EACO CORP
Form 10-K
November 22, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended August 31, 2017

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

For the transition period from ____________ **to** ____________

Commission File No. **000-14311**

EACO CORPORATION

(Exact name of Registrant as specified in its charter)

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

1500 North Lakeview Loop

Anaheim, California 92807

(Address of Principal Executive Offices)

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

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.01 Par Value

(Title of Class)

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

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

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

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

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x
	Emerging growth company x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

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

As of November 14, 2017, 4,861,590 shares of the registrant’s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

Forward-Looking Information

This report may contain forward-looking statements. Such statements can be identified by the use of terminology such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “possible,” “project,” “shou similar words or expressions. These forward-looking statements include, but are not limited to, statements regarding our anticipated revenue, expenses, profits and capital needs, and the impact of our planned initiatives. Forward-looking statements are based on our current expectations, estimates and forecasts of future events and results and involve a number of risks and uncertainties that could cause actual results to differ materially including, among other things, the following: failure of facts to conform to management estimates and assumptions; economic conditions and uncertainties; competitive pressures; our ability to maintain an effective system of internal controls over financial reporting; potential losses from trading in securities; our ability to retain key personnel and relationships with suppliers; the willingness of Community Bank or other lenders to extend financing commitments and the availability of capital resources; and other risks identified from time to time in our reports and other documents filed with the Securities and Exchange Commission (the “SEC”), and in public announcements. It is not possible to foresee or identify all factors that could cause actual results to differ materially from those anticipated. As such, investors should not consider any of such factors to be an exhaustive statement of all risks or uncertainties.

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

PART I

Item 1. Business

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

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

EACO, Bisco and Bisco Industries Limited are collectively referred to herein as the "Company", "we", "us" and "our."

Operations

Products and Services

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

Bisco also provides customized services and solutions for a wide range of production needs, including special packaging, bin stocking, kitting and assembly, bar coding, electronic requisitioning, and integrated supply programs, among others. Bisco works with its customers to design and develop solutions to meet their specific needs.

Divisions

Bisco Industries

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

National-Precision

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

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Fast-Cor

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

Customers and Sales

Bisco's customers operate in a wide variety of industries and range from large, global companies to small local businesses. Bisco strives to provide exceptional service to all customers, including smaller businesses, and continues to focus on growing its share of that market. As of August 31, 2017, Bisco had more than 6,000 active customers; however, no single customer accounted for more than 10% of Bisco's revenues for the fiscal year ended August 31, 2017. For each of the fiscal years ended August 31, 2017 and 2016 ("fiscal 2017" and "fiscal 2016", respectively), Bisco's top 20 customers represented in the aggregate approximately 14% of Bisco's distribution sales.

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

Bisco sells its products primarily in the United States and Canada. Bisco's international sales represented 8.9% and 8.8% of its sales in fiscal 2017 and fiscal 2016, respectively. Sales to customers in Canada accounted for approximately 41% of such international sales in each of the fiscal years ended August 31, 2017 and 2016.

Suppliers

As of August 31, 2017, Bisco offered products from over 260 manufacturers. The authorized distributor agreements with most manufacturers are typically cancelable by either party at any time or on short notice. While Bisco doesn't manufacture its products, it does perform kitting and packaging of existing products for certain of its customers.

Although Bisco sells more products of certain brands, Bisco believes that most of the products it sells are available from other sources at competitive prices. No single supplier accounted for more than 10% of Bisco’s purchases in fiscal 2017.

Employees

As of August 31, 2017, the Company had 407 full-time employees. 270 of these employees were in sales and marketing and 137 were in management, administration and finance.

Item 1A. Risk Factors

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

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

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

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 or controls approximately 98% of our outstanding voting stock. As such, Mr. Ceiley is able to exert significant influence over the outcome of almost all corporate matters, including the election of the Board of Directors and 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.

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

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

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

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

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

Most of our sales are made on a purchase order basis, rather than through long-term sales contracts. As such, our customers typically do not have any obligation to purchase any products from us. 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.

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 agreement.

