment charge of $2,057,800 was recognized on three rental property assets during the quarter ended December 31, 2008.

Liabilities of Discontinued Operations

The Company s policy for estimating liabilities of its discontinued operations is considered critical. This item consists of the Company s self-insured worker s compensation program. The Company self-insures workers compensation claims losses up to certain limits. 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. The estimate is continually reviewed and adjustments to the Company s estimated claim liability, if any, are reflected in discontinued operations. At fiscal year end, 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 obtained by the Company as of August 31, 2009. The Company pursues recovery of certain claims from an insurance carrier. Recoveries, if any, are recognized when realization is reasonably assured.

Deferred Tax Assets

The Company s policy for recording a valuation allowance against deferred tax assets (see Note 8 to the financial statements included elsewhere herein) 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 SFAS No. 109, Accounting for Income Taxes (SFAS 109), 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. SFAS 109 further states that forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses and/or significant decreases in operations. As a result of the

Company s disposal of significant business operations, management concluded that a valuation allowance should be recorded against certain federal and state tax credits. The utilization of these credits requires sufficient taxable income after consideration of net operating loss utilization.

Loss on Sublease Contracts

The Company s policy for recording a loss on sublease contracts is to evaluate the costs expected to be incurred under an operating sublease in relation to the anticipated revenue in accordance with Financial Accounting Standards Board (FASB) Technical Bulletins (FTB) 79-15, Section L-10; if such costs exceed anticipated revenue on the operating sublease, the Company recognizes a loss equal to the present value of the shortfall in rental income over the term of the sublease.

Results of Operations

Eight Months Ended August 31, 2009 Compared to August 31, 2008

Continuing Operations

The Company exited the restaurant business through the sale of its operating restaurants to Banner Buffets LLC (Banner) on June 29, 2005 (the Asset Sale). At August 31, 2009, the Company owns two restaurant properties, one located in Orange Park, Florida (the Orange Park Property) and one in Brooksville, Florida (the Brooksville Property). The Orange Park Property was vacant at August 31, 2009, while the Brooksville Property was occupied by a tenant, whose lease period commenced on January 9, 2008. At August 31, 2009, the Company was obligated for leases of one restaurant located in Deland, Florida (the Deland Property). In 2008, this property was occupied by a nonperforming subtenant who was evicted at the beginning of 2009. During 2009, the Company reached an agreement with the landlord of property the Company leased in Tampa, Florida (the Fowler Property). For a lump sum, the Company was released from any past and future obligations related to that property. In 2008, the Fowler Property was occupied by a non-performing subtenant who was evicted in early 2009. In addition, the Company owns an income producing real estate property held for investment in Sylmar, California (the Sylmar Property) with two industrial tenants.

Rental income decreased $269,200 or 28% in the eight months ended August 31, 2009 as compared to the same period in 2008. This was due to the subtenants at the Fowler Property and Deland Property. Both of these tenants failed to fulfill their obligations under their respective subtenant agreements and were evicted at the beginning of 2009. These properties were vacant during 2009 and were income producing in 2008.

In March 2007, the Company entered into a sublease on the Deland Property for $16,600 per month for a period of five years with a 4% rent increase every two years. The monthly sublease income was $7,000 less than the monthly minimum lease payments. The lease on the Deland Property contained a purchase option, which expired unexercised in December 2007. At that point, the purchase of the property was no longer imminent and, as a result, the Company recognized a loss on the sublease contract for the Deland Property of $720,900 in 2007 in accordance with the Financial Accounting Standards Board (FASB) Technical Bulletin (FTB) No. 79-15, Accounting for Loss on a Sublease Not Involving the Disposal of a Segment . The loss was calculated as the present value of the shortfall in rental income over the term of the sublease contract. At the end of 2009 the subtenant defaulted on the lease. Eviction of the subtenant was completed in February 2009. As a result, the accrual for loss on sublease contract was derecognized in December 2008, resulting in a gain of approximately $720,900.

In June 2008, the Company entered into a sublease on the Fowler Property for $22,500 per month for a period of two years with no rent increase during the lease term. The monthly sublease income was $7,800 less than the monthly minimum lease payments. In 2008, the Company recognized a loss on the sublease contract for the Fowler Property of

$151,000 in accordance with the FTB No. 79-15. The loss was calculated as the present value of the shortfall in rental income over the term of the sublease contract.

Both the tenants of the Fowler Property and the Deland Property were evicted at the beginning of 2009. The remaining loss on contracts were reversed in December 2008 and reflected in the Company s financial statements for the fiscal year ended December 31, 2008 (fiscal 2008). As a result, no amounts related to the loss on contract were recognized in the eight months ended August 31, 2009.

In the latter half of fiscal 2008, the real estate market in Florida declined considerably. In addition, the general economic climate in the United States has caused consumers to decrease discretionary spending, adversely affecting the restaurant industries. These two situations combined with vacancies at three of the Company s four Florida properties triggered an analysis by management of the Company s owned real estate properties and capital lease holdings in the State of Florida as required by SFAS No. 144, *Accounting for the Impairment of Disposal of Long Lived Assets*. The Company contracted with an outside firm to value the four properties in Florida: the Deland Property, Fowler Property, Brooksville Property and Orange Park Property. Based upon the appraisals received, the Company recorded impairment charges of approximately $2,057,800 with regard to the Fowler Property, the Deland Property and the Brooksville Property as of December 31, 2008. Management did not record an impairment charge related to the Orange Park Property as the book value was less than the estimated fair value.

As previously stated, during the eight month period ended August 31, 2009, the Company negotiated a settlement of the capital lease it held at the Fowler Property. The disposition of the property related to the lease resulted in a loss of $146,400. The extinguishment of the related capital lease obligation resulted in a gain of $949,300. Both of these amounts are presented in the accompanying statement of operations for the eight months ended August 31, 2009. No such transaction occurred in 2008.

Depreciation and amortization decreased $120,800 or 25% in the eight months ended August 31, 2009 as compared to the same period in 2008, due to the settlement of the capital lease obligation related to the Fowler Property. Depreciation and amortization related to that property and to various other assets of that property were not expensed in the eight month period ended August 31, 2009 as they were in the eight month period ended August 31, 2008.

General and administrative expenses decreased $357,100 or 31% in the eight months ended August 31, 2009 as compared to the same period in 2008, due to significant decreases in rent related to the release from the Company s lease obligation for the Fowler Property that occurred at the beginning of 2009 and an absence of bad debt in 2009. The nonperforming subtenants of the Fowler Property and Deland Property resulted in approximately $155,400 of bad debt being recorded during the eight months ended August 31, 2008. Those tenants were evicted in February 2009 and no bad debt occurred in the eight months ended August 31, 2009.

The results from continuing operations for the eight month period ended August 31, 2008 included net realized gains of $95,700 from the sale of marketable securities and securities sold, not yet purchased, compared to net realized losses of $0 in the eight month period ended August 31, 2009. During the first four months of 2008, the Company liquidated all of its marketable securities to meet the demands of operating cash flow. There were no marketable securities held in 2009.

Interest and other income decreased $154,500 or 95% in the eight months ended August 31, 2009 as compared to the eight months ended August 31, 2008. The decrease was due to the lack of interest income received in 2009 due to the Company s liquidation of its marketable securities. In addition, in the eight month period ended August 31, 2008, the Company received a reimbursement from the Florida Disability Trust fund related to one of the claims in the Company s self insured worker s compensation program. No such reimbursement occurred in the eight month period ended August 31, 2009, and is not expected to occur in the future.

The Company had a loss from continuing operations before income taxes of $302,900 in the eight month period ended August 31, 2009 compared to a loss of $1,169,700 in the eight month period ended August 31, 2008. In the eight month period ended August 31, 2009, income tax expense of $5,900 was recognized related to various state income taxes. The Company recognized $15,800 of income tax expense during the eight month period ended August 31, 2008. Basic and diluted loss per share from continuing operations in the eight month period ended August 31, 2009 was $0.09 compared to $0.31 in the eight month period ended August 31, 2008.

