

EACO CORP  
Form 10-K  
November 23, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-K**

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

For the fiscal year ended August 31, 2016

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **000-14311**

**EACO CORPORATION**

*(Exact name of Registrant as specified in its charter)*

**Florida** **59-2597349**  
*(State of Incorporation) (I.R.S. Employer Identification No.)*

**1500 North Lakeview Avenue**

**Anaheim, California 92807**

*(Address of Principal Executive Offices)*

*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  NO

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  NO

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

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

Indicate by check mark 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

Edgar Filing: EACO CORP - Form 10-K

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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 " Accelerated filer " Non-accelerated filer " **Smaller reporting company x**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES " NO x

The aggregate market value of the registrant's common stock as of the last business day of the registrant's most recently completed second fiscal quarter (based upon the closing sale price of the common stock on that date) held by non-affiliates of the registrant was approximately \$150,000.

As of November 2, 2016, 4,861,590 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.

## Forward-Looking Information

This report may contain forward-looking statements. Such statements can be identified by the use of terminology such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “possible,” “project,” “show,” “will,” “would,” or similar words or expressions. These forward-looking statements include, but are not limited to, statements regarding our anticipated revenue, expenses, profits and capital needs, and the impact of our planned initiatives.

Forward-looking statements are based on our current expectations, estimates and forecasts of future events and results and involve a number of risks and uncertainties that could cause actual results to differ materially including, among other things, the following: failure of facts to conform to management estimates and assumptions; economic conditions and uncertainties; competitive pressures; our ability to maintain an effective system of internal controls over financial reporting; potential losses from trading in securities; our ability to retain key personnel and relationships with suppliers; the willingness of Community Bank or other lenders to extend financing commitments and the availability of capital resources; and other risks identified from time to time in our reports and other documents filed with the Securities and Exchange Commission (the “SEC”), and in public announcements. It is not possible to foresee or identify all factors that could cause actual results to differ materially from those anticipated. As such, investors should not consider any of such factors to be an exhaustive statement of all risks or uncertainties.

No forward-looking statements can be guaranteed and actual results may vary materially. We undertake no obligation to update any forward-looking statement except as required by law, but investors are advised to consult any further disclosures by us in our filings with the SEC, especially on Forms 10-K, 10-Q and 8-K, in which we discuss in more detail various important factors that could cause actual results to differ from expected or historical results.

	Page No.
<b><u>PART I</u></b>	
ITEM 1. <u>Business</u>	4
ITEM 1A. <u>Risk Factors</u>	5
ITEM 1B. <u>Unresolved Staff Comments</u>	10
ITEM 2. <u>Properties</u>	10
ITEM 3. <u>Legal Proceedings</u>	10
ITEM 4. <u>Mine Safety Disclosures</u>	10
<b><u>PART II</u></b>	
ITEM 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	11
ITEM 6. <u>Selected Financial Data</u>	11
ITEM 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	11
ITEM 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	15
ITEM 8. <u>Financial Statements and Supplementary Data</u>	15
ITEM 9. <u>Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	15
ITEM 9A. <u>Controls and Procedures</u>	15
ITEM 9B. <u>Other Information</u>	16
<b><u>PART III</u></b>	
ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	16
ITEM 11. <u>Executive Compensation</u>	18
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	19
ITEM 13. <u>Certain Relationships and Related Transactions and Director Independence</u>	20
ITEM 14. <u>Principal Accounting Fees and Services</u>	20
<b><u>PART IV</u></b>	
ITEM 15. <u>Exhibits and Financial Statement Schedules</u>	21

## **PART I**

### **Item 1. Business**

EACO Corporation (“EACO”) is a holding company, primarily comprised of its wholly-owned subsidiary, Bisco Industries, Inc. (“Bisco”). Bisco is a distributor of electronic components and fasteners with 48 sales offices and seven distribution centers located throughout the United States and Canada. Bisco supplies parts used in the manufacture of products in a broad range of industries, including the aerospace, circuit board, communication, computer, fabrication, instrumentation, industrial equipment and marine industries.

EACO was incorporated in Florida in September 1985. Bisco commenced operations in Illinois in 1973 and was incorporated in 1974. Bisco’s principal executive offices are located at 1500 N. Lakeview Avenue, Anaheim, California 92807, which also serves as the principal executive offices of EACO. EACO’s website address is [www.eacocorp.com](http://www.eacocorp.com) and Bisco’s website address is [www.biscoind.com](http://www.biscoind.com). The inclusion of these website addresses in this annual report does not include, or incorporate by reference into this annual report, any information on or accessible through the websites.

EACO, Bisco and Bisco’s wholly-owned Canadian subsidiary, Bisco Industries Limited, are collectively referred to herein as the “Company”, “we”, “us” and “our.”

### **Operations**

#### ***Products and Services***

Bisco stocks thousands of items from hundreds of manufacturers. Bisco’s products include electronic components such as spacers and standoffs, card guides and ejectors, component holders and fuses, circuit board connectors, and cable components, as well as a large variety of fasteners and hardware. The breadth of Bisco’s products and extensive inventory provide a one-stop shopping experience for many customers.

Bisco also provides customized services and solutions for a wide range of production needs, including special packaging, bin stocking, kitting and assembly, bar coding, electronic requisitioning, and integrated supply programs,

among others. Bisco works with its customers to design and develop solutions to meet their specific needs.

### *Divisions*

#### *Bisco Industries*

Bisco sells the full spectrum of products that it offers to many markets, but primarily sells to original equipment manufacturers (“OEMs”). While historically, the substantial majority of Bisco’s revenues have been derived from the Bisco Industries division, Bisco has also established additional divisions that specialize in specific industries and products. Bisco believes that the focus by industry and/or product enhances Bisco’s ability to provide superior service and devise tailored solutions for its customers.

#### *National-Precision*

The National-Precision division primarily sells electronic hardware and commercial fasteners to OEMs in the aerospace, fabrication and industrial equipment industries. National-Precision seeks to be the leading global distributor of mil-spec and commercial fasteners, hardware and distribution services used in production.

### *Fast-Cor*

The Fast-Cor division was established to be a distributor's source for a broad range of components and fasteners. Fast-Cor has access to the entire inventory of products that Bisco offers but primarily focuses on selling to other distributors, not manufacturers.

### *Customers and Sales*

Bisco's customers operate in a wide variety of industries and range from large, global companies to small local businesses. Bisco strives to provide exceptional service to all customers, including smaller businesses, and continues to focus on growing its share of that market. As of August 31, 2016, Bisco had more than 6,000 active customers; however, no single customer accounted for more than 10% of Bisco's revenues for the fiscal year ended August 31, 2016 ("fiscal 2016"). For each of the fiscal years ended August 31, 2016 and 2015, Bisco's top 20 customers represented in the aggregate approximately 14% and 11% of Bisco's distribution sales, respectively.

Bisco generally sells its products through its sales representatives in its 48 sales offices located in the United States and Canada. Customers can also place orders through Bisco's website. Bisco currently maintains seven distribution centers located in Anaheim and San Jose, California; Dallas, Texas; Chicago, Illinois; Boston, Massachusetts, Atlanta, Georgia; and Toronto, Canada. Each of Bisco's selling facilities and distribution centers are linked to Bisco's central computer system, which provides Bisco's salespersons with online, real-time data regarding inventory levels throughout Bisco and facilitates control of purchasing, shipping and billing. Bisco generally ships products to customers from one of its seven distribution centers, based on the geographic proximity and the availability of the ordered products.

Bisco sells its products primarily in the United States and Canada. Bisco's international sales represented 8.8% and 8.6% of its sales fiscal years ended August 31, 2016 and 2015, respectively. Sales to customers in Canada accounted for approximately 41% and 46% of such international sales in the fiscal years ended August 31, 2016 and 2015, respectively.

### *Suppliers*

As of August 31, 2016, Bisco offered the products from over 260 manufacturers. The authorized distributor agreements with most manufacturers are typically cancelable by either party at any time or on short notice. While



Bisco doesn't manufacture its products, it does provide kitting and packaging services for certain of its customers. Although Bisco sells more products of certain brands, Bisco believes that most of the products it sells are available from other sources at competitive prices. No single supplier accounted for more than 10% of Bisco's purchases in fiscal 2016.

### ***Employees***

As of August 31, 2016, the Company had 414 full-time employees.. 278 of these employees were in sales and marketing and 136 were in management, administration and finance.

### **Item 1A. Risk Factors**

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

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

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

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

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

In addition, unanticipated losses from our trading activities may cause Bisco to be in violation of certain covenants under its revolving line of credit agreement with Community Bank. There was zero balance outstanding as of August 31, 2016 and August 31, 2015 under its agreement with Community Bank, which loan is secured by substantially all of Bisco's assets. The agreement contains covenants which require that, on a quarterly basis, Bisco's losses from trading in securities not exceed its pre-tax operating income. We cannot assure you that unanticipated losses from our trading activities will not cause us to violate our covenants in the future or that the bank will grant a waiver for any such default or that it will not exercise its remedies, which could include the refusal to allow additional borrowings on the line of credit, the acceleration of the obligation's maturity date and foreclosure on Bisco's assets, with respect to any such noncompliance, which could have a material adverse effect on our business and operations.

