

Edgar Filing: EACO CORP - Form 10-Q

EACO CORP  
Form 10-Q  
August 14, 2006

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 June 28, 2006 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. 0-14311

EACO CORPORATION  
(Exact Name of Registrant as Specified in Its Charter)

Florida No. 59-2597349  
State of Incorporation Employer Identification No.

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

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one.)

Large Accelerated Filer \_\_\_\_\_  
Accelerated Filer \_\_\_\_\_  
Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_\_\_ No

Title of each class	Number of shares outstanding
Common Stock	3,906,801

Edgar Filing: EACO CORP - Form 10-Q

\$.01 par value

As of August 1, 2006

2

EACO Corporation  
Condensed Consolidated Statements of Operations

(Unaudited)	Quarters Ended		Six Months Ended	
	June 28, 2006	June 29, 2005	June 28, 2006	June 29, 2005
Revenues:				
Rental revenue	\$182,100	\$32,800	\$414,000	\$65,600
Total revenues	182,100	32,800	414,000	65,600
Cost and expenses:				
Depreciation and amortization	74,300	35,800	147,700	83,100
General and administrative expenses	317,300	242,400	685,500	462,900
Loss on disposition of equipment	900	-	17,900	-
Total costs and expenses	392,500	278,200	851,100	546,000
Loss from operations	(210,400)	(245,400)	(437,100)	(480,400)
Investment gain (loss)	52,900	2,100	(112,500)	2,100
Interest and other income	133,700	28,600	451,800	49,500
Interest expense	(78,000)	(34,800)	(199,100)	(69,700)
Loss before income taxes	(101,800)	(249,500)	(296,900)	(498,500)
Benefit for income taxes	38,200	213,200	112,500	213,200
Loss from continuing operations	(63,600)	(36,300)	(184,300)	(285,300)
Discontinued operations:				
Income from discontinued operations, net of income tax	--	2,579,200	--	3,086,400
Loss on sale of discontinued operations, net of income tax	(116,600)	--	(116,600)	--
Net income (loss)	(180,200)	2,542,900	(300,900)	2,801,100
Undeclared cumulative preferred stock dividend	(19,100)	(19,100)	(38,200)	(38,300)
Net income (loss) available (attributable) to common shareholders	(\$199,300)	\$2,523,800	(\$339,100)	\$2,762,800

Edgar Filing: EACO CORP - Form 10-Q

Basic income (loss) per share				
Continuing operations	(0.02)	(\$0.01)	(\$0.05)	(\$0.08)
Discontinued operations	(0.03)	0.66	(0.03)	0.79
	-----	-----	-----	-----
Net Income (loss)	(\$0.05)	\$0.65	(\$0.08)	\$0.71
	=====	=====	=====	=====
Basic weighted average common shares outstanding	3,906,800	3,881,900	3,906,800	3,881,900

3

Diluted income (loss) per share				
Continuing operations	(0.02)	(\$0.01)	(\$0.05)	(\$0.08)
Discontinued operations	(0.03)	0.63	(0.03)	0.78
	-----	-----	-----	-----
Net income (loss)	(\$0.05)	\$0.62	(\$0.08)	\$0.70
	=====	=====	=====	=====
Diluted weighted average common shares outstanding	3,906,800	4,072,900	3,906,800	3,972,800
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

4

EACO Corporation  
Condensed Consolidated Balance Sheets

	June 28, 2006 (Unaudited)	December 28, 2005
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,632,900	\$3,044,700
Restricted cash - short-term	2,502,100	3,212,200
Receivables	110,500	117,400
Inventories	0	300
Prepaid and other current assets	70,500	52,600
Assets held for sale	1,126,300	1,146,100
	-----	-----
Total current assets	5,442,300	7,573,300
Restricted cash	400,000	400,000
Investments, trading	696,400	318,500
Certificate of deposit	369,500	369,500
Note receivable, net	3,588,600	3,738,300
Property and equipment:		
Land	4,800,300	5,209,400
Buildings and improvements	5,558,100	6,769,700
Equipment	1,589,300	3,025,700
	-----	-----
	11,947,700	15,004,800

Edgar Filing: EACO CORP - Form 10-Q

Accumulated depreciation	(2,748,200)	(4,801,400)
	-----	-----
Net property and equipment	9,199,500	10,203,400
Deferred tax asset	1,947,000	1,766,700
Other assets, principally deferred charges, net of accumulated amortization	273,100	357,100
	-----	-----
	\$21,916,400	\$24,726,800
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$110,900	\$10,000
Securities sold, not yet purchased	2,502,100	3,212,200
Accrued liabilities	84,500	281,500
Current portion of workers compensation benefit liability	400,000	400,000
Current portion of long-term debt	81,700	136,900
Liabilities associated with assets held for sale	1,029,200	1,057,100
	-----	-----
Total current liabilities	4,208,400	5,097,700
Deferred rent	281,900	329,700
Deposit liability	23,300	29,300
Workers compensation benefit liability	116,700	773,600
Long-term debt	2,589,000	3,466,400
Deferred tax liability	2,978,000	2,978,000
	-----	-----
Total liabilities	10,197,300	12,674,700
Shareholders' equity:		
Preferred stock of \$.01 par; authorized 10,000,000 shares; outstanding 36,000 shares at June 28, 2006 and December 28, 2005 (liquidation value \$900,000)	400	400
Common stock of \$.01 par; authorized 8,000,000 shares; outstanding 3,906,801 shares at June 28, 2006 and December 28, 2005	39,000	39,000
Additional paid-in capital	10,932,600	10,932,300
Retained Earnings	747,100	1,086,200
Accumulated other comprehensive income	---	(6,100)
	-----	-----
Total shareholders' equity	11,719,100	12,052,100
	-----	-----
	\$21,916,400	\$24,726,800
	=====	=====

See accompanying notes to condensed consolidated financial statements.

