FREQUENCY ELECTRONICS INC
Form 10-K/A
August 22, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

(Mark One)

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended April 30, 2008.

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 number: 1-8061

Frequency Electronics, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	11-1986657
(State or Other Jurisdiction of Incorporation of Organization)	(I.R.S. Employer Identification No.)

55 Charles Lindbergh Blvd., Mitchel Field, N.Y.	11553
(Address of principal executive offices)	(Zip Code)

(516) 794-4500
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1.00 per share	NASDAQ Global Market

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

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 Exchange 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 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. [X]

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

Large accelerated filer [_]   Accelerated filer [_]
Non-accelerated filer [_] Smaller Reporting Company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Exchange Act). Yes [_] No [X]

The aggregate market value of voting stock held by non-affiliates of the Registrant as of October 31, 2007 - $52,700,000

The number of shares outstanding of Registrant's Common Stock, par value $1.00 as of July 25, 2008 - 8,761,114

DOCUMENTS INCORPORATED BY REFERENCE:

None.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A hereby amends the registrant's Annual Report on Form 10-K for the fiscal year ended April 30, 2008, which the registrant filed with the Securities and Exchange Commission on July 29, 2008. This amendment is being filed in order to correct Exhibits 31.1 and 31.2 to the Form 10-K, which inadvertently omitted certain required language relating to the Company's internal control over financial reporting. Part IV, Item 15 is being amended and restated to reflect that Exhibit 31.1 and Exhibit 31.2 are filed herewith.

Except as described above, no other portion of the Form 10-K for the fiscal year ended April 30, 2008 is amended hereby. No modification or update is otherwise being made to any other disclosure or exhibits to such Form 10-K. Accordingly, this Amendment should be read in conjunction with such Form 10-K and the registrant's filings made with the Securities and Exchange Commission subsequent to the date of such Form 10-K.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Index to Financial Statements and Exhibits

(3) EXHIBITS

Exhibit 31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended (Form 10-K)
Exhibit 31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended (Form 10-K)

Exhibit 31.3	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Form 10-K/A)
Exhibit 31.4	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Form 10-K/A)
Exhibit 32.3	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.4	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this annual report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 22nd day of August 2008.

FREQUENCY ELECTRONICS, INC.

By: /s/ Alan Miller

Alan Miller
Treasurer and Chief Financial Officer

INDEX TO EXHIBITS

ITEM 15(a)(3)

Certain of the following exhibits were filed with the Securities and Exchange Commission as exhibits, numbered as indicated below, to the Registration Statement or report specified below, which exhibits are incorporated herein by reference:

Exhibit No. in this Form 10-K	Description of Exhibit	NOTE
3.1	Copy of Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware	(1)
3.2	Amendment to Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on March 27, 1981	(2)
3.3	Amendment to Certificate of Incorporation of the Registrant filed with Secretary of State of Delaware on October 26, 1984	(5)

3.4	Amendment to Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on October 22, 1986	(7)
3.5	Amended and Restated Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on October 26, 1987	(9)
3.6	Amended Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on November 2, 1989	(9)
3.7	Copy of By-Laws of the Registrant, as amended to date	(3)
4.1	Specimen of Common Stock certificate	(1)
10.1	Registrant's 1997 Independent Contractor Stock Option Plan	(10)
10.8	Employment agreement between Registrant and Harry Newman	(4)
10.9	Employment agreement between Registrant and Marcus Hechler	(4)
10.10	Employment agreement between Registrant and Charles Stone	(8)
10.13	Lease agreement between Registrant and Reckson Operating Partnership, L.P. dated January 6, 1998	(11)
10.16	Registrant's Cash or Deferral Profit Sharing Plan and Trust under Internal Revenue Code Section 401, dated April 1, 1985	(6)
10.21	Form of Agreement concerning Executive Compensation	(2)
10.23	Registrant's Senior Executive Stock Option Plan	(8)
10.24	Amendment dated Jan. 1, 1988 to Registrant's Cash or Deferred Profit Sharing Plan and Trust under Section 401 of Internal Revenue Code	(8)
10.25	Executive Incentive Compensation Plan between Registrant and various employees	(8)
21	List of Subsidiaries of Registrant	(12)
23.1	Consent of Independent Registered Public Accounting Firm to incorporation by reference of 2008 audit report in Registrant's Form S-8 Registration Statement.	(12)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley	Filed herewith

