

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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EACO CORP

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 2012
OR

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

For the transition period from _____ to _____

Commission File No. **000-14311**

EACO CORPORATION

(Exact name of registrant as specified in its charter)

Florida
(State of Incorporation)

59-2597349
(I.R.S. Employer
Identification No.)

1500 NORTH LAKEVIEW AVENUE
ANAHEIM, CALIFORNIA 92807
(Address of Principal Executive Offices)

(714) 876-2490
(Registrant's Telephone No.)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of January 13, 2013, 4,861,590 shares of the registrant's common stock were outstanding.



PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

EACO Corporation and Subsidiaries
Condensed Consolidated Statements of Income
(in thousands, except for share and per share information)
(Unaudited)

	Three Months Ended	
	November 30,	
	2012	2011
Distribution sales	\$ 29,119	\$ 26,150
Cost of goods sold	21,064	18,878
Gross profit from distribution operations	<u>8,055</u>	<u>7,272</u>
Rental revenue	141	311
Cost of rental operations	95	193
Gross profit from rental operations	<u>46</u>	<u>118</u>
Operating expenses:		
Selling, general and administrative expenses	7,260	6,530
Total operating expenses	<u>7,260</u>	<u>6,530</u>
Income from operations	841	860
Non-operating income (expense):		
Gain on sale of trading securities	33	—
Unrealized (loss) gain on trading securities	(55)	193
Interest expense, net	(167)	(181)
Total non-operating (expense) income	<u>(189)</u>	<u>12</u>
Net income before income taxes	652	872
Provision for income taxes	269	247
Net income	<u>383</u>	<u>625</u>
Cumulative preferred stock dividend	(19)	(19)
Net income attributable to common shareholders	<u>\$ 364</u>	<u>\$ 606</u>
Basic and diluted earnings per share	\$ 0.08	\$ 0.12
Basic and diluted weighted average common shares outstanding	4,861,590	4,861,590

See accompanying notes to condensed consolidated financial statements.

EACO Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	Three Months Ended	
	November 30,	
	2012	2011
Net income	\$ 383	\$ 625
Other comprehensive income, net of tax:		
Foreign translation gain	100	224
Total comprehensive income	<u>\$ 483</u>	<u>\$ 849</u>

EACO Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except share information)

	November 30, 2012 (unaudited)	August 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,139	\$ 2,568
Restricted cash, current	831	—
Trade accounts receivable, net	14,046	13,972
Inventory, net	13,074	12,189
Marketable securities, trading	398	197
Prepaid expenses and other current assets	472	464
Assets held for sale	2,012	2,016
Deferred tax asset, current	265	290
Total current assets	33,237	31,696
Non-current Assets:		
Restricted cash, non-current	549	548
Real estate properties held for leasing, net	7,710	7,758
Equipment and leasehold improvements, net	1,332	1,106
Deferred tax asset	2,053	2,111
Other assets, principally deferred charges, net of accumulated amortization	788	1,110
Total assets	\$ 45,669	\$ 44,329
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 10,352	\$ 9,519
Accrued expenses and other current liabilities	1,850	2,482
Securities sold short, at fair value	831	—
Liabilities of discontinued operations – short-term	146	146
Liabilities of assets held for sale	1,163	1,113
Current portion of long-term debt	430	555
Total current liabilities	14,772	13,815
Non-current Liabilities:		
Liabilities of discontinued operations – long-term	2,528	2,567
Deposit liability	73	147
Long-term debt	12,939	12,907
Total liabilities	30,312	29,436
Shareholders' Equity:		
Convertible preferred stock, \$0.01 par value per share; 10,000,000 shares authorized; 36,000 shares outstanding at November 30, 2012 and August 31, 2012 (liquidation value \$900)	1	1
Common stock, \$0.01 par value per share; 8,000,000 shares authorized; 4,861,590 shares outstanding at November 30, 2012 and August 31, 2012	49	49
Additional paid-in capital	12,378	12,378
Accumulated other comprehensive income	578	478
Retained earnings	2,351	1,987
Total shareholders' equity	15,357	14,893
Total liabilities and shareholders' equity	\$ 45,669	\$ 44,329

See accompanying notes to condensed consolidated financial statements.

EACO Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Three Months Ended November 30,	
	2012	2011
Operating activities:		
Net income	\$ 383	\$ 625
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	180	188
Bad debt recovery	(18)	—
Change in inventory reserve	(62)	(15)
Net gain on trading securities	(22)	(193)
(Increase) decrease in:		
Trade accounts receivable	(56)	6
Inventory	(823)	(1,291)
Prepaid expenses and other assets	305	108
Deferred tax asset	83	152
Increase (decrease) in:		
Trade accounts payable	142	298
Accrued expenses and other current liabilities	(582)	(815)
Deposit liability	(74)	—
Liabilities of discontinued operations	(39)	(27)
Net cash used in operating activities	(583)	(964)
Investing activities:		
Purchase of property and equipment	(345)	(155)
Purchase of marketable securities, trading	(179)	(86)
Proceeds from securities sold short	831	—
Increase in restricted cash	(832)	(4)
Net cash used in investing activities	(525)	(245)
Financing activities:		
Net borrowings (payments) on revolving credit facility	150	(700)
Bank overdraft	691	261
Preferred dividend	(19)	—
Borrowing of long-term debt	—	1,600
Payments on long-term debt	(243)	(192)
Net cash provided by financing activities	579	969
Effect of foreign currency exchange rate changes on cash and cash equivalents	100	224
Net decrease in cash and cash equivalents	(429)	(16)
Cash and cash equivalents - beginning of period	2,568	1,368
Cash and cash equivalents - end of period	<u>\$ 2,139</u>	<u>\$ 1,352</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 169</u>	<u>\$ 186</u>
Cash paid for taxes	<u>\$ 196</u>	<u>\$ 415</u>

See accompanying notes to condensed consolidated financial statements.

EACO CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2012

Note 1. Organization and Basis of Presentation

Organization and Merger with Bisco Industries, Inc.

EACO Corporation (“EACO”) was incorporated in the State of Florida in September 1985. From the inception of EACO through June 2005, EACO’s business consisted of operating restaurants in the State of Florida. On June 29, 2005, EACO sold all of its operating restaurants (the “Asset Sale”) including sixteen restaurant businesses, premises, equipment and other assets used in restaurant operations. The only remaining activity of the restaurant operations relates to the workers’ compensation claim liability, which is presented as liabilities of discontinued operations on the Company’s balance sheets. After the Asset Sale and prior to the acquisition of Bisco (described below), EACO’s operations principally consisted of managing five real estate properties held for leasing located in Florida and California.

On March 24, 2010, EACO completed the acquisition of Bisco Industries, Inc. (“Bisco”), a company under the common control of EACO’s majority shareholder (Glen F. Ceiley). Bisco is a distributor of electronic components and fasteners with 43 sales offices and six distribution centers located throughout the United States and Canada. Bisco supplies parts used in the manufacture of products in a broad range of industries, including the aerospace, circuit board, communication, computer, fabrication, instrumentation, industrial equipment and marine industries.

Use of Estimates

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in conformity with GAAP for interim financial information and the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for interim reporting. In the opinion of management, all adjustments considered necessary in order to make the financial statements not misleading have been included.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations for presentation of interim financial information. Therefore, the condensed interim financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended August 31, 2012. The condensed consolidated balance sheet as of August 31, 2012 and related disclosures were derived from the audited consolidated financial statements as of August 31, 2012. Operating results for the three month period ended November 30, 2012 are not necessarily indicative of the results that may be expected for future quarterly periods or the entire fiscal year.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Principles of Consolidation

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

Note 2. Significant Accounting Policies

Restricted Cash

The State of Florida Division of Workers' Compensation (the "Division") requires self-insured companies to pledge collateral in favor of the Division in an amount sufficient to cover the projected outstanding liability. In compliance with this requirement, the Company pledged two irrevocable letters of credit totaling \$2,713,000 as of November 30, 2012 and \$2,855,000 as of August 31, 2012. These letters were secured by certificates of deposits totaling \$549,000 and \$548,000 at November 30, 2012 and August 31, 2012, respectively, and the Company's two real estate properties in Sylmar, California (the "Sylmar Properties").