Discontinued Operations

There was a gain on discontinued operations net of income tax in the eight month period ended August 31, 2009 of $308,700 as compared to a loss in the eight month period ended August 31, 2008 of $1,185,500. The loss on discontinued operations in 2008 includes a settlement reached in May 2008 on a claim filed by a broker requesting a commission related to the Asset Sale. See Note 11 to the financial statements. The gain on discontinued operations in the eight month period ended August 31, 2009 was due to a settlement reached with one of the Company s third party administrators of its self insured workers compensation program relating to one specific claim. The Company also recognized a decrease in liabilities of discontinued operations of $124,600 based upon the Company s most recent actuarial analysis. Basic and diluted income per common share from discontinued operations was $0.08 for the eight month period ended August 31, 2009, compared to a loss per common share of $0.15 for the eight month period ended August 31, 2008.

Net loss for the eight month period ended August 31, 2009 was $100 compared to net loss of $1,781,700 in the eight month period ended August 31, 2008. Basic and diluted loss per common share was $0.01 for the eight month period ended August 31, 2009, compared to $0.46 in the eight month period ended August 31, 2008.

2008 Compared to 2007

Continuing Operations

As described in Note 2 to the financial statements, the Company exited the restaurant business through the sale of its operating restaurants to Banner Buffets LLC (Banner) on June 30, 2005 (the Asset Sale). At December 31, 2008, the Company owns two restaurant properties, one located in Orange Park, Florida (the Orange Park Property) and one in Brooksville, Florida (the Brooksville Property). The Orange Park Property was vacant at fiscal year end, while the Brooksville Property was occupied by a tenant, whose lease period commenced on January 9, 2008. At December 31, 2008, the Company was obligated for leases of two restaurant locations, one located in Tampa, Florida (the Fowler Property) and another located in Deland, Florida (the Deland Property). Both of these properties contained nonperforming subtenants who were both evicted at the beginning of 2009. In addition, the Company owns an income producing real estate property held for investment in Sylmar, California (the Sylmar Property) with two industrial tenants.

In March 2007, the Company entered into a sublease on the Deland Property for $16,600 per month for a period of five years with a 4% rent increase every two years. The monthly sublease income was $7,000 less than the monthly minimum lease payments. The lease on the Deland Property contained a purchase option which management intended to exercise; however, the purchase option expired unexercised in December 2007. At that point, the purchase of the property was no longer imminent and as a result, the Company recognized a loss on the sublease contract for the Deland Property of $720,900 in 2007 in accordance with the Financial Accounting Standards Board (FASB) Technical Bulletins (FTB) No. 79-15, Accounting for Loss on a Sublease Not Involving the Disposal of a Segment . The loss was calculated as the present value of the shortfall in rental income over the term of the sublease contract. At the end of 2008, the subtenant defaulted on the lease. Eviction of the subtenant was completed in February 2009. As a result, the accrual for loss on sublease contract was derecognized in December 2008, resulting in a gain of approximately $720,900.

In the latter half of fiscal 2008, the real estate market in Florida declined considerably. In addition, the general economic climate in the United States has caused consumers to decrease discretionary spending, adversely affecting the restaurant industries. These two situations combined with vacancies at three of the Company s four Florida properties triggered an analysis by management of the Company s owned real estate properties and capital lease holdings in the State of Florida as required by Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . The Company contracted with an outside expert to value the four properties in Florida: the Deland Property, Fowler Property, Brooksville Property and Orange Park Property. Based upon the appraisals received, the Company recorded an impairment charge of approximately $2,057,800 with regards to the Fowler Property, the Deland Property and the Brooksville Property as of December 31, 2008. Management did not book an impairment charge related to the Orange Park Property as the net book value was less than the appraised market value.

The results from continuing operations for 2008 included net realized gains of $133,000 from the sale of marketable securities and securities sold not yet purchased, compared to net realized losses of $321,900 in 2007. Net unrealized losses for 2008 were $37,300 compared to net unrealized gains of $225,200 in 2007.

In 2007, Banner closed its remaining store. Consequently, the Company wrote-off the remaining balance on the note receivable from Banner related to the Asset Sale in the amount of $69,200 in 2007. No such write off occurred in 2008.

General and administrative expenses increased from $1,808,700 in 2007 to $1,954,400 in 2008. The increase was primarily due to an increase in rents and property taxes due to the return of the Fowler Property to the Company at the end of 2007. This was offset slightly by a reduction in legal fees due to the settlement of two large cases in the first quarter of 2008, of which most of the legal fees were incurred in 2007.

The Company had a loss from continuing operations before income taxes of $3,419,600 in 2008 compared to a loss of $2,682,900 in 2007. In 2008, no income tax benefit was recognized as management believes it is not likely that the net operating losses will be utilized for the foreseeable future. The Company did not recognize an income tax benefit for 2007. Loss from continuing operations net of the income tax expense for the years ended December 31, 2008 and January 2, 2008 was $3,435,400 and $2,682,900, respectively. Basic and diluted loss per share from continuing operations in 2008 was $0.89, compared to $0.69 in 2007.

Discontinued Operations

There was a loss on discontinued operations in fiscal year 2008 of $596,200 versus a loss in the fiscal year 2007 of $2,317,700. The loss on discontinued operations in 2008 was due to a settlement reached in May 2008 on a claim filed by a broker requesting a commission related to the Asset Sale, see Note 12 to the financial statements. The loss on discontinued operations in 2007 was due to the final judgment rendered in December 2007 for a claim filed by a second broker requesting a commission related to the Asset Sale. Basic and diluted net loss per share from discontinued operations was $0.16 for 2008, compared to $0.59 for 2007.

Net loss for 2008 was $4,031,600 compared to net loss of $4,996,600 in 2007. Basic and diluted loss per share was $1.05 for 2008, compared to $1.30 in 2007.

Liquidity and Capital Resources

The financial statements of the Company included elsewhere herein have been prepared assuming that the Company will continue as a going concern. The Company incurred significant losses and had negative cash flow from operations for the eight months ended August 31, 2009, and had a working capital deficit of approximately $10,750,000 at that date. The cash balance at August 31, 2009 was $42,500. The cash outflows through December 2010 are estimated to total approximately $3,580,000, which will result in a negative cash balance of $3,533,400 as of December 2010. The projections assume that EACO will not make any additional payments on its loans to Bisco through December 2010 and ignores the potential impact of the proposed merger with Bisco.

Management has taken actions to address these matters including those described below; however, there can be no assurance that improvement in operating results will occur or that the Company will successfully implement its plans. Since cash flow from operations will not be sufficient, the Company will require additional sources of financing in order to maintain its current operations. The Company has entered into an agreement to complete a merger transaction with Bisco, an affiliated entity which has a history of positive operating cash flows and sufficient liquidity. The planned merger is expected to alleviate the Company s cash flow problems; however, there can be no assurance that the merger will be consummated or that improvements in operations will result. The transaction is subject to shareholder approval.

Throughout the eight month period ended August 31, 2009, the Company received bridge loans from Bisco totaling approximately $1,249,200, including interest, of which $54,125 was repaid during the year. The bridge loans were made pursuant to note agreements that accrue interest at an annual rate of 7.5%. The note agreements do not provide for regularly scheduled payments; however, all outstanding principal balance plus accrued interest is due six months from the date of each note. The loans have been extended by the Company to March 2010.

Due to the reassignment of two leased properties to the Company and loss on the Company s lawsuit with two brokers, working capital requirements have been significant.

The Company purchased the Sylmar Property in November 2005 for $8.3 million. The transaction was structured as a like-kind exchange transaction under Section 1031 of the Internal Revenue Code, which resulted in the deferral of an estimated $1 million in income taxes payable from the Asset Sale. The Company assumed a loan on the property for $1.8 million with a variable interest rate equal to prime. This loan was repaid in full in 2007 when the Company refinanced the Sylmar Property with Community Bank. The property was refinanced for 20 years at an annual interest rate of 6.0%. The property currently has two industrial tenants and produces rental income of approximately $770,000 to $800,000 per year.

