ELXSI Corporation

Quarterly Consolidated Financial Statements (Unaudited)

September 30, 2014

ELXSI CORPORATION
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

ASSETS

	September 30, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	$ 6,399	$ 2,672
Accounts receivable, less allowance for doubtful accounts of $311 and $298 in 2014 and 2013, respectively.	10,161	8,675
Inventories, net	18,378	17,939
Prepaid expenses and other current assets	550	579
Total current assets	35,488	29,865
Property, buildings and equipment, net	7,765	7,672
Other	177	301
Total assets	$ 43,430	$ 37,838

(Continued)

ELXSI CORPORATION
CONSOLIDATED BALANCE SHEETS (Continued)
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2014	December 31, 2013
Current liabilities:		
Accounts payable	$ 3,735	$ 3,698
Accrued expenses	5,598	4,066
Capital lease obligations - current	45	46
Total current liabilities	9,378	7,810
Capital lease obligations - noncurrent	232	243
Deferred financing obligations	1,112	1,170
Phantom stock option plan	2,854	2,854
Total liabilities	13,576	12,077
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, par value $0.002 per share		
Authorized--5,000,000 shares		
604,656 designated Series A Non-voting Convertible Preferred Stock		
Issued and outstanding--none	--	--
600,000 designated Series B Junior Participating Preferred Stock		
Issued and outstanding -- none	--	--
Common Stock, par value $0.001 per share		
Authorized--60,000,000 shares		
Issued and outstanding—3,389,543 shares at June 30, 2014 and 3,485,117 shares at December 31, 2013	3	3
Additional paid-in-capital	206,750	207,682
Accumulated deficit	(176,807)	(181,891)
Accumulated other comprehensive loss	(92)	(33)
Total stockholders' equity	29,854	25,761
Total liabilities and stockholders' equity	$ 43,430	$ 37,838

The accompanying notes are an integral part of these consolidated financial statements.

ELXSI CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Amounts in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales	$ 21,046	$ 16,363	$ 57,607	$ 47,603
Costs and expenses:				
Cost of sales	14,193	11,314	39,570	32,804
Selling, general and administrative	4,043	3,761	11,551	10,779
Depreciation	287	236	850	683
	18,523	15,311	51,971	44,266
Operating income	2,523	1,052	5,636	3,337
Other income (expense):				
Interest expense	(98)	(96)	(290)	(288)
Other income	2	12	5	2
Income before provision for income taxes	2,427	968	5,351	3,051
Provision for income taxes	(69)	(96)	(267)	(216)
Net income	2,358	872	5,084	2,835
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(52)	28	(59)	(45)
Comprehensive income	$ 2,306	$ 900	$ 5,025	$ 2,790
Basic and diluted earnings per share	$ 0.69	$ 0.22	$ 1.48	$ 0.72
Basic and diluted weighted average number of common and common equivalent shares:	3,441	3,881	3,446	3,917

The accompanying notes are an integral part of these consolidated financial statements.

ELXSI CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in Thousands)
(Unaudited)

	Common Stock		Additional Paid-In-	Accum- ulated	Accumulated Other Comprehensive	
	Shares	Dollars	Capital	Deficit	Loss	Total
Balances at December 31, 2013	3,485,117	$ 3	$ 207,682	$(181,891)	$ (33)	$ 25,761
Other comprehensive loss	--	--	--	--	(59)	(59)
Purchase and retirement of common stock	(95,574)	--	(932)	--	--	(932)
Net income	--	--	--	5,084	--	5,084
Balances at September 30, 2014	3,389,543	$ 3	$ 206,750	$(176,807)	$ (92)	$ 29,854

The accompanying notes are an integral part of these consolidated financial statements.