Bisco has historically funded its operations in part from cash generated 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 agreement with Community Bank, located in Anaheim, CA. The agreement is secured by substantially all of Bisco's assets. The loan agreement contains covenants which require that, on a quarterly basis, Bisco's losses from trading in securities not exceed its pre-tax operating income. We cannot assure you that unanticipated losses from our trading activities will not cause us to violate our covenants in the future or that the bank will grant a waiver for any such default or that it will not exercise its remedies, which could include the refusal to allow additional borrowings on the line of credit or 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 and CEO, as well as other executive officers and senior management. The loss of service of one or more of our key management members could have a material adverse effect on our business.

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

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

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

One of our primary growth strategies is to grow our business through the opening of sales offices in new geographic markets. Based on our analysis of demographics in the United States, Canada and Mexico, we currently estimate there is potential market opportunity in North America to support additional sales offices. We cannot guarantee that our estimates are accurate or that we will open enough offices to capitalize on the full market opportunity or that any new offices will be successful. In addition, a particular local market's ability to support a sales office may change 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 in additional geographic regions or new markets. 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 recent economic slowdown, we may not be able to open or grow new offices at our projected or desired rates or hire the qualified sales personnel necessary to make such new offices successful. Failure to do so could negatively impact our long-term growth and market share.

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

Our new sales offices do not typically achieve operating results comparable to our existing offices until after several years of operation. The added expenses relating to payroll, occupancy, and transportation costs can impact our ability to leverage earnings. Offices in new geographic areas face additional challenges to achieving profitability, and we cannot guarantee how long it will take new offices to become profitable, or that such offices will ever become profitable. 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 rely on third party suppliers for most of our products, and may not be able to identify and procure relevant new products and products lines that satisfy our customers' needs on favorable terms and prices, or at all.

We currently rely on a large number of third party suppliers for most of our products. Since we do not manufacture our products, we rely on these suppliers to provide quality products that are in demand by our customers. Our success depends in part on our ability to develop product expertise and continue to identify and provide future high quality products and product lines that complement our existing products and product lines and that respond to our customers' needs. We may not be able to compete effectively unless we can continue to offer a broad range of high quality, reliable products that address the 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.

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

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

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. Our net cash used in operations for fiscal 2017 was approximately $4.5 million. The total outstanding on our line of credit as of August 31, 2017 was approximately $7 million, which line of credit is secured by substantially all of Bisco's assets. Our ability to continue to draw on our line of credit is subject to our satisfaction of certain covenants contained in such agreement. As such, we may need to pursue additional debt or equity financing, which funding may not be available on acceptable terms, on a timely basis or at all. Our failure to obtain such funding could adversely impact our ability to execute our business plan and our financial condition and results of operations.

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 August 31, 2017, the number of shares held by non-affiliates of Mr. Ceiley is less than 170,000 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 relationship with our customers and 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 expect to continue to 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. For fiscal 2017 and fiscal 2016, the Company spent $243,000 and $257,000 on advertising, respectively.

We are exposed to foreign currency exchange rate risk, and changes in foreign exchange rates could increase our costs to procure products and impact our foreign sales.

Because the functional currency related to our Canadian operations and certain of our foreign vendor purchases is the applicable local currency, we are exposed to foreign currency exchange rate risk arising from transactions in the normal course of business. Fluctuations in the relative strength of foreign economies and their related currencies could adversely impact our ability to procure products overseas at competitive prices and our foreign sales. Historically, our primary exchange rate exposure has been with the Canadian dollar.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We have 48 sales offices and seven distribution centers located throughout the United States and in Canada. Our corporate headquarters and one of our primary distribution centers is located at 1500 North Lakeview Loop in Anaheim, California ("Lakeview Property") and is approximately 40,000 square feet of office and warehouse space. On May 19, 2017, the Company purchased the Lakeview Property from the Glen F. Ceiley and Barbara A. Ceiley Revocable Trust (the "Trust"), which is the grantor trust of Glen Ceiley, our Chief Executive Officer, Chairman of the Board and the Company's majority shareholder . The total purchase price of the Lakeview Property was $7,200,000. The purchase of the property was financed through borrowings on Bisco's line of credit of $1,800,000 and a loan with Community Bank in the amount of $5,400,000. See Note 4 of the Notes to Consolidated Financial Statements. All of our other properties are leased, consisting of office and warehouse space, under leases generally having a term of three years. For additional information regarding our obligations under property leases, see Note 8 of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report. The Company plans to relocate its corporate headquarters and Anaheim distribution center to a new facility in Anaheim owned by the Trust within the next two years due to expected growth of the Company and Bisco plans to enter into a lease with the Trust for such facility.