	Act of 2002, as amended	
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended	Filed herewith
31.3	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.4	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Form 10-K)	(12)
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Form 10-K)	(12)
32.3	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.4	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

NOTES:

(1) Filed with the SEC as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-1, File No. 2-29609, which exhibit is incorporated herein by reference.

(2) Filed with the SEC as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-1, File No. 2-71727, which exhibit is incorporated herein by reference.

(3) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061 for the year ended April 30, 1981, which exhibit is incorporated herein by reference.

(4) Filed with the SEC as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-1, File No. 2-69527, which exhibit is incorporated herein by reference.

(5) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1985, which exhibit is incorporated herein by reference.

(6) Filed with the SEC as exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1986, which exhibit is incorporated herein by reference.

(7) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1987, which exhibit is incorporated herein by reference.

(8) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year

ended April 30, 1989, which exhibit is incorporated herein by reference.

(9) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1990, which exhibit is incorporated herein by reference.

(10) Filed with the SEC as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-8, File No. 333-42233, which exhibit is incorporated herein by reference.

(11) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1998, which exhibit is incorporated herein by reference.

(12) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 2008, which exhibit is incorporated herein by reference.

pany leases three buildings under operating lease agreements from its majority stockholder. During the three month periods ended November 30, 2010 and 2009, the Company incurred approximately $128,400, respectively, of expense related to these leases.

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Note 7. Segment Reporting

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

	For the three months ended November 30, 2010			For the three months ended November 30, 2009		
	Rental Real Estate	Distribution	Total	Rental Real Estate	Distribution	Total
	(In thousands)					
Revenues from external customers	$312	$25,344	$25,656	$242	$20,206	$20,448
Cost of revenues	235	18,477	18,712	299	14,649	14,948
Gross profit	77	6,867	6,944	(57)	5,557	5,500
Selling, general and administrative expenses	112	6,008	6,120	109	5,465	5,574

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

Cautionary Statements

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

Overview

EACO Corporation was organized under the laws of the State of Florida in September l985. From the inception of EACO through June 2005, EACO s business consisted of operating restaurants in the State of Florida. On June 29, 2005, EACO sold all of its operating restaurants and other assets used in the restaurant operations. The restaurant operations are presented as discontinued operations in the accompanying financial statements. Since June 2005, our

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operations have principally consisted of managing four rental properties held for investment in Florida and California. As a result of our March 2010 acquisition of Bisco Industries, Inc., we currently operate in two reportable segments: the Rental Real Estate Operations segment, which consists of managing the four rental properties in Florida and California, and the Distribution Operations segment, which consists of the business of Bisco and is alternatively referred to in this report as the Bisco segment. Revenues derived from the Bisco segment represented approximately 99% of the total revenues for the three months ended November 30, 2010 and the year ended August 31, 2010 and is expected to continue to represent the substantial majority of the Company s total revenues for the foreseeable future.

Critical Accounting Policies

Use of Estimates

The preparation of the condensed financial statements of the Company requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include the Company s workers compensation liability, the depreciable lives of assets, allowance against accounts receivable, estimated loss on or impairment of long-lived assets and the valuation allowance against deferred tax assets. Actual results could differ from those estimates. For additional description of the Company s critical accounting policies, see Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended August 31, 2010 as filed with the SEC on December 14, 2010.

