# ELXSI Corporation

## Quarterly Consolidated Financial Statements (Unaudited)

## March 31, 2016

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

## ASSETS

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 20,853 | $ 16,642 |
| Accounts receivable, less allowance for doubtful accounts of $327 and $334 in 2016 and 2015, respectively | 10,791 | 9,299 |
| Inventories, net | 21,072 | 22,257 |
| Prepaid expenses and other current assets | 828 | 503 |
| Total current assets | 53,544 | 48,701 |
| Property, buildings and equipment, net | 7,239 | 7,132 |
| Deferred income taxes | 15,727 | 16,790 |
| Other | 56 | 84 |
| Total assets | $ 76,566 | $ 72,707 |

(Continued)

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

## LIABILITIES AND STOCKHOLDERS' EQUITY

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 4,336 | $ 3,393 |
| Accrued expenses | 6,569 | 5,742 |
| Capital lease obligations - current | 48 | 48 |
| Total current liabilities | 10,953 | 9,183 |
| Capital lease obligations - noncurrent | 134 | 147 |
| Deferred financing obligations | 572 | 587 |
| Phantom stock payable | 2,854 | 2,854 |
| Total liabilities | 14,513 | 12,771 |
| 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—3,400,283 shares at March 31, 2016 and 3,406,957 shares at December 31, 2015 | 3 | 3 |
| Additional paid-in-capital | 209,119 | 209,235 |
| Accumulated deficit | (146,689) | (148,652) |
| Accumulated other comprehensive loss | (380) | (650) |
| Total stockholders' equity | 62,053 | 59,936 |
| Total liabilities and stockholders' equity | $ 76,566 | $ 72,707 |

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 March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Net sales | $ 23,253 | $ 19,013 |
| Costs and expenses: | | |
| Cost of sales | 15,686 | 12,991 |
| Selling, general and administrative | 4,195 | 4,255 |
| Depreciation | 274 | 316 |
| | 20,155 | 17,562 |
| Gain from restaurant closures and lease termination costs and sales of property and buildings | 254 | -- |
| Operating income | 3,352 | 1,451 |
| Other expense: | | |
| Interest income | -- | 4 |
| Interest expense | (77) | (78) |
| Other income | 50 | 1 |
| | (27) | (73) |
| Income before provision for income taxes | 3,325 | 1,378 |
| Provision for income taxes | (1,362) | (99) |
| Net income | 1,963 | 1,279 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustment, net of tax | 270 | (138) |
| Comprehensive income | $ 2,233 | $ 1,141 |
| Earnings per common share: | | |
| Basic | $ 0.58 | $ 0.38 |
| Diluted | $ 0.53 | $ 0.38 |
| Weighted average number of common and common equivalent shares outstanding: | | |
| Basic | 3,404 | 3,373 |
| Diluted | 3,674 | 3,373 |

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, 2015 | 3,406,957 | $ 3 | $ 209,235 | $ (148,652) | $ (650) | $ 59,936 |
| Other comprehensive income | -- | -- | -- | -- | 270 | 270 |
| Purchase and retirement of common stock | (6,674) | -- | (116) | -- | -- | (116) |
| Net income | -- | -- | -- | 1,963 | -- | 1,963 |
| Balances at March 31, 2016 | 3,400,283 | $ 3 | $ 209,119 | $ (146,689) | $ (380) | $ 62,053 |

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| **Cash flows from operating activities:** | | |
| Net income | $ 1,963 | $ 1,279 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 274 | 316 |
| Amortization of other assets – software development costs | 55 | 43 |
| Amortization of deferred debt costs | 6 | 7 |
| Provision for obsolete and slow moving inventories | 375 | 175 |
| Gain on restaurant closures and lease termination costs and sales of property, buildings and equipment | (254) | -- |
| Deferred income taxes | 1,063 | -- |
| (Increase) decrease in assets: | | |
| Accounts receivable | (1,492) | 106 |
| Inventories | 899 | (1,385) |
| Prepaid expenses and other current assets | (325) | (257) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 943 | 579 |
| Accrued expenses | 827 | 748 |
| **Net cash provided by operating activities** | 4,334 | 1,611 |
| **Cash flows from investing activities:** | | |
| Purchases of property, buildings and equipment | (666) | (311) |
| Other assets – software development costs | (33) | (26) |
| Proceeds from sale of property, buildings and equipment | 450 | -- |
| **Net cash used in investing activities** | (249) | (337) |
| **Cash flows from financing activities**: | | |
| Purchase and retirement of common stock | (116) | (58) |
| Principal payments on deferred financing obligations | (15) | (14) |
| Principal payments on capital lease obligations | (13) | (12) |
| **Net cash used in financing activities** | (144) | (84) |
| **Effect of exchange rate changes on cash and cash equivalents**: | 270 | (138) |
| Increase in cash and cash equivalents | 4,211 | 1,052 |
| Cash and cash equivalents, beginning of period | 16,642 | 7,123 |
| Cash and cash equivalents, end of period | $ 20,853 | $ 8,175 |

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**ELXSI CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Dollars in Thousands)

(Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash paid during the period for: | | |
| Income taxes | $ 243 | $ 83 |
| Interest | $ 53 | $ 72 |

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

**ELXSI CORPORATION**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**March 31, 2016**
**(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.