Edgar Filing: EACO CORP - Form 10-Q

(Unaudited)	Six Months Ended	
	June 28, 2006	June 29, 2005
Operating activities:		
Net income (loss)	(\$300,900)	\$2,801,100
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	147,700	987,100
Net (gains) losses on investments	112,500	(2,200)
Loss on disposition of equipment	--	27,400
Loss on disposition of property held for sale	186,500	--
Amortization of loan fees	35,300	48,000
Amortization of deferred gain	(47,800)	(40,300)
Amortization of deferred rent	--	15,900
Amortization of note receivable discount	(37,300)	--
Decrease (increase) in:		
Receivables	6,900	11,800
Deferred tax assets	(180,300)	(3,061,800)
Inventories	300	(16,300)
Prepays and other current assets	(17,900)	800
Investments	(325,900)	--
Other assets	11,600	(15,600)
Increase (decrease) in:		
Accounts payable	100,900	84,400
Securities sold, not yet purchased	(811,100)	--
Accrued liabilities	(197,000)	(276,900)
Deferred gain		66,000
Deposit liability	(6,000)	24,000
Liabilities with assets held for sale	(16,800)	
Workers compensation benefit liability	(656,900)	(137,100)
Net cash provided by (used in) operating activities	(1,996,900)	516,300
Investing activities:		
Net purchases of investments	--	(69,500)
Restricted cash	710,000	--
Proceeds from securities sold, not yet purchased	--	66,500
Capital expenditures	--	(987,800)
Store cash within assets held for sale	--	(23,200)
Principal receipts on note receivable	187,000	--
Proceeds from sale of property held for sale	750,000	--
Expenses from sale of property held for sale	(54,700)	--
Expenses from closing of restaurants	(6,400)	--
Net cash provided by (used in) investing activities	1,585,900	(1,014,000)
Financing activities:		
Proceeds from sale-leaseback	(21,100)	2,600,000
Payments on long-term debt	(932,600)	(1,404,000)
Payment of sale-leaseback costs	--	(160,000)
Preferred stock dividend	(38,200)	(38,300)
Payment on capital lease	(8,900)	(22,800)

## Edgar Filing: EACO CORP - Form 10-Q

Net cash provided by (used in) financing activities	(1,000,800)	974,900
	-----	-----
Net increase (decrease) in cash and cash equivalents	(1,411,800)	477,200
Cash and cash equivalents - beginning of period	3,044,700	151,100
	-----	-----
Cash and cash equivalents - end of period	\$1,632,900	\$ 628,300
	=====	=====
Building acquired under capital lease	\$ --	\$1,475,000
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the six months for interest	\$195,900	\$868,900
	=====	=====

See accompanying notes to condensed consolidated financial statements.

6

### EACO CORPORATION

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 28, 2006

(Unaudited)

#### Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the interim financial information instructions to Form 10-Q, and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the interim periods have been included. Operating results for the thirteen and twenty-six week periods ended June 28, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending January 3, 2007. For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2005.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany profits, transactions and balances have been eliminated.

#### Note 2. Discontinued Operations

## Edgar Filing: EACO CORP - Form 10-Q

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company accounts for the results of operations of a component of an entity that has been disposed or that meets all of the "held for sale" criteria, as discontinued operations, if the component's operations and cash flows have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and the Company will not have any significant continuing involvement in the operations of the component after the disposal transaction. The "held for sale" classification requires having the appropriate approvals by management, Board of Directors and shareholders, as

7

applicable, and meeting other criteria. When all of these criteria are met, the component is then classified as "held for sale" and its operations are reported as discontinued operations.

On June 30, 2005 (the first day of the Company's third quarter of 2005), the Company completed the sale of substantially all of its operating restaurants to Banner Buffets, LLC ("Banner" or "the Buyer"). The sale of sixteen restaurant businesses, premises, equipment and other assets used in restaurant operations was made pursuant to an asset purchase agreement dated February 22, 2005. Prior to this transaction, no material relationship existed between the Company and Banner. The total purchase price was approximately \$29,950,000, consisting of \$25,950,000 in cash at closing and a promissory note for \$4,000,000. The note accrues interest at 8.0% payable monthly and is secured by restaurant equipment valued at less than \$1 million. The Buyer also assumed obligations under capital leases of approximately \$4.5 million.

Due to the asset sale, the Company has exited the restaurant business and the results of the sixteen restaurants sold have been segregated from continuing operations in the Condensed Consolidated Statements of Operations and reported as discontinued operations. The Company has restricted cash of \$400,000 in escrow set aside for the potential payment of broker commissions which are currently subject to litigation. See Note 9 - Legal Matters. The ultimate amount of gain recognized on the asset sale may be reduced based on the outcome of such litigation.

