

ELXSI Corporation

Quarterly Consolidated Financial Statements (Unaudited)

March 31, 2015

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

ASSETS

	March 31, <u>2015</u>	December 31, <u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 8,175	\$ 7,123
Accounts receivable, less allowance for doubtful accounts of \$292 and \$319 in 2015 and 2014, respectively.	9,989	10,095
Inventories, net	20,181	18,971
Prepaid expenses and other current assets	<u>769</u>	<u>512</u>
Total current assets	39,114	36,701
Property, buildings and equipment, net	7,297	7,302
Other	<u>168</u>	<u>192</u>
Total assets	<u>\$ 46,579</u>	<u>\$ 44,195</u>

(Continued)

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, <u>2015</u>	December 31, <u>2014</u>
Current liabilities:		
Accounts payable	\$ 3,058	\$ 2,479
Accrued expenses	5,448	4,700
Capital lease obligations - current	<u>46</u>	<u>46</u>
Total current liabilities	8,552	7,225
Capital lease obligations - noncurrent	184	196
Deferred financing obligations	631	645
Phantom stock option plan	<u>2,854</u>	<u>2,854</u>
 Total liabilities	 <u>12,221</u>	 <u>10,920</u>
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—3,370,980 shares at		
March 31, 2015 and 3,375,129 shares at		
December 31, 2014	3	3
Additional paid-in-capital	208,126	208,184
Accumulated deficit	(173,487)	(174,766)
Accumulated other comprehensive loss	<u>(284)</u>	<u>(146)</u>
 Total stockholders' equity	 <u>34,358</u>	 <u>33,275</u>
 Total liabilities and stockholders' equity	 <u>\$ 46,579</u>	 <u>\$ 44,195</u>

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,	
	2015	2014
Net sales	\$ 19,013	\$ 16,584
Costs and expenses:		
Cost of sales	12,991	11,694
Selling, general and administrative	4,255	3,635
Depreciation	<u>316</u>	<u>269</u>
	<u>17,562</u>	<u>15,598</u>
Operating income	1,451	986
Other expense:		
Interest income	4	--
Interest expense	(78)	(97)
Other income (expense)	<u>1</u>	<u>(2)</u>
	<u>(73)</u>	<u>(99)</u>
Income before provision for income taxes	1,378	887
Provision for income taxes	<u>(99)</u>	<u>(99)</u>
Net income	1,279	788
Other comprehensive loss:		
Foreign currency translation adjustment, net of tax	<u>(138)</u>	<u>(9)</u>
Comprehensive income	<u>\$ 1,141</u>	<u>\$ 779</u>
Basic and diluted earnings per common share	<u>\$ 0.38</u>	<u>\$ 0.23</u>
Basic and diluted weighted average number of common and common equivalent shares:	<u>3,373</u>	<u>3,477</u>

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

	<u>Common Stock</u>		<u>Additional</u>	<u>Accum-</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Dollars</u>	<u>Paid-In-</u>	<u>ulated</u>	<u>Other</u>	
			<u>Capital</u>	<u>Deficit</u>	<u>Comprehensive</u>	
					<u>Loss</u>	
Balances at December 31, 2014	3,375,129	\$ 3	\$ 208,184	\$(174,766)	\$ (146)	\$ 33,275
Other comprehensive loss	--	--	--	--	(138)	(138)
Purchase and retirement of common stock	(4,149)	--	(58)	--	--	(58)
Net income	--	--	--	1,279	--	1,279
Balances at March 31, 2015	<u>3,370,980</u>	<u>\$ 3</u>	<u>\$ 208,126</u>	<u>\$(173,487)</u>	<u>\$ (284)</u>	<u>\$ 34,358</u>

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

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

	<u>Three Months Ended March 31,</u>	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 1,279	\$ 788
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	316	269
Amortization of other assets – software development costs	43	144
Amortization of deferred debt costs	7	6
Provision for obsolete and slow moving inventories	175	75
(Increase) decrease in assets:		
Accounts receivable	106	(1,168)
Inventories	(1,385)	(1,254)
Prepaid expenses and other current assets	(257)	(192)
Other	--	10
Increase (decrease) in liabilities:		
Accounts payable	579	262
Accrued expenses	748	251
Net cash provided by (used in) operating activities	1,611	(809)
Cash flows from investing activities:		
Purchases of property, buildings and equipment	(311)	(359)
Other assets – software development costs	(26)	(100)
Net cash used in investing activities	(337)	(459)
Cash flows from financing activities:		
Purchase and retirement of common stock	(58)	(149)
Principal payments on deferred financing obligations	(14)	(19)
Principal payments on capital lease obligations	(12)	(12)
Payment of deferred fees	--	(60)
Net cash used in financing activities	(84)	(240)
Effect of exchange rate changes on cash and cash equivalents:	(138)	(9)
Increase (decrease) in cash and cash equivalents	1,052	(1,517)
Cash and cash equivalents, beginning of period	7,123	2,672
Cash and cash equivalents, end of period	\$ 8,175	\$ 1,155

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

	<u>Three Months Ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Income taxes	\$ <u>83</u>	\$ <u>10</u>
Interest	\$ <u>72</u>	\$ <u>61</u>

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

ELXSI CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015
(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 March 31, 2015, 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 four other restaurant 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, 2014. 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, 2015, and the results of their operations and cash flows for the three months ended March 31, 2015, 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 March 31, 2015 or December 31, 2014.

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, 2015 <u>(unaudited)</u>	December 31, 2014 <u></u>
Inventories:		
Raw materials and finished goods	\$ 15,559,000	\$ 15,418,000
Work in process	<u>8,900,000</u>	<u>7,647,000</u>
	24,459,000	23,065,000
Less: reserve for slow moving and obsolete inventories	<u>(4,278,000)</u>	<u>(4,094,000)</u>
	<u>\$ 20,181,000</u>	<u>\$ 18,971,000</u>

Note 6. 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, 2015 and December 31, 2014, no amounts were outstanding under the Credit Facility.

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. 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, 2015 and 2014 is summarized in the following table. The other lines include corporate related items, results of insignificant operations.

	<u>2015</u>	<u>2014</u>
Net Sales to External Customers:		
Equipment	\$ 17,099,000	\$ 14,747,000
Restaurants	<u>1,914,000</u>	<u>1,837,000</u>
	<u>\$ 19,013,000</u>	<u>\$ 16,584,000</u>
Segment Assets:		
Equipment	\$ 37,274,000	\$ 35,212,000
Restaurants	1,925,000	2,383,000
Other	<u>7,380,000</u>	<u>1,355,000</u>
	<u>\$ 46,579,000</u>	<u>\$ 38,950,000</u>
Capital Expenditures for Segment Assets:		
Equipment	\$ 306,000	\$ 332,000
Restaurants	<u>5,000</u>	<u>27,000</u>
	<u>\$ 311,000</u>	<u>\$ 359,000</u>
Depreciation:		
Equipment	\$ 279,000	\$ 235,000
Restaurants	35,000	32,000
Other	<u>2,000</u>	<u>2,000</u>
	<u>\$ 316,000</u>	<u>\$ 269,000</u>
Interest Expense:		
Restaurants	\$ 19,000	\$ 34,000
Other	<u>59,000</u>	<u>63,000</u>
	<u>\$ 78,000</u>	<u>\$ 97,000</u>

There were no inter-segment sales or transfers during the three months ended March 31, 2015 and 2014. Foreign assets represented less than 10% of the Company's totals. During the three months ended March 31, 2015 and 2014, foreign sales represented 5.5% and 6.2%, respectively, of total sales. No material amounts of the Company's sales are dependent on a single customer.