Long-Lived Assets

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

Revenue Recognition

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

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

Liabilities of Discontinued Operations

The Company s policy for estimating liabilities of its discontinued operations is considered critical. This item consists of the Company s self-insured worker s compensation program. The Company self-insures workers compensation claims losses up to certain limits. The liability for workers compensation represents an estimate of the present value of the ultimate cost of uninsured losses which are unpaid as of the balance sheet dates. The estimate is continually reviewed and adjustments to the Company s estimated claim liability, if any, are reflected in discontinued operations. At fiscal year end, the Company obtains an actuarial report which estimates its overall exposure based on historical claims and an evaluation of future claims. An actuarial evaluation was obtained by the Company as of August 31, 2010 and 2009. The Company pursues recovery of certain claims from an insurance carrier. Recoveries, if any, are recognized when realization is reasonably assured.

Deferred Tax Assets

The Company s policy for recording a valuation allowance against deferred tax assets (see Note 10 to the financial statements in the Company s Annual Report on Form 10-K for the year ended August 31,2010 as filed with the SEC on December 14, 2010) is considered critical. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefit, or when future deductibility is uncertain. In accordance with ASC 740, Accounting for Income Taxes (ASC 740), the Company records net deferred tax assets to the extent management believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income (if any), tax planning strategies and recent financial performance. ASC 740 further states that forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses and/or significant decreases in operations. As a result of the Company s disposal of significant business operations, management concluded that a valuation allowance should be recorded against certain federal and state tax credits. The utilization of these credits requires sufficient taxable income after consideration of net operating loss utilization.

Results of Operations

Comparison of the Three Months Ended November 30, 2010 and 2009 (unaudited)

Distribution Sales and Gross Margin (in thousands)

	Three Months Ended Nov 30,		$	%
	2010	2009	Change	Change
Distribution sales	$ 25,344	$ 20,206	$ 5,138	25.4%
Cost of goods sold	18,477	14,649	3,828	26.1
Gross margin	$ 6,867	$ 5,557	$ 1,310	
Gross margin %	27.1%	27.5%		(0.1)%

Net sales related to the Distribution Operations segment consist primarily of sales of component parts and fasteners, but also include, to a lesser extent, kitting charges and special order fees, as well as freight charged to its customers. The increase in net sales in the three months ended November 30, 2010 (Q1 2011) was largely due to increased unit sales, resulting from an increase in manufacturing in some of the markets in which the Company operates, especially military and aerospace. Additionally, the Company has seen a significant increase in sales to manufacturers in Southeast Asia. The Company maintained the same number of sales offices in the United States and Canada in Q1 2011 as it did for the three months ended November 30, 2009 (Q1 2010). However, the Company did increase sales headcount by 9.2%, mainly through the hiring of temporary employees.

Rental Income and Gross Margin (in thousands)

	Three Months Ended Nov 30,		$	%
	2010	2009	Change	Change
Rental revenue	$ 312	$ 242	$ 70	28.9%
Cost of rental operations	235	299	(64)	(21.4)
Gross profit	$ 77	$ (57)	$ 134	
Gross margin %	24.6%	(23.5)%		48.1%

Rental revenue in the Real Estate Rental Operations increased in Q1 2011 due to the leasing of the restaurant property in Deland, Florida (Deland Property) in March 2010 and the restaurant property in Orange Park, Florida (Orange Park Property) in June 2010. Both properties had been vacant during Q1 2010. This increase resulted in a gross margin compared to a gross loss in the prior year period. The cost of rental operation decreased 21.4% in Q1 2011 due to a decrease in expenses related to maintaining vacant properties.