On April 28, 2006, the Company completed the sale of one of its real estate holdings in Tampa, Florida to Kendall & Taylor Properties, LLC ("Kendall"). The real estate holdings had no operations during the quarter and six months ended June 28, 2006. The sale between the Company and Kendall is summarized as follows:

Proceeds from sale	\$750,000
Transactions expenses	
Broker fees	45,000

Edgar Filing: EACO CORP - Form 10-Q

Other divestment related cost	9,700
	-----
Total transaction expenses	54,700
	-----
Net proceeds	695,300
Net assets sold	(881,800)
	-----
Loss on sale before income tax benefit	(186,500)
Estimated income tax benefit	69,900
	-----

8

Loss on sale after income tax benefit	(\$116,600)
---------------------------------------	-------------

For the quarter and six months ended June 29, 2005, operating results of the discontinued operations are summarized below:

	Quarter Ended June 29, 2005	Six Months Ended June 29, 2005
	-----	-----
Revenues	\$9,085,900	\$19,161,300
Costs and expenses	(8,997,700)	(18,152,100)
Interest and other income	48,800	51,300
Interest expense	(406,400)	(822,700)
	-----	-----
Income before income taxes	(269,400)	237,800
Income tax benefit (expense)	2,848,600	2,848,600
	-----	-----
Income (loss) from discontinued operations, net of income taxes	\$2,579,200	\$3,086,400
	=====	=====

Assets and liabilities of discontinued operations are as follows:

	June 28, 2006	December 28, 2005
	-----	-----
<b>Assets</b>		
Current assets	\$ ---	\$ 19,000
Property and equipment, net	1,126,300	1,127,100
	-----	-----
Total assets held for sale	\$1,126,300	\$ 1,146,100
	-----	-----
<b>Liabilities</b>		
Current liabilities	\$ 1,300	\$ 20,300
Deferred rent	87,000	87,000



Edgar Filing: EACO CORP - Form 10-Q

Obligations under capital lease	940,900	949,800
	-----	-----
Total liabilities associated with assets held for sale	\$ 1,029,200	\$ 1,057,100
	-----	-----

The remaining assets held for sale and associated liabilities included in the unaudited balance sheet as of June 28, 2006 relate to one restaurant that was included in the sale to Banner, where the Company's landlord did not consent to the assignment of the Company's lease; accordingly, the Company still maintains the assets and liabilities of the restaurant and Banner operates the restaurant under a management agreement. With respect to this restaurant, the Company and Banner agreed to continue to pursue assignment of the lease and Banner is obligated to buy the assets subject to the lease pursuant to a purchase option under the terms of the lease, between September and November 2006.

9

Note 3. Income Taxes

Income taxes are calculated using the liability method specified by SFAS No. 109, "Accounting for Income Taxes". Valuation allowances are provided against deferred tax assets if it is considered "more likely than not" that some portion or the entire deferred tax asset will not be realized. As of December 28, 2005, a valuation allowance of \$694,200 was provided against the balance of deferred tax assets.

Management continuously evaluates the deferred tax valuation allowance to determine what portion of the deferred tax asset, if any, may be realized in the future. Management's evaluation includes, among other things, such factors as the history of operating results, a substantial history of operations upon which to base a forecast and known transactions that will generate enough taxable income to realize the deferred tax assets.

The components of deferred taxes at June 28, 2006 are summarized below:

	June 28, 2006
	-----
Deferred tax assets:	
Net operating loss	\$1,184,000
Federal and state tax credits	694,200
Accruals not currently deductible	548,300
Excess of book over tax depreciation	214,700
	-----
	2,641,200
Valuation allowance	(694,200)
	-----

Edgar Filing: EACO CORP - Form 10-Q

Total deferred tax assets	1,947,000
	-----
Deferred tax liabilities:	
Unrealized gain (loss) on investment	2,978,000
	-----
Net deferred tax liability	\$1,031,000
	=====

Note 4. Earnings (Loss) Per Share

The following table provides details of the calculation of basic and diluted income (loss) per common share:

	Quarter Ended		Six Months Ended	
	June 28, 2006	June 29, 2005	June 28, 2006	June 29, 2005
	-----		-----	
EPS from continuing operations - basic:				
Loss from continuing operations	\$ (63,600)	\$ (36,300)	\$ (184,300)	\$ (285,300)
Less: preferred stock dividends	(19,100)	(19,100)	(38,200)	(38,300)

10

Income (loss) from continuing operations for basic EPS computation	\$ (82,700)	\$ (55,400)	\$ (222,500)	\$ (323,600)
	=====	=====	=====	=====

Weighted average shares outstanding for basic EPS computation	3,906,800	3,881,900	3,906,800	3,881,900
	=====	=====	=====	=====

Earnings (loss) per common share from Continuing operations - basic	\$ (0.02)	\$ (0.01)	\$ (0.05)	\$ (0.08)
	=====	=====	=====	=====

EPS from continuing operations - diluted:				
Loss from continuing operations	(63,600)	\$ (36,300)	\$ (184,300)	\$ (285,300)
Less: preferred stock dividends	(19,100)	(19,100)	(38,200)	(38,300)
Income (loss) from continuing operations	-----	-----	-----	-----
For diluted EPS computation	(82,700)	(55,400)	(222,500)	(323,600)
	=====	=====	=====	=====

Weighted average shares outstanding

## Edgar Filing: EACO CORP - Form 10-Q

For diluted EPS computation	3,906,800	4,072,900	3,906,800	3,972,800
	=====	=====	=====	=====
Earnings (loss) per common shares from				
Continuing operations -				
diluted	(0.02)	(0.01)	(0.05)	(0.08)
	=====	=====	=====	=====

Due to the Company's net losses for the quarter and six months ended June 28, 2006, potentially dilutive securities totaling 1,000,000 shares for both periods are antidilutive and have been excluded from the computation of diluted earnings per share for those periods.