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Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders

The Company's common stock is quoted on the OTCQB operated by the OTC Markets Group Inc., and previously on the OTC Bulletin Board, under the trading symbol "EACO"; however, there is no established public trading market for the Company's common stock. The closing sale price of the Company's common stock on November 14, 2017, the most recent date on which a sale of our shares occurred, was $6.82 per share.

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

	High	Low
Year Ended August 31, 2016		
Quarter ended November 30, 2015	5.75	5.10

Quarter ended February 28, 2016	6.00	4.70
Quarter ended May 31, 2016	5.05	4.60
Quarter ended August 31, 2016	6.03	4.82
Year Ended August 31, 2017		
Quarter ended November 30, 2016	6.90	5.96
Quarter ended February 28, 2017	8.74	6.61
Quarter ended May 31, 2017	8.24	7.25
Quarter ended August 31, 2017	8.74	5.30

As of August 31, 2017, the Company had no equity compensation plans. The Company did not grant or issue any unregistered shares of common stock during the year ended August 31, 2017. The Company did not repurchase any of its own common stock during the year ended August 31, 2017.

As of November 14, 2017, the Company had 348 shareholders of record.

Dividend Policy

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

Item 6. Selected Financial Data

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

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

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

Overview

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

Critical Accounting Policies

Revenue Recognition

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

Impairment of Long Lived Assets

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the purpose of the impairment review, assets are tested on an individual basis. The recoverability of the assets is measured by a comparison of the carrying value of each asset to the future net undiscounted cash flows expected to be generated by such assets. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds their estimated fair value.

Deferred Tax Assets

A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize their benefit, or when future deductibility is uncertain. The Company records net deferred tax assets to the extent management believe these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income (if any), tax planning strategies and recent financial performance.

Inventory Reserves

The Company's inventory reserve is based upon management's review of inventories on-hand over their expected future utilization and length of time held by the Company. The Company's methodology for estimating these reserves is evaluated for factors that could require changes to the reserves including significant changes in product demand, market conditions, condition of the inventory, or liquidation value. If business or economic conditions change, the Company's estimates and assumptions may be adjusted as deemed appropriate.

Results of Operations

Comparison of the Fiscal Years Ended August 31, 2017 and 2016

Revenues and Gross Margin (dollars in thousands)

	Fiscal Year Ended August 31,		$	%
	2017	2016	Change	Change
Revenues	$ 156,954	$ 148,544	$ 8,410	5.7 %
Cost of Revenues	112,184	104,981	7,203	6.9 %
Gross margin	$ 44,770	43,563	$ 1,207	2.8 %
Percent of revenues	28.5 %	29.3 %		(0.8)%

Revenues consist primarily of sales of component parts and fasteners, but also include, to a lesser extent, kitting charges and special order fees, as well as freight charged to customers. The increase in revenues in fiscal 2017 compared to fiscal 2016 was largely due to a higher volume of product sales and increased productivity from the Company's employees. Revenues have also increased due to the Company focusing on relationship building programs with current and potential customers and vendors. The gross margins in fiscal 2017 remained relatively consistent with fiscal 2016, reduced slightly by 0.8%. This decrease was primarily due to an increased amount of larger volume orders at lower margins.

Selling, General and Administrative Expense (dollars in thousands)

	Fiscal Year Ended August 31,	$	%

	2017	2016	Change	Change
Selling, general and administrative expenses	$ 38,455	$ 37,122	$ 1,333	3.6 %
Percent of revenues	24.5 %	25.0 %		(0.5)%

Selling, general and administrative expense ("SG&A") consists primarily of payroll and related expenses for the sales and administrative staff, professional fees (including accounting, legal and technology costs and expenses), and advertising costs. SG&A in fiscal 2017 increased from fiscal 2016 largely due to annual raises in employee salaries, rent increases related to facility leases, increases in IT consulting, depreciation expense, and fees associated with the purchase of the Lakeview Property. SG&A as a percent of revenue in fiscal 2017 decreased from the same period in fiscal year 2016 primarily due to the Company being able to increase sales with current and new customers without having to incur additional significant SG&A expenses.