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Selling, General and Administrative Expenses (in thousands)

	Three Months Ended Nov 30, 2010	2009	$ Change	% Change
Selling, general and administrative expenses	$6,120	$5,574	$546	9.7%
Percent of distribution sales	24.1%	27.5%		(3.1)%

Selling, general and administrative expense (SG&A) consists primarily of payroll and related expenses for the Company s sales and administrative staff, professional fees including accounting, legal and technology costs and expenses, and sales and marketing costs for the Distribution Operations. SG&A in Q1 2011 increased from Q1 2010 largely due to increased bonuses and commissions payable to employees as a result of the increase in net sales and an increase in temporary help and salaries as the Company increased staffing to fulfill increased orders. As a percentage of distribution sales, SG&A decreased as the Company increased the efficiency of its current staff through performance matrices, resulting in a smaller increase in percentage of expense as compared to the percentage increase in sales.

Non-operating Income (Expense) (in thousands)

	Three Months Ended Nov 30, 2010	2009	$ Change	% Change
Other income (expense):				
Gain (loss) on sale of trading securities	$ 6	$ (1,181)	$ 1,187	100.5%
Unrealized loss on trading securities	209	566	(357)	(63.0)
Interest expense, net	(195)	(209)	14	6.6
Other income (expense), net	$ 20	$ (824)	$ 844	100.2%
Other income (expense), net as a percent of sales	0.0%	(4.0)%		4.0%

Other income (expense), net primarily consists of income or losses on investments in short-term marketable equity securities of publicly-held domestic corporations. The Company s investment strategy consists of both long and short positions, as well as utilizing options to maximize return. During Q1 2011, the Company recognized $215,000 in net realized and unrealized gains, which were primarily due to the sharp increase in several of the positions the Company was holding. The Company experienced declines of $615,000 during Q1 2011, due mainly to losses associated with short positions the Company was holding.

Income Tax Provision (in thousands)

	Three Months Ended November 30, 2010	2009	$ Change	% Change
Income tax provision (benefit)	$244	$(292)	$536	183.5%
Percent of net sales	0.9%	(1.4)%		2.3%

The provision for income taxes increased by $0.5 million in the three month period ended November 30, 2010 over the prior year period, which resulted from higher pre-tax income in the current period as compared to a loss in the prior year period. The effective tax rates for the three months ended November 30, 2010 and 2009 were 28.9% and -32.5%, respectively.

Liquidity and Capital Resources

The Company s Distribution Operations has historically funded its operations from cash generated from its operations and/or by trading in marketable domestic equity securities. The Company has a $10,000,000 line-of-credit agreement with a bank. Borrowings under this agreement bear interest at either the 30, 60, or 90 day London Inter-Bank Offered Rate (LIBOR) (0.23% and 0.27% for the 60 day LIBOR at November 30, 2010 and August 31, 2010, respectively) plus 1.75% and/or the bank s reference rate (3.25% at November 30, 2010 and August 31, 2010). Borrowings are secured by substantially all of the assets of Bisco and are guaranteed by the Company s Chief Executive Officer and Chairman of the Board, Glen F. Ceiley. The agreement, which was to expire in October 2010, has been extended to February 28, 2011. The Company is currently in negotiations for a new line of credit; however, we cannot assure you that we will be successful in obtaining a new line of credit. The line of credit provides liquidity and is used to fund operations in the normal course of business. The accompanying condensed consolidated financial statements do not reflect the effects of this uncertainty.

The amount outstanding under this line of credit as of November 30, 2010 and August 31, 2010 was $9,503,400 and $8,900,400, respectively. Availability under the line of credit was $496,600 and $1,099,600 at November 30, 2010 and August 31, 2010, respectively.

The credit agreement contains nonfinancial and financial covenants requiring the maintenance of certain financial ratios. As of November 31, 2010, the Company was in compliance with all covenants.

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

Cash Flows from Operating Activities

The Company s principal uses of cash during the three months ended November 30, 2010 included (i) income from operations; and (ii) an increase in receivables,inventory and prepaid expenses, with corresponding decreases in accounts payables and accrued expenses.

Cash Flows from Investing Activities

Cash flow provided by investing activities was $280,000 for the three months ended November 30, 2010. This was due to the release of restricted cash related to a reduction in the collateral requirement for the Company s self insured worker s compensation program by the Florida Self-Insurers Guaranty Association, Inc. During the three months ended November 30, 2009, the Company used $2,419,000 in investing activities, primarily due to the increased requirement on restricted cash caused by a related increase in liabilities for short sales and from the purchase of the Deland Property.