### Note 5. Note Receivable

The note receivable arose from the prior year sale to Banner, has a current outstanding balance of \$3,813,000 and is carried net of unamortized discount totaling \$224,400. See Note 2. The note bears interest at 8.0%. Interest-only payments on the note are due until June 30, 2007, when principal payments begin as detailed below. The note matures on June 30, 2009, and is collateralized by restaurant equipment valued at less than \$1 million. See also Note 12 - Subsequent Events.

In consideration of the note not being fully collateralized, management has determined that the note receivable was issued at a below market interest rate, and estimated that market conditions in effect at the date of the sale would have resulted in an estimated market interest rate of 12% for the unsecured portion of the note. Accordingly, all future payments due under the note have been discounted to the date of the note, resulting in the recognition of an unamortized discount of \$299,100, which is being recognized as interest income over the life of the

11

note. For the six months ended June 28, 2006, interest income recognized on the Banner note was \$176,500, including \$37,400 of the unamortized discount recognized as interest income. The amount of the unamortized discount at June 28, 2006 was \$224,400.

Principal contractual maturities on the note receivable are as follows:

Year	Maturities
----	-----
2007	\$1,313,000
2008	1,500,000
2009	1,000,000
	-----
	\$3,813,000
	=====

## Edgar Filing: EACO CORP - Form 10-Q

### Note 6. Other Assets

Other assets consist principally of deferred charges, which are amortized on a straight-line basis. Deferred charges and related amortization periods are as follows: financing costs - term of the related loan.

The gross carrying amount of the deferred financing costs was \$71,900 as of June 28, 2006 and December 28, 2005. Accumulated amortization related to deferred financing costs was \$28,500 and \$26,700 as of June 28, 2006 and December 28, 2005, respectively. Amortization expense was \$900 and \$10,800 for the quarters ended June 28, 2006 and June 29, 2005, respectively. Amortization expense was \$1,800 and \$48,000 for the six months ended June 28, 2006 and June 29, 2005, respectively. The decrease in 2006 was due to the reduction of the gross carrying cost resulting from the Asset Sale. Amortization expense for each of the next five years is expected to be \$3,500.

### Note 7. Investments

Investments consist of securities held for sale and securities sold, not yet purchased. Prior to and as of December 28, 2005, the Company classified its existing marketable equity securities as available for sale in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Subsequent to December 28, 2005, the Company

12

changed its pattern of investing to purchasing investments for the purpose of trading them often with the objective of generating profits on short-term differences in price. The change in the pattern indicated above triggered a change in the classification of the Company's investments, from the "available-for-sale" category to "trading" effective December 29, 2005. Pursuant to SFAS No. 115, the transfer of investments between categories of investments shall be accounted for at fair value at the date of the transfer and the unrealized holding gain or loss shall be recognized in earnings. Consequently, the unrealized loss of \$6,100 at year-end was recognized in results of operations effective December 29, 2005.

A primary investment strategy used by the Company in 2005 and 2006 consisted of short-selling of securities, which results in obligations to purchase securities at a later date. As of June 28, 2006, the Company's total obligation for these securities sold, not yet purchased was \$2,502,100, compared to \$3,212,200 at December 28, 2005. The Company recognized net losses on securities sold, not yet purchased of \$35,000 and \$0 in the quarters ended June 28, 2006 and June 29, 2005, respectively. The Company recognized net losses on securities sold, not yet purchased of \$77,000 and \$0 in the six months ended June 28, 2006 and June 29, 2005, respectively.

## Edgar Filing: EACO CORP - Form 10-Q

### Note 8. Reclassifications

Certain items in the prior interim financial statements have been reclassified to conform to the 2006 presentation.

### Note 9. Legal Matters

In connection with the sale to Banner in fiscal 2005, a broker has demanded a commission payment of \$3.5 million. The Company has filed suit against the broker in an effort to expedite a resolution of the claim. The Company agreed to place \$400,000 in escrow in connection with the claim. In addition, in August 2005, the Company was sued by another broker who claims that a commission of \$749,000 is payable to him as a result of the sale transaction. The Company is vigorously defending both of these claims. Due to the fact that management cannot predict the outcome or the possible payments, if any, awarded under these legal proceedings, no charge to earnings has been made in the accompanying financial statements.

13

### Note 10. Stock Based Compensation

Prior to December 31, 2005, the Company accounted for stock-based compensation utilizing the intrinsic value method under Accounting Principles Board No. 25 (APB 25), "Accounting for Stock Issued to Employees". The Company's long-term incentive plan provides for the granting stock options and restricted stock. The exercise price of each option equals the market price of the Company's stock on the date of grant. Options vest in one-quarter increments over a four-year period starting on the date of grant. An option's maximum term is 10 years. See Note 10 "Common Shareholders' Equity" in the Company's Annual Report for the year ended December 28, 2005 for additional information regarding the Company's stock options.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". Pursuant to the disclosure requirements of SFAS 148, the following table provides an expanded reconciliation for the quarter and six-months ended June 29, 2005:

	Quarter Ended June 29, 2005	Six Months Ended June 29, 2005
Net earnings (loss), as reported	\$2,542,900	2,801,100
Stock based compensation expense included in net income, net of tax	--	--
Deduct: Total stock-based compensation expense determined under fair value, net of tax	--	--
	-----	-----

## Edgar Filing: EACO CORP - Form 10-Q

Pro forma net earnings (loss)	\$2,542,900	2,801,100
Undeclared cumulative preferred stock dividend	(19,100)	(38,200)
	-----	-----
Earnings (loss) per share		
Basic as reported	\$ 0.65	\$ 0.71
Basic pro forma	\$ 0.65	\$ 0.71
Diluted as reported	\$ 0.62	\$ 0.70
Diluted pro forma	\$ 0.62	\$ 0.70

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

14

date, based on the fair value of the award. The Company previously accounted for awards granted under its equity incentive plans under the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended. The adoption of SFAS No. 123(R) did not have a material effect on the Company's financial statements.