The Company also has cash of \$831,000 at November 30, 2012 on deposit with a securities brokerage firm, which relates to the liability for short sales of trading securities which is classified as restricted during the period the related short position is open. There was no such restricted cash at August 31, 2012.

Trade Accounts Receivable

Trade accounts receivable are carried at original invoice amount, less an estimate for doubtful accounts. The allowance for doubtful accounts was \$217,000 and \$273,000 at November 30, 2012 and August 31, 2012, respectively.

Inventories

Inventories consist of finished goods, primarily electronic fasteners and components stated at the lower of cost or estimated market value. Cost is determined using the average cost method. Inventories are reported net of a reserve for slow moving or obsolete items of \$910,000 and \$972,000 at November 30, 2012 and August 31, 2012, 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.

Securities Sold Short

Securities sold short represent transactions in which the Company sells a security it does not own and is obligated to deliver such security at a future date. The short sale is recorded as a liability, and unrealized appreciation or depreciation is recorded for the difference between the proceeds received and the fair value of the open short position. The Company records a realized gain or loss when the short position is closed. By entering into short sales, the Company bears the market risk of an unfavorable increase in the price of the security sold short in excess of the proceeds received. Short sales are separately presented as a liability in the statement of financial condition.

The Company has established a margin account with the brokers lending the securities sold short. While the short sale is outstanding, the short sale proceeds may be restricted to the extent of the fair value of the short position.

Revenue Recognition

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

The Company leases its real estate properties to tenants under operating leases with terms generally exceeding one year. Some of these leases contain scheduled rent increases. We record rent revenue for leases which contain scheduled rent increases on a straight-line basis over the term of the lease.

Earnings Per Common Share

Basic earnings per common share for the three month periods ended November 30, 2012 and 2011 were computed based on the weighted average number of common shares outstanding during each respective period. Diluted earnings per common share for those periods have been computed based on the weighted average number of common shares outstanding, giving effect to all dilutive potential common shares that were outstanding during the respective periods. Potential common shares represent 40,000 shares of common stock issuable upon conversion of 36,000 shares of preferred stock (See Note 4).

Foreign Currency Translation and Transactions

Assets and liabilities recorded in functional currencies other than the U.S. dollar (i.e. Canadian dollars for the Company's Canadian subsidiary) are translated into U.S. dollars at the quarter-end rate of exchange. Revenue and expenses are translated at the weighted-average exchange rates for the three months ended November 30, 2012 and 2011. The resulting translation adjustments are charged or credited directly to accumulated other comprehensive income. The average exchange rate for the three months ended November 30, 2012 and 2011 was \$1.01 and \$1.02 Canadian dollars for one U.S. dollar, respectively.

Concentrations

Net sales to customers outside the United States were approximately 8% and 4% for the three months ended November 30, 2012 and 2011, respectively, and related accounts receivable were approximately 5% and 7% at November 30, 2012 and August 31, 2012, respectively.

No single entity accounted for more than 10% of revenues for the three months ended November 30, 2012 or 2011.

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. Management has evaluated its approach for making operating decisions and assessing the performance of our business and determined that the Company has two reportable segments: Distribution Operations and Rental Real Estate Operations (See Note 6).

Note 3. Debt

The Company has a \$10,000,000 line of credit agreement with Community Bank. Borrowings under this agreement bear interest at either the 30, 60, or 90 day London Inter-Bank Offered Rate ("LIBOR") (0.31% and 0.44% for the 90 day LIBOR at November 30, 2012 and August 31, 2012, respectively) plus 1.75% and/or the bank's reference rate (3.25% at November 31, 2012 and August 31, 2012). Borrowings are secured by substantially all assets of Bisco and are guaranteed by the Company's Chief Executive Officer, Chairman of the Board and majority shareholder, Glen F. Ceiley. The agreement expires on March 1, 2014.

The amounts outstanding under this line of credit as of November 30, 2012 and August 31, 2012 were \$7,600,000 and \$7,450,000, respectively. Availability under the line of credit was \$2,400,000 and \$2,550,000 at November 30, 2012 and August 31, 2012, respectively.

The line of credit agreement contains nonfinancial and financial covenants, including the maintenance of certain financial ratios. As of November 30, 2012 and August 31, 2012, the Company was in compliance with all covenants.

On March 10, 2011, the Company entered into a \$1,000,000 term loan agreement with Community Bank. The proceeds of the loan were used to pay down the Company's line of credit. The term loan is for two years and bears interest at the bank's reference rate (3.25% at November 30, 2012 and August 31, 2012). As of November 30, 2012, the outstanding balance of the term loan was \$171,000.

In October 2002, the Company entered into a loan agreement with GE Capital for one restaurant property owned by the Company in Orange Park, Florida (the "Orange Park Property"). The loan requires monthly principal and interest payments totaling \$10,400. Interest is at the thirty-day LIBOR rate plus 3.75% (minimum interest rate of 7.34%). The loan is due December 2016. As of November 30, 2012, the outstanding balance due under the Company's loan with GE Capital was \$440,000.

On November 9, 2007, the Company completed the refinance of the Sylmar Properties in exchange for a note in the amount of \$5,875,000 from Community Bank. The loan requires monthly principal and interest payments totaling \$39,658. Interest is fixed at 6%. As of November 30, 2012, the outstanding balance due on the loan to Community Bank, collateralized by the Sylmar Property, was \$5,158,000.

During 2008, the Company financed the restaurant property in Brooksville, Florida (the "Brooksville Property") with Zion's Bank receiving cash of approximately \$1,200,000 and a mortgage for that amount. The mortgage is for 20 years at an interest rate of 6.65% and requires monthly principal and interest payments totaling \$8,402. The outstanding balance of the loan at November 30, 2012 was \$1,163,000. Such was reclassified as liabilities of assets held for sale on the accompanying consolidated balance sheets as of November 30, 2012 and August 31, 2012.

Note 4. Earnings per Share

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

For the Three Months Ended November 30,	
2012	2011

(In thousands, except share and per share information)

EPS:		
Net income	\$ 383	\$ 625
Less: accrued preferred stock dividends	(19)	(19)
Net income available for common shareholders	\$ 364	\$ 606
Earnings per common share – basic and diluted	<u>\$ 0.08</u>	<u>\$ 0.12</u>

For the three months ended November 30, 2012 and 2011, 40,000 potential common shares have been excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

Note 5. Related Party Transactions

The Company leases three buildings under operating lease agreements from its majority stockholder. During each of the three months ended November 30, 2012 and 2011, the Company incurred approximately \$128,000 of expense related to these leases.

Note 6. Segment Reporting

The Company operates in two reportable business segments: Distribution Operations and Rental Real Estate Operations. The Distribution Operations are organized and operated as Bisco Industries, Inc., a wholly-owned subsidiary of the Company. Management evaluates performance based on gross margins, selling, general and administrative expenses and net income. Management also reviews the returns on the rental real estate properties, inventory, accounts receivable and marketable securities (segment assets).

	For the Three Months Ended November 30, 2012			For the Three Months Ended November 30, 2011		
	Rental Real Estate	Distribution	Total	Rental Real Estate	Distribution	Total
			(in thousands)			
Revenues	\$ 141	\$ 29,119	\$ 29,260	\$ 311	\$ 26,150	\$ 26,461
Cost of revenues	95	21,064	21,159	193	18,878	19,071
Gross profit	46	8,055	8,101	118	7,272	7,390
Selling, general and administrative expenses	61	7,199	7,260	92	6,438	6,530

Note 7. Subsequent Events

On January 10, 2013, the Company entered into an agreement to sell the Deland Property for \$1,100,000. The Company will receive \$750,000 in cash and will carry a 2 year note at 7% interest payable in 24 installments on the remaining \$350,000. We anticipate that this transaction will close on or before January 25, 2013. As such, the associated land, building and improvements were reclassified as assets held for sale on the accompanying consolidated balance sheets of November 30, 2012 and August 31, 2012. The Company did not carry any debt related to this property at either November 30, 2012 or August 31, 2012.