In December 2007, the Company exercised the purchase option under the lease agreement with CNL American Property, the landlord, for the purchase of the Brooksville Property. The purchase price was approximately $2,027,000 and was paid in cash. During 2008, the Company financed the Brooksville Property with Zion s Bank receiving cash of approximately $1,200,000 and a mortgage for that amount. The mortgage is for twenty years at an annual interest rate of 6.65%. Proceeds from the financing were used to repay a portion of the amounts borrowed from Bisco. The outstanding balance of the loan at August 31, 2009 was $1,187,800. As of 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 eight months ended August 31, 2009. The Company violated this covenant through borrowings from Bisco to fund operations throughout the course of fiscal 2009. Zion s Bank has not granted the Company a waiver regarding that default. Although Zion s Bank has not accelerated the loan, the full amount due under the mortgage is being shown as a current liability in the August 31, 2009 balance sheet. 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 August 31, 2009.

As of August 31, 2009, 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.

Also in December 2007, a final judgment of $2,317,700 was entered against the Company in a lawsuit with a broker claiming it was owed a commission on the Asset Sale. On January 22, 2008, the Company entered into a settlement agreement with the broker and paid the broker the judgment amount.

In May 2008, the Company entered into a settlement agreement for a total amount of $550,000 with a second broker claiming he was owed a commission on the Asset Sale. In June 2008, the Company paid the broker the settlement amount.

In April 2009, the Company entered into a settlement agreement with the landlord of the Fowler Property. For a sum of $500,000, the landlord agreed to release the Company from all past and future obligations relating to the lease. In May 2009, the Company paid the landlord the settlement amount.

In July 2009, the Company entered into a settlement agreement with the landlord of the Deland Property. For the sum of $2,123,000, the landlord agreed to sell the property to the Company and release the Company from all past and future liabilities related to the lease. The Company paid $200,000 in July 2009 and the remainder in September 2009.

In June 2004, the Company sold 145,833 shares of its common stock (the Common Stock) directly to Bisco Industries, Inc. Profit Sharing and Savings Plan for a total cash purchase price of $175,000. In September 2004, the Company sold 36,000 shares of the Company s newly authorized Series A Cumulative Convertible Preferred Stock (the Preferred Stock) to the Company s Chairman at a price of $25 per share, for a total cash purchase price of $900,000. Preferred stock dividends cumulate whether or not declared but are paid quarterly when declared by the Company s Board of Directors. The Company declared no preferred stock dividends during the eight months period ended August 31, 2009. As of August 31, 2009, there was $38,200 of cumulative undeclared dividends.

The Company is required to pledge collateral for its workers compensation self insurance liability with the Florida Self Insurers Guaranty Association (FSIGA). The Company decreased this collateral by $369,500 during the quarter ended December 31, 2008, and had a total of $3,769,500 pledged collateral at August 31, 2009. Bisco provides $1 million of this collateral. The Company may be required to increase this collateral pledge from time to time in the future, based on its workers compensation claim experience and various FSIGA requirements for self-insured companies. Despite the sale of the Company s restaurants, workers compensation will remain an ongoing liability for the Company until all claims are paid, which will likely take many years.

Cash used in operating activities was $616,600 for the eight months ended August 31, 2009 compared to $4,570,400 for the same period in 2008, and the decrease of $3,953,800 is primarily due to the settlement amounts paid to the two brokers in the first half of 2008 and the significant increase in net income in the eight month period ended August 31, 2009 as compared to the eight month period ended August 31, 2008.

In October 2002, the Company entered into a loan agreement with GE Capital for one restaurant property owned by the Company. The loan requires monthly principal and interest payments totaling $10,400. Interest is at the thirty-day LIBOR rate +3.75% (minimum interest rates of 7.34%). The loan is due December 2016. As of August 31, 2009, the outstanding balance due under the Company s loan with GE Capital was $699,100.

The Company also assumed a loan in the amount of $1,800,000 with Citizen s Bank of California in connection with the Sylmar Property purchase in November 2005. On November 9, 2007, the Company completed the refinance of the Sylmar Property in exchange for a note in the amount of $5,875,000 from Community Bank. Of this amount, $1,752,000 was used to payoff the assumed loan from Citizen s Bank, $4,088,900 was received in cash, and $34,100 represented fees paid for refinancing. The loan agreement requires the Company to comply with certain financial covenants and ratios measured annually beginning with the 12-month period ended December 31, 2007. The Company was in compliance with its loan covenants as of August 31, 2009 and December 31, 2008. As of August 31, 2009, the outstanding balance due on the loan to Community Bank, collateralized by the Sylmar Property, was $5,671,900.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the financial position, revenues, results of operations, liquidity or capital expenditures, except for the land leases on the restaurant properties treated as operating leases.

Recent Developments

On September 30, 2009, the Company completed the purchase of the Deland Property. Under the agreement reached with the landlord in July 2009, the Company made an earnest money deposit of $200,000 upon execution of the agreement. The remaining $1,923,000 was paid at the closing of the acquisition on September 30, 2009. The required amounts were borrowed from Bisco.

Impact of Inflation

Since the Asset Sale, inflation has not had a significant effect on the Company s operations.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 166, Accounting for Transfers of Financial Assets (SFAS 166). SFAS 166 is a revision to SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , and will require more information about transfers of financial assets and where companies have continuing exposure to the risk related to transferred financial assets. It eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosure. This standard is effective for interim and annual periods ending after November 15, 2009. We are currently evaluating the potential impact on our financial statements when implemented.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities (VIEs) and by requiring additional disclosures about a company s involvement in variable interest entities. This standard is generally effective for interim and annual periods ending after November 15, 2009. We are currently evaluating the potential impact on our financial statements when implemented. However, the effective date has been deferred (until late 2010) for certain entities and VIE s such as mutual funds, hedge funds, private equity funds and venture capital funds.

In June 2009, the FASB issued Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification (the Codification) as the sole source of authoritative generally accepted accounting principles in the United States (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification then became nonauthoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS 168 is not expected to have a material impact on our financial position, results of operations, or cash flows.

In June 2008, the FASB ratified the consensus reached on Emerging Issues Task Force (EITF) Issue No. 07-05, Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity s Own Stock (EITF 07-05). EITF 07-05 provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity s own stock. EITF 07-05 applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative under paragraphs 6-9 of SFAS 133, for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception under paragraph 11(a) of SFAS 133 and for purposes of determining whether that instrument is within the scope of EITF No. 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock*, which provides accounting guidance for instruments that are indexed to, and potentially settled in, the issuer s own stock. EITF 07-05 is effective for fiscal years beginning after December 15, 2008, and early adoption is not permitted. The Company is currently evaluating the impact of this pronouncement on its financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1/APB 28-1 (FSP 107-1), which is entitled Interim Disclosures about Fair Value of Financial Instruments. This pronouncement amended SFAS No. 107 (Disclosures about Fair Value of Financial Instruments) to require disclosure of the carrying amount and the fair value of all financial instruments for interim reporting periods and annual financial statements of publicly traded companies (even if the financial instrument is not recognized in the balance sheet), including the methods and significant assumptions used to estimate the fair values and any changes in such methods and assumptions. FSP 107-1 also amended APB Opinion No. 28 (*Interim Financial Reporting*) to require disclosures in summarized financial information at interim reporting periods. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009 if a company also elects to early adopt FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Indentifying Transactions That Are Not Orderly, and FSP FAS 115-2/FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. FSP FAS 157-4 and FSP FAS 115-2/FAS 124-2 are discussed immediately below.

In April 2009, the FASB also issued FSP FAS 157-4, which generally applies to all assets and liabilities within the scope of any accounting pronouncements that require or permit fair value measurements. This pronouncement, which does not change SFAS No. 157 s guidance regarding Level 1 inputs, requires the entity to (i) evaluate certain factors to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity, (ii) consider whether the preceding indicates that transactions or quoted prices are not determinative of fair value and, if so, whether a significant adjustment thereof is necessary to estimate fair value in accordance with SFAS No. 157, and (iii) ignore the intent to hold the asset or liability when estimating fair value. FSP FAS 157-4 also provides guidance to consider in determining whether a transaction is orderly when there has been a significant decrease in the volume and level of activity for the asset or liability, based on the weight of available evidence. This pronouncement is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption of FSP FAS 157-4 also requires early adoption of the pronouncement described in the following paragraph. However, early adoption for periods ended before March 15, 2009 is not permitted.