Stock option transactions for our stock plan for the six-months ended June 28, 2006 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life
Outstanding at December 28, 2005	32,500	2.08	2.68
Granted	-	-	-
Forfeited	-	-	-
Exercised	-	-	-
	-----		
Outstanding at June 28, 2006	32,500	2.08	2.68
	=====		
Options exercisable at June 28, 2006	32,500	2.08	2.68
	=====		

## Edgar Filing: EACO CORP - Form 10-Q

The following table summarizes information about fixed stock options outstanding at June 28, 2006:

Year Granted	Exercise Price	Options Outstanding	Options Exercisable	Weighted Average Remaining Line (In years)
1996	2.81	2,000	2,000	1.0
1997	3.28	2,000	2,000	2.0
1999	2.00	25,000	25,000	3.8
1999	1.50	3,500	3,500	3.9
		----- 32,500 =====	----- 32,500 =====	

During the six-months ended June 28, 2006, the Company awarded no stock options and thus, recorded no compensation expense related to stock options after the adoption of SFAS No. 123(R). In addition, there were no option awards modified, repurchased, or cancelled after December 28, 2005. During the six-months ended June 28, 2006, no stock options were exercised, and therefore, no cash was received from stock option exercises.

### Note 11. Preferred Stock

The Company has outstanding 36,000 shares of Series A Cumulative Convertible Preferred Stock with a dividend rate of 8.5%. For the three and six months ended June 28, 2006, the Board of Directors declared and the Company paid

15

dividends in the amount of 19,100 and 38,200 respectively. In the quarter ended June 28, 2006, the Board of Directors declared and the Company paid dividends in the amount of \$19,100. The balance of undeclared cumulative preferred dividends at June 28, 2006 was \$19,100.

### Note 12. Subsequent Events

When the Company sold its 16 restaurants to Banner Buffets LLC ("Banner") as of June 30, 2005, the Company received back Banner's Promissory Note ("Note") in the principal amount of \$4,000,000. The Note bears interest at 8.0% per annum payable monthly. Principal payments of \$1,500,000 are due on June 30, 2007 and June 30, 2008, with all unpaid principal and interest due on June 30, 2009. The Note is secured by restaurant equipment at the restaurants sold to Banner. Management estimates the value of the restaurant equipment to be less than \$1,000,000.

Banner has occasionally been late in making interest

## Edgar Filing: EACO CORP - Form 10-Q

payments but it was current as of July 31, 2006. In addition, Banner made one \$187,000 prepayment of principal required by its lender.

On July 17, 2006, representatives of Banner came to the Company's office to meet with management. The Banner representatives said that cash flow pressures were going to force them to close all of the restaurants before the weekend because they could not make the upcoming payroll and insurance payments. In order to protect the Company's interest in the Note, Banner suggested several restructuring possibilities one of which would have involved a cash payment from the Company to Banner to provide funds to support their short-term cash operating requirements.

The Company responded that it would not make a cash payment to Banner but would consider other proposals and requested that Banner submit them in writing. Banner indicated that such other proposals might include a request for the Company to subordinate its Note to other Banner financing arrangements or a request for the Company to discount the note which would result in reduced future Note payments to the Company. As of August 4, 2006, the Company had not received a proposal from Banner. At the date of the meeting, Banner had closed 3 of the 16 restaurants it had purchased from the Company. At July 26, 2006, the Company believes that Banner has closed 1 additional restaurant but is operating the remainder.

16

The Company has always expected that the funds to repay the Note would come from the successful operation of the purchased restaurants. Company management will closely monitor payments under the Note and the operations of Banner and will consider any proposals that Banner may make with respect to the Note. The interest payment under the Note due on August 1, 2006 had not been paid as of August 11 and the Company has sent a demand for payment.

On July 4, 2006, the Company entered into a lease agreement with NES Real Estate Management, Inc for the lease of one of the recently acquired income-producing properties in Sylmar, California (previously occupied by Affholder). The lease is a 10-year lease to commence on October 1, 2006 and end on September 30, 2016 with base rent of \$37,000/month with annual rent increase starting with October 1, 2007 thru October 1, 2014.

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

### CRITICAL ACCOUNTING POLICY AND USE OF ESTIMATES

The Company's accounting policy for the recognition of impairment losses on long-lived assets is considered critical. The Company's policy is to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the purpose of the impairment review, assets are tested on an



## Edgar Filing: EACO CORP - Form 10-Q

individual basis. The recoverability of the assets is measured by a comparison of the carrying value of each asset to future net 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 the fair value of the assets.