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

Cautionary Statements

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

Overview

EACO Corporation was organized under the laws of the State of Florida in September 1985. From the inception of EACO through June 2005, EACO's business consisted of operating restaurants in the State of Florida. On June 29, 2005, EACO sold all of its operating restaurants and other assets used in the restaurant operations. The restaurant operations are presented as discontinued operations in the accompanying condensed consolidated financial statements. Since June 2005 until the acquisition of Bisco in March 2010, our operations have principally consisted of managing five rental properties held for leasing in Florida and California. As a result of our March 2010 acquisition of Bisco, we currently operate in two reportable segments: the Rental Real Estate Operations segment, which consists of managing the five rental properties in Florida and California, and the Distribution Operations segment, which consists of the business of Bisco and is alternatively referred to in this report as the Bisco segment. Revenues derived from the Bisco segment represented approximately 99% of the total revenues for the three months ended November 30, 2012 and the year ended August 31, 2012 and is expected to continue to represent the substantial majority of the Company's total revenues for the foreseeable future.

Critical Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates include allowance for doubtful accounts receivable, slow moving and obsolete inventory reserves, recoverability of the carrying value and estimated useful lives of long-lived assets, workers' compensation liability and the valuation allowance against deferred tax assets. Actual results could differ from those estimates. For additional description of the Company's critical accounting policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended August 31, 2012 as filed with the SEC on November 26, 2012.

Long-Lived Assets

Long-lived assets (principally real estate, equipment and leasehold improvements) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of the impairment review, real estate properties are reviewed on an asset-by-asset basis. Recoverability of real estate property assets is measured by a comparison of the carrying amount of each operating property and related assets to future net cash flows expected to be generated by such assets. For measuring recoverability of distribution operations assets, long-lived assets are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their estimated fair values.

Revenue Recognition

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

The Company leases its real estate properties to tenants under operating leases with terms generally exceeding one year. Some of these leases contain scheduled rent increases. We record rent revenue for leases which contain scheduled rent increases on a straight-line basis over the term of the lease.

Liabilities of Discontinued Operations

When the Company was active in the restaurant business, the Company self-insured losses for workers' compensation claims up to certain limits. The Company exited the restaurant business in 2005. The liability for workers' compensation represents an estimate of the present value of the ultimate cost of uninsured losses which are unpaid as of the balance sheet dates. This liability is presented as liabilities of discontinued operations in the accompanying condensed consolidated balance sheets. The estimate is continually reviewed and adjustments to the Company's estimated liability, if any, are reflected in discontinued operations. On a periodic basis, the Company obtains an actuarial report which estimates its overall exposure based on historical claims and an evaluation of future claims. An actuarial evaluation was last obtained by the Company as of August 31, 2012. No changes to the estimated liability were recorded during the three months ended November 30, 2012 or 2011.

Deferred Tax Assets

The Company's policy for recording a valuation allowance against deferred tax assets is considered critical. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefit or when future deductibility is uncertain. In accordance with Accounting Standards Codification ("ASC") 740, "Accounting for Income Taxes," the Company records net deferred tax assets to the extent management believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income (if any), tax planning strategies and recent financial performance. ASC 740 further states that forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses and/or significant decreases in operations. As a result of the Company's disposal, in June 2005, of significant business operations, management concluded that a valuation allowance should be recorded against certain federal and state tax credits. The utilization of these credits requires sufficient taxable income after consideration of net operating loss utilization.

Results of Operations

Comparison of the Three Months Ended November 30, 2012 and 2011 (unaudited)

Distribution Sales and Gross Profit (\$ in thousands)

	<u>Three Months Ended</u>		<u>\$</u>	<u>%</u>
	<u>November 30, 2012</u>	<u>November 30, 2011</u>		
Distribution sales	\$ 29,119	\$ 26,150	\$ 2,969	11.4%
Cost of goods sold	21,064	18,878	(2,186)	(11.6)
Gross profit	\$ 8,055	\$ 7,272	\$ 783	
Gross profit %	27.7%	27.8%		(0.1)%

Distribution sales related to the Distribution Operations segment consist primarily of sales of component parts and fasteners, but also include, to a lesser extent, kitting charges and special order fees, and freight charges by the Company to its customers. The increase in distribution sales in the three months ended November 30, 2012 ("Q1 2013") as compared to the prior year period was largely due to increased unit sales, resulting from an increase in sales headcount of 10% in the three months ended November 30, 2012 as compared to the three months ended November 30, 2011 ("Q1 2012").

Additionally, the Company's sales force is divided into Sales Focus Teams ("SFTs"). These teams generally focus the majority of their time on specific industries, product lines and/or geographic regions and are designed to assist the Company in increasing market share in specific areas and, as a result, increase sales. The Company's SFTs were supported by an increase in salespeople, with the Company growing from 272 salespeople at November 30, 2011 to 298 salespeople at November 30, 2012, a 10% increase.

Rental Income and Gross Profit (\$ in thousands)

	<u>Three Months Ended</u>		<u>\$</u>	<u>%</u>
	<u>November 30, 2012</u>	<u>November 30, 2011</u>		
Rental revenue	\$ 141	\$ 311	\$ (170)	(54.7)%
Cost of rental operations	95	193	98	50.8
Gross profit	\$ 46	\$ 118	\$ (72)	
Gross profit %	32.6%	37.9%		(5.3)%

During Q1 2013 the tenant leasing one of the Company's Sylmar Properties exercised an early exit clause of their lease and vacated the premises. On December 1, 2012, the Company signed a replacement tenant in the property. The replacement tenant is at a lower monthly rental rate than the previous tenant.

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

	<u>Three Months Ended</u>		<u>\$</u>	<u>%</u>
	<u>November 30, 2012</u>	<u>November 30, 2011</u>		
Selling, general and administrative expenses	\$ 7,260	\$ 6,530	\$ 730	11.2%
Percent of distribution sales	24.9%	25.0%		0.1%

Selling, general and administrative expense ("SG&A") consists primarily of payroll and related expenses for the Company's sales and administrative staff, professional fees including accounting, legal and technology costs and expenses, and sales and marketing costs for the Distribution Operations. SG&A in Q1 2013 increased from Q1 2012 largely due to increased salaries and salary related expenses as the Company increased sales headcount by 26 employees, or 10%, in Q1 2013 as compared to Q1 2012.

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

	<u>Three Months Ended</u>		<u>\$</u>	<u>%</u>
	<u>November 30, 2012</u>	<u>November 30, 2011</u>		
Other income (expense):				
Gain on sale of trading securities	\$ 33	\$ —	\$ 33	100.0%
Unrealized (loss) gain on trading securities	(55)	193	(248)	(128.5)
Interest expense, net	(167)	(181)	14	(7.7)
Other (expense) income, net	\$ (189)	\$ 12	\$ (201)	
Other (expense) income, net as a percent of distribution sales	0.6%	0.0%		(0.6)%

Other income (expense), net primarily consists of income or losses on investments in short-term marketable equity securities of publicly-held corporations and interest related to the Company's line of credit and other long-term debt. The Company's investment strategy consists of both long and short positions, as well as utilizing options designed to improve returns. During Q1 2013, the Company recognized \$22,000 in net realized and unrealized loss. The Company experienced net realized and unrealized gains of \$193,000 during Q1 2012. Losses in the current period were due to decreases in the value of the Company's holdings, primarily in its short positions. Gains in the prior year quarter were primarily due to an increase in the value of several of the positions the Company was holding at that time.

Income Tax Provision (\$ in thousands)

	<u>Three Months Ended</u>		<u>\$</u>	<u>%</u>
	<u>November 30, 2012</u>	<u>November 30, 2011</u>		
Income tax provision	\$ 269	\$ 247	\$ 22	8.9%
Percent of pre-tax net income	41.3%	28.3%		13.0%

The provision for income taxes increased by \$22,000 in the three month period ended November 30, 2012 over the prior year period. This was a result of higher estimated taxable income in the current quarter as compared to the prior year period and a decrease in the valuation allowance recognized in the current period as compared to the prior year period.

Liquidity and Capital Resources

The Company has a \$10,000,000 line of credit agreement with Community Bank. Borrowings under this agreement bear interest at either the 30, 60, or 90 day London Inter-Bank Offered Rate ("LIBOR") (0.31% and 0.44% for the 90 day LIBOR at November 30, 2012 and August 31, 2012, respectively) plus 1.75% and/or the bank's reference rate (3.25% at November 30, 2012 and August 31, 2012). Borrowings are secured by substantially all assets of Bisco and are guaranteed by the Company's Chief Executive Officer, Chairman of the Board and majority shareholder, Glen F. Ceiley. The agreement continues through March 1, 2014.