In April 2009, the FASB issued FSP FAS 115-2/FAS 124-2 (hereinafter referred to as FSP FAS 115-2/124-2), which amends the other-than-temporary impairment (OTTI) recognition guidance in certain existing GAAP (including SFAS No. 115 and 130, FSP FAS 115-1/FAS 124-1, and EITF Issue No. 99-20) for debt securities classified as available-for-sale and held-to-maturity. FSP FAS 115-2/124-2 requires the entity to consider (i) whether the entire amortized cost basis of the security will be recovered (based on the present value of expected cash flows), and (ii) its intent to sell the security. Based on the factors described in the preceding sentence, this pronouncement describes the process for determining the OTTI to be recognized in other comprehensive income (generally, the impairment charge for a non-credit loss) and in earnings. FSP FAS 115-2/124-2 does not change existing recognition or measurement guidance related to OTTI of equity securities. This pronouncement is effective as described in the preceding paragraph. Certain transition rules apply to debt securities held at the beginning of the interim period of adoption when an OTTI charge was previously recognized. If an entity early adopts either FSP 107-1 or FSP FAS 157-4, the entity is also required to early adopt this pronouncement. In addition, if an entity early adopts FSP FAS 115-2/124-2, it is also required to early adopt FSP FAS 157-4.

The pronouncements described in the immediately preceding three paragraphs do not require any of the new disclosures for earlier periods (ended before initial adoption) that are presented for comparative purposes.

In May 2009, the FASB issued SFAS No. 165 entitled Subsequent Events. Transactions and events that occur after the balance sheet date but before the financial statements are issued or are available to be issued (which are generally referred to as subsequent events) that are addressed by other GAAP, such as those governed by FASB Interpretation No. 48, SFAS No. 5 and SFAS No. 128, are not within the scope of SFAS No. 165.

Companies are now required to disclose the date through which subsequent events have been evaluated by management. Public entities (as defined) must conduct the evaluation as of the date the financial statements are issued, and provide disclosure that such date was used for this evaluation. SFAS No. 165 provides that financial statements are considered issued when they are widely distributed for general use and reliance in a form and format that complies with GAAP. SFAS No. 165 is effective for interim or annual periods ending after June 15, 2009, and must be applied prospectively.

The adoption of SFAS No. 165 during the quarter ended July 1, 2009 did not have a significant effect on the Company s financial statements as of that date or for the quarter or year-to-date period then ended.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) The financial statements listed below and commencing on the pages indicated are filed as part of this report on Form 10-K/A.

Financial Statements as of August 31, 2009 and December 31, 2008 and for the eight month periods ended August 31, 2008 (unaudited) and August 31, 2009	
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(b) The following exhibits are filed as part of this report on Form 10-K as required by Item 601 of Regulation S-K.

Number	Exhibit
2.1	Agreement and Plan of Merger dated December 22, 2009 by and between EACO Corporation, Bisco Acquisition Corp., Bisco Industries, Inc. and Glen Ceiley (previously filed as an exhibit to the Company s Transition Report on Form 10-K filed with the SEC on December 23, 2009)
3.1	Articles of Incorporation of Family Steak Houses of Florida, Inc. (Exhibit 3.01 to the Company s Registration Statement on Form S-1, filed with the SEC on November 29, 1985, Registration No. 33-1887, is incorporated herein by reference.)
3.2	Articles of Amendment to the Articles of Incorporation of Family Steak Houses of Florida, Inc. (Exhibit 3.03 to the Company s Registration Statement on Form S-1, filed with the SEC on November 29, 1985, Registration No. 33-1887, is incorporated herein by reference.)
3.3	Articles of Amendment to the Articles of Incorporation of Family Steak Houses of Florida, Inc. (Exhibit 3.03 to the Company s Registration Statement on Form S-1, filed with the SEC on November 29, 1985, Registration No. 33-1887, is incorporated herein by reference.)
3.4	Amended and Restated Bylaws of Family Steak Houses of Florida, Inc. (Exhibit 4 to the Company s registration statement on Form 8-A, filed with the SEC on March 19, 1997, is incorporated herein by reference.)
3.5	Articles of Amendment to the Articles of Incorporation of Family Steak Houses of Florida, Inc. (Exhibit 3.08 to the Company s Annual Report on Form 10-K filed with the SEC on March 31, 1998, is incorporated herein by reference.)
3.6	Amendment to Amended and Restated Bylaws of Family Steak Houses of Florida, Inc. (Exhibit 3.08 to the Company s Annual Report on Form 10-K filed with the SEC on March 15, 2000, is incorporated herein by reference.)
3.7	Articles of Amendment to the Articles of Incorporation of Family Steak Houses of Florida, Inc. (Exhibit 3.09 to the Company s Annual Report on Form 10-K filed with the SEC on March 29, 2004 is incorporated herein by reference.)
3.8	Articles of Amendment to the Articles of Incorporation of Family Steak Houses of Florida, Inc., changing the name of the corporation to EACO Corporation. (Exhibit 3.10 to the Company s Quarterly Report on Form 10-Q filed with the SEC on September 3, 2004, is incorporated herein by reference.)
3.9	Articles of Amendment Designating the Preferences of Series A Cumulative Convertible Preferred Stock $0.10 Par Value of EACO Corporation (Exhibit 3.1 to the Company s current report on Form 8-K filed with the SEC on September 8, 2004, is incorporated herein by reference.)
3.10	Certificate of Amendment to Amended and Restated Bylaws effective December 21, 2009 (previously filed as an exhibit to the Company s Transition Report on Form 10-K filed with the SEC on December 23, 2009)
3.11	Articles of Amendment to Articles of Amendment Designating the Preferences of Series A Cumulative Convertible Preferred Stock, as filed with the Secretary of State of the State of Florida on December 22, 2009 (previously filed as an exhibit to the Company s Transition Report on Form 10-K filed with the SEC on December 23, 2009)
10.1	Form of Amended and Restated Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Filing between the Company and GE Capital Franchise Corporation dated October 21, 2002. (Exhibit 10.01 to the Company s Quarterly Report on Form 10-Q, filed with the SEC on November 14, 2002, is incorporated herein by reference.)
10.2	Form of Amended and Restated Promissory Note between the Company and GE Capital Franchise Finance Corporation dated October 21, 2012. (Exhibit 10.02 to the Company s Quarterly Report on Form 10-Q filed with the SEC on November 14, 2002, Registration No. 33-1887, is incorporated herein

by reference.)

10.3 Form of Loan Agreement between the Company and GE Capital Franchise Finance Corporation dated October 21, 2002. (Exhibit 10.03 to the Company s Quarterly Report on Form 10-Q, filed with the SEC on November 14, 2002, is incorporated herein by reference.)

10.4 Settlement Agreement dated as of May 9, 2008 by and among EACO Corporation, Horn Capital Realty, Inc. and Jonathan S. Horn. (Exhibit 10.1 to the Company s current report on Form 8-K, filed with the SEC on May 9, 2008 is hereby incorporated by reference.)

10.5 Settlement Agreement dated as of January 22, 2008 by and between EACO Corporation, Glen Ceiley, Florida Growth Realty, Inc. and Robert Lurie. (Exhibit 10.1 to the Company s current report on Form 8-K/A filed with the SEC on January 23, 2008 is incorporated by reference.)

Number	Exhibit
10.6+	2002 Long-Term Incentive Plan (Appendix A to the Company s Proxy Statement on Schedule 14A, filed with the SEC on May 1, 2002, is hereby incorporated by reference)
10.7	Form of Note Agreement by and between Bisco Industries, Inc. and EACO Corporation (previously filed as an exhibit to the Company s Transition Report on Form 10-K filed with the SEC on December 23, 2009)
10.8	Purchase and Sale Agreement dated July 31, 2009 by and between Gottula Properties, LLC and EACO Corporation (previously filed as an exhibit to the Company s Transition Report on Form 10-K filed with the SEC on December 23, 2009)
10.9	Administrative Services Agreement dated March 3, 2006 by and between Eaco Corporation and Bisco Industries, Inc. (previously filed as an exhibit to the Company s Transition Report on Form 10-K filed with the SEC on December 23, 2009)
23.1	Consent of Squar, Milner, Peterson, Miranda & Williamson LLP. (previously filed as an exhibit to the Company s Transition Report on Form 10-K filed with the SEC on December 23, 2009)
31.1	Certification of Chief Executive Officer (principal executive officer and principal financial officer) pursuant to Securities and 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 Chief Executive Officer (principal executive officer and principal financial officer) pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\+ Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Glen Ceiley

Glen Ceiley
Its: Chief Executive Officer
(principal executive officer and
principal financial officer)

March 10, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities and on the date indicated.