Prior to and as of December 28, 2005, the Company classified its existing marketable equity securities as available for sale in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Subsequent to year-end, the Company changed its pattern of investing to purchasing investments for the purpose of trading them often with the objective of generating profits on short-term differences in price. The change in the pattern indicated above triggered a change in the classification of Company's investments, from the "available-for-sale" category to "trading". Pursuant to SFAS No. 115, the transfer of investments between categories shall be accounted for at fair value at the date of the transfer and the unrealized holding gain or loss of \$6,100 shall be recognized in earnings effective December 29, 2005.

17

The preparation of EACO Corporation's consolidated financial statements requires the Company to make estimates, assumptions and judgments that affect the Company's assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The Company bases these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information it believes are reasonable. Actual results may differ from these estimates under different conditions. For a full description of the Company's critical accounting policy, see Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2005 Annual Report on Form 10-K.

### RESULTS OF OPERATIONS

#### QUARTER ENDED JUNE 28, 2006 VERSUS JUNE 29, 2005

The Company experienced an increase of 455% in rental revenue during the second quarter of 2006 compared to the second quarter of 2005, due to the acquisition of rental property in Sylmar, California during the fourth quarter of 2005.

Depreciation and amortization expenses increased 107% due to the acquisition of the Sylmar, California property. General and administrative expenses, such as payroll, payroll related costs and insurance, increased 30.9% due to increases in legal and other professional fees versus the second quarter of 2005.

Interest and other income increased to \$133,700 due to the interest received on the \$4,000,000 note receivable from Banner.

## Edgar Filing: EACO CORP - Form 10-Q

Interest expense increased to \$78,000 in the second quarter of 2006 from \$34,800 in the same quarter of 2005, due to the acquisition of the Sylmar property and rising interest rates.

The Company recognized an income tax benefit of \$72,100 and \$2,848,600 for the quarter ended July 28, 2006 and June 29, 2005, respectively.

The Company invests a portion of its available cash in marketable securities. The Company maintains an investment account to effect these transactions. Investments are made based on a combination of fundamental and technical analysis primarily using a value-based investment approach. The holding period for investments usually ranges from 30 days to 24 months. Management also purchases marketable securities using margin

18

debt. In determining whether to engage in transactions on margin, the Company's Chairman evaluates the risk of the proposed transaction and the relative returns offered thereby. If the market value of securities purchased on margin were to decline below certain levels, the Company would be required to use additional cash from its operating account to fund a margin call in its investment account. The Company's Chairman reviews the status of the investment account on a regular basis and analyzes such margin positions and adjusts purchase and sale transactions as necessary to ensure such margin calls are not likely. The results for the second quarter of 2006 included realized losses from the sale of marketable securities of \$80,200 and unrealized gains of \$133,100. During the second quarter of 2005 the company had realized gains from the sale of marketable securities of \$2,100 and no unrealized gains or losses.

As previously reported, all significant restaurant operations were sold on June 30, 2005. All income and expense items related to those restaurants were reclassified as income from discontinued operations for the second quarter of 2005.

The net loss was \$180,200 in the second quarter of 2006, compared to net income of \$2,542,900 in the second quarter of 2005. Loss per share for the quarter was 5 cents in 2006 compared to earnings per share of 65 cents in 2005.

SIX MONTHS ENDED JUNE 28, 2006 VERSUS JUNE 29, 2005

The Company experienced an increase of 531% in rental revenue during the first six months of 2006 compared to the first six months of 2005, due to the acquisition of rental property in Sylmar, California during the fourth quarter of 2005.

Depreciation and amortization expenses increased 78% due to the acquisition of the Sylmar, California property. General and administrative expenses, such as payroll, payroll related costs and insurance, increased 48.1% due to increases in legal and other professional fees in the first six months of 2006 versus the first six months of 2005, as well as, expenses related to closing the corporate offices in Florida and moving them to Anaheim, California.

## Edgar Filing: EACO CORP - Form 10-Q

Interest and other income increased to \$451,800 due to the interest received on the \$4,000,000 note receivable

19

from Banner and a settlement made with a tenant from one of the Company's properties that vacated the premises prior to the completion of their lease term.

Interest expense increased to \$199,100 in the first six months of 2006 from \$69,700 in the first six months of 2005, due to the acquisition of the Sylmar property and rising interest rates.

The Company recognized an income tax benefit of \$108,100 and \$2,848,600 for the six months ended July 28, 2006 and June 29, 2005, respectively.

The results for the first six months of 2006 included realized losses from the sale of marketable securities of \$82,300 and unrealized losses of \$30,200. During the first six months of 2005 the company had realized gains from the sale of marketable securities of \$2,100 and no unrealized gains or losses.

As previously reported, all significant restaurant operations were sold on June 30, 2005. All income and expense items related to those restaurants were reclassified as income from discontinued operations for the second quarter of 2005.

The net loss was \$300,900 in the first six months of 2006, compared to net income of \$2,801,100 in the first six months of 2005. Loss per share for the six months was 8 cents in 2006 compared to earnings per share of 71 cents in 2005.

Effective April 1, 2006, the Company's corporate office was moved from Neptune Beach, Florida to Anaheim, California. The Company is leasing space from Bisco Industries, Inc. ("Bisco"), the wholly owned company of the Company's Chairman of the Board of Directors and Chief Executive Officer, Glen Ceiley. The Company has also entered into an agreement with Bisco whereas Bisco will provide accounting and other administrative services to the Company in exchange for a fee. Through June 28, 2006, Bisco had billed the Company \$27,500.