The amount outstanding under this line of credit as of November 30, 2012 and August 31, 2012 was \$7,600,000 and \$7,450,000, respectively. Availability under the line of credit was \$2,400,000 and \$2,550,000 at November 30, 2012 and August 31, 2012, respectively.

The line of credit agreement contains nonfinancial and financial covenants, including the maintenance of certain financial ratios. As of November 30, 2012 and August 31, 2012, the Company was in compliance with all covenants.

On March 10, 2011, the Company entered into a \$1,000,000 term loan agreement with Community Bank. The proceeds of the loan were used to pay down the Company's line of credit. The term loan is for two years and bears interest at the bank's reference rate (3.25% at November 30, 2012 and August 31, 2012). As of November 30, 2012, the outstanding balance of the term loan was \$171,000.

In October 2002, the Company entered into a loan agreement with GE Capital for one restaurant property owned by the Company in Orange Park, Florida (the "Orange Park Property"). The loan requires monthly principal and interest payments totaling \$10,400. Interest is at the thirty-day LIBOR rate plus 3.75% (minimum interest rate of 7.34%). The loan is due December 2016. As of November 30, 2012, the outstanding balance due under the Company's loan with GE Capital was \$440,000.

On November 9, 2007, the Company completed the refinance of the Sylmar Property in exchange for a note in the amount of \$5,875,000 from Community Bank. The loan requires monthly principal and interest payments totaling \$39,658. Interest is fixed at 6%. As of November 30, 2012, the outstanding balance due on the loan to Community Bank, collateralized by the Sylmar Properties, was \$5,158,000.

During 2008, the Company financed the restaurant property in Brooksville, Florida (the "Brooksville Property") with Zion's Bank receiving cash of approximately \$1,200,000 and a mortgage for that amount. The mortgage is for 20 years at an interest rate of 6.65% and requires monthly principal and interest payments totaling \$8,402. The outstanding balance of the loan at November 30, 2012 was \$1,163,000. Such was reclassified as liabilities of assets held for sale on the accompanying consolidated balance sheets as of November 30, 2012 and August 31, 2012.

The Company's Rental Real Estate Operations are funded primarily by rents received from the tenants of its five rental properties. Any cash requirements in excess of the rental income required by the Rental Real Estate Operations have historically been funded by borrowings from Bisco. These borrowings and related interest have been eliminated in the accompanying condensed consolidated financial statements.

Cash Flows from Operating Activities

Cash used in operating activities was \$583,000 for the three months ended November 30, 2012 as compared with \$964,000 for the three months ended November 30, 2011. The current period use of cash was mainly due to an increase in inventory over the three months and a decrease in accrued expenses due to payment of employee year-end bonuses in the current quarter. This was offset by net income and a decrease in prepaid expenses. The prior year use was also due to an increase in inventory and decrease in accrued expenses, although those changes were higher in the prior year period than in the current. These amounts were offset by net income in the first quarter of fiscal 2012.

Cash Flows from Investing Activities

Cash used in investing activities was \$525,000 for the three months ended November 30, 2012 as compared with \$245,000 for the three months ended November 30, 2011. The current period increase was due primarily to increased purchases of equipment by the Company in Q1 2013 as compared to Q1 2012. The change in the restricted cash for the current year is due to the increase in restricted cash related to the Company's short positions in the equity markets. This amount was offset by the increase in the Company's short positions resulting in no net effect on investing cash flows.

Cash Flows from Financing Activities

Cash provided by financing activities for the three months ended November 30, 2012 was \$579,000 as compared with \$969,000 for the three months ended November 30, 2011. Cash provided by financing activities consisted mainly of an increase in the Company's bank overdraft outstanding at November 30, 2012. The cash provided by financing activities for the three months ended November 30, 2011 was due mainly to the Company's borrowing of long-term debt.

Off-Balance Sheet Arrangements

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

Contractual Financial Obligations

In addition to using cash flow from operations, the Company finances its operations through borrowings or the issuance of debt. These financial obligations are recorded in accordance with accounting rules applicable to the underlying transactions, with the result that amounts owed under debt agreements and capital leases are recorded as liabilities on the balance sheet while lease obligations recorded as operating leases are disclosed in the Notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended August 31, 2012 as filed with the SEC on November 26, 2012.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

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

Changes in internal control over financial reporting. There have been no changes in internal control over financial reporting during the fiscal quarter covered by this report that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

As a result of the economic downturn and continuing economic uncertainties, our operating results, and the economic strength of our customers and suppliers, are increasingly difficult to predict. Our Distribution Operations sales 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.

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

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

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

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

In addition, unanticipated losses from our trading activities may cause Bisco to be in violation of certain covenants under its line of credit and term loan agreements with Community Bank. The agreements are secured by substantially all of Bisco's assets and are guaranteed by Mr. Ceiley, our Chairman, CEO and majority shareholder. The loan agreements contain covenants which require that, on a quarterly basis, Bisco's losses from trading in securities not exceed its pre-tax operating income. We cannot assure you that unanticipated losses from our trading activities will not occur in the future, and any such losses could cause us to violate our covenants in the future or that the bank will grant a waiver for any such default or that it will not exercise its remedies, which could include the acceleration of the obligation's maturity date and foreclosure on Bisco's assets, with respect to any such noncompliance, which could have a material adverse effect on our business and operations.

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

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

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

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

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

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

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

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

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

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

Our strategy of expanding into new geographic areas is risky and could be costly.

One of our primary growth strategies for our Distribution Operations segment is to grow our business through the opening of sales offices 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, the most effective way to attract new customers has been opening new sales offices. Our current business strategy focuses on opening a specified number of new sales offices each year, and quickly growing each new sales office. Given the current economic slowdown, we may not be able to open or grow new offices at our projected rates or hire the qualified sales personnel necessary to make such new offices successful. Failure to do so could negatively impact our long-term growth and market share.

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

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

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

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

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

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

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

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

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

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

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

Glen Ceiley, our Chairman and CEO, owns approximately 99% of our outstanding voting stock. Mr. Ceiley is able to exert significant influence over the outcome of almost all corporate matters, including significant corporate transactions requiring a stockholder vote, such as a merger or a sale of the Company or our assets. This concentration of ownership and influence in management and board decision-making could also harm the price of our common stock by, among other things, discouraging a potential acquirer from seeking to acquire shares of our common stock (whether by making a tender offer or otherwise) or otherwise attempting to obtain control of the Company.

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

There is currently no established trading market for our common stock, and the volume of any sales is generally low. As of November 30, 2012, the number of shares held by non-affiliates of Mr. Ceiley or Bisco is less than 55,000 shares. If Mr. Ceiley sells or seeks to sell a substantial number of his shares of our common stock in the future, the market price of our common stock could decline. The perception among investors that these sales may occur could produce the same effect.

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

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

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

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

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On January 10, 2013, the Company entered into an agreement to sell the Deland Property for \$1,100,000 to Chens Family Investments, LLC. The Company will receive \$750,000 in cash and will carry a 2 year note at 7% interest payable in 24 installments on the remaining \$350,000. We anticipate that this transaction will close on or before January 25, 2013. As such, the associated land, buildings and improvements were reclassified as assets held for sale on the accompanying consolidated balance sheets of November 30,

2012 and August 31, 2012. The Company did not carry any debt related to this property at either November 30, 2012 or August 31, 2012.

Item 6. Exhibits

The following exhibits are filed as part of this report on Form 10-Q.

<u>No.</u>	<u>Exhibit</u>
10.1	Commercial Contract effective September 26, 2012, as amended through October 2, 2012, by and between EACO Corporation and Ka Bun Chan (Exhibit 10.12 to the Company's Annual Report on Form 10-K, filed with the SEC on November 26, 2012, is incorporated herein by reference)
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EACO CORPORATION
(Registrant)

Date: January 14, 2013

/s/ Glen Ceiley

Glen Ceiley
Chief Executive Officer
(Principal Executive Officer & Principal Financial Officer)

/s/ Michael Bains

Michael Bains
Controller and Assistant Secretary
(Principal Accounting Officer)

EXHIBIT INDEX

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Certification

I, Glen Ceiley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EACO Corporation (the “registrant”).