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

We have from time to time had material weaknesses in our internal controls over financial reporting due to deficiencies in the process related to the preparation of our financial statements, segregation of duties, sufficient control in the area of financial reporting oversight and review, and appropriate personnel to ensure the complete and proper application of accounting principles generally accepted in the United States of America (“GAAP”) as it relates to certain routine accounting transactions. Although we believe we have addressed these material weaknesses, we may experience material weaknesses in the future and may fail to maintain a system of internal controls over financial reporting that complies with the reporting requirements applicable to public companies in the United States. Our failure to address any deficiencies or weaknesses in our internal control over financial reporting or to properly maintain an effective system of internal control over financial reporting could impact our ability to prevent fraud or to issue our financial statements in a timely manner that presents fairly in accordance with GAAP our financial condition and results of operations. The existence of any such deficiencies and/or weaknesses, even if remedied, may also lead to the loss of investor confidence in the reliability of our financial statements, could harm our business and negatively impact the trading price of our common stock. Such deficiencies or material weaknesses may also subject us to lawsuits, investigations and other penalties.

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

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

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

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

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

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

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

In most cases, we have no guaranteed price or delivery arrangements with our suppliers. Consequently, we may experience inventory shortages on certain products. Furthermore, our industry occasionally experiences significant product supply shortages and customer order backlogs due to the inability of certain manufacturers to supply products as needed. We cannot assure you that suppliers will maintain an adequate supply of products to fulfill our orders on a timely basis, at a recoverable cost, or at all, or that we will be able to obtain particular products on favorable terms or at all. Additionally, we cannot assure you that product lines currently offered by suppliers will continue to be available to us. A decline in the supply or continued availability of the products of our suppliers, or a significant increase in the price of those products, could reduce our sales and negatively affect our operating results.

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

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

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

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

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

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

**Our strategy of expanding into new geographic areas could be costly.**

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

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

Our growth, in part, is primarily dependent on our ability to attract new customers. Historically, an effective way to attract new customers has been opening new sales offices. One of our current business strategies focuses on opening and quickly growing new sales offices in markets or geographic regions with potential for growth. However, we may not be able to open or grow new offices at our projected or desired rates or hire the qualified sales personnel necessary to make such new offices successful. Failure to do so could negatively impact our long-term growth and market share.

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

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

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

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

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

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

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

Glen Ceiley, our Chairman and Chief Executive Officer, owns approximately 98% of our outstanding voting stock. Mr. Ceiley is able to exert significant influence over the outcome of almost all corporate matters, including significant corporate transactions requiring a shareholder vote, such as a merger or a sale of the Company or our assets. This concentration of ownership and influence in management and board decision-making could also harm the price of our common stock by, among other things, discouraging a potential acquirer from seeking to acquire shares of our common stock (whether by making a tender offer or otherwise) or otherwise attempting to obtain control of the Company.

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

Historically there has been limited trading of our common stock, and the volume of any sales is generally low. As of August 31, 2016, the number of shares held by non-affiliates of Mr. Ceiley is approximately 120,000 shares. If Mr.



Ceiley sells or seeks to sell a substantial number of his shares of our common stock in the future, the market price of our common stock could decline. The perception among investors that these sales may occur could produce the same effect.

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

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

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

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

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

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

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We have 48 sales offices and seven distribution centers located throughout the United States and in Canada. Our corporate headquarters and one of our primary distribution centers are located in Anaheim, California in approximately 40,000 square feet of office and warehouse space. We lease all of our properties, consisting of office and warehouse space, under leases generally having a term of three years. For additional information regarding our obligations under property leases, see Note 9 of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report.

**Item 3. Legal Proceedings**

From time to time, the Company may be named in claims arising in the ordinary course of business. Currently, we are not a party to any legal proceedings that, in the opinion of our management, would reasonably be expected to have a material adverse effect on our business or financial condition.

**Item 4. Mine Safety Disclosures**

Not applicable.



**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information and Holders**

The Company's common stock is quoted on the OTCQB operated by the OTC Markets Group Inc., and previously on the OTC Bulletin Board, under the trading symbol "EACO"; however, there is no established public trading market for the Company's common stock. The closing sale price of the Company's common stock on November 2, 2016, the most recent date on which a sale of our shares occurred, was \$6.25 per share.

The quarterly high and low bid information of the Company's common stock as quoted on such over-the-counter markets are set forth below.

	High	Low
Year Ended August 31, 2015		
Quarter ended November 30, 2014	\$18.49	\$4.00
Quarter ended February 28, 2015	7.50	4.52
Quarter ended May 31, 2015	8.89	4.64
Quarter ended August 31, 2015	6.61	5.25
Year Ended August 31, 2016		
Quarter ended November 30, 2015	5.75	5.10
Quarter ended February 28, 2016	6.00	4.70
Quarter ended May 31, 2016	5.05	4.60
Quarter ended August 31, 2016	6.03	4.82

As of August 31, 2016, the Company had no equity compensation plans. The Company did not grant or issue any unregistered shares of common stock during the year ended August 31, 2016. The Company did not repurchase any of its own common stock during the year ended August 31, 2016.

**Dividend Policy**

The Company has never paid cash dividends on its common stock and does not expect to pay any cash dividends on its common stock in the foreseeable future.

#### **Item 6. Selected Financial Data**

The Company is a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and is not required to provide the information required under this item.

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

*You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. In addition to our historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Part I, Item 1A, “Risk Factors.”*

## **Overview**

EACO is a holding company primarily comprised of its wholly-owned subsidiary, Bisco. Bisco is a distributor of electronic components and fasteners with 48 sales offices and seven distribution centers located throughout the United States and Canada. Bisco supplies parts used in the manufacture of products in a broad range of industries, including the aerospace, circuit board, communication, computer, fabrication, instrumentation, industrial equipment and marine industries.

## **Critical Accounting Policies**

### ***Revenue Recognition***

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

### ***Impairment of Long Lived Assets***

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.

### ***Deferred Tax Assets***

A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize their benefit, or when future deductibility is uncertain. The Company records

net deferred tax assets to the extent management believe 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.

## Results of Operations

### *Comparison of the Fiscal Years Ended August 31, 2016 and 2015*

#### *Revenues and Gross Margin (dollars in thousands)*

	Fiscal Year Ended August 31,		\$	%	
	2016	2015		Change	Change
Revenues	\$ 148,544	\$ 140,213	\$8,331	5.9	%
Cost of revenues	104,981	99,105	5,876	5.9	%
Gross profit	\$ 43,563	41,108	\$2,455	6.0	%
Gross margin	29.3	% 29.3	%	0.0	%

Revenues consist primarily of sales of component parts and fasteners, but also include, to a lesser extent, kitting charges and special order fees, as well as freight charged to customers. The increase in revenues in fiscal 2016 compared to fiscal 2015 was largely due to increased product sales and increased efficiencies from the Company's employees. Revenues have also increased due to the Company focusing on relationship building programs with current and potential customers and vendors. The gross margins in fiscal 2016 remained consistent with fiscal 2015.

*Selling, General and Administrative Expense (dollars in thousands)*

	Fiscal Year Ended August 31,		\$	%
	2016	2015	Change	Change
Selling, general and administrative expenses	\$ 37,122	\$ 35,394	\$ 1,728	4.9 %
Percent of revenues	25.0	% 25.2	%	(0.2 )%

Selling, general and administrative expense (“SG&A”) consists primarily of payroll and related expenses for the sales and administrative staff, professional fees (including accounting, legal and technology costs and expenses), and sales and marketing costs. SG&A in fiscal 2016 increased from fiscal 2015 largely due to annual raises in employee salaries, bonuses, and a full-year’s overhead from our new distribution center in Georgia, which became active in May 2015. The Company has also invested in expanding its supply chain department, increasing such department’s headcount by 12%, from 26 in fiscal 2015 to 29 employees in fiscal 2016. Expanding the supply chain department is expected to develop and enhance vendor relationships to create favorable pricing for inventory purchases.