### LIQUIDITY AND CAPITAL RESOURCES

Substantially all of the Company's revenues are derived from rental income. Therefore, the Company does not carry significant receivables or inventories and, other than repayment

20

of debt, working capital requirements for continuing operations are not significant.

## Edgar Filing: EACO CORP - Form 10-Q

On June 30, 2005, the Company completed the sale of all of its operating restaurants (the "Asset Sale"). The total purchase price was approximately \$29,950,000, consisting of \$25,950,000 in cash and a promissory note for \$4,000,000. The note requires monthly interest payments at a rate of 8.0% through June 30, 2007, when the first principal payment of \$1.5 was due. The Company received \$187,000 of the \$1.5 million dollar payment early on March 9, 2006 lowering the amount due on June 30, 2007 to \$1,313,000. The Company paid off approximately \$12,413,000 in loans due to GE Capital with the proceeds from the Asset Sale in 2005. In addition to the cash proceeds, the Buyer assumed \$4,509,000 in capital lease obligations.

As of June 28, 2006, the Company had total cash and cash equivalents of \$4,135,000. Of this total, \$4,035,800 was invested in brokerage money market accounts. However, \$2,502,100 of the brokerage accounts cash resulted from the sale of securities sold, not yet purchased ("short sales"), which is included as a liability on the Company's balance sheet at June 28, 2006. Accordingly, the Company will require this cash to cover the short sales liability, and therefore the \$2,502,100 is not available for the Company's use and is classified as restricted. The balance of the cash in the brokerage accounts is available for use by the Company.

The Company purchased a property in November 2005 (the "California Property") for \$8.3 million. The transaction was structured as a like-kind exchange transaction under Section 1031 of the Internal Revenue Code, which resulted in the deferral of an estimated \$1 million in income taxes payable from the Asset Sale. The Company assumed a loan on the property for \$1.8 million with a variable interest rate equal to prime. The property includes one industrial tenant with rental income of approximately \$240,000 per year. As of April 30, 2006 one of the tenants vacated the premises at the expiration of their lease term, as anticipated before purchase of the property. The Company has since leased this property to a new tenant at a substantially higher monthly rental amount. Rent commences on October 1, 2006.

21

At June 28, 2006, the Company had working capital of \$1,233,900 compared to \$2,475,600 at December 28, 2005. The decrease was due to workers compensation claims paid during the first six months of 2006. Cash used in operating activities was \$2,051,600 in the first six months of 2006 compared to cash provided by operations of \$516,300 in the first six months of 2005, primarily due to the net loss in the first six months of 2006 compared to the net income in the first six months of 2005.

The Company had no capital expenditures in the first quarter of 2006. The Company is not budgeting for any capital expenditures for 2006 except for tenant acquisition and improvement costs associated with the California property.

## Edgar Filing: EACO CORP - Form 10-Q

In June 2004, the Company sold 145,833 shares of its Common Stock directly to Bisco Industries, Inc. Profit Sharing and Savings Plan for a total purchase price of \$175,000 cash. In September 2004, the Company sold 36,000 shares of the Company's newly authorized Series A Cumulative Convertible Preferred Stock at a price of \$25 per share, for a total purchase price of \$900,000 cash. The Preferred Stock was sold to the Company's Chairman. Dividends are paid quarterly when declared by the Company's Board of Directors. The Company paid a declared dividend of \$19,100 during the second quarter of 2006. Undeclared dividends as of June 28, 2006 were \$19,100.

The Company is required to pledge collateral for its workers' compensation self insurance liability with the Florida Self Insurers Guaranty Association. The Company increased this collateral by \$69,500 during the first quarter of 2005, and now has a total of \$1.37 million pledged collateral. Bisco Industries, Inc. ("Bisco") provides \$1 million of this collateral. EACO Corporation's Chairman of the Board of Directors and Chief Executive Officer, Glen Ceiley, is the President of Bisco.

After the asset sale, the Company terminated its self-insurance program. No further claims were incurred after June 29, 2005. The Company's liability for Workers' Compensation is expected to decrease and the Company should be able to reduce its required collateral deposits accordingly.

The Company has entered into a loan agreement with GE Capital and assumed a loan with Citizen's Bank pertaining to the California Property. As of June 28, 2006, the outstanding balance due under the Company's loan with GE Capital was \$889,600 and with Citizen's Bank was \$1,781,000. The weighted

22

average interest rate for these loans is 8.2% for the quarter ended June 28, 2006.

The GE Capital loan agreements contain various restrictions on fixed charge coverage ratios, determined both on aggregate and individual restaurant levels. As of December 28, 2005, the Company was not in compliance with one of the debt covenants. The Company obtained a waiver of the debt covenant from GE Capital.

The preceding discussion of liquidity and capital resources contains certain forward-looking statements. Forward-looking statements involve a number of risks and uncertainties, and in addition to the factors discussed herein, among the other factors that could cause actual results to differ materially are the following: failure of facts to conform to necessary management estimates and assumptions; the willingness of GE Capital, Citizen's Bank or other lenders to extend financing commitments; repairs or similar expenditures required for existing properties due to weather or acts of God; the Company's success in selling properties listed for sale; the economic conditions in the new markets into which the Company expands, if any; business conditions, such as inflation or a recession, and growth in the

## Edgar Filing: EACO CORP - Form 10-Q

general economy; and other risks identified from time to time in the Company's SEC reports, registration statements and public announcements.