Cash Flows from Financing Activities

Cash provided in financing activities for the three months ended November 30, 2010 was $545,000 as compared with cash provided from financing activities of $795,000 for the three months ended November 30, 2009. Cash provided through financing comprises mainly of borrowings on the Company s line of credit to fund operations.

Off-Balance Sheet Arrangements

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

Contractual Financial Obligations

In addition to using cash flow from operations, the Company finances its operations through borrowings or the issuance of debt, and previously by entering into leases. These financial obligations are recorded in accordance with accounting rules applicable to the underlying transactions, with the result that amounts owed under debt agreements and capital leases are recorded as liabilities on the balance sheet while lease obligations recorded as operating leases are disclosed in the Notes to the financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended August 31, 2010 as filed with the SEC on December 14, 2010.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4T. Controls and Procedures

Evaluation of disclosure controls and procedures. As required by Rule 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report the Company carried out an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company s Chief Executive Officer, who also serves as the Company s principal financial officer. Based upon that evaluation, the Company s Chief Executive Officer has concluded that the Company s disclosure controls and procedures were not effective as of the end of the period covered in this report in alerting management to material information regarding the Company s financial statements and disclosure obligations in order to allow the Company to meet its reporting requirements under the Exchange Act in a timely manner. This evaluation is based, in part, on similar findings as discussed in detail in Item 9A(T) in the Company s Annual Report on Form 10-K for the year ended August 31, 2010.

Changes in internal control over financial reporting. There have been no changes in internal control over financial reporting in the three months ended November 30, 2010 that have materially affected or are reasonably likely to materially affect the Company s internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

As a result of the recent economic downturn and continuing economic uncertainties, our operating results, and the economic strength of our customers and suppliers, are increasingly difficult to predict. Purchases of our products by our customers is 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 adversely impacted our sales and operating results. Changes and uncertainties in the economy also increase the risk of uncollectible accounts receivable. The pricing we receive from suppliers may also be impacted by general economic conditions. Continued and future changes and uncertainties in the economic climate in the United States and elsewhere could have a similar negative impact on the rate and amounts of purchases by our current and potential customers, create price inflation for our products, or otherwise have a negative impact on our expenses, gross margins and revenues, and could hinder our growth.

If we fail to develop and maintain an effective system of internal controls over financial reporting or are not able to adequately address certain identified material weaknesses in our system of internal controls or comply with Section 404 of the Sarbanes-Oxley Act of 2002, we may not be able to report our financial results

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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 a lack of process related to the preparation of our financial statements, the lack of segregation of duties and a lack of sufficient control in the area of financial reporting oversight and review and the lack of appropriate personnel to ensure the complete and proper application of GAAP as it relates to certain routine accounting transactions. If we fail to adequately address these material weaknesses or experience additional material weaknesses in the future, we may not be able to improve our system of internal control over financial reporting to comply with the reporting requirements applicable to public companies in the United States. It is possible that we or our auditors will identify additional material weaknesses and/or significant deficiencies in the future in our system of internal control over financial reporting. 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 line of credit agreement.

Bisco has historically funded its operations from cash generated from its operations and/or by trading in marketable domestic equity securities. Bisco s investment strategy includes taking both long and short positions, as well as utilizing options to maximize return. This strategy can lead to significant losses based on market conditions and trends. We may continue to 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. Our revolving credit agreement is secured by substantially all of Bisco s assets and is guaranteed by Mr. Ceiley, our Chairman and CEO. 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 the covenant in the future or that the bank will grant a waiver for any such default or that it will not exercise its remedies, which could include the acceleration of the obligation s maturity date and foreclosure on Bisco s assets, with respect to any such noncompliance, which could have a material adverse effect on our business and operations.