*Other Income (Expense), Net (dollars in thousands)*

	Fiscal Year Ended August 31,		\$	%
	2016	2015	Change	Change
Other income (expense):				
Realized profit (loss) on sales of marketable trading securities	\$ 330	\$ (301 )	\$ 631	209.6 %
Unrealized (loss) gain on marketable trading securities	(226 )	526	(752 )	(143.0 )%
Interest and other income(expense), net	(17 )	56	(73 )	(130.3 )%
Other income (expense), net	\$ 87	\$ 281	\$ (194 )	(69.0 )%
Other income (expense), net as a percent of sales	0	% 0.2	%	

Other income (expense) includes income or losses on investments in short-term marketable equity securities of other publicly-held domestic corporations, and interest expense. The Company’s investment strategy consists of both long and short positions, as well as utilizing options to improve return. The Company experienced net realized and unrealized gain from trading securities of \$104,000 during fiscal 2016 and \$225,000 during fiscal 2015. The decrease in trading securities in fiscal 2016 is due mainly to timing and general market climate short positions at year end, causing an unrealized loss of \$226,000.

Interest and other expense increased in fiscal 2016 compared to fiscal 2015 due to the disposal of fixed assets of \$7,000 in fiscal 2016. As of August 31, 2016 and 2015, there were no amounts outstanding on the Company’s line of credit.



*Income Tax Provision (dollars in thousands)*

	Fiscal Year Ended August 31,		\$	%
	2016	2015	Change	Change
Income tax provision	\$ 2,433	\$ 2,254	\$ 179	7.9 %
Percent of pre-tax income	37.3 %	37.6 %		(0.3 )%

The provision for income taxes increased by \$179,000 in fiscal 2016 compared to fiscal 2015. This was primarily a result of higher estimated taxable income in fiscal 2016 as compared to the prior year period. The percent of pre-tax net income was relatively consistent, decreasing by 0.3% from fiscal 2016 compared to fiscal 2015.

## **Liquidity and Capital Resources**

Bisco currently has a \$10,000,000 line of credit agreement with Community Bank, N.A (“Community Bank”). Borrowings under this agreement bear interest at either the 30, 60 or 90 day LIBOR (0.81% and 0.31% for the 90 day LIBOR at August 31, 2016 and 2015, respectively) plus 1.75% and/or the bank’s reference rate (3.25% at August 31, 2016 and 2015). Borrowings under this line are secured by substantially all assets of Bisco. The line of credit agreement expires in March 2017. No amounts were outstanding under this line of credit as of August 31, 2016 and 2015. The line of credit agreement contains certain nonfinancial and financial covenants, including the maintenance of certain financial ratios. As of August 31, 2016, the Company was in compliance with all such covenants.

### ***Cash Flows from Operating Activities***

During fiscal 2016, the Company used \$1,100,000 in net cash from its operating activities. This was due primarily to an increase in inventory of \$5,001,000 and an increase in trade accounts receivable of \$3,385,000 primarily due to higher revenues in 2016. This was partially offset by net income in fiscal 2016 of \$4,095,000.

During fiscal 2015, the Company generated \$5,574,000 in net cash from its operating activities. This was due primarily to net income of \$3,741,000 in fiscal 2015 and a decrease in trade accounts receivable of \$2,219,000. This was partially offset by an increase in inventory of \$1,951,000.

### ***Cash Flows from Investing Activities***

Net cash flow used in investing activities was \$820,000 for fiscal 2016. This was primarily due to the purchase of marketable securities of \$436,000 and purchase of equipment of \$403,000 related to technology upgrades to increase employee efficiency in fiscal 2016.

Net cash flow provided by investing activities was \$18,000 for fiscal 2015. This was primarily due to the net change in securities sold short of \$1,139,000. This increase was offset in part by the Company’s purchase of property and equipment of \$519,000 and an increase in restricted cash of \$900,000. The restricted cash increased in fiscal 2016 due to cash reserves against securities sold short.

### ***Cash Flows from Financing Activities***

Cash generated from financing activities fiscal 2016 was \$1,659,000, which was primarily due to the increase in its bank overdraft liability of \$1,768,000. The increase in bank overdraft is due to timing of payments of invoices at year end.

Cash used in financing activities in fiscal 2015 was \$3,598,000 and was primarily due to the Company's net payments during 2015 on its revolving credit facility and a decrease in its bank overdraft liability of \$1,684,000 and \$1,827,000, respectively. At the end of fiscal 2015, the Company paid down its line of credit balance to zero.

### **Off-Balance Sheet Arrangements**

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

### **Contractual Financial Obligations**

In addition to using cash flow from operations, the Company finances its operations through borrowings from banks and the leasing of certain equipment and facilities. These financial obligations are recorded in accordance with accounting rules applicable to the underlying transactions, with the result that debt agreements and obligations under capital leases are recorded as liabilities in the accompanying consolidated balance sheets while obligations under operating leases are disclosed in the Notes to the accompanying consolidated financial statements.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

**Item 8. Financial Statements And Supplementary Data**

The financial statements required by Regulation S-X are included in Part IV, Item 15 of this report.

**Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

(a) **Evaluation of disclosure controls and procedures.** As required by Rule 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's Chief Executive Officer, who also serves as the Company's principal financial officer. Based upon that evaluation, the Company's Chief Executive Officer has concluded that the Company's controls and procedures were effective as of August 31, 2016.

(b) **Management's annual report on internal control over financial reporting.** Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's management, with the participation of its Chief Executive Officer, assessed the effectiveness of the Company's internal control over financial reporting as of August 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report entitled "Internal Control-Integrated Framework (2013)." Based on that assessment under such criteria, management concluded that the Company's internal control over financial reporting was effective as of August 31, 2016.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and/or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act. As such, this annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting.

**(c) Changes in internal control over financial reporting.** There was no change in our internal control over financial reporting that occurred during the fourth quarter of the year ended August 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

Set forth below is certain information, as of November 1, 2016, regarding our directors and executive officers, including information regarding the experience, qualifications, attributes or skills of each director that led the Board of Directors to conclude that the person should serve on the Board.

**Directors and Executive Officers**

*Directors*

Glen F. Ceiley currently serves as Chairman of the Board and Chief Executive Officer of the Company. Stephen Catanzaro, Jay Conzen and William L. Means also currently serve as directors of the Company. Each director serves a one-year term, or until such director's successor has been elected and qualified.

*Glen F. Ceiley*, age 70, has served as EACO's Chief Executive Officer and Chairman of the Board since 1999. Mr. Ceiley is also the Chief Executive Officer and Chairman of the Board of Bisco, and has held those positions since he founded Bisco in 1973. He also served as President of Bisco prior to June 2010. In addition, Mr. Ceiley is a former director of Data I/O Corporation, a publicly-held company that provides programming systems for electronic device manufacturers. Mr. Ceiley has served as a director of the Company since 1998. As the founder of Bisco with over 45 years of experience in that industry, Mr. Ceiley is uniquely qualified to provide insights into and guidance on the industry and growth and development of the Company.

*Stephen Catanzaro*, age 63, has served as the Chief Financial Officer of Allied Business Schools, Inc., a company that provides home study courses and distance education, since April 2004. Prior to that, Mr. Catanzaro was the Chief Financial Officer of V&M Restoration, Inc., a building restoration company, from September 2002 to February 2004,

and the Chief Financial Officer of Bisco. Mr. Catanzaro has served as a director of the Company since 1999. Mr. Catanzaro offers to the Board valuable business and strategic insights obtained through his work in a variety of industries, as well as experience as a certified public accountant which is invaluable to his service in the Audit Committee.

**Jay Conzen**, age 70, has served as the President of Old Fashioned Kitchen, Inc., a national food distributor, since April 2003 and as a Director since 2011. Prior to that, from October 1992 to April 2003, Mr. Conzen was the principal of Jay Conzen Investments, an investment advisor. Mr. Conzen also served as a consultant to EACO from August 1999 until January 2001 and from October 2001 to April 2003. Mr. Conzen has served as a director of the Company since 1998. Having served as an executive officer of several companies, Mr. Conzen offers to the Board a wealth of management and leadership experience as well as an understanding of issues faced by businesses. He also served as a certified public accountant for a number of years.

**William L. Means**, age 73, served as the Vice President of Information Technology of Bisco from 2001 until his retirement in June 2010. Prior to that, from 1997 to 2001, Mr. Means was Vice President of Corporate Development of Bisco. Mr. Means has served as a director of the Company since July 1999. He holds an M.B.A. degree from San Jose State University. Mr. Means provides extensive industry expertise to the Board, as well as a deep and broad understanding of the Company and its operations resulting from his years of service as an officer of Bisco.

### ***Executive Officers***

Each executive officer holds office at the discretion of the Company's Board, or until the officer's successor has been elected and qualified. See above for biographical information for Mr. Ceiley, our Chief Executive Officer and Chairman of the Board.

***Donald S. Wagner***, age 54, has served as the President of Bisco since June 2010 and as its Chief Operating Officer since November 2007. Prior to his promotion to President, Mr. Wagner also held the title of Executive Vice President of Bisco from November 2007. Mr. Wagner has worked at Bisco since 1994 in a number of other capacities, including as Vice President of Product Management. Prior to joining Bisco, Mr. Wagner worked in the Defense division at Rockwell International. He holds a B.A. degree in Communications from California State University, Fullerton.