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact

2. necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all

3. material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules

4. 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, 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;

- c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the Audit Committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: January 14, 2013

/s/Glen Ceiley

Glen Ceiley

Chief Executive Officer and Chief Financial Officer

(Principal Executive Officer and Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with Quarterly Report of EACO Corporation (the "Company") on Form 10-Q for the quarter ended November 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Glen Ceiley, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 14, 2013

/s/ Glen Ceiley

Glen Ceiley

Chief Executive Officer and Chief Financial Officer

(Principal Executive Officer & Principal Financial Officer)

Debt

3 Months Ended
Nov. 30, 2012

[Debt Disclosure \[Abstract\]](#)

[Debt Disclosure \[Text Block\]](#)

Note 3. Debt

The Company has a \$10,000,000 line of credit agreement with Community Bank. Borrowings under this agreement bear interest at either the 30, 60, or 90 day London Inter-Bank Offered Rate ("LIBOR") (0.31% and 0.44% for the 90 day LIBOR at November 30, 2012 and August 31, 2012, respectively) plus 1.75% and/or the bank's reference rate (3.25% at November 31, 2012 and August 31, 2012). Borrowings are secured by substantially all assets of Bisco and are guaranteed by the Company's Chief Executive Officer, Chairman of the Board and majority shareholder, Glen F. Ceiley. The agreement expires on March 1, 2014.

The amounts outstanding under this line of credit as of November 30, 2012 and August 31, 2012 were \$7,600,000 and \$7,450,000, respectively. Availability under the line of credit was \$2,400,000 and \$2,550,000 at November 30, 2012 and August 31, 2012, respectively.

The line of credit agreement contains nonfinancial and financial covenants, including the maintenance of certain financial ratios. As of November 30, 2012 and August 31, 2012, the Company was in compliance with all covenants.

On March 10, 2011, the Company entered into a \$1,000,000 term loan agreement with Community Bank. The proceeds of the loan were used to pay down the Company's line of credit. The term loan is for two years and bears interest at the bank's reference rate (3.25% at November 30, 2012 and August 31, 2012). As of November 30, 2012, the outstanding balance of the term loan was \$171,000.

In October 2002, the Company entered into a loan agreement with GE Capital for one restaurant property owned by the Company in Orange Park, Florida (the "Orange Park Property"). The loan requires monthly principal and interest payments totaling \$10,400. Interest is at the thirty-day LIBOR rate plus 3.75% (minimum interest rate of 7.34%). The loan is due December 2016. As of November 30, 2012, the outstanding balance due under the Company's loan with GE Capital was \$440,000.

On November 9, 2007, the Company completed the refinance of the Sylmar Properties in exchange for a note in the amount of \$5,875,000 from Community Bank. The loan requires monthly principal and interest payments totaling \$39,658. Interest is fixed at 6%. As of November 30, 2012, the outstanding balance due on the loan to Community Bank, collateralized by the Sylmar Property, was \$5,158,000.

During 2008, the Company financed the restaurant property in Brooksville, Florida (the "Brooksville Property") with Zion's Bank receiving cash of approximately \$1,200,000 and a mortgage for that amount. The mortgage is for 20 years at an interest rate of 6.65% and requires monthly principal and interest payments totaling \$8,402. The outstanding balance of the loan at November 30, 2012 was \$1,163,000. Such was reclassified as liabilities of assets held for sale on the accompanying consolidated balance sheets as of November 30, 2012 and August 31, 2012.

Significant Accounting Policies

3 Months Ended
Nov. 30, 2012

[Accounting Policies](#)

[\[Abstract\]](#)

[Significant Accounting Policies \[Text Block\]](#)

Note 2. Significant Accounting Policies

Restricted Cash

The State of Florida Division of Workers' Compensation (the "Division") requires self-insured companies to pledge collateral in favor of the Division in an amount sufficient to cover the projected outstanding liability. In compliance with this requirement, the Company pledged two irrevocable letters of credit totaling \$2,713,000 as of November 30, 2012 and \$2,855,000 as of August 31, 2012. These letters were secured by certificates of deposits totaling \$549,000 and \$548,000 at November 30, 2012 and August 31, 2012, respectively, and the Company's two real estate properties in Sylmar, California (the "Sylmar Properties").

The Company also has cash of \$831,000 at November 30, 2012 on deposit with a securities brokerage firm, which relates to the liability for short sales of trading securities which is classified as restricted during the period the related short position is open. There was no such restricted cash at August 31, 2012.

Trade Accounts Receivable

Trade accounts receivable are carried at original invoice amount, less an estimate for doubtful accounts. The allowance for doubtful accounts was \$217,000 and \$273,000 at November 30, 2012 and August 31, 2012, respectively.

Inventories

Inventories consist of finished goods, primarily electronic fasteners and components stated at the lower of cost or estimated market value. Cost is determined using the average cost method. Inventories are reported net of a reserve for slow moving or obsolete items of \$910,000 and \$972,000 at November 30, 2012 and August 31, 2012, 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.

Securities Sold Short

Securities sold short represent transactions in which the Company sells a security it does not own and is obligated to deliver such security at a future date. The short sale is recorded as a liability, and unrealized appreciation or depreciation is recorded for the difference between the proceeds received and the fair value of the open short position. The Company records a realized gain or loss when the short position is closed. By entering into short sales, the Company bears the market risk of an unfavorable increase in the price of the security sold short in excess of the proceeds received. Short sales are separately presented as a liability in the statement of financial condition.

The Company has established a margin account with the brokers lending the securities sold short. While the short sale is outstanding, the short sale proceeds may be restricted to the extent of the fair value of the short position.

Revenue Recognition

For the Company's distribution operations, the Company's shipping terms are FOB shipping point. Therefore, the Company generally recognizes revenue at the time of product shipment. Revenue is considered to be realized or realizable and earned when there is persuasive evidence of a sales arrangement in the form of an executed contract or purchase order, the product has been

shipped (and installed when applicable), the sales price is fixed or determinable, and collectability is reasonably assured.

The Company leases its real estate properties to tenants under operating leases with terms generally exceeding one year. Some of these leases contain scheduled rent increases. We record rent revenue for leases which contain scheduled rent increases on a straight-line basis over the term of the lease.

Earnings Per Common Share

Basic earnings per common share for the three month periods ended November 30, 2012 and 2011 were computed based on the weighted average number of common shares outstanding during each respective period. Diluted earnings per common share for those periods have been computed based on the weighted average number of common shares outstanding, giving effect to all dilutive potential common shares that were outstanding during the respective periods. Potential common shares represent 40,000 shares of common stock issuable upon conversion of 36,000 shares of preferred stock (See Note 4).

Foreign Currency Translation and Transactions

Assets and liabilities recorded in functional currencies other than the U.S. dollar (i.e. Canadian dollars for the Company's Canadian subsidiary) are translated into U.S. dollars at the quarter-end rate of exchange. Revenue and expenses are translated at the weighted-average exchange rates for the three months ended November 30, 2012 and 2011. The resulting translation adjustments are charged or credited directly to accumulated other comprehensive income. The average exchange rate for the three months ended November 30, 2012 and 2011 was \$1.01 and \$1.02 Canadian dollars for one U.S. dollar, respectively.

Concentrations

Net sales to customers outside the United States were approximately 8% and 4% for the three months ended November 30, 2012 and 2011, respectively, and related accounts receivable were approximately 5% and 7% at November 30, 2012 and August 31, 2012, respectively.

No single entity accounted for more than 10% of revenues for the three months ended November 30, 2012 or 2011.

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. Management has evaluated its approach for making operating decisions and assessing the performance of our business and determined that the Company has two reportable segments: Distribution Operations and Rental Real Estate Operations (See Note 6).