Signature	Title	Date
/s/ Glen F. Ceiley	Chairman of the Board	March 10, 2010
Glen F. Ceiley		
/s/ Steve Catanzaro	Director	March 10, 2010
Steve Catanzaro		
/s/ Jay Conzen	Director	March 10, 2010
Jay Conzen		
/s/ William Means	Director	March 10, 2010
William Means		

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
EACO Corporation
Anaheim, California

We have audited the accompanying balance sheets of EACO Corporation (the Company) as of August 31, 2009 and December 31, 2008 and the related statements of operations, shareholders deficit, and cash flows for the eight month period ended August 31, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company was not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EACO Corporation as of August 31, 2009 and December 31, 2008, and the results of its operations and its cash flows for the eight month period ended August 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, during the eight months ended August 31, 2009 management engaged financial advisors to evaluate alternative strategies to enhance shareholder value, including a merger with Bisco Industries, Inc., an affiliated entity wholly owned by the Company s Chief Executive Officer and majority stockholder. The proposed merger is subject to shareholder approval (which has not been obtained as of the filing of the Company s Form 10-K). If the merger is approved and consummated, the Company s financial and operational viability would likely improve. The accompanying financial statements do not reflect any adjustments related to the proposed merger.

We did not audit or review the accompanying statements of operations or cash flows for the eight months ended August 31, 2008, and accordingly we do not express an opinion or any other form of assurance on such financial statements. The Company s August 31, 2008 financial statements have been included for comparative purposes only.

/s/ Squar, Milner, Peterson, Miranda and Williamson, LLP

Newport Beach, California
December 22, 2009

EACO CORPORATION

Balance Sheets

	August 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,500	$ 2,300
Receivables, net	7,200	1,100
Prepaid and other current assets	258,500	98,400
Total current assets	308,200	101,800
Restricted cash	769,500	789,200
Real estate properties leased or held for leasing, net	10,298,600	10,743,900
Other assets, net	577,100	630,800
Total assets	$ 11,953,400	$ 12,265,700
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 460,200	$ 318,000
Accrued liabilities	170,100	140,800
Due to related party	2,723,400	1,430,500
Liabilities of discontinued operations short term	147,500	159,600
Current portion of long-term debt and obligations under capital leases	7,559,200	250,100
Total current liabilities	11,060,400	2,299,000
Deferred rent		24,200
Deposit liability	107,000	115,000
Liabilities of discontinued operations long term	3,174,400	3,442,500
Long-term debt		7,465,600
Obligations under capital leases	1,561,500	2,869,200
Total liabilities	15,903,300	16,215,500
Commitments and contingencies (Note 11)		
Shareholders deficit:		
Convertible preferred stock of $.01 par value; authorized 10,000,000 shares; outstanding 36,000 shares at August 31, 2009 and December 31, 2008 (liquidation value $900,000)	400	400
Common stock of $.01 par value; authorized 8,000,000 shares; outstanding 3,910,264 shares at August 31, 2009 and December 31, 2008	39,000	39,000
Additional paid-in capital	10,932,300	10,932,300
Accumulated deficit	(14,921,600)	(14,921,500)
Total shareholders deficit	(3,949,900)	(3,949,800)

Total liabilities and shareholders deficit	$ 11,953,400	$ 12,265,700

See accompanying notes to financial statements.

EACO CORPORATION

Statements of Operations

	For the Eight Months Ended August 31, 2009	August 31, 2008 (Unaudited)
Rental income	$ 647,200	$ 916,400
Operating expenses:		
Loss on sublease contract		106,500
Loss on disposition of equipment	146,400	
Depreciation and amortization	358,000	478,800
General and administrative expenses	796,100	1,153,200
Total operating expenses	1,300,500	1,738,500
Loss from operations	(653,300)	(822,100)
Investment income		95,700
Interest and other income	8,200	162,700
Interest expense	(607,100)	(606,000)
Gain on extinguishment of capital lease obligation	949,300	
Loss from continuing operations before income taxes	(302,900)	(1,169,700)
Income tax expense	(5,900)	(15,800)
Loss from continuing operations	(308,800)	(1,185,500)
Discontinued operations:		
Gain (loss) on discontinued operations, net of tax	308,700	(596,200)
Net loss	(100)	(1,781,700)
Cumulative preferred stock dividends	(38,200)	(19,100)
Net loss attributable to common shareholders	$ (38,300)	$ (1,800,800)
Basic and diluted income (loss) per common share:		
Continuing operations	$ (0.09)	$ (0.31)
Discontinued operations	0.08	(0.15)
Net loss	$ (0.01)	$ (0.46)
Weighted average common shares outstanding	3,910,264	3,910,264

See accompanying notes to financial statements.

EACO CORPORATION

Statements of Shareholders Deficit
For the Eight Months Ended August 31, 2008 (unaudited) and August 31, 2009, and the Four Months Ended December 31, 2008 (Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance, January 2, 2008	36,000	$ 400	3,910,264	$ 39,000	$ 10,932,300	$ (10,851,700)	$ 120,000
Preferred stock dividends						(19,100)	(19,100)
Comprehensive income:							
Net loss						(1,781,700)	(1,781,700)
Balance, August 31, 2008	36,000	400	3,910,264	39,000	10,932,300	(12,652,500)	(1,680,800)
Preferred stock dividends						(19,100)	(19,100)
Comprehensive income:							
Net loss						(2,249,900)	(2,249,900)
Balance, December 31, 2008	36,000	400	3,910,264	39,000	10,932,300	(14,921,500)	(3,949,800)
Comprehensive income:							
Net loss						(100)	(100)
Balance, August 31, 2009	36,000	$ 400	3,910,264	$ 39,000	$ 10,932,300	$ (14,921,600)	$ (3,949,900)

See accompanying notes to financial statements.

EACO CORPORATION

Statements of Cash Flows

	For the Eight Months Ended August 31, 2009	August 31, 2008 (Unaudited)
Operating activities:		
Net loss	$ (100)	$ (1,781,700)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Depreciation and amortization	352,600	478,800
Loss on sub-lease contract		106,600
Gain on extinguishment of capital lease obligation	(949,300)	
Loss on disposition of equipment	146,400	
Loss on investments		(95,900)
Deferred rent	(24,200)	(63,800)
Bad debt expense		155,400
(Increase) decrease in:		
Accounts receivable	(6,100)	(148,900)
Prepaid expenses	(160,100)	17,100
Other assets		(173,100)
Investments		(149,600)
Increase (decrease) in:		
Accounts payable	275,100	(136,300)
Securities sold, not yet purchased		(255,700)
Accrued liabilities	29,300	(2,269,100)
Due to related party		37,800
Liabilities of discontinued operations	(280,200)	(292,000)
Net cash used in operating activities	(616,600)	(4,570,400)
Investing activities:		
Restricted cash	19,700	1,186,500
Net cash provided by investing activities	19,700	1,186,500
Financing activities:		
Proceeds from related party loans	1,347,000	2,842,900
Payment on capital lease obligation settlement	(500,000)	
Proceeds from issuance of long-term debt		1,179,700
Payments on long-term debt	(147,800)	(95,200)
Receipt (repayment) of deposit liability	(8,000)	22,500
Payments on capital lease obligations		(200)
Payments on related party loans	(54,100)	(1,575,000)
Preferred stock dividends paid		(19,100)
Net cash provided by financing activities	637,100	2,355,600

Net increase (decrease) in cash and cash equivalents		40,200		(1,028,300)
Cash and cash equivalents beginning of period		2,300		1,030,600
Cash and cash equivalents end of period	$	42,500	$	2,300
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$	533,000	$	493,600

See accompanying notes to financial statements.