***Michael Narikawa***, age 35, has served as the Controller and the Principal Accounting Officer of EACO and Bisco since May 2014. Prior to his promotion as Controller, Mr. Narikawa served as Bisco's Accounting Supervisor from February 2009 to April 2014. Prior to joining Bisco, he was a Senior Auditor at KPMG, LLP from June 2005 to December 2008. Mr. Narikawa has a B.S. degree in Business Administration with a concentration in Accountancy from California Polytechnic State University, San Luis Obispo.

***Zach Ceiley***, age 36, has served as the Vice President of Sales and Marketing of Bisco since September 2012. Prior to such promotion, Mr. Ceiley was the Northern Regional Manager of Bisco from September 2010. Since he joined Bisco in February 2003, Mr. Ceiley has served the Company in a number of other capacities in the sales department, including as Cell Manager and Area Manager. Mr. Ceiley has a B.S. degree in Communications from the University of Colorado. Zach Ceiley is the son of Glen Ceiley, who is EACO's Chairman of the Board, Chief Executive Officer and majority shareholder and Bisco's Chief Executive Officer and Chairman of the Board.

### **Code of Ethical Conduct**

The Company has adopted a code of ethics applicable to the Company's senior executive and financial officers. You may receive, without charge, a copy of the Financial Code of Ethical Conduct by contacting our Corporate Secretary at 1500 N. Lakeview Avenue, Anaheim, California 92807.

### **Audit Committee**



The Audit Committee's basic functions are to assist the Board in discharging its fiduciary responsibilities to the shareholders and the investment community in the preservation of the integrity of the financial information published by the Company, to maintain free and open means of communication between the Company's directors, independent auditors and financial management, and to ensure the independence of the independent auditors. The Board has adopted a written charter for the Audit Committee which is attached as Annex A to the Company's Proxy Statement for the 2013 Annual Meeting of Shareholders, as filed with the SEC on April 8, 2013.. The Audit Committee charter is not available on the Company's website. Currently, the members of the Audit Committee are Messrs. Catanzaro, Conzen (Chairman) and Means. As indicated in Item 13 below, the Board has determined that Messrs. Catanzaro, Conzen and Means are independent as defined by the NASDAQ Stock Market's Marketplace Rules. The Board has identified Mr. Conzen as the member of the Audit Committee who qualifies as an "audit committee financial expert" under applicable SEC rules and regulations governing the composition of the Audit Committee.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act requires our directors and executive officers and persons who own more than ten percent of a registered class of our equity securities to file with the SEC reports of ownership and reports of changes in ownership of our common stock and our other equity securities. These persons are required by SEC regulation to furnish us with copies of all Section 16(a) reports they file.

For fiscal 2016, the following Form 4 filing was filed with the SEC but was not within two business days of the applicable transaction: filing by Mr. Glen Ceiley for the sale on November 13, 2015 of 1,398 shares of common stock. Based solely on our review of copies of the reports on Forms 3, 4 and 5 received by us during or with respect to the fiscal year ended August 31, 2016 and written representations received from the reporting persons that no other reports were required, except as indicated in the foregoing sentence, we believe that all directors, executive officers and persons who own more than 10% of our common stock have complied with the reporting requirements of Section 16(a) and have filed all reports required by such section on a timely basis.

## **Item 11. Executive Compensation**

The Executive Compensation Committee (the “Committee”) is responsible for establishing the salary and annual bonuses paid to executive officers of EACO and administering EACO’s equity incentive plans, if any, including granting stock options to officers and employees of EACO. The Committee has not adopted a formal charter. The current members of the Committee are Messrs. Glen Ceiley and William Means.

The officers of EACO are Mr. Ceiley, the Company’s Chief Executive Officer and Chairman of the Board, and Mr. Michael Narikawa, the Company’s Controller and principal accounting officer. Due to the nature of EACO’s operations and related financial results, no additional salary or other compensation for their service as officers of EACO was determined to be necessary and no such compensation was provided to Mr. Ceiley or Mr. Narikawa during fiscal 2016 and fiscal 2015. However, both of them receive compensation from Bisco for their services provided to Bisco.

All compensation for the named executive officers for fiscal 2016 and fiscal 2015 was paid by Bisco. The compensation of named executive officers who serve as officers of Bisco are determined by Bisco’s Chairman of the Board, Glen Ceiley. Bisco currently does not pay bonuses or other incentive compensation to the named executive officers, although Mr. Ceiley has received quarterly dividends on his shares of Preferred Stock of EACO.

**Summary Compensation**

The following table sets forth information regarding compensation earned from the Company (including from Bisco, our wholly-owned subsidiary) during fiscal 2016 and fiscal 2015 by (i) our Chief Executive Officer, (ii) two other most highly compensated executive officers who were employed by the Company (including Bisco) as of August 31, 2016 and whose total compensation exceeded \$100,000 during that year. The officers listed below are collectively referred to as the “named executive officers” in this report.

Name and Principal Position	Fiscal Year	Salary	All Other Compensation	Total
Glen F. Ceiley, Chief Executive Officer and Chairman of the Board of EACO and Bisco	2016	\$354,000	\$ 8,000	\$362,000
	2015	333,000	8,000	341,000
Donald Wagner, President of Bisco	2016	213,000	23,000	236,000
	2015	203,000	33,000	236,000
Zachary Ceiley, Vice President of Sales and Marketing of Bisco	2016	126,000	24,000	150,000
	2015	124,000	29,000	153,000

### Outstanding Equity Awards at Fiscal Year-End

The Company did not grant any equity awards during fiscal 2016 to any named executive officer and no outstanding equity awards were held by the named executive officers at August 31, 2016.

### Director Compensation

The Company pays \$10,000 per year in cash to each director who is not employed by EACO or its subsidiary as compensation for their Board services. In addition, directors who do not receive a salary from EACO or its subsidiary receive a fee of \$500 for each Board meeting attended. No additional fees are paid to directors for attendance at meetings of the Audit Committee or the Executive Compensation Committee of the Board.

The following table sets forth the compensation of certain Company directors for the year ended August 31, 2016. (See the above “Summary Compensation” for information regarding Mr. Ceiley).

Director	Fees Earned or <u>Paid in Cash</u>	All Other <u>Compensation</u>	Total
Stephen Catanzaro	\$ 12,000	\$ —	\$ 12,000
Jay Conzen	12,000	—	12,000
William Means	12,000	—	12,000

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

#### Security Ownership of Certain Beneficial Owners and Management

The table below presents certain information regarding beneficial ownership of the Company’s common stock (the Company’s only voting security) as of November 4, 2016 (i) by each shareholder known to the Company to own more than five percent (5%) of the outstanding common stock, (ii) by each named executive officer and director of the Company, and (iii) by all directors and executive officers of the Company as a group. Under the rules of the SEC, the determinations of “beneficial ownership” of the Company’s common stock are based upon Rule 13d-3 under the

Edgar Filing: EACO CORP - Form 10-K

Exchange Act. Under Rule 13d-3, shares will be deemed to be “beneficially owned” when a person has, either solely or with others, the power to vote or to direct the voting of shares and/or the power to dispose, or to direct the disposition of shares, or where a person has the right to acquire any such power within 60 days after the date such beneficial ownership is determined. Shares of the Company’s common stock that a beneficial owner has the right to acquire within 60 days are deemed to be outstanding for the purpose of computing the percentage ownership of such owner but are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

Name and Address of Beneficial Owner (1)	Shares of Common Stock Beneficially Owned	Percent of Class(2)
Stephen Catanzaro	—	—
Glen F. Ceiley(3)	4,785,110	98.4 %
Jay Conzen	—	—
William L. Means	322	*
Donald Wagner	—	—
Zachary Ceiley	140	*
Michael Narikawa	—	—
All executive officers and directors as a group (7 persons)(3)	4,785,572	98.4 %

\* Less than 1%

*(footnotes on following page)*

*(footnotes from prior page)*

- (1) The address for each person named in the table is c/o Bisco Industries, Inc., 1500 North Lakeview Avenue, Anaheim, CA 92807.
- (2) Based on 4,861,590 shares of common stock outstanding as of November 4, 2016. Includes (i) 4,738,271 shares of common stock held directly by Mr. Ceiley; (ii) 6,000 shares held by Mr. Ceiley's wife; (iii) 839 shares held in his IRA; and (iv) 40,000 shares issuable upon conversion of the 36,000 shares of
- (3) Series A Cumulative Convertible Preferred Stock (excluding any dividends accrued but not yet paid) held by Mr. Ceiley. Mr. Ceiley has the sole power to vote and dispose of the shares of common stock he owns individually.

### **Item 13. Certain Relationships and Related Transactions and Director Independence**

#### **Certain Relationships and Related Transactions**

Since September 1, 2012, except as described below or under Item 11 (Executive Compensation), there has not been, nor is there any proposed transaction, where we (or any of our subsidiaries) were or will be a party in which the amount involved exceeded or will exceed the lesser of \$120,000 or one percent of the average of the Company's total assets at year end for the last two fiscal years and in which any director, director nominee, executive officer, holder of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest.