**Condensed Consolidated
Statements of Income (USD
\$)
In Thousands, except Share
data, unless otherwise
specified**

3 Months Ended

Nov. 30, 2012 Nov. 30, 2011

Distribution sales	\$ 29,119	\$ 26,150
Cost of goods sold	21,064	18,878
Gross profit from distribution operations	8,055	7,272
Rental revenue	141	311
Cost of rental operations	95	193
Gross profit from rental operations	46	118
Operating expenses:		
Selling, general and administrative expenses	7,260	6,530
Total operating expenses	7,260	6,530
Income from operations	841	860
Non-operating income (expense):		
Gain on sale of trading securities	33	0
Unrealized (loss) gain on trading securities	(55)	193
Interest expense, net	(167)	(181)
Total non-operating (expense) income	(189)	12
Net income before income taxes	652	872
Provision for income taxes	269	247
Net income	383	625
Cumulative preferred stock dividend	(19)	(19)
Net income attributable to common shareholders	\$ 364	\$ 606
Basic and diluted earnings per share (in dollars per share)	\$ 0.08	\$ 0.12
Basic and diluted weighted average common shares outstanding (in shares)	4,861,590	4,861,590

**Condensed Consolidated
Statements of Cash Flows
(USD \$)
In Thousands, unless
otherwise specified**

3 Months Ended

Nov. 30, 2012 Nov. 30, 2011

Operating activities:

Net income	\$ 383	\$ 625
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Adjustments to reconcile net income to net cash used in operating activities:

Depreciation and amortization	180	188
-------------------------------	-----	-----

Bad debt recovery	(18)	0
-------------------	------	---

Change in inventory reserve	(62)	(15)
-----------------------------	------	------

Net gain on trading securities	(22)	(193)
--------------------------------	------	-------

(Increase) decrease in:

Trade accounts receivable	(56)	6
---------------------------	------	---

Inventory	(823)	(1,291)
-----------	-------	---------

Prepaid expenses and other assets	305	108
-----------------------------------	-----	-----

Deferred tax asset	83	152
--------------------	----	-----

Increase (decrease) in:

Trade accounts payable	142	298
------------------------	-----	-----

Accrued expenses and other current liabilities	(582)	(815)
--	-------	-------

Deposit liability	(74)	0
-------------------	------	---

Liabilities of discontinued operations	(39)	(27)
--	------	------

Net cash used in operating activities	(583)	(964)
---------------------------------------	-------	-------

Investing activities:

Purchase of property and equipment	(345)	(155)
------------------------------------	-------	-------

Purchase of marketable securities, trading	(179)	(86)
--	-------	------

Proceeds from securities sold short	831	0
-------------------------------------	-----	---

Increase in restricted cash	(832)	(4)
-----------------------------	-------	-----

Net cash used in investing activities	(525)	(245)
---------------------------------------	-------	-------

Financing activities:

Net borrowings (payments) on revolving credit facility	150	(700)
--	-----	-------

Bank overdraft	691	261
----------------	-----	-----

Preferred dividend	(19)	0
--------------------	------	---

Borrowing of long-term debt	0	1,600
-----------------------------	---	-------

Payments on long-term debt	(243)	(192)
----------------------------	-------	-------

Net cash provided by financing activities	579	969
---	-----	-----

Effect of foreign currency exchange rate changes on cash and cash equivalents	100	224
---	-----	-----

Net decrease in cash and cash equivalents	(429)	(16)
---	-------	------

Cash and cash equivalents - beginning of period	2,568	1,368
---	-------	-------

Cash and cash equivalents - end of period	2,139	1,352
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Supplemental disclosures of cash flow information:

Cash paid for interest	169	186
------------------------	-----	-----

Cash paid for taxes	\$ 196	\$ 415
---------------------	--------	--------

Segment Reporting (Details) (USD \$) In Thousands, unless otherwise specified	3 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011
<u>Revenues</u>	\$ 141	\$ 311
<u>Cost of revenues</u>	95	193
<u>Gross profit</u>	46	118
<u>Selling, general and administrative expenses</u>	7,260	6,530
Real Estate Rental Operations [Member]		
<u>Revenues</u>	141	311
<u>Cost of revenues</u>	95	193
<u>Gross profit</u>	46	118
<u>Selling, general and administrative expenses</u>	61	92
Distribution Operations [Member]		
<u>Revenues</u>	29,119	26,150
<u>Cost of revenues</u>	21,064	18,878
<u>Gross profit</u>	8,055	7,272
<u>Selling, general and administrative expenses</u>	7,199	6,438
Segment Operation [Member]		
<u>Revenues</u>	29,260	26,461
<u>Cost of revenues</u>	21,159	19,071
<u>Gross profit</u>	8,101	7,390
<u>Selling, general and administrative expenses</u>	\$ 7,260	\$ 6,530

Organization and Basis of Presentation

3 Months Ended
Nov. 30, 2012

[Organization, Consolidation and Presentation Of Financial Statements](#)

[\[Abstract\]](#)

[Organization, Consolidation and Presentation of Financial Statements Disclosure \[Text Block\]](#)

Note 1. Organization and Basis of Presentation

Organization and Merger with Bisco Industries, Inc.

EACO Corporation (“EACO”) was incorporated in the State of Florida in September 1985. From the inception of EACO through June 2005, EACO’s business consisted of operating restaurants in the State of Florida. On June 29, 2005, EACO sold all of its operating restaurants (the “Asset Sale”) including sixteen restaurant businesses, premises, equipment and other assets used in restaurant operations. The only remaining activity of the restaurant operations relates to the workers’ compensation claim liability, which is presented as liabilities of discontinued operations on the Company’s balance sheets. After the Asset Sale and prior to the acquisition of Bisco (described below), EACO’s operations principally consisted of managing five real estate properties held for leasing located in Florida and California.

On March 24, 2010, EACO completed the acquisition of Bisco Industries, Inc. (“Bisco”), a company under the common control of EACO’s majority shareholder (Glen F. Ceiley). Bisco is a distributor of electronic components and fasteners with 43 sales offices and six distribution centers located throughout the United States and Canada. Bisco supplies parts used in the manufacture of products in a broad range of industries, including the aerospace, circuit board, communication, computer, fabrication, instrumentation, industrial equipment and marine industries.

Use of Estimates

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in conformity with GAAP for interim financial information and the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for interim reporting. In the opinion of management, all adjustments considered necessary in order to make the financial statements not misleading have been included.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations for presentation of interim financial information. Therefore, the condensed interim financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended August 31, 2012. The condensed consolidated balance sheet as of August 31, 2012 and related disclosures were derived from the audited consolidated financial statements as of August 31, 2012. Operating results for the three month period ended November 30, 2012 are not necessarily indicative of the results that may be expected for future quarterly periods or the entire fiscal year.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Principles of Consolidation

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

**Statement of Comprehensive
Income (USD \$)
In Thousands, unless
otherwise specified**

3 Months Ended

Nov. 30, 2012 Nov. 30, 2011

<u>Net income</u>	\$ 383	\$ 625
<u>Other comprehensive income, net of tax:</u>		
<u>Foreign translation gain</u>	100	224
<u>Total comprehensive income</u>	\$ 483	\$ 849

Significant Accounting Policies (Details Textual) (USD \$)	3 Months Ended		
	Nov. 30, 2012	Nov. 30, 2011	Aug. 31, 2012
<u>Letters Of Credit Pledged As Collateral Towards Workers Compensation</u>	\$ 2,713,000		\$ 2,855,000
<u>Pledged Financial Instruments, Not Separately Reported, Securities for Letter of Credit Facilities</u>	549,000		548,000
<u>Restricted Cash and Cash Equivalents</u>	831,000		0
<u>Allowance for Doubtful Accounts Receivable</u>	217,000		273,000
<u>Inventory Valuation Reserves</u>	\$ 910,000		\$ 972,000
<u>Antidilutive Securities Excluded from Computation of Earnings Per Share, Amount</u>	40,000	40,000	
<u>Convertible Preferred Stock, Shares Issued upon Conversion</u>	36,000	36,000	
<u>Foreign Currency Exchange Rate, Translation</u>	1.01	1.02	
<u>Entity Wide Information On Geographic Areas Trade Accounts Receivable From External Customers Percentage Attributed To Foreign Countries</u>	8.00%	4.00%	
<u>Entity Wide Information On Geographic Areas Revenue From External Customers Percentage Attributed To Foreign Countries</u>	5.00%		7.00%
<u>Percentage Of Revenue Per Entity Maximum</u>	10.00%	10.00%	

Document and Entity Information	3 Months Ended	
	Nov. 30, 2012	Jan. 13, 2013
Entity Registrant Name	EACO CORP	
Entity Central Index Key	0000784539	
Current Fiscal Year End Date	--08-31	
Entity Filer Category	Smaller Reporting Company	
Trading Symbol	eaco	
Entity Common Stock, Shares Outstanding		4,861,590
Document Type	10-Q	
Amendment Flag	false	
Document Period End Date	Nov. 30, 2012	
Document Fiscal Period Focus	Q1	
Document Fiscal Year Focus	2013	