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

Our information systems have been in place for many years, and are subject to system failures as well 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 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 costly and would not be without risk of data loss, delay or business interruption. Maintaining and operating these systems requires continuous investments. Failure of any of these internal information systems or material difficulties in upgrading these information systems could have material adverse effects on our business and our timely compliance with our reporting obligations.

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

Our future performance will depend to a significant extent upon the efforts and abilities of certain key management and other personnel, including Glen Ceiley, our Chairman of the Board and Chief Executive Officer, as well as other

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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.

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, or at all, or that we will be able to obtain particular products on favorable terms or at all. Additionally, we cannot assure you that product lines currently offered by suppliers will continue to be available to us. A decline in the supply or continued availability of the products of our suppliers, or a significant increase in the price of those products, could reduce our sales and negatively affect our operating results.

Our supply agreements are generally terminable at the suppliers discretion.

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

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

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

Our estimate of the potential for opening offices in new geographic areas could be incorrect.

One of our primary growth strategies for our Distribution Operations segment is to grow our business through the introduction of sales offices into 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. In addition, a particular local market s ability to support a sales office may change because of a change due to competition, or local economic conditions.

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

Our growth, in part, is primarily dependent on our ability to attract new customers. Historically, the most effective way to attract new customers has been opening new sales offices. Our current business strategy focuses on opening a specified number of new sales offices each year, and quickly growing each new sales office. Given the current economic slowdown, we may not be able to open or grow new offices at our projected rates. Failure to do so could negatively impact our long-term growth.

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

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

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with new, unfamiliar competitors. These challenges associated with opening new offices in new markets may have an adverse effect on our business and operating results.

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

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

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

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

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

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

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

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

We may fail to realize some or all of the anticipated benefits of the merger with Bisco, which may adversely affect the value of our common stock.

The success of the recent merger transaction with Bisco, pursuant to which Bisco became our wholly-owned subsidiary, will depend, in part, on our ability to successfully integrate the two companies and realize the anticipated benefits from consolidation. Although Bisco has been handling the day-to-day operation of EACO for the past several years, Bisco and EACO have operated and independently. It is possible that the actual consolidation of the two companies will be disruptive to the operations of either or both companies, or result in additional and unforeseen expenses and have an adverse effect on our combined business and results of operations, which may affect the value of the shares of our common stock. In addition, any unforeseen restriction or delay on our ability to use the net operating loss carryforwards of EACO would prevent us from fully realizing the anticipated tax benefits from consolidation within the anticipated time frame and harm our financial results.

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The Company s Chairman and CEO holds almost all of our voting stock and the influence of our other public stockholders over the election of directors and significant corporate actions will be significantly limited.

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

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

There is currently no established trading market for our common stock, and the volume of any sales is generally low. As of January 12, 2011, the number of shares held by non-affiliates of Mr. Ceiley or Bisco is less than 50,000 shares. If Mr. Ceiley sells or seeks to sell a substantial number of his shares of our common stock in the future, the market price of our common stock could decline. The perception among investors that these sales may occur could produce the same effect.

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

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

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

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

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

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

The Company has a $10 million line of credit with a bank, which was to expire in October 2010 but has been extended to February 28, 2011. The Company is currently in negotiations for a new line of credit; however, we cannot assure you that we will be successful in obtaining a new line of credit on favorable terms, or at all. The line of credit is used to fund the Company s operations in the normal course of business. Any lapse in availability of an adequate line of credit would have a material adverse effect on our operations and financial condition.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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Item 4. (Removed and Reserved)
Item 5. Other Information
None.
Item 6. Exhibits
The following exhibits are filed as part of this report on Form 10-Q.

No.	**Exhibit**
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.

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SIGNATURES

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

EACO CORPORATION
(Registrant)

Date: January 19, 2011

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

/s/ Michael Bains
Michael Bains
Controller and Assistant Secretary
(Principal Accounting Officer)

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