The Company leases three buildings under operating lease agreements from its Chief Executive Officer and majority shareholder, Glen Ceiley. During the years ended August 31, 2016 and 2015, the Company paid approximately \$652,000 and \$635,000, respectively, in rent with respect to these leases.

#### **Director Independence**

The Company's Board consists of the following directors: Stephen Catanzaro, Glen Ceiley, Jay Conzen and William L. Means. The Board has determined that three of its four directors, Stephen Catanzaro, Jay Conzen and William L. Means, are independent as defined by the NASDAQ Stock Market's Marketplace Rules. In addition to such rules, the Board considered transactions and relationships between each director (and his immediate family) and the Company to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent. As a result, the Board determined that Mr. Ceiley is not independent, as he is an employee of Bisco and member of Bisco's steering committee. Bisco's steering committee handles the day to day operations of the Company,

and Mr. Ceiley has been intimately involved with decision-making that directly affects the financial statements of the Company.

Currently, the members of the Audit Committee are Messrs. Catanzaro, Conzen (Chairman) and Means. The Board has determined that all of the foregoing committee members are independent pursuant to the Nasdaq Marketplace Rules and SEC Rule 10A-3.

#### **Item 14. Principal Accounting Services**

##### **Audit Committee Pre-Approval Policies and Procedures**

The Audit Committee is required to pre-approve all auditing services and permissible non-audit services, including related fees and terms, to be performed for the Company by its independent auditor, subject to the de minimus exceptions for non-audit services described under the Exchange Act, which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee also considers whether the provision by its independent accounting firm of any non-audit related services is compatible with maintaining the independence of such firm. For fiscal 2016 and fiscal 2015, the Audit Committee pre-approved all services performed for the Company by the auditor.

## **Audit Services**

Squar Milner LLP (“Squar Milner”), the Company’s independent accounting firm for the years ended August 31, 2016 and 2015 performed professional services for the audit of the financial statements included in the Company’s annual report on form 10-K and for the reviews of the unaudited financial statements included in the Company’s quarterly reports on Form 10-Q for the quarters ended during the years ended August 31, 2016 and 2015 were \$172,443 and \$176,941, respectively.

## **Audit-Related Fees**

The Company was not billed any audit-related fees by Squar Milner for the years ended August 31, 2016 and 2015.

## **PART IV**

### **Item 15. Exhibits, Financial Statement Schedules**

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

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of August 31, 2016 and 2015	F-2
Consolidated Statements of Operations for the years ended August 31, 2016 and 2015	F-4
Consolidated Statements of Comprehensive Income for the years ended August 31, 2016 and 2015	F-5
Consolidated Statements of Shareholders’ Equity for the years ended August 31, 2016 and 2015	F-6
Consolidated Statements of Cash Flows for the years ended August 31, 2016 and 2015	F-7
Notes to the Consolidated Financial Statements	F-9

(b) The exhibits listed in the accompanying “Exhibit Index” immediately following the financial statements are filed herewith or incorporated by reference as indicated.



**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

November 23, 2016 /s/ Glen Ceiley  
 By: Glen Ceiley  
 Its: Chairman of the Board and Chief Executive Officer  
 (principal executive officer and  
 principal financial officer)

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.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Glen F. Ceiley Glen F. Ceiley	Chairman of the Board and Chief Executive Officer (principal executive officer and principal financial officer)	11/23/16
/s/ Michael Narikawa Michael Narikawa	Controller (principal accounting officer)	11/23/16
/s/ Steve Catanzaro Steve Catanzaro	Director	11/23/16
/s/ Jay Conzen Jay Conzen	Director	11/23/16
/s/ William Means William Means	Director	11/23/16

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of August 31, 2016 and 2015</u>	F-2
<u>Consolidated Statements of Operations for the years ended August 31, 2016 and 2015</u>	F-3
<u>Consolidated Statement of Comprehensive Income for the years ended August 31, 2016 and 2015</u>	F-4
<u>Consolidated Statements of Shareholders' Equity for the years ended August 31, 2016 and 2015</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended August 31, 2016 and 2015</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

EACO Corporation

Anaheim, California

We have audited the accompanying consolidated balance sheets of EACO Corporation and Subsidiaries (the “Company”) as of August 31, 2016 and 2015 and the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows for the years then ended. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is 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 consolidated financial position of EACO Corporation and Subsidiaries as of August 31, 2016 and 2015 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Squar Milner LLP (formerly Squar, Milner, Peterson, Miranda & Williamson, LLP)

Newport Beach, California

November 23, 2016

F-1

**EACO Corporation and Subsidiaries**

## Consolidated Balance Sheets

(in thousands, except share and per share information)

	August 31,	
	2016	2015
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$4,878	\$5,269
Restricted cash, current	1,425	1,781
Trade accounts receivable, net	18,797	15,485
Inventory, net	21,532	16,733
Marketable securities, trading	540	-
Prepaid expenses and other current assets	1,135	591
Total current assets	48,307	39,859
Non-current Assets:		
Equipment and leasehold improvements, net	1,395	1,569
Other assets	890	1,088
Total assets	\$50,592	\$42,516
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Trade accounts payable	\$12,727	\$9,318
Accrued expenses and other current liabilities	5,600	4,433
Liability for short sales of trading securities	1,425	1,781
Total current liabilities	19,752	15,532
Non-current Liabilities:		
Long-term debt	-	33
Total liabilities	19,752	15,565
Shareholders' Equity:		
Convertible preferred stock, \$0.01 par value per share; 10,000,000 shares authorized; 36,000 shares outstanding (liquidation value \$900)	1	1
Common stock, \$0.01 par value per share; 8,000,000 shares authorized; 4,861,590 shares outstanding	49	49
Additional paid-in capital	12,378	12,378
Accumulated other comprehensive income	730	860
Retained earnings	17,682	13,663
Total shareholders' equity	30,840	26,951
Total liabilities and shareholders' equity	\$50,592	\$42,516

See accompanying notes to consolidated financial statements.



**EACO Corporation and Subsidiaries**

## Consolidated Statements of Operations

(in thousands, except per share amounts)

	Year Ended August 31,	
	2016	2015
Revenues	\$148,544	\$140,213
Cost of revenues	104,981	99,105
Gross margin	43,563	41,108
Operating expenses:		
Selling, general and administrative expenses	37,122	35,394
Income from operations	6,441	5,714
Other income (expense):		
Net gain on trading securities	104	225
Interest and other (expense) income	(17 )	56
Total other (expense) income	87	281
Income before income taxes	6,528	5,995
Provision for income taxes	2,433	2,254
Net income	4,095	3,741
Cumulative preferred stock dividend	(76 )	(76 )
Net income attributable to common shareholders	\$4,019	\$3,665
Basic and diluted earnings per share:	\$0.83	\$0.75
Basic and diluted weighted average common shares outstanding	4,861,590	4,861,590

See accompanying notes to consolidated financial statements.

**EACO Corporation and Subsidiaries**

Consolidated Statements of Comprehensive Income

(in thousands)

	Year Ended August 31,	
	2016	2015
Net income	\$4,095	\$3,741
Other comprehensive income, net of tax		
Foreign translation loss	(130 )	(205 )
Total comprehensive income	\$3,965	\$3,536

See accompanying notes to consolidated financial statements.

F-4



**EACO Corporation and Subsidiaries**

## Consolidated Statements of Shareholders' Equity

For the Years Ended August 31, 2016 and 2015

(in thousands, except share information)

	Convertible		Common Stock		Additional	Accumulated	Total	
	Preferred	Stock	Shares	Amount	Paid-in	Other	Accumulated	Shareholders'
	Shares	Amount	Shares	Amount	Capital	Comprehensive	Earnings	Equity
						Income		
Balance, August 31, 2014	36,000	\$ 1	4,861,590	\$ 49	\$ 12,378	\$ 1,065	\$ 9,998	\$ 23,491
Preferred Dividends							(76)	(76)
Foreign Translation loss	—	—	—	—	—	(205)	—	(205)
Net income	—	—	—	—	—	—	3,741	3,741
Balance, August 31, 2015	36,000	\$ 1	4,861,590	\$ 49	\$ 12,378	\$ 860	\$ 13,663	\$ 26,951
Preferred Dividends							(76)	(76)
Foreign translation loss	—	—	—	—	—	(130)	—	(130)
Net Income	—	—	—	—	—	—	4,095	4,095
Balance, August 31, 2016	36,000	\$ 1	4,861,590	\$ 49	\$ 12,378	\$ 730	\$ 17,682	\$ 30,840

See accompanying notes to consolidated financial statements.

