

# **ELXSI Corporation**

**Quarterly Consolidated Financial Statements (Unaudited)**

**March 31, 2017**

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

**A S S E T S**

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 18,208	\$ 17,802
Investments in marketable securities, at fair value	3,547	3,425
Accounts receivable, less allowance for doubtful accounts of \$333 and \$325 in 2017 and 2016, respectively	11,792	10,829
Inventories, net	27,303	25,048
Prepaid expenses and other current assets	<u>560</u>	<u>554</u>
Total current assets	61,410	57,658
Property, buildings and equipment, net	6,939	7,047
Deferred income taxes	11,379	12,715
Other	<u>112</u>	<u>78</u>
Total assets	<u>\$ 79,840</u>	<u>\$ 77,498</u>

Continued

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

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	March 31, <u>2017</u>	December 31, <u>2016</u>
Current liabilities:		
Accounts payable	\$ 1,813	\$ 2,730
Accrued expenses	5,942	5,308
Capital lease obligations - current	<u>46</u>	<u>46</u>
Total current liabilities	7,801	8,084
Capital lease obligations - noncurrent	87	99
Deferred financing obligations	<u>506</u>	<u>523</u>
 Total liabilities	 <u>8,394</u>	 <u>8,706</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—3,425,046 at		
March 31, 2017 and December 31,		
2016	3	3
Additional paid-in-capital	207,815	207,815
Accumulated deficit	(135,947)	(138,451)
Accumulated other comprehensive loss	<u>(425)</u>	<u>(575)</u>
 Total stockholders' equity	 <u>71,446</u>	 <u>68,792</u>
 Total liabilities and stockholders' equity	 <u>\$ 79,840</u>	 <u>\$ 77,498</u>

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

**ELXSI CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in Thousands, Except Share and Per Share Data)

	<u>Three Months Ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Net sales	\$ <u>22,364</u>	\$ <u>23,253</u>
Costs and expenses:		
Cost of sales	13,958	15,686
Selling, general and administrative	4,067	4,195
Depreciation	<u>279</u>	<u>274</u>
	<u>18,304</u>	<u>20,155</u>
Gain for restaurant closures and lease termination costs and sales of property and buildings	<u>--</u>	<u>254</u>
Operating income	<u>4,060</u>	<u>3,352</u>
Other income (expense):		
Interest expense	(16)	(77)
Other income	<u>131</u>	<u>50</u>
	<u>115</u>	<u>(27)</u>
Income before provision for income taxes	4,175	3,325
Provision for income taxes	<u>1,671</u>	<u>1,362</u>
Net income	2,504	1,963
Other comprehensive income, net of income taxes:		
Foreign currency translation adjustment, net	<u>150</u>	<u>270</u>
Comprehensive income	<u>\$ 2,654</u>	<u>\$ 2,233</u>
Earnings per common share:		
Basic	<u>\$ 0.73</u>	<u>\$ 0.58</u>
Diluted	<u>\$ 0.68</u>	<u>\$ 0.53</u>
Weighted average number of common and common equivalent shares outstanding		
Basic	<u>3,425</u>	<u>3,404</u>
Diluted	<u>3,665</u>	<u>3,674</u>

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

**ELXSI CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Amounts in Thousands, Except Share Amounts)

	Common Stock		Additional Paid-In- Capital	Accum- ulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Dollars				
Balances at December 31, 2016	3,425,046	\$ 3	\$ 207,815	\$ (138,451)	\$ (575)	\$ 68,792
Other comprehensive income	--	--	--	--	150	150
Net income	--	--	--	2,504	--	2,504
Balances at March 31, 2017	<u>3,425,046</u>	<u>\$ 3</u>	<u>\$ 207,815</u>	<u>\$ (135,947)</u>	<u>\$ (425)</u>	<u>\$ 71,446</u>

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

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

	<u>Three Months Ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,504	\$ 1,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	279	274
Amortization of software development costs	7	55
Amortization of deferred debt costs	--	6
Provision for obsolete and slow moving inventories	325	375
Gain on restaurant closures and lease termination costs and sales of property and buildings	--	(254)
Deferred income taxes	1,336	1,063
(Increase) decrease in assets:		
Accounts receivable	(963)	(1,492)
Inventories	(2,580)	899
Prepaid expenses and other current assets	(6)	(325)
Other	(21)	--
(Decrease) increase in liabilities:		
Accounts payable	(917)	943
Accrued expenses	634	827
<b>Net cash provided by operating activities</b>	<u>598</u>	<u>4,334</u>
<b>Cash flows from investing activities:</b>		
Purchase of property, buildings and equipment	(171)	(666)
Investment in marketable securities	(122)	--
Payment of software development costs	(20)	(33)
Proceeds from sale of property, buildings and equipment	--	450
<b>Net cash used in investing activities</b>	<u>(313)</u>	<u>(249)</u>
<b>Cash flows from financing activities:</b>		
Principal payments on deferred financing obligations	(17)	(15)
Principal payments on capital lease obligations	(12)	(13)
Purchase and retirement of common stock	--	(116)
<b>Net cash used in financing activities</b>	<u>(29)</u>	<u>(144)</u>