Debt (Details Textual) (USD \$)	3 Months Ended		1 Months Ended		0 Months Ended		3 Months Ended	12 Months Ended	
	Nov. 30, 2012	Aug. 31, 2012	Mar. 10, 2011	Oct. 31, 2002 Orange Park Property [Member]	Nov. 30, 2012 Orange Park Property [Member]	Nov. 09, 2007 Sylmar Property [Member]	Nov. 30, 2012 Sylmar Property [Member]	Nov. 30, 2012 Brooksville Property [Member]	Dec. 31, 2008 Brooksville Property [Member]
Line of Credit Facility, Maximum Borrowing Capacity	\$	10,000,000							
Line of Credit Facility, Interest Rate Description	bear interest at either the 30, 60, or 90 day London Inter-Bank Offered Rate ("LIBOR") (0.31% and 0.44% for the 90 day LIBOR at November 30, 2012 and August 31, 2012, respectively) plus 1.75% and/or the bank's reference rate (3.25% at November 31, 2012 and August 31, 2012)								
Line of Credit Facility, Amount Outstanding	7,600,000	7,450,000							
Line of Credit Facility, Remaining Borrowing Capacity	2,400,000	2,550,000							
Loans Payable to Bank			1,000,000						
Proceeds from Notes Payable					5,875,000				
Proceeds from Issuance of First Mortgage Bond								1,200,000	
Debt Instrument, Maturity Date, Description	two years						20 years		
Debt Instrument, Periodic Payment				10,400	39,658			8,402	
Long-term Debt, Percentage Bearing Fixed Interest, Percentage Rate	3.25%	3.25%			6.00%			6.65%	
Debt Instrument, Interest Rate Terms				thirty-day LIBOR					

		rate		
		+3.75%		
<u>Debt Instrument, Interest Rate</u>				
<u>During Period</u>		7.34%		
<u>Debt Instrument, Maturity</u>	Mar. 01,		Dec. 31,	
<u>Date</u>	2014		2016	
<u>Long-term Debt</u>	\$ 171,000		\$ 440,000	\$ 5,158,000 \$ 1,163,000

**Condensed Consolidated
Balance Sheets (USD \$)
In Thousands, unless
otherwise specified**

**Nov. 30,
2012** **Aug. 31,
2012**

ASSETS

<u>Cash and cash equivalents</u>	\$ 2,139	\$ 2,568
<u>Restricted cash, current</u>	831	0
<u>Trade accounts receivable, net</u>	14,046	13,972
<u>Inventory, net</u>	13,074	12,189
<u>Marketable securities, trading</u>	398	197
<u>Prepaid expenses and other current assets</u>	472	464
<u>Assets held for sale</u>	2,012	2,016
<u>Deferred tax asset, current</u>	265	290
<u>Total current assets</u>	33,237	31,696

Non-current Assets:

<u>Restricted cash, non-current</u>	549	548
<u>Real estate properties held for leasing, net</u>	7,710	7,758
<u>Equipment and leasehold improvements, net</u>	1,332	1,106
<u>Deferred tax asset</u>	2,053	2,111
<u>Other assets, principally deferred charges, net of accumulated amortization</u>	788	1,110
<u>Total assets</u>	45,669	44,329

LIABILITIES AND SHAREHOLDERS' EQUITY

<u>Trade accounts payable</u>	10,352	9,519
<u>Accrued expenses and other current liabilities</u>	1,850	2,482
<u>Securities sold short, at fair value</u>	831	0
<u>Liabilities of discontinued operations - short-term</u>	146	146
<u>Liabilities of assets held for sale</u>	1,163	1,113
<u>Current portion of long-term debt</u>	430	555
<u>Total current liabilities</u>	14,772	13,815

Non-current Liabilities:

<u>Liabilities of discontinued operations - long-term</u>	2,528	2,567
<u>Deposit liability</u>	73	147
<u>Long-term debt</u>	12,939	12,907
<u>Total liabilities</u>	30,312	29,436

Shareholders' Equity:

<u>Convertible preferred stock, \$0.01 par value per share; 10,000,000 shares authorized; 36,000 shares outstanding at November 30, 2012 and August 31, 2012 (liquidation value \$900)</u>	1	1
<u>Common stock, \$0.01 par value per share; 8,000,000 shares authorized; 4,861,590 shares outstanding at November 30, 2012 and August 31, 2012</u>	49	49
<u>Additional paid-in capital</u>	12,378	12,378
<u>Accumulated other comprehensive income</u>	578	478
<u>Retained earnings</u>	2,351	1,987
<u>Total shareholders' equity</u>	15,357	14,893

Total liabilities and shareholders' equity

\$ \$
45,669 44,329

Segment Reporting

**3 Months Ended
Nov. 30, 2012**

[Segment Reporting](#)

[\[Abstract\]](#)

[Segment Reporting Disclosure](#) **Note 6. Segment Reporting**

[\[Text Block\]](#)

The Company operates in two reportable business segments: Distribution Operations and Rental Real Estate Operations. The Distribution Operations are organized and operated as Bisco Industries, Inc., a wholly-owned subsidiary of the Company. Management evaluates performance based on gross margins, selling, general and administrative expenses and net income. Management also reviews the returns on the rental real estate properties, inventory, accounts receivable and marketable securities (segment assets).

	For the Three Months Ended November 30, 2012			For the Three Months Ended November 30, 2011		
	Rental Real Estate	Distribution	Total	Rental Real Estate	Distribution	Total
			(in thousands)			
Revenues	\$ 141	\$ 29,119	\$ 29,260	\$ 311	\$ 26,150	\$ 26,461
Cost of revenues	95	21,064	21,159	193	18,878	19,071
Gross profit	46	8,055	8,101	118	7,272	7,390
Selling, general and administrative expenses	61	7,199	7,260	92	6,438	6,530

Related Party Transactions

3 Months Ended

Nov. 30, 2012

[Related Party Transactions](#)

[\[Abstract\]](#)

[Related Party Transactions](#)

[Disclosure \[Text Block\]](#)

Note 5. Related Party Transactions

The Company leases three buildings under operating lease agreements from its majority stockholder. During each of the three months ended November 30, 2012 and 2011, the Company incurred approximately \$128,000 of expense related to these leases.

**Subsequent Events (Details
Textual) (Agreement To Sell
Deland Property [Member],
USD \$)**

3 Months Ended

Nov. 30, 2012

Agreement To Sell Deland Property [Member]

Subsequent Event, Date

Jan. 10, 2013

Subsequent Event, Amount

\$ 1,100,000

Subsequent Event Expected Receivable In Cash

750,000

Interest Rate Percentage On Expected Notes Receivable

7.00%

Subsequent Event Expected Receivable In Notes

\$ 350,000

Earnings per Share (Details)
(USD \$)
In Thousands, except Per
Share data, unless otherwise
specified

3 Months Ended

Nov. 30, 2012 Nov. 30, 2011

EPS:

<u>Net income</u>	\$ 383	\$ 625
<u>Less: accrued preferred stock dividends</u>	(19)	(19)
<u>Net income available for common shareholders</u>	\$ 364	\$ 606
<u>Earnings per common share - basic and diluted (in dollars per share)</u>	\$ 0.08	\$ 0.12

Earnings per Share (Tables)

**3 Months Ended
Nov. 30, 2012**

[Earnings Per Share \[Abstract\]](#)
[Schedule of Earnings Per Share,
Basic and Diluted \[Table Text Block\]](#)

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

	For the Three Months Ended November 30,	
	2012	2011
(In thousands, except share and per share information)		
EPS:		
Net income	\$ 383	\$ 625
Less: accrued preferred stock dividends	<u>(19)</u>	<u>(19)</u>
Net income available for common shareholders	\$ 364	\$ 606
Earnings per common share – basic and diluted	<u>\$ 0.08</u>	<u>\$ 0.12</u>

Subsequent Events

3 Months Ended
Nov. 30, 2012

[Subsequent Events](#)

[\[Abstract\]](#)

[Subsequent Events \[Text Block\]](#)

Note 7. Subsequent Events

On January 10, 2013, the Company entered into an agreement to sell the Deland Property for \$1,100,000. The Company will receive \$750,000 in cash and will carry a 2 year note at 7% interest payable in 24 installments on the remaining \$350,000. We anticipate that this transaction will close on or before January 25, 2013. As such, the associated land, building and improvements were reclassified as assets held for sale on the accompanying consolidated balance sheets of November 30, 2012 and August 31, 2012. The Company did not carry any debt related to this property at either November 30, 2012 or August 31, 2012.