EACO CORPORATION

NOTES TO FINANCIAL STATEMENTS
August 31, 2009 and 2008 and December 31, 2008
(All information for the eight months ended August 31, 2008 and for the four months ended December 31, 2008 is unaudited)

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

EACO Corporation (hereinafter alternatively referred to as EACO, the Company, we, and our) was organized unde 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 restaurant operations are presented as discontinued operations in the accompanying financial statements. The Company s remaining operations principally consist of managing four rental properties held for investment located in Florida and California.

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. This action created a transition period (as defined), which is the eight month period ended August 31, 2009. Under the SEC s reporting rules, a registrant is required to file a separate transition report for transition periods that cover a period of six months or greater. Rule 13a-10 of the Securities and Exchange Act of 1934 (as amended) requires registrants that have a transition period of six months or greater to file audited financial statements for that period on the form appropriate for annual reports of the registrant. Accordingly, the Company s audited statement of operations and cash flows for the eight month transition period ended August 31, 2009 are included in the accompanying financial statements. The unaudited financial statements for the eight month period ended August 31, 2008 have been presented for comparative purposes.

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, loss on a sublease contract, 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/Proposed Merger

The accompanying financial statements have been prepared using the going concern basis of accounting. This basis of accounting contemplates the recovery of the Company s assets and the satisfaction of its liabilities in the ordinary course of business. 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 Office (CEO). The proposed transaction requires shareholder approval (which has not been obtained as of the filing of the Company s Form 10-K).

EACO CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

If the merger transaction is approved and consummated, the Company s financial and operational viability would likely improve as Bisco has a history of positive operating cash flow and substantial resources. However, there can be no assurance that any improvements in operations will occur. See Note 15 for additional information.

If shareholders do not approve the proposed merger, it is likely that the Company will require additional sources of financing in order to maintain its current operations. These additional sources of financing may include bank borrowings and/or public or private offerings of equity and/or debt securities. While management believes it will have access to these financing sources, no assurance can be given that such additional sources of financing will be available on acceptable terms, if at all.

Reclassification

Certain reclassifications have been made to the prior years financial statement to conform to the current period s presentation. The fixed assets of the real estate properties have been collapsed into one line item on the balance sheet. Additionally, certain assets have been reclassified from equipment to buildings and improvements to reflect the proper categorization of assets as presented in Note 4.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Company has a cash management program that provides for the investment of excess cash balances in short-term investments. These investments are stated at cost which approximates market value and consist of money market instruments and have maturities of three months or less when purchased.

Investments

Prior to the quarter ended April 2, 2008, investments consisted of trading securities and securities sold, not yet purchased. The Company held no such investments at August 31, 2009 or December 31, 2008 as the Company liquidated all of its investment holdings in the quarter ended April 2, 2008.

These securities were carried at estimated fair value, with unrealized gains and losses reported in the statement of operations as a component of other income (expense). Gains or losses on securities sold were based on the average cost method. The results for the eight months ended August 31, 2008 included realized gains from the sale of marketable securities of $104,300, and unrealized loss of $8,600.

Certificate of Deposit

The Company has one certificate of deposit and it is stated at cost. It is classified as a long-term asset because it is pledged as collateral (see Note 6) and will likely not be available for use by the Company during fiscal 2010.

Real Estate Properties

Real estate properties leased or held for leasing are stated at cost. Maintenance, repairs and betterments which do not enhance the value or increase the life of the assets are expensed as incurred. Depreciation is provided for financial reporting purposes principally on the straight-line method over the following estimated useful lives: buildings and improvements 25 years, land improvements 25 years and equipment 3 to 8 years. Leasehold improvements are amortized over the remaining lease term or the life of the asset, whichever is less.

Long-lived assets 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, assets are reviewed on an asset-by-asset basis. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of each operating property and related assets to future net cash flows expected to be

EACO CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

generated by such assets. If such 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.

Other Assets

Other assets consist of the following:

	August 31, 2009	December 31, 2008
Leasehold origination costs	$ 317,200	$ 317,200
Loan fees	173,100	233,200
Tenant improvements	210,700	210,700
Deferred leasing commissions	42,000	50,400
Deferred rent	231,900	211,100
Other assets	500	500
	975,400	1,023,100
Less accumulated amortization	(398,300)	(392,300)
	$ 577,100	$ 630,800

Amortization expense of other assets was $59,000 and $65,800 for the eight months ended August 31, 2009 and August 31, 2008, respectively. Amortization of deferred rent that is charged to rental income was approximately $9,900 during the eight months ended August 31, 2009.

Revenue Recognition

The Company recognizes revenue in accordance with SEC Staff Accounting Bulleting No. 104, Revenue Recognition , when all of the following conditions exist: (a) persuasive evidence of an arrangement exists as in the form of a lease document; (b) delivery has occurred or services have been provided; (c) the Company s price to the buyer is fixed or determinable, and (d) collectability is reasonably assured. The Company leases its properties to tenants under operating leases with terms of over one year. Some of these leases contain scheduled rent increases. The Company records rent revenue for leases which contain scheduled rent increases on a straight-line basis over the term of the lease.

Receivables from tenants are carried net of the allowance for uncollectible accounts. An allowance is maintained for estimated losses resulting from the inability of tenants to meet their contractual obligations under their lease agreements. We determine the adequacy of this allowance by continually evaluating individual tenant s receivables considering the tenant s financial condition and security deposits and current economic conditions. An allowance for uncollectible accounts of $53,400 as of December 31, 2008 was determined to be necessary to reduce receivables to our estimate of the amount recoverable at that time. No additional allowance for uncollectible accounts was required as of August 31, 2009.

Estimated Fair Value of Financial Instruments and Certain Non-Financial Assets/Liabilities

The Company s financial instruments include cash and cash equivalents, trade accounts receivable, prepaid expenses, security deposits, trade accounts payable, accrued expenses, and long-term debt. Except as described below, management believes that the fair value of these financial instruments approximates their carrying amounts based on current market indicators, such as prevailing interest rates and the short-term maturities of such financial instruments. The methods and significant assumptions used to estimate the fair

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NOTES TO FINANCIAL STATEMENTS (Continued)

value of the assets and liabilities referenced in this paragraph did not change to any material extent during the period ended August 31, 2009.

Management has concluded that it is not practical to estimate the fair value of amounts due to related parties. SFAS No. 107, *Disclosures About Fair Value of Financial Instruments* requires that information pertinent to those financial instruments be disclosed, such as the carrying amount, interest rate, and maturity date; such information is reported in Note 13. Management believes it is not practical to estimate the fair value of related party financial instruments because the transactions cannot be assumed to have been consummated at arm s length, there are no quoted market values available for such instruments, and an independent valuation would not be practicable due to the lack of data regarding similar instruments (if any) and the associated potential cost.

The Company does not have any assets or liabilities that are measured at estimated fair value on a recurring basis and, during the eight month periods ended August 31, 2009 and 2008 did not have any non-financial assets or liabilities that were measured at estimated fair value on a nonrecurring basis; see Note 12. The measurements cited in the preceding sentence were based on the concepts set forth in SFAS No. 157, *Fair Value Measurements*, as amended.

Discontinued Operations

The Company accounts for the results of operations of a component of an entity that has been disposed of or that meets all of the held for sale criteria as discontinued operations, if the component s operations and cash flows have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and the Company will not have any significant continuing involvement in the operations of the component after the disposal transaction. The held for sale classification requires having the appropriate approvals by our management, Board of Directors and shareholders, as applicable, and meeting other criteria. When all of these criteria are met, the component is classified as held for sale and its operations are reported as discontinued operations. See Note 3 for additional information.

Income Taxes

Deferred income taxes are provided for temporary differences between the financial reporting basis and tax basis of the Company s assets and liabilities using presently enacted income tax rates. 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 that future deductibility is uncertain.

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. SFAS No. 109 further states that forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as significant decreases in operations. As a result of the Company s disposal of significant business operations, management concluded that a valuation allowance should be recorded against certain federal and state tax credits. The utilization of these credits requires sufficient taxable income after consideration of net operating loss utilization.