ELXSI CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$ 5,084	$ 2,835
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	850	683
Amortization of other assets – software development costs	358	295
Provision for obsolete and slow moving inventories	550	175
Amortization of deferred debt costs	19	--
Other	1	--
(Increase) decrease in assets:		
Accounts receivable	(1,486)	(677)
Inventories	(989)	(532)
Prepaid expenses and other current assets	29	(230)
Other	6	5
Increase (decrease) in liabilities:		
Accounts payable	37	1,000
Accrued expenses	1,532	1,048
Net cash provided by operating activities	5,991	4,602
Cash flows from investing activities:		
Purchases of property, buildings and equipment	(979)	(2,023)
Other assets – software development costs	(196)	(195)
Proceeds from sale of property, buildings and equipment	34	--
Net cash used in investing activities	(1,141)	(2,218)
Cash flows from financing activities:		
Purchase and retirement of common stock	(932)	(1,027)
Principal payments on deferred financing obligations	(58)	(52)
Principal payments on capital lease obligations	(37)	(36)
Proceeds from capital lease obligations	25	--
Payment of deferred fees	(62)	--
Net cash used in financing activities	(1,064)	(1,115)
Effect of exchange rate changes on cash and cash equivalents:	(59)	(45)

(Continued)

ELXSI CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Increase in cash and cash equivalents	3,727	1,224
Cash and cash equivalents, beginning of period	2,672	4,436
Cash and cash equivalents, end of period	$ 6,399	$ 5,660
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Income taxes	$ 186	$ 213
Interest	$ 274	$ 289

The accompanying notes are an integral part of these consolidated financial statements.

ELXSI CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)

Note 1. The Company

General. ELXSI Corporation (together with its subsidiaries, the "Company") currently operates through its two wholly-owned subsidiaries, ELXSI, a California corporation ("ELXSI"), and Bickford's Family Restaurants, Inc., a Delaware corporation ("BFRI"). Operations consist of the following business segments: an equipment manufacturer headquartered in Orlando, Florida and a restaurant chain in New England.

Equipment Manufacturer. Cues of Orlando, Florida operates as a division of ELXSI. Cues is engaged in the manufacturing and servicing of robotic video inspection, repair equipment and software for wastewater and drainage systems primarily for municipalities, service contractors and industrial users throughout the United States of America and internationally. Cues sells and services its products in Canada through ELXSI's wholly-owned subsidiary Cues Canada, which is located in Ontario, Canada. Cues and Cues Canada are collectively referred to herein as "Cues" or "Cues Division".

Restaurant Operations. As of September 30, 2014, the Company, through BFRI, has six operating restaurants (hereinafter referred to as the "Restaurants" or "Restaurant Operations") located in Massachusetts and New Hampshire. In addition to the six operating Restaurants, the Company leased three other restaurants properties that were no longer being operated by the Company and are subleased or assigned to third parties.

Note 2. Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared by the Company, without audit or review, and in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial reporting. Certain information and note disclosures normally included in financial statements prepared in accordance with US GAAP have been omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the Company's audited consolidated financial statements and the notes thereto as of and for the year ended December 31, 2013. In the opinion of the Company, all adjustments (solely of a normal recurring nature) necessary to present fairly the consolidated financial position of the Company and its subsidiaries as of September 30, 2014, and the results of their operations and cash flows for the three and nine months ended September 30, 2014 and 2013, have been included in these unaudited consolidated financial statements. Readers of these financial statements are cautioned, however, that the results of operations for such interim periods are not necessarily indicative of the results for the subsequent interim periods or the entire year.

Note 3. Earnings Per Share

The Company presents basic earnings per share, which is net income divided by weighted average shares outstanding during the period. The Company did not have any common stock equivalents outstanding at September 30, 2014 or 2013.

Note 4. Fair Value of Financial Instruments

The carrying amounts in the consolidated balance sheets of cash, accounts receivable, accounts payable and accrued expenses approximates fair value primarily due to the short-term maturity of those instruments. The carrying amount of the Company's long-term debt approximates fair value due to the interest rate being based on either the prime rate or the LIBOR market index rate as discuss below (see Note 6).

Note 5. Composition of Inventories

Inventories are summarized in the following table.