Significant Accounting Policies (Policies)

3 Months Ended
Nov. 30, 2012

[Accounting Policies](#)

[\[Abstract\]](#)

[Cash and Cash Equivalents, Restricted Cash and Cash Equivalents, Policy \[Policy Text Block\]](#)

Restricted Cash

The State of Florida Division of Workers' Compensation (the "Division") requires self-insured companies to pledge collateral in favor of the Division in an amount sufficient to cover the projected outstanding liability. In compliance with this requirement, the Company pledged two irrevocable letters of credit totaling \$2,713,000 as of November 30, 2012 and \$2,855,000 as of August 31, 2012. These letters were secured by certificates of deposits totaling \$549,000 and \$548,000 at November 30, 2012 and August 31, 2012, respectively, and the Company's two real estate properties in Sylmar, California (the "Sylmar Properties").

The Company also has cash of \$831,000 at November 30, 2012 on deposit with a securities brokerage firm, which relates to the liability for short sales of trading securities which is classified as restricted during the period the related short position is open. There was no such restricted cash at August 31, 2012.

[Trade and Other Accounts Receivable, Policy \[Policy Text Block\]](#)

Trade Accounts Receivable

Trade accounts receivable are carried at original invoice amount, less an estimate for doubtful accounts. The allowance for doubtful accounts was \$217,000 and \$273,000 at November 30, 2012 and August 31, 2012, respectively.

[Inventory, Policy \[Policy Text Block\]](#)

Inventories

Inventories consist of finished goods, primarily electronic fasteners and components stated at the lower of cost or estimated market value. Cost is determined using the average cost method. Inventories are reported net of a reserve for slow moving or obsolete items of \$910,000 and \$972,000 at November 30, 2012 and August 31, 2012, 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.

[Short-Duration Contracts Revenue Recognition, Policy \[Policy Text Block\]](#)

Securities Sold Short

Securities sold short represent transactions in which the Company sells a security it does not own and is obligated to deliver such security at a future date. The short sale is recorded as a liability, and unrealized appreciation or depreciation is recorded for the difference between the proceeds received and the fair value of the open short position. The Company records a realized gain or loss when the short position is closed. By entering into short sales, the Company bears the market risk of an unfavorable increase in the price of the security sold short in excess of the proceeds received. Short sales are separately presented as a liability in the statement of financial condition.

The Company has established a margin account with the brokers lending the securities sold short. While the short sale is outstanding, the short sale proceeds may be restricted to the extent of the fair value of the short position.

[Revenue Recognition, Policy \[Policy Text Block\]](#)

Revenue Recognition

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

The Company leases its real estate properties to tenants under operating leases with terms generally exceeding one year. Some of these leases contain scheduled rent increases. We record

rent revenue for leases which contain scheduled rent increases on a straight-line basis over the term of the lease.

[Earnings Per Share, Policy](#)
[\[Policy Text Block\]](#)

Earnings Per Common Share

Basic earnings per common share for the three month periods ended November 30, 2012 and 2011 were computed based on the weighted average number of common shares outstanding during each respective period. Diluted earnings per common share for those periods have been computed based on the weighted average number of common shares outstanding, giving effect to all dilutive potential common shares that were outstanding during the respective periods. Potential common shares represent 40,000 shares of common stock issuable upon conversion of 36,000 shares of preferred stock (See Note 4).

[Foreign Currency Transactions](#)
[and Translations Policy](#)
[\[Policy Text Block\]](#)

Foreign Currency Translation and Transactions

Assets and liabilities recorded in functional currencies other than the U.S. dollar (i.e. Canadian dollars for the Company's Canadian subsidiary) are translated into U.S. dollars at the quarter-end rate of exchange. Revenue and expenses are translated at the weighted-average exchange rates for the three months ended November 30, 2012 and 2011. The resulting translation adjustments are charged or credited directly to accumulated other comprehensive income. The average exchange rate for the three months ended November 30, 2012 and 2011 was \$1.01 and \$1.02 Canadian dollars for one U.S. dollar, respectively.

[Concentration Risk, Credit](#)
[Risk, Policy \[Policy Text](#)
[Block\]](#)

Concentrations

Net sales to customers outside the United States were approximately 8% and 4% for the three months ended November 30, 2012 and 2011, respectively and related accounts receivable were approximately 5% and 7 % at November 30, 2012 and August 31, 2012, respectively.

No single entity accounted for more than 10% of revenues for the three months ended November 30, 2012 or 2011.

[Segment Reporting, Policy](#)
[\[Policy Text Block\]](#)

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. Management has evaluated its approach for making operating decisions and assessing the performance of our business and determined that the Company has two reportable segments: Distribution Operations and Rental Real Estate Operations (See Note 6).

Segment Reporting (Tables)

3 Months Ended

Nov. 30, 2012

[Segment Reporting](#)

[\[Abstract\]](#)

[Schedule of Segment Reporting Information, by Segment \[Table Text Block\]](#)

The Company operates in two reportable business segments: Distribution Operations and Rental Real Estate Operations. The Distribution Operations are organized and operated as Bisco Industries, Inc., a wholly-owned subsidiary of the Company. Management evaluates performance based on gross margins, selling, general and administrative expenses and net income. Management also reviews the returns on the rental real estate properties, inventory, accounts receivable and marketable securities (segment assets).

	For the Three Months Ended November 30, 2012			For the Three Months Ended November 30, 2011		
	Rental Real Estate	Distribution	Total	Rental Real Estate	Distribution	Total
	(in thousands)					
Revenues	\$ 141	\$ 29,119	\$ 29,260	\$ 311	\$ 26,150	\$ 26,461
Cost of revenues	95	21,064	21,159	193	18,878	19,071
Gross profit	46	8,055	8,101	118	7,272	7,390
Selling, general and administrative expenses	61	7,199	7,260	92	6,438	6,530

Related Party Transactions **3 Months Ended**
(Details Textual) (Related **Nov. 30, 2012 Nov. 30, 2011**
Party [Member], USD \$)

Related Party [Member]

Operating Leases, Rent Expense \$ 128,000 \$ 128,000

**Condensed Consolidated
Balance Sheets**
[Parenthetical] (USD \$)
In Thousands, except Share
data, unless otherwise
specified

Nov. 30, 2012 Aug. 31, 2012

<u>Convertible preferred stock, par value (in dollars per share)</u>	\$ 0.01	\$ 0.01
<u>Convertible preferred stock, shares authorized</u>	10,000,000	10,000,000
<u>Convertible preferred stock, shares outstanding</u>	36,000	36,000
<u>Convertible preferred stock, liquidated (in dollars)</u>	\$ 900	\$ 900
<u>Common stock, par value (in dollars per share)</u>	\$ 0.01	\$ 0.01
<u>Common stock, shares authorized</u>	8,000,000	8,000,000
<u>Common stock, shares outstanding</u>	4,861,590	4,861,590

Earnings per Share

3 Months Ended

Nov. 30, 2012

[Earnings Per Share](#)

[\[Abstract\]](#)

[Earnings Per Share \[Text Block\]](#)

Note 4. Earnings per Share

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

For the Three Months	
Ended November 30,	
2012	2011

(In thousands, except share and per share information)

EPS:	
Net income	\$ 383 \$ 625
Less: accrued preferred stock dividends	(19) (19)
Net income available for common shareholders	\$ 364 \$ 606
Earnings per common share – basic and diluted	\$ 0.08 \$ 0.12

For the three months ended November 30, 2012 and 2011, 40,000 potential common shares have been excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

**Earnings per Share (Details
Textual)**

**3 Months Ended
Nov. 30, 2012 Nov. 30, 2011**

<u>Antidilutive Securities Excluded from Computation of Earnings Per Share, Amount</u>	40,000	40,000
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