Earnings/Loss Per Common Share

Basic earnings (loss) per common share for the periods ended August 31, 2009 and 2008 were computed based on the weighted average number of common shares outstanding. Diluted earnings per share for those periods have been computed based on the weighted average number of common shares outstanding, giving

EACO CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

effect to all potentially dilutive common shares that were outstanding during the respective periods. Dilutive shares represent those issuable upon exercise or conversion of options, stock warrants and convertible preferred stock, which is 1,120,689 at August 31, 2009 and 2008. Due to the Company s net losses from continuing operations during the eight months ended August 31, 2009 and 2008, potential common stock was anti-dilutive and has been excluded from the computation of diluted loss per common share.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), Share-Based Payments. SFAS No. 123(R) requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method for which the Company utilizes an option pricing model for estimating fair value. Share-based compensation is measured at the grant date, based on the fair value of the award.

Recent Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board (FASB) ratified the consensus reached on Emerging Issues Task Force (EITF) Issue No. 07-05 *Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity s Own Stock* (EITF 07-05). EITF 07-05 provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity s own stock. EITF 07-05 applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative under paragraphs 6-9 of SFAS 133, for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception under paragraph 11(a) of SFAS 133 and for purposes of determining whether that instrument is within the scope of EITF No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock* (EITF 00-19), which provides accounting guidance for instruments that are indexed to, and potentially settled in, the issuer s own stock. EITF 07-05 is effective for fiscal years beginning after December 15, 2008, and early adoption is not permitted. The Company is currently evaluating the impact of this pronouncement on its financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1/APB 28-1 (FSP 107-1), which is entitled Interim Disclosures about Fair Value of Financial Instruments . This pronouncement amended SFAS No. 107, Disclosures about Fair Value of Financial Instruments) to require disclosure of the carrying amount and the fair value of all financial instruments for interim reporting periods and annual financial statements of publicly traded companies (even if the financial instrument is not recognized in the balance sheet), including the methods and significant assumptions used to estimate the fair values and any changes in such methods and assumptions. FSP 107-1 also amended APB Opinion No. 28 (*Interim Financial Reporting*) to require disclosures in summarized financial information at interim reporting periods. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009 if a company also elects to early adopt FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Indentifying Transactions That Are Not Orderly , and FSP FAS 115-2/FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments . FSP FAS 157-4 and FSP FAS 115-2/FAS 124-2 are discussed immediately below.

In April 2009, the FASB also issued FSP FAS 157-4, which generally applies to all assets and liabilities within the scope of any accounting pronouncements that require or permit fair value measurements. This pronouncement, which does not change SFAS No. 157 s guidance regarding Level 1 inputs, requires the entity to (i) evaluate certain factors to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity, (ii) consider whether the preceding indicates that transactions or quoted prices are not determinative of fair value and, if so, whether a

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NOTES TO FINANCIAL STATEMENTS (Continued)

significant adjustment thereof is necessary to estimate fair value in accordance with SFAS No. 157, and (iii) ignore the intent to hold the asset or liability when estimating fair value. FSP FAS 157-4 also provides guidance to consider in determining whether a transaction is orderly when there has been a significant decrease in the volume and level of activity for the asset or liability, based on the weight of available evidence. This pronouncement is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption of FSP FAS 157-4 also requires early adoption of the pronouncement described in the following paragraph. However, early adoption for periods ended before March 15, 2009 is not permitted. See note 12 for discussion of other amendments of SFAS No. 157.

In April 2009, the FASB issued FSP FAS 115-2/FAS 124-2 (hereinafter referred to as FSP FAS 115-2/124-2), which amends the other-than-temporary impairment (OTTI) recognition guidance in certain existing GAAP (including SFAS No. 115 and 130, FSP FAS 115-1/FAS 124-1, and EITF Issue No. 99-20) for debt securities classified as available-for-sale and held-to-maturity. FSP FAS 115-2/124-2 requires the entity to consider (i) whether the entire amortized cost basis of the security will be recovered (based on the present value of expected cash flows), and (ii) its intent to sell the security. Based on the factors described in the preceding sentence, this pronouncement describes the process for determining the OTTI to be recognized in other comprehensive income (generally, the impairment charge for a non-credit loss) and in earnings. FSP FAS 115-2/124-2 does not change existing recognition or measurement guidance related to OTTI of equity securities. This pronouncement is effective as described in the preceding paragraph. Certain transition rules apply to debt securities held at the beginning of the interim period of adoption when an OTTI charge was previously recognized. If an entity early adopts either FSP 107-1 or FSP FAS 157-4, the entity is also required to early adopt this pronouncement. In addition, if an entity early adopts FSP FAS 115-2/124-2, it is also required to early adopt FSP FAS 157-4.

The pronouncements described in the immediately preceding three paragraphs do not require any of the new disclosures for earlier periods (ended before initial adoption) that are presented for comparative purposes.

In May 2009, the FASB issued SFAS No. 165 entitled Subsequent Events. Transactions and events that occur after the balance sheet date but before the financial statements are issued or are available to be issued (which are generally referred to as subsequent events) that are addressed by other GAAP, such as those governed by FASB Interpretation No. 48, SFAS No. 5 and SFAS No. 128, are not within the scope of SFAS No. 165.

Companies are now required to disclose the date through which subsequent events have been evaluated by management. Public entities (as defined) must conduct the evaluation as of the date the financial statements are issued, and provide disclosure that such date was used for this evaluation. SFAS No. 165 provides that financial statements are considered issued when they are widely distributed for general use and reliance in a form and format that complies with GAAP. SFAS No. 165 is effective for interim or annual periods ending after June 15, 2009, and must be applied prospectively.

The adoption of SFAS No. 165 during the quarter ended July 1, 2009 did not have a significant effect on the Company s financial statement as of that date or for the quarter or year-to-date period then ended.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets (SFAS 166). SFAS 166 is a revision to SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , and will require more information about transfers of financial assets and where companies have continuing exposure to the risk related to transferred financial assets. It eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosure. This standard is effective for interim and annual periods ending after November 15, 2009. We are currently evaluating the potential impact on our financial statements when implemented.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 is intended to improve financial reporting by providing additional guidance to

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NOTES TO FINANCIAL STATEMENTS (Continued)

companies involved with variable interest entities (VIE s) and by requiring additional disclosures about a company s involvement in variable interest entities. This standard is generally effective for interim and annual periods ending after November 15, 2009. We are currently evaluating the potential impact on our financial statements when implemented. However, the effective date has been deferred (until late 2010) for certain entities and VIE s such as mutual funds, hedge funds, private equity funds and venture capital funds.

In June 2009, the FASB issued Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 established the FASB Accounting Standards Codification (the Codification) as the sole source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification then became nonauthoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS 168 is not expected to have a material impact on our financial position, results of operations, or cash flows.

NOTE 3. 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 balance sheet. The estimate is continually reviewed and adjustments to the Company s estimated claim 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 obtained by the Company as of August 31, 2009 and December 31, 2008. As of August 31, 2009, the estimated claim liability was $3,321,900 which represents a decrease from the estimate at December 31, 2008. The decrease in the liability of $124,500 is reported in discontinued operations in the Company s statement of operations for the eight months ended August 31, 2009. There is no similar adjustment to the estimated claim liability for the August 31, 2008 period as no actuarial evaluation was performed at that interim date. (See Note 6 for additional information)

The Company had restricted cash of $400,000 in escrow earmarked for the payment of broker commissions that were subject to litigation which has settled in January 2008. An additional $46,000 of expense was recorded during the eight months ended August 31, 2008 for reimbursable expenses related to that case. During the eight months ended August 31, 2008, the Company completed a settlement agreement with a second broker for approximately $550,000, which is included in discontinued operations. See Note 11 Legal Matters.

On May 28, 2009, the Company reached a settlement with one of its self insured worker s compensation third party administrators (TPA) regarding an outstanding worker s compensation claim against the Company. In the settlement, the TPA agreed to indemnify the Company for a portion of the claim the Company paid with regard to one claimant. The settlement of $200,000 is included in gain on discontinued operations in the Company s statement of operations for the eight months ended August 31, 2009.