### RECENT DEVELOPMENTS

On July 17, 2006, representatives of Banner came to the Company's office to meet with management. The Banner representatives said that cash flow pressures were going to force them to close all of the restaurants before the weekend because they could not make the upcoming payroll and insurance payments. In order to protect the Company's interest in the Note, Banner suggested several restructuring possibilities one of which would have involved a cash payment to Banner. See Note 12 for further discussion.

### ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

There have been no significant changes in the Company's exposure to market risk during the first fiscal quarter of 2006. For discussion of the Company's exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures about

23

Market Risk, contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2005 is hereby incorporated by reference.

### ITEM 4. CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. As required by Rule 13a-15 under the Securities Exchange Act of 1934 (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 management, including the Chief Executive Officer. Based upon that evaluation, the Company's Chief Executive Officer has concluded that the Company's disclosure controls and procedures are effective in alerting them to material information regarding the Company's financial statement and disclosure obligation in order to allow the Company to meet its reporting requirements under the Exchange Act in a timely manner.

(b) CHANGES IN INTERNAL CONTROL. There have been no changes in internal controls over financial reporting that have materially affected, or is reasonably likely to materially affect internal controls over financial reporting subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses other than as noted below:

Effective April 2006, the accounting functions for the Company

## Edgar Filing: EACO CORP - Form 10-Q

are performed by Bisco's accounting personnel and independent contract workers pursuant to a lease and facilities agreement. Bisco is an affiliated company owned by the Company's Chairman and Chief Executive Officer.

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company is a party or to which any of our properties are subject; nor are there material proceedings known to be contemplated by any governmental authority; nor are there material proceedings known to the Company, pending or contemplated, in which any of our directors, officers, affiliates or any principal security holders, or any associate of any of the

24

foregoing, is a party or has an interest adverse to us, except as set forth below.

In connection with the sale to Banner, a broker has demanded a commission payment of \$3.5 million. The Company filed suit against the broker on July 11, 2005 in Duval County Circuit Court in an effort to expedite a resolution of the claim. The Company agreed to place \$400,000 in escrow in connection with the claim. In addition, in August 2005, the Company was sued in Miami-Dade County Circuit Court by another broker who claims that a commission of \$749,000 is payable to him as a result of the sale to Banner. The Company plans to vigorously defend both of these claims. Due to the fact that management cannot predict the outcome or the possible payments awarded under these legal proceedings, no charge to earnings has been made in the quarterly financial statements.

#### Item 1A Risk Factors

No material changes.

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

None.

#### Item 3. Defaults upon Senior Securities

None.

#### Item 4. Submission of Matters to a Vote of Security Holders

At the Company's annual meeting held on June 20, 2006 each of the Company's current Board members, Glen Ceiley, Jay Conzen, Stephen Catanzaro and William Means were re-elected to the Board.

#### Item 5. Other Information

None.

#### Item 6. Exhibits

(a) The following exhibits are filed as part of the report on Form 10-Q.

No. Exhibit

Edgar Filing: EACO CORP - Form 10-Q

--- -----

3.01 Articles of Incorporation of Family Steak Houses of Florida, Inc. (Exhibit 3.01 to the Company's Registration Statement on Form S-1, Registration No. 33-1887, is incorporated herein by reference.)

25

3.02 Bylaws of Family Steak Houses of Florida, Inc. (Exhibit 3.02 to the Company's Registration Statement on Form 2-1, Registration No. 33-1887, is incorporated herein by reference.)

3.03 Articles of Amendment to the Articles of Incorporation of Family Steak Houses of Florida, Inc. (Exhibit 3.03 to the Company's Registration Statement on Form S-1, Registration No. 33-1887, is incorporated herein by reference.)

3.04 Articles of Amendment to the Articles of Incorporation of Family Steak Houses of Florida, Inc. (Exhibit 3.04 to the Company's Registration Statement on Form S-1, Registration No. 33-1887, is incorporated herein by reference.)

3.05 Amended and Restated Bylaws of Family Steak Houses of Florida, Inc. (Exhibit 4 to the Company's Form 8-A, filed with the Commission on March 19, 1997, is incorporated herein by reference.)

3.06 Articles of Amendment to the Articles of Incorporation of Family Steak Houses of Florida, Inc. (Exhibit 3 to the Company's Form 8-A filed with the Commission on March 19, 1997, is incorporated herein by reference.)

3.07 Articles of Amendment to the Articles of Incorporation of Family Steak Houses of Florida, Inc. (Exhibit 3.08 to the Company's Annual Report on Form 10-K filed with the Commission on March 31, 1998, is incorporated herein by reference.)

3.08 Amendment to Bylaws of Family Steak Houses of Florida, Inc. (Exhibit 3.08 to the Company's Annual Report on Form 10-K filed with the Commission on March 15, 2000 is incorporated herein by reference.)

3.09 Articles of Amendment to the Articles of Incorporation of Family Steak Houses of Florida, Inc. (Exhibit 3.09 to the Company's Annual Report on Form 10-K filed with the Commission on March 29, 2004 is incorporated herein by reference.)

3.10 Articles of Amendment to the Articles of Incorporation

26

of Family Steak Houses of Florida, Inc., changing the



## Edgar Filing: EACO CORP - Form 10-Q

name of the corporation to EACO Corporation. (Exhibit 3.10 to the Company's Quarterly Report on Form 10-Q filed with the Commission on September 3, 2004, is incorporated herein by reference.)

- 31.01 Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.01 Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

### 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)

/s/ Glen Ceiley

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

Date: August 14, 2006