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

	Fiscal Year Ended August 31, 2017	2016	$ Change	% Change
Other income (expense):				
Realized profit on sales of marketable trading securities	$ 71	$ 330	$ (259)	(78.5)%
Unrealized gain (loss) on marketable trading securities	137	(226)	363	160.6 %
Interest and other income (expense), net	(181)	(17)	(164)	(964.7)%
Other income (expense), net	$ 27	$ 87	$ (60)	(69.0)%
Other income (expense), net as a percent of revenues	0.0 %	0.0 %		

Other income (expense) includes income or losses on investments in short-term marketable equity securities of other publicly-held domestic corporations, and interest expense. The Company's investment strategy consists of both long and short positions, as well as utilizing options to improve return. The Company experienced net realized and unrealized gain from trading securities of $217,000 during fiscal 2017 and $104,000 during fiscal 2016. The increase in trading securities gains in fiscal 2017 was due primarily due to timing and general market climate of short positions at during the year.

Interest and other expense increased in fiscal 2017 compared to fiscal 2016 due to an increase in the Company's line of credit with Community Bank and an increase in long-term debt, both of which were primarily related to the acquisition of the Lakeview Property in May 2017. See Note 4 of Notes to Consolidated Financial Statements.

Income Tax Provision (dollars in thousands)

	Fiscal Year Ended August 31, 2017	2016	$ Change	% Change
Income tax provision	$ 2,291	$ 2,433	$ (142)	(5.8)%
Percent of pre-tax income	36.1 %	37.3 %		(1.2)%

The provision for income taxes decreased by $142,000 in fiscal 2017 compared to fiscal 2016. This was primarily a result of higher estimated taxable income in fiscal 2016 as compared to fiscal 2017. The percent of pre-tax net income decreased by 1.2% in fiscal 2017 compared to fiscal 2016, which was primarily due to additional enterprise zone credits the Company was able to utilize in fiscal 2017.

Liquidity and Capital Resources

The Company has historically been funded from positive cash flow from its operations. As of August 31, 2017 and 2016, the Company held approximately $3,870,000 and $4,878,000 of cash and cash equivalents, respectively. In addition, Bisco currently has a $10,000,000 line of credit agreement with Community Bank, N.A. ("Community Bank"). Borrowings under this agreement bear interest at either the 30, 60 or 90 day LIBOR (1.31% and 0.81% for the 90 day LIBOR at August 31, 2017 and 2016, respectively) plus 1.75% and/or the bank's reference rate (4.25% and 3.5% at August 31, 2017 and 2016, respectively). Borrowings under this line are secured by substantially all assets of Bisco. The line of credit agreement expires in March 2019. The amounts outstanding under this line of credit as of August 31, 2017 and 2016 were $6,967,000 and zero, respectively. The line of credit agreement contains certain nonfinancial and financial covenants, including the maintenance of certain financial ratios. As of August 31, 2017, the Company was in compliance with all such covenants.

On May 15, 2017, the Company entered into a $5,400,000 loan agreement with Community Bank. The proceeds of the loan were used to purchase the building that houses the Company's corporate headquarters and distribution center located in Anaheim, California. This loan is payable in 35 regular monthly payments of $27,142 and one irregular last payment of $5,001,607 due on the maturity of the loan on May 16, 2020. The loan is secured by a deed of trust to the Lakeview Property and bears interest at the bank's reference rate (1.79% at May 31, 2017) plus 1.70%. At August 31, 2017, the outstanding balance of this loan was $5,365,000. EACO has entered into a commercial guaranty agreements, pursuant to which EACO is the guarantor of both Bisco's $10,000,000 line of credit and the $5,400,000 loan.

EACO has also entered into a business loan agreement (and related $100,000 promissory note) with Comerica Bank in order to obtain a $100,000 of credit as security for the Company's worker's compensation requirements.

The Company also holds $1,596,000 and $540,000 of marketable securities at August 31, 2017 and 2016, respectively, which could be liquidated, if needed.

Cash Flows from Operating Activities

During fiscal 2017, the Company used $4,477,000 in net cash from its operating activities. This was due primarily to an increase in inventory of $5,346,000 and an increase in trade accounts receivable of $2,638,000 primarily due to higher revenues in 2017 and a decrease to accrued expenses of 1,027,000. This was partially offset by net income in fiscal 2017 of $4,051,000.

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

Increases in inventory in fiscal 2017 and 2016 were primarily due to the Company increasing its warehouse space and receiving favorable pricing on blanket orders with venders.

Cash Flows from Investing Activities