NOTE 4. REAL ESTATE PROPERTIES

The Company purchased the Sylmar Property in November 2005 for $8.3 million. The transaction was structured as a like-kind exchange transaction under Section 1031 of the Internal Revenue Code, which resulted in the deferral of an estimated $1 million in income taxes payable from the Asset Sale. The Company assumed a loan on the property for $1.8 million with a variable interest rate equal to the prime interest rate.

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NOTES TO FINANCIAL STATEMENTS (Continued)

This loan was repaid in full in 2007 when the Company refinanced the Sylmar Property. The property was refinanced for twenty years at an annual interest rate of 6.0%. The property currently has two industrial tenants and produces rental income of approximately $770,000 to $800,000 per year.

In December 2007, the Company exercised the purchase option under the lease agreement with CNL American Property for the purchase of the Brooksville Property. The purchase price was approximately $2,027,000 and was paid in cash. During 2008, the Company financed the Brooksville Property with Zion s Bank receiving cash of approximately $1,200,000 and a mortgage for that amount. The mortgage is for 20 years at an annual interest rate of 6.7%.

In April 2009, the Company reached a settlement agreement with the landlord of the Fowler Property. For a sum of $500,000, the landlord agreed to release the Company from all past and future obligations relating to the lease. In May 2009, the Company paid the landlord the settlement amount.

In July 2009, the Company reached a settlement agreement with the landlord of the Deland Property. For the sum of $2,123,000, the landlord agreed to sell the property to the Company and release the Company from all past and future liabilities related to the lease. The Company paid $200,000 in July 2009 and the remainder in September 2009. See Notes 13 and 15.

See the Legal Matters section of Note 11 for information about the settlement of other litigation relating to the Company s real estate properties.

In the latter half of fiscal 2008, the real estate market in Florida declined considerably. In addition, the general economic climate in the United States has caused consumers to decrease discretionary spending, adversely affecting the restaurant industries. This situation combined with vacancies at three of the Company s Florida properties triggered an analysis by management of the Company s property holdings in the state of Florida as required by SFAS 144. The Company contracted with an outside firm to value the four properties in Florida: the Deland Property, Fowler Property, Brooksville Property and Orange Park Property. Management reviewed the appraisals on the properties and determined total impairment charges of $2,057,800 with regard to the Fowler Property, Deland Property and Brooksville Property. The impairment change referenced in the preceding sentence was recorded during the quarter ended December 31, 2008. Management did not record an impairment charge related to the Orange Park Property as its estimated fair value was in excess of its book value.

The cost of real estate property leased or held for leasing is as follows at August 31, 2009 and December 31, 2008:

		August 31, 2009	December 31, 2008
Land	$	5,682,800	5,682,800
Buildings & improvements		6,242,300	6,448,200
Equipment		1,188,400	1,789,400
Total		13,113,500	13,920,400

Accumulated depreciation and amortization	(2,814,900)	(3,176,500)
Book value	$ 10,298,600	10,743,900

EACO CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

Future minimum lease obligations under non-cancelable capital leases and operating leases as of August 31, 2009 are as follows:

	Capital Leases	Operating Leases
2010	$ 205,900	$ 92,600
2011	212,800	92,600
2012	218,900	92,600
2013	225,200	92,600
2014	231,600	92,600
Future years	2,795,700	956,900
Total minimum lease payments	3,890,100	$ 1,419,900
Amount representing interest	(2,328,200)	
Present value of minimum payments	1,561,900	
Current portion	(400)	
Long-term capital lease obligations	$ 1,561,500	

Depreciation expense related to capitalized leases was $106,800 and $230,900 for the eight month periods ended August 31, 2009 and August 31, 2008, respectively.

Rental expense for operating leases for the eight months ended August 31, 2009 and 2008 was $133,300 and $291,400, respectively.

The Sylmar Property is leased to two tenants under operating leases. The Company also subleases one of its restaurant properties to a third party. The following table shows the future minimum rentals due under non-cancelable operating leases (where the Company is the lessor or sublessor) in effect at August 31, 2009:

	Income-Producing Real Estate	Restaurant Properties	Total
2010	$ 767,600	$ 202,000	$ 969,600
2011	782,200	204,000	986,200
2012	797,100	208,000	1,005,100
2013	326,500	70,000	396,500
2014	260,000		260,000

	$ 2,933,400	$ 684,000	$ 3,617,400

Rental income from leases was $647,200 and $916,400 for the eight months ended August 31, 2009 and 2008, respectively.

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NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5. ACCRUED LIABILITIES

Accrued liabilities are summarized as follows:

	August 31, 2009	December 31, 2008
Property and sales taxes	$ 87,500	$ 18,000
Bank overdraft		39,300
Legal and accounting	7,700	6,300
Unearned rental revenue	19,800	19,800
Interest	40,600	43,100
Other	14,500	14,300
	$ 170,100	$ 140,800

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 $3,321,900 and $3,602,100 at August 31, 2009 and December 31, 2008, 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. LONG-TERM DEBT

Long-term debt is summarized as follows:

	August 31, 2009	December 31, 2008
	$ 699,100	$ 745,100

Note payable to GE Capital Franchise Finance Corporation (GE Capital), secured by real estate, monthly principal and interest payments totaling $10,400, interest at the thirty-day London Inter-Bank Offered Rate plus 3.75% (minimum interest rate of 7.3%), due December 2016		
Note payable to Zion s Bank, secured by real estate, monthly principal and interest payment totaling $8,402, interest at 6.7%, due April 2033	1,187,800	1,202,100
Note payable to Community Bank, secured by real estate, monthly principal and interest payment totaling $39,700, interest at 6.0%, due December 2017	5,671,900	5,759,400
	7,558,800	7,706,600
Less current portion	(7,558,800)	(241,000)
	$	$ 7,465,600

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NOTES TO FINANCIAL STATEMENTS (Continued)

The scheduled payments for the above loans are as follows at August 31 2009:

2010	$ 231,700
2011	247,400
2012	264,100
2013	282,100
2014	301,300
Thereafter	6,232,200
	$ 7,558,800

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 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 eight months ended August 31, 2009. The Company violated this covenant through borrowings from Bisco to fund operations throughout the course of fiscal 2009. Zion s Bank has not granted the Company a waiver regarding that default. 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 August 31, 2009 balance sheet. 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 August 31, 2009.

As of August 31, 2009, 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.

NOTE 8. INCOME TAXES

The following summarizes the Company s provision for income taxes on loss from continuing operations:

	August 31, 2009	August 31, 2008 (Unaudited)

Current:		
Federal	$	$
State	5,900	15,800
	5,900	15,800
Deferred:		
Federal		
State		
	$ 5,900	$ 15,800

EACO CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

Income taxes for the eight month periods ended August 31, 2009 and 2008 differ from the amounts computed by applying the federal statutory corporate rate of 34% to the pre-tax loss from continuing operations.

The differences are reconciled as follows:

	2009	2008
Expected income tax (benefit) at statutory rate	$ (103,000)	$ (397,700)
Increase (decrease) in taxes due to:		
State tax, net of federal benefit	1,100	207,700
Change in deferred tax asset valuation allowance	45,800	270,200
Other, net	62,000	(64,400)
Income tax expense	$ 5,900	$ 15,800

The components of deferred taxes at August 31, 2009 and December 31, 2008 are summarized below:

	August 31, 2009	December 31, 2008
Deferred tax assets:		
Net operating loss carryforward	$ 4,080,100	$ 4,742,800
Capital losses	318,300	320,100
Federal and state tax credits	659,300	659,300
Accrued settlement	3,000	17,400
Accruals not currently deductible		20,900
Accrued workers compensation	1,294,400	1,411,800
Excess of book over tax depreciation	(2,900)	(56,300)
	6,352,200	7,116,000
Valuation allowance	(4,863,600)	(4,923,600)
Total deferred tax assets	1,488,600	2,192,400
Deferred tax liabilities:		
Unrealized gain on investment	(1,150,000)	(1,851,700)
Other	(338,600)	(340,700)
Total deferred tax liabilities	(1,488,600)	(2,192,400)
Net deferred tax asset	$	$

At August 31, 2009, the Company s federal and state tax credit was comprised of $61,900 in general business credits which will begin to expire in 2013 and alternative minimum tax cr