	September 30, 2014 (unaudited)	December 31, 2013
Inventories:		
Raw materials and finished goods	$ 14,266,000	$ 15,077,000
Work in process	8,252,000	6,382,000
	22,518,000	21,459,000
Less: reserve for slow moving and obsolete inventories	(4,140,000)	(3,520,000)
	$ 18,378,000	$ 17,939,000

Note 6. Long-Term Debt

The Company had an outstanding $8,000,000 revolving credit facility ("Credit Facility") with Wells Fargo Bank N.A ("Wells Fargo") that expired on February 28, 2014. The Credit Facility bore interest at the prime rate plus 1.75% or the LIBOR market index rate plus 2.75% at the Company's election. Borrowings were limited and collateralized by eligible accounts receivable, inventories and certain Cues assets.

On February 28, 2014, the Company entered into a $6,000,000 revolving credit facility ("New Credit Facility") with Wells Fargo, which replaced the expiring Credit Facility.

The New Credit Facility is collateralized by accounts receivable, inventories, fixed assets and other assets of the Company and its subsidiaries. Under the terms of the New Credit Facility (1) it expires on June 30, 2016; (2) it bears interest at LIBOR market index rate plus 2.25%, subject to adjustments depending upon whether there is a default under the terms of the New Credit Facility; (3) there is a commitment fee of 0.25% on the unused portion; (4) there are quarterly financial covenants including, minimum net worth, maximum funded debt to EBITDA ratio and minimum quarterly fixed charge coverage ratio; and (5) the Company is permitted to purchase Company common stock up to a limit of $1,500,000 per year.

As of September 30, 2014, there were no outstanding borrowings under the New Credit Facility and the Company had $6,000,000 available for borrowings.

Note 7. Segment Reporting.

The Company has two reportable segments, equipment manufacturing ("Equipment") and restaurant operations ("Restaurants"). The Company is primarily organized into two strategic business units, which have separate management teams and infrastructures and that offer different products and services. Each business requires different employee skills, technology and marketing strategies. The equipment manufacturing segment produces sewer inspection equipment and software for sale to municipalities, contractors, and foreign governments. As of September 30, 2014 and 2013, the restaurant operations segment includes Restaurants located in Massachusetts and New Hampshire operating under the Bickford's brand name.

The Company evaluates the performance of each segment based upon profit or loss from operations before income taxes, non-recurring gains and losses and foreign exchange gains and losses.

Summarized financial information by business segment for the nine months ended September 30, 2014 and 2013 is summarized in the following table. The other lines include corporate related items, results of insignificant operations.

	2014	2013
Net Sales to External Customers:		
Equipment	$ 51,833,000	$ 42,222,000
Restaurants	5,774,000	5,381,000
	$ 57,607,000	$ 47,603,000
Segment Assets:		
Equipment	$ 35,157,000	$ 31,038,000
Restaurants	2,395,000	2,306,000
Other	5,878,000	5,767,000
	$ 43,430,000	$ 39,111,000
Capital Expenditures for Segment Assets:		
Equipment	$ 881,000	$ 1,958,000
Restaurants	98,000	65,000
	$ 979,000	$ 2,023,000
Depreciation:		
Equipment	$ 738,000	$ 589,000
Restaurants	105,000	87,000
Other	7,000	7,000
	$ 850,000	$ 683,000
Interest Expense:		
Restaurants	$ 102,000	$ 108,000
Other	188,000	180,000
	$ 290,000	$ 288,000

Summarized financial information by business segment for the three months ended September 30, 2014 and 2013 is summarized in the following table.

	2014	2013
Net Sales to External Customers:		
Equipment	$ 19,055,000	$ 14,554,000
Restaurants	1,991,000	1,809,000
	$ 21,046,000	$ 16,363,000
Depreciation:		
Equipment	$ 248,000	$ 204,000
Restaurants	37,000	30,000
Other	2,000	2,000
	$ 287,000	$ 236,000
Interest Expense:		
Restaurants	$ 35,000	$ 35,000
Other	63,000	61,000
	$ 98,000	$ 96,000

There were no inter-segment sales or transfers during the three and nine months ended September 30, 2014 and 2013. Foreign assets represented less than 10% of the Company's totals. During the nine months ended September 30, 2014 and 2013, foreign sales represented 6.7% and 7.8%, respectively, of total sales. No material amounts of the Company's sales are dependent on a single customer.