**EACO Corporation and Subsidiaries**

## Consolidated Statements of Cash Flows

(in thousands)

	<b>Year Ended August 31, 2016</b>	<b>2015</b>
<b>Operating activities:</b>		
Net income	\$ 4,095	\$ 3,741
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	577	553
Bad debt expense	73	91
Change in inventory reserve	202	81
Net (gain) on investments	(104 )	(225 )
(Increase) decrease in:		
Trade accounts receivable	(3,385 )	2,219
Inventory	(5,001 )	(1,951 )
Prepaid expenses and other assets	(365 )	509
Increase (decrease) in:		
Trade accounts payable	1,641	(47 )
Accrued expenses and other current liabilities	1,167	603
<b>Net cash (used in) provided by operating activities</b>	<b>(1,100 )</b>	<b>5,574</b>
<b>Investing activities:</b>		
Purchase of property and equipment	(403 )	(519 )
Purchase of marketable securities, trading	(436 )	298
Net change in securities sold short	(356 )	1,139

Change in restricted cash	375	(900)	)
<b>Net cash (used in) provided by investing activities</b>	(820)	)	18
<b>Financing activities:</b>			
Payments on revolving credit facility	(33)	)	(1,684)
Payment of preferred stock dividend	(76)	)	(76)
Bank overdraft	1,768		(1,827)
Payments on long-term debt			(11)
<b>Net cash provided by (used in) financing activities</b>	1,659		(3,598)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(130)	)	(205)
<b>Net (decrease) increase in cash and cash equivalents</b>	(391)	)	1,789
Cash and cash equivalents - beginning of period	5,269		3,480
Cash and cash equivalents - end of period	\$ 4,878		\$ 5,269
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for income taxes	\$ 2,227		\$ 1,342

See accompanying notes to consolidated financial statements.

## **EACO CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2016 and 2015

#### **Note 1. Organization and Basis of Presentation**

EACO Corporation (“EACO”), incorporated in Florida in September 1985, is a holding company, primarily comprised of its wholly-owned subsidiary, Bisco Industries, Inc. (“Bisco”). Bisco was incorporated in Illinois in 1974 and is a distributor of electronic components and fasteners with 48 sales offices and seven distribution centers located throughout the United States and Canada. Bisco supplies parts used in the manufacture of products in a broad range of industries, including the aerospace, circuit board, communication, computer, fabrication, instrumentation, industrial equipment and marine industries.

#### **Use of Estimates**

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

#### **Principles of Consolidation**

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

#### **Note 2. Significant Accounting Policies**

## **Cash and Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

## **Trade Accounts Receivable**

Trade accounts receivable are carried at original invoice amount, less an estimate for an allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying probable credit losses in the Company's accounts receivable and reviewing historical data to estimate the collectability on items not yet specifically identified as problem accounts. Trade accounts receivable are written off when deemed uncollectible. Recoveries of trade accounts receivable previously written off are recorded when received. A trade account receivable is considered past due if any portion of the receivable balance is outstanding for more than 30 days. The Company does not charge interest on past due balances. The allowance for doubtful accounts was \$111,000 at August 31, 2016 and 2015.

## **Inventories**

Inventories consist primarily of electronic fasteners and components, and are stated at the lower of cost or estimated market value. Cost is determined using the average cost method. Inventories are presented net of a reserve for slow moving or obsolete items of \$1,307,000 and \$1,105,000 at August 31, 2016 and 2015, respectively. The reserve is based upon management's review of inventories on-hand over their expected future utilization and length of time held by the Company.

### **Equipment and Leasehold Improvements**

Equipment and leasehold improvements are stated at cost net of accumulated amortization. Depreciation on equipment is calculated on the straight-line method over the estimated useful lives of the assets, ranging from five to seven years. Leasehold improvements are amortized over the estimated useful life of the asset or the remaining lease term, whichever is less. Maintenance and repairs are charged to expense as incurred. Renewals and improvements of a major nature are capitalized. At the time of retirement or disposition of property and equipment, the cost and accumulated depreciation or amortization are removed from the accounts and any gains or losses are reflected in earnings.

### **Impairment of Long Lived Assets**

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.

### **Trading Securities**

The Company invests in marketable trading securities, which include long and short positions in equity securities. Short positions represent securities sold, but not yet purchased. Short sales result in obligations to purchase securities at a later date and are separately presented as a liability in the Company's consolidated balance sheet. As of August 31, 2016 and 2015, the Company's total obligation for securities sold, but not yet purchased was \$1,425,000 and \$1,781,000, respectively. Restricted cash to collateralize the Company's obligation for short sales was \$1,425,000 and \$1,781,000 at August 31, 2016 and 2015, respectively.

These securities are stated at fair value, which is determined using the quoted closing prices at each reporting date. Realized gains and losses on investment transactions are recognized as incurred in the consolidated statements of operations. Net unrealized gains and losses are reported in the statements of operations and represent the change in the market value of investment holdings during the period. See Note 11.

## **Revenue Recognition**

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

## **Income Taxes**

Deferred taxes on income result from temporary differences between the reporting of income for financial statement and tax reporting purposes. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some or all of the deferred tax asset will 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.

We provide tax contingencies, if any, for federal, state, local and international exposures relating to audit results, tax planning initiatives and compliance responsibilities. The development of these reserves requires judgments about tax issues, potential outcomes and timing. Although the outcome of these tax audits is uncertain, in management's opinion adequate provisions for income taxes have been made for potential liabilities emanating from these reviews. If actual outcomes differ materially from these estimates, they could have a material impact on our results of operations.

### **Freight and Shipping/Handling**

Shipping and handling expenses are included in cost of goods sold, and were approximately \$2,653,000 and \$2,557,000 for the years ended August 31, 2016 and 2015, respectively.

### **Liabilities of Discontinued Operations**

Prior to June 2005, EACO self-insured 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. At each fiscal year end, the Company obtains an actuarial report which estimates its overall exposure based on historical claims and an evaluation of future claims, and adjustments to the Company's estimated claim liability, if any, are reflected in operations. The Company pursues recovery of certain claims from an insurance carrier. Recoveries, if any, are recognized when realization is reasonably assured. The outstanding liability for worker's compensation at year end is not significant and is recorded in accrued liabilities at August 31, 2016 and 2015.

### **Operating Leases**

Certain Company leases for its sales offices and distribution centers provide for minimum annual payments that adjust over the life of the lease. The aggregate minimum annual payments are expensed on the straight-line basis over the minimum lease term. The Company recognizes a deferred rent liability for rent escalations when the amount of straight-line rent exceeds the lease payments, and reduces the deferred rent liability when the lease payments exceed the straight-line rent expense.

### **Earnings Per Common Share**

Basic earnings per common share for the years ended August 31, 2016 and 2015 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 effect to all potentially dilutive common shares that were outstanding during the respective periods. Potentially dilutive common shares represent 40,000 common shares issuable upon conversion of 36,000 shares of Series A convertible preferred stock, which were outstanding at August 31, 2016 and 2015. Such securities are excluded from the weighted average shares outstanding used to calculate diluted earnings per common share for the years ended August 31, 2016 and 2015 as



their inclusion would be anti-dilutive since the conversion price was greater than the average market price of the Company's common stock during these periods.

### **Foreign Currency Translation and Transactions**

Assets and liabilities recorded in functional currencies other than the U.S. dollar (Canadian dollars for the Bisco's Canadian subsidiary) are translated into U.S. dollars at the period-end rate of exchange. Revenue and expenses are translated at the average exchange rates for the years ended August 31, 2016 and 2015. The resulting translation adjustments are charged or credited directly to accumulated other comprehensive income or loss. The average exchange rates for the years ended August 31, 2016 and 2015 were \$0.76 and \$0.83, respectively.

### **Concentrations**

Financial instruments that subject the Company to credit risk include cash balances in excess of federal depository insurance limits and accounts receivable. Cash accounts maintained by the Company at U.S. and Canadian financial institutions are insured by the Federal Deposit Insurance Corporation and Canadian Deposit Insurance Corporation, respectively. A significant portion of the Company's cash was held by its Canadian subsidiary. The Company has not experienced any losses in such accounts.

Net sales to customers outside the United States and related trade accounts receivable were approximately 9% and 14%, respectively, at August 31, 2016, and 9% and 11%, respectively, at August 31, 2015. No single customer accounted for more than 10% of total revenues for either of the years ended August 31, 2016 or 2015.

Total assets held outside the United States comprised 5% and 6% as of August 31, 2016 and 2015, respectively.

### **Estimated Fair Value of Financial Instruments and Certain Nonfinancial Assets and Liabilities**

The Company's financial instruments other than its marketable securities include cash and cash equivalents, trade accounts receivable, prepaid expenses, security deposits, trade accounts payable, line of credit, accrued expenses and long-term debt. Management believes that the fair value of these financial instruments approximate their carrying amounts based on current market indicators, such as prevailing interest rates. The Company's marketable securities are measured at fair value on a recurring basis (see Note 11).