**Restaurant Operations.** As of March 31, 2016, the Company, through BFRI, has four operating restaurants (hereinafter referred to as the "Restaurants" or "Restaurant Operations") located in Massachusetts and New Hampshire. In addition to the four operating Restaurants, the Company leased four other restaurant properties that were no longer being operated by the Company and are subleased or assigned to third parties.

In March 2016, BFRI sold its rights associated with the lease and assets of the Salem, New Hampshire location and consequently ceased operations in that location. As a result of the transaction, the Company recorded the proceeds from the sale of this property in the amount of $450,000 and recognized a gain on this sale of approximately $254,000.

## 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, 2015. 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 March 31, 2016, and the results of their operations and cash flows for the three months ended March 31, 2016, 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 and diluted earnings per share, which considers the impact of common stock equivalents. The Company's common stock equivalents consist of a common stock grant. As of March 31, 2016, the Company had 270,000 common stock equivalents outstanding under the common stock grant. There were 95,000 common stock equivalents outstanding as of December 31, 2015.

**Note 4. Fair Value of Financial Instruments**

The carrying amount of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value due to the short-term maturity of those instruments.

**Note 5. Composition of Inventories**

Inventories are summarized in the following table.

| | March 31, 2016 (unaudited) | December 31, 2015 |
|---|---|---|
| Inventories: | | |
| Raw materials and finished goods | $ 17,644,000 | $ 16,971,000 |
| Work in process | 8,251,000 | 9,727,000 |
| | 25,895,000 | 26,698,000 |
| Less: reserve for slow moving and obsolete inventories | (4,823,000) | (4,441,000) |
| | $ 21,072,000 | $ 22,257,000 |

**Note 6. Income Taxes**

Income (loss) before provision for income taxes for the three months ended March 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Domestic | $ 3,448,000 | $ 1,492,000 |
| Foreign | (123,000) | (114,000) |
| Total | $ 3,325,000 | $ 1,378,000 |

The components of provision for income taxes for the three months ended March 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Current - Federal, state and local | $ 299,000 | $ 99,000 |
| Deferred – Federal, state and local | 1,063,000 | -- |
| Total | $ 1,362,000 | $ 99,000 |

**Note 7. Long-Term Debt**

The Company has an outstanding $6,000,000 revolving credit facility ("Credit Facility") with Wells Fargo Bank N.A.

The Credit Facility is collateralized by accounts receivable, inventories, fixed assets and other assets of the Company and its Subsidiaries. Under the terms of the Credit Facility (1) it expires on June 30, 2016; (2) it bears interest at LIBOR market index rate plus 2.25%; (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 March 31, 2016 and December 31, 2015, no amounts were outstanding under the Credit Facility.

**Note 8. Segment Reporting.**

The Company has two reportable segments, equipment manufacturing ("Equipment") and restaurant operations ("Restaurants"). See also Note 1. 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 March 31, 2016 and 2015, 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 three months ended March 31, 2016 and 2015 is summarized in the following table. The other lines include corporate related items and results of insignificant operations.

| | 2016 | 2015 |
|---|---|---|
| Net Sales to External Customers: | | |
| Equipment | $ 21,502,000 | $ 17,099,000 |
| Restaurants | 1,751,000 | 1,914,000 |
| | $ 23,253,000 | $ 19,013,000 |
| Segment Assets: | | |
| Equipment | $ 41,071,000 | $ 37,274,000 |
| Restaurants | 1,621,000 | 1,925,000 |
| Other | 33,874,000 | 7,380,000 |
| | $ 76,566,000 | $ 46,579,000 |

| | 2016 | 2015 |
|---|---|---|
| Capital Expenditures for Segment Assets: | | |
| Equipment | $ 663,000 | $ 306,000 |
| Restaurants | 3,000 | 5,000 |
| | $ 666,000 | $ 311,000 |
| Depreciation: | | |
| Equipment | $ 238,000 | $ 279,000 |
| Restaurants | 34,000 | 35,000 |
| Other | 2,000 | 2,000 |
| | $ 274,000 | $ 316,000 |
| Interest Expense: | | |
| Restaurants | $ 18,000 | $ 19,000 |
| Other | 59,000 | 59,000 |
| | $ 77,000 | $ 78,000 |

There were no inter-segment sales or transfers during the three months ended March 31, 2016 and 2015. Foreign assets represented less than 10% of the Company's totals. During the three months ended March 31, 2016 and 2015 foreign sales represented 4.5% and 5.5%, respectively of total sales. No material amounts of the Company's sales depended upon a single customer.