During the years ended August 31, 2016 and 2015, the Company did not have any nonfinancial assets or liabilities that were measured at estimated fair value on a recurring or nonrecurring basis.

### **Significant Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers" to supersede previous revenue recognition guidance under current GAAP. The guidance presents steps for comprehensive revenue recognition that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance becomes effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating this statement and its impact on its results of operations or financial position.

In July 2015, the FASB issued ASU 2015-11 "Simplifying the Measurement of Inventory". The guidance is part of the "Simplification Initiative" to identify and re-evaluate areas where the generally accepted accounting principles may be complex and cumbersome to apply. The guidance will require that inventory be stated at the lower of cost and net realizable value as opposed to the lower of cost or market. Net realizable value is the estimated selling price for the inventory less completion, disposal and transportation costs. The guidance becomes effective for fiscal years beginning after December 15, 2016. The Company is currently evaluating this statement and its impact on its results of operations or financial position.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes". The guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as

noncurrent on the balance sheet. The guidance becomes effective for annual reporting periods beginning after December 6, 2016 with early adoption permitted. The Company is currently evaluating this statement and its impact on its results of operations or financial position.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which will require a lessee to recognize assets and liabilities with lease terms of more than 12 months. Both capital and operating leases will need to be recognized on the balance sheet. The guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. The Company is currently evaluating this statement and its impact on its results of operations or financial position.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses”, which will require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those fiscal years. The Company is currently evaluating this statement and its impact on its results of operations or financial position.

**Note 3. Equipment and Leasehold Improvements**

Equipment and leasehold improvements are summarized as follows:

	August 31,	
	2016	2015
Machinery and equipment	\$5,960,000	\$5,658,000
Furniture and fixtures	829,000	810,000
Vehicles	155,000	138,000
Leasehold improvements	1,576,000	1,556,000
	8,520,000	8,162,000
Less accumulated depreciation and amortization	(7,125,000)	(6,593,000)
	\$1,395,000	\$1,569,000

For the years ended August 31, 2016 and 2015, depreciation and amortization expense was \$577,000 and \$553,000, respectively.

**Note 4. Long-Term Debt**

The Company has a note payable with BMW Bank of North America, secured by an automobile, with a monthly principal and interest payment of \$901. The note accrues interest at a rate of 0.9% per annum and matures in June 2018 but was repaid in full in February 2016. The outstanding balance at August 31, 2016 and 2015 was \$0 and \$33,000, respectively.

The Company has a revolving credit agreement with Community Bank, N.A., which currently provides for borrowings of up to \$10,000,000 and bears interest at either the 30, 60 or 90 day LIBOR (the 90 day LIBOR at August 31, 2016 and 2015 was 0.81% and 0.31%, respectively) plus 1.75% or the bank's reference rate (3.25% at August 31, 2016 and 2015). Borrowings are secured by substantially all assets of the Company. The credit agreement, as amended in March 2015, expires in March 2017. There was a zero balance outstanding as of August 31, 2016 and 2015. The agreement contains certain nonfinancial and financial covenants, including the maintenance of certain financial ratios. As of August 31, 2016 and 2015, the Company was in compliance with all such covenants.

**Note 5. Shareholders' Equity****Earnings Per Common Share ("EPS")**

The following is a reconciliation of the numerators and denominators used in the basic and diluted computations of earnings per common share:

(In thousands, except per share information)	Year Ended August 31,	
	2016	2015
EPS— basic and diluted:		
Net income	\$4,095	\$3,741
Less: undeclared cumulative preferred stock dividends	(76 )	(76 )
Net income available to common shareholders for basic and diluted EPS computation	4,019	3,665
Weighted average common shares outstanding for basic and diluted EPS computation	4,861,590	4,861,590
Earnings per common share – basic and diluted	\$0.83	\$0.75

F-11

For the year ended August 31, 2016 and 2015, 40,000 potential common shares (issuable upon conversion of 36,000 shares of the Company's Series A Cumulative Convertible Preferred Stock) have been excluded from the computation of diluted earnings per share because their inclusion would be anti-dilutive since the conversion price was greater than the average market price of the common stock.

### Preferred Stock

The Company's Board of Directors is authorized to establish the various rights and preferences for the Company's preferred stock, including voting, conversion, dividend and liquidation rights and preferences, at the time shares of preferred stock are issued. In September 2004, the Company sold 36,000 shares of its Series A cumulative convertible preferred stock (the "Preferred Stock") to the Company's CEO, with an 8.5% dividend rate at a price of \$25 per share for a total cash purchase price of \$900,000. Holders of the Preferred Stock have the right at any time to convert the Preferred Stock and accrued but unpaid dividends into shares of the Company's common stock at the conversion price of \$22.50 per share. In the event of a liquidation or dissolution of the Company, holders of the Preferred Stock are entitled to be paid out of the assets of the Company available for distribution to shareholders at \$25.00 per share plus all unpaid dividends before any payments are made to the holders of common stock.

### Note 6. Profit Sharing Plan

The Company has a defined contribution 401(k) profit sharing plan for all eligible employees. Employees are eligible to contribute to the 401(k) plan after six months of employment. Under this plan, employees may contribute up to 15% of their compensation. The Company has the discretion to match 50% of the employee contributions up to 4% of employees' compensation. The Company's contributions are subject to a five-year vesting period beginning the second year of service. The Company's contribution expense was approximately \$223,000 and \$212,000 for the years ended August 31, 2016 and 2015, respectively.

### Note 7. Income Taxes

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

	Year Ended August 31,	
	2016	2015
Current:		
Federal	\$2,226,000	\$1,568,000
State	362,000	325,000

Foreign	28,000	(5,000 )
	2,616,000	1,888,000
Deferred:		
Federal	(273,000 )	560,000
State	90,000	(194,000 )
Foreign	-	-
	(183,000 )	366,000
Total	\$2,433,000	\$2,254,000

Income taxes for the years ended August 31, 2016 and 2015 differ from the amounts computed by applying the federal statutory corporate rates of 34% to the pre-tax income from operations.

F-12

The differences are reconciled as follows:

	Year Ended August 31,	
	2016	2015
Current:		
Expected income tax benefit at statutory rate	\$2,234,000	\$2,008,000
Increase (decrease) in taxes due to:		
State tax, net of federal benefit	303,000	284,000
Permanent differences	29,000	32,000
Change in deferred tax asset valuation allowance	(121,000 )	62,000
Other, net	(12,000 )	(132,000 )
Income tax expense	\$2,433,000	\$2,254,000

The components of deferred taxes at August 31, 2016 and 2015 are summarized below:

	August 31,	
	2016	2015
Deferred tax assets:		
Net operating loss	\$518,000	\$522,000
Capital losses	-	116,000
Allowance for doubtful accounts	8,000	14,000
Accrued expenses	381,000	146,000
Accrued workers' compensation	25,000	32,000
Inventory reserve	852,000	775,000
Unrealized losses on investment	(167,000 )	(254,000 )
Excess of tax over book depreciation	(147,000 )	(78,000 )
Other	198,000	305,000
Total deferred tax assets	1,668,000	1,578,000
Valuation allowance	(518,000 )	(639,000 )
Total deferred tax assets	\$1,150,000	\$939,000

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.

Based on the Company's profitability and future forecast, management believes it is more-likely-than not that a portion of its net deferred tax assets will not be utilized in the future. Therefore, as of August 31, 2016 and 2015, a partial valuation allowance has been recorded based on management's estimate of the amount of its net deferred tax assets that



will be able to be utilized in future periods.

The guidance in the “Transactions Between Entities Under Common Control Subsections” of ASC 805-50, does not specifically address the accounting for the deferred tax consequences that may result from a transfer of net assets or the exchange of equity interest between enterprises under common control. Although such a transaction is not a pooling of interests, it appears as if the guidance of the FASB Statement No. 109 (ASC 740), paragraphs 270-272, which addresses the income tax accounting effects of a pooling-of-interests transaction should be applied by analogy.

F-13

On January 1, 2007, we adopted ASC 740 “Income Taxes” formerly FASB Interpretation No. 48 an interpretation of FASB Statement No. 109 (“ASC 740”). ASC 740 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements. ASC 740 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in the tax return. The Company did not recognize any additional liability for unrecognized tax benefit as a result of the implementation. The Company has no liability for unrecognized tax benefit related to tax positions for either the August 31, 2015 year end or the August 31, 2016 year end.

The Company’s policy is to recognize interest and penalty related to unrecognized tax benefits as income tax expense. As of August 31, 2016, the Company has not recognized liabilities for penalty and interest as the Company does not have any liability for unrecognized tax benefits.

## **Note 8. Commitments and Contingencies**

### **Legal Matters**

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

### **Operating Lease Obligations**

The Company leases its facilities and automobiles under operating lease agreements (three leased facilities are leased from its majority shareholder – see Note 10), which expire on various dates through September 2021 and require minimum rental payments ranging from \$1,000 to \$32,000 per month. Certain of the leases contain options for renewal under varying terms.

Minimum future rental payments under operating leases are as follows:

Years Ending August 31:

2017	\$1,758,000
2018	1,222,000
2019	533,000
2020	208,000
2021	183,000
Thereafter	110,000
	\$4,014,000

Rental expense for all operating leases for the years ended August 31, 2016 and 2015 was approximately \$2,142,000 and \$1,832,000, respectively.

**Note 9. Related Party Transactions**

The Company leases three buildings under operating lease agreements from its CEO, Chairman of the Board and majority stockholder. During the years ended August 31, 2016 and 2015, the Company incurred approximately \$652,000 and \$635,000, respectively, of rent expense related to these leases.

**Note 10. Fair Value of Financial Instruments**

Management estimates the fair value of its assets or liabilities measured at fair value based on the three levels of the fair-value hierarchy are described as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. For the Company, Level 1 inputs include marketable securities and liabilities for short sales of trading securities that are actively traded.

Level 2: Inputs other than Level 1 are observable, either directly or indirectly. The Company does not hold any Level 2 financial instruments.

Level 3: Unobservable inputs. The Company does not hold any Level 3 financial instruments.

The following table sets forth by level, within the fair value hierarchy, certain assets at estimated fair value as of August 31, 2016 and 2015:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
August 31, 2016				
Marketable securities	\$ 540,000	—	—	\$ 540,000
Liability for short sales of trading securities	(1,425,000 )	—	—	(1,425,000)
August 31, 2015				
Marketable securities	—	—	—	
Liability for short sales of trading securities	(1,781,000 )	—	—	(1,781,000)

**Note 11. Subsequent Events**

Management has evaluated events subsequent to August 31, 2016, through the date that these consolidated financial statements are being filed with the Securities and Exchange Commission, for transactions and other events which may require adjustment of and/or disclosure in such financial statements.

F-15

**EXHIBIT INDEX**

<b>Number</b>	<b>Exhibit</b>
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, 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, 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 3.04 to the Company's Registration Statement on Form S-1, Registration No. 33-17620, is incorporated herein by reference.)
3.4	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.)
3.5	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.)
3.6	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.)
3.7	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.)
3.8	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 (Exhibit 3.11 to the Company's transition report on Form 10-K filed with the SEC on December 23, 2009 is incorporated herein by reference.)
3.9	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.)
3.10	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.)
3.11	Certificate of Amendment to Amended and Restated Bylaws effective December 21, 2009 (Exhibit 3.10 to the Company's transition report on Form 10-K filed with the SEC on December 23, 2009 is incorporated herein by reference.)
10.4	Business Loan Agreement dated November 9, 2007 by and between EACO Corporation and Community Bank (Exhibit 10.10 to the Company's Annual Report on Form 10-K, filed with the SEC on November 29, 2011, is incorporated herein by reference.)
10.5	Promissory Note dated November 9, 2007 in the principal amount of \$5,875,000 executed by EACO in favor of Community Bank (Exhibit 10.11 to the Company's Annual Report on Form 10-K, filed with the SEC on November 29, 2011, is incorporated herein by reference.)
10.6	

Edgar Filing: EACO CORP - Form 10-K

Commercial Guaranties dated November 9, 2007 executed in favor of Community Bank by each of Glen F. Ceiley, Bisco Industries, Inc. and the Glen F. Ceiley and Barbara A. Ceiley Revocable Trust (Exhibit 10.12 to the Company's Annual Report on Form 10-K, filed with the SEC on November 29, 2011, is incorporated herein by reference.)

10.7 Business Loan Agreement dated June 1, 2007 by and between Bisco Industries, Inc. and Community Bank (Exhibit 10.13 to the Company's Annual Report on Form 10-K, filed with the SEC on November 26, 2012, is incorporated herein by reference.)

10.8 Promissory Note dated November 15, 2000 executed by Bisco Industries, Inc. in favor of Community Bank (Exhibit 10.14 to the Company's Annual Report on Form 10-K, filed with the SEC on November 26, 2012, is incorporated herein by reference.)

23

**Number Exhibit**

- 10.9 Change in Terms Agreements by and between Bisco Industries, Inc. and Community Bank dated May 1, 2001; July 1, 2001; September 1, 2001; October 19, 2001; April 30, 2002; June 17, 2002; August 28, 2002; September 16, 2002; October 28, 2002; January 24, 2003; March 27, 2003; June 1, 2003; October 1, 2003; December 1, 2003; February 1, 2004; May 1, 2004; June 23, 2004; August 1, 2004; February 1, 2005; April 1, 2005; April 1, 2006; March 28, 2007; June 1, 2007; July 13, 2007; March 27, 2008; May 15, 2008; March 3, 2009; March 23, 2010; April 16, 2010; October 1, 2010; January 3, 2011; March 1, 2011; May 10, 2012; and September 18, 2012 (Exhibit 10.15 to the Company's Annual Report on Form 10-K, filed with the SEC on November 26, 2012, is incorporated herein by reference.)
- 10.10 Commercial Security Agreement dated August 1, 2004 by Bisco Industries, Inc. in favor of Community Bank (Exhibit 10.16 to the Company's Annual Report on Form 10-K, filed with the SEC on November 26, 2012, is incorporated herein by reference.)
- 10.11 Commercial Security Agreement dated March 23, 2010 by Bisco Industries, Inc. in favor of Community Bank (Exhibit 10.17 to the Company's Annual Report on Form 10-K, filed with the SEC on November 26, 2012, is incorporated herein by reference.)
- 10.12 Commercial Security Agreement dated March 23, 2010 by Bisco Industries, Inc. in favor of Community Bank. (Exhibit 10.18 to the Company's Annual Report on Form 10-K, filed with the SEC on November 29, 2013, is incorporated herein by reference)
- 10.13 Promissory Note dated March 10, 2011 in the principal amount of \$1,000,000 executed by Bisco Industries, Inc. in favor of Community Bank (Exhibit 10.18 to the Company's Annual Report on Form 10-K, filed with the SEC on November 26, 2012, is incorporated herein by reference.)
- 10.14 Commercial Guaranty dated May 1, 2004 executed by Glen F. Ceiley in favor of Community Bank (Exhibit 10.19 to the Company's Annual Report on Form 10-K, filed with the SEC on November 26, 2012, is incorporated herein by reference.)
- 10.15 Commercial Guaranty dated May 15, 2008 executed by the Glen F. Ceiley and Barbara A. Ceiley Revocable Trust in favor of Community Bank (Exhibit 10.20 to the Company's Annual Report on Form 10-K, filed with the SEC on November 26, 2012, is incorporated herein by reference.)
- 10.16 Commercial Guaranty dated March 23, 2010 executed by EACO Corporation in favor of Community Bank (Exhibit 10.21 to the Company's Annual Report on Form 10-K, filed with the SEC on November 26, 2012, is incorporated herein by reference.)
- 10.17 Commercial Lease dated May 1, 2001, as amended through August 30, 2011, by and between Glen Ceiley and Bisco Industries (Exhibit 10.22 to the Company's Annual Report on Form 10-K, filed with the SEC on November 26, 2012, is incorporated herein by reference.)
- 10.18 Change in Terms Agreement by and between Bisco Industries, Inc. and Community Bank dated March 26, 2013, relating to the line of credit (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on July 15, 2013, is incorporated herein by reference.)
- 10.21 Commercial Guaranty dated November 12, 2013 executed by Glen F. Ceiley in favor of Community Bank (Exhibit 10.31 to the Company's Annual Report on Form 10-K, filed with the SEC on November 29, 2013, is incorporated herein by reference)
- 10.22 Commercial Guaranty dated November 12, 2013 executed by the Glen F. Ceiley and Barbara A. Ceiley Revocable Trust in favor of Community Bank in favor of Community Bank (Exhibit 10.32 to the Company's Annual Report on Form 10-K, filed with the SEC on November 29, 2013, is incorporated herein by reference)
- 10.23 Commercial Guaranty dated November 12, 2013 executed by Bisco Industries, Inc. in favor of Community Bank (Exhibit 10.33 to the Company's Annual Report on Form 10-K, filed with the SEC on November 29, 2013, is incorporated herein by reference)
- 10.26



Edgar Filing: EACO CORP - Form 10-K

Change in Terms Agreement dated April 25, 2014 by and between Bisco Industries, Inc. and Community Bank (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on July 15, 2014, is incorporated herein by reference)

21.1 Subsidiaries of the Company (Exhibit 21.1 to the Company's Annual Report on Form 10-K, filed with the SEC on November 29, 2011, is incorporated herein by reference.)

24

<b>Number</b>	<b>Exhibit</b>
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.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.