Continued

**ELXSI CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
(Amounts in Thousands)

	<u>Three Months Ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>150</u>	<u>270</u>
Increase in cash and cash equivalents	406	4,211
Cash and cash equivalents, beginning of period	<u>17,802</u>	<u>16,642</u>
Cash and cash equivalents, end of period	<u>\$ 18,208</u>	<u>\$ 20,853</u>

**Supplemental Disclosure of Cash Flow Information**

Cash paid during the period for:

Interest	\$ 16	\$ 53
Income taxes	\$ --	\$ 243

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

**ELXSI CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2017**  
**(Unaudited)**

**Note 1. The Company, Nature of Business and Principles of Consolidation**

**General.** ELXSI Corporation (together with its subsidiaries, the “Company”) currently operates primarily through its wholly-owned subsidiary, Cues, Inc. a Delaware corporation (“Cues”). Effective January 1, 2017, in order to change its state of incorporation from California to Delaware, and to protect its trademark rights to the name “Cues” as part of the Company’s trademark protection program, the Company’s wholly-owned subsidiary known as ELXSI merged out of existence into Cues, Inc. Bickford’s Family Restaurants, Inc., a Delaware corporation (“BFRI”), is now a subsidiary of Cues. Operations consist of the following business segments: an equipment manufacturer headquartered in Orlando, Florida and a restaurant chain operating in Massachusetts.

**Equipment Manufacturer.** Cues of Orlando, Florida is engaged in the manufacturing and servicing of robotic video inspection and 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 its wholly-owned subsidiary Cues Canada, which is located in Ontario, Canada. Cues and Cues Canada are collectively referred to herein as “Cues”.

**Restaurant Operations.** As of December 31, 2016, BFRI operates four restaurants (hereinafter referred to as the “Restaurants” or “Restaurant Operations”) all located in Massachusetts. In addition to the four operating Restaurants, BFRI leases four other restaurant properties that are no longer being operated by BFRI. These properties 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, 2016. 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, 2017, and the results of their operations and cash flows for the three months ended March 31, 2017, 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 common 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, 2017 and December 31, 2016, the Company had 240,000 and 190,000 common stock equivalents outstanding under the common stock grant, respectively.

### Note 4. Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, investments in marketable securities, accounts receivable, accounts payable and accrued expenses approximates fair value due to the short maturity of these instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Note 5. Composition of Inventories

Inventories are summarized in the following table.

	March 31, 2017 <u>(unaudited)</u>	December 31, 2016 <u></u>
Inventories:		
Raw materials and finished goods	\$ 19,866,000	\$ 19,144,000
Work in process	<u>13,282,000</u>	<u>10,964,000</u>
	33,148,000	30,108,000
Less: reserve for slow moving and obsolete inventories	<u>(5,845,000)</u>	<u>(5,060,000)</u>
	<u>\$ 27,303,000</u>	<u>\$ 25,048,000</u>

### Note 6. Income Taxes

Income (loss) before provision for income taxes for the three months ended March 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Domestic	\$ 4,279,000	\$ 3,448,000
Foreign	(104,000)	(123,000)
Total	<u>\$ 4,175,000</u>	<u>\$ 3,325,000</u>

The components of provision for income taxes for the three months ended March 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Current - Federal, state and local	\$ 335,000	\$ 299,000
Deferred – Federal, state and local	<u>1,336,000</u>	<u>1,063,000</u>
Total	<u>\$ 1,671,000</u>	<u>\$ 1,362,000</u>

## Note 7. Segment Reporting.

The Company has two reportable segments. Restaurant operations and equipment manufacturing (“Equipment”) (see 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. As of March 31, 2017 and 2016, the restaurant operations segment includes Restaurants located in Massachusetts operating under the Bickford’s brand name. The equipment manufacturing segment produces pipeline inspection equipment for sale to municipalities, contractors, and foreign governments.

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, 2017 and 2016 is summarized in the following table. The other lines include corporate related items, results of insignificant operations.

	<u>2017</u>	<u>2016</u>
Net Sales to External Customers:		
Equipment	\$ 20,842,000	\$ 21,502,000
Restaurants	<u>1,522,000</u>	<u>1,751,000</u>
	<u>\$ 22,364,000</u>	<u>\$ 23,253,000</u>
Segment Assets:		
Equipment	\$ 50,111,000	\$ 41,071,000
Restaurants	1,599,000	1,621,000
Other	<u>28,130,000</u>	<u>33,874,000</u>
	<u>\$ 79,840,000</u>	<u>\$ 76,566,000</u>
Capital Expenditures for Segment Assets:		
Equipment	\$ 165,000	\$ 663,000
Restaurants	<u>6,000</u>	<u>3,000</u>
	<u>\$ 171,000</u>	<u>\$ 666,000</u>
Depreciation:		
Equipment	\$ 252,000	\$ 238,000
Restaurants	25,000	34,000
Other	<u>2,000</u>	<u>2,000</u>
	<u>\$ 279,000</u>	<u>\$ 274,000</u>
Interest Expense:		
Restaurants	\$ 16,000	\$ 18,000
Other	<u>--</u>	<u>59,000</u>
	<u>\$ 16,000</u>	<u>\$ 77,000</u>

There were no inter-segment sales or transfers during the three months ended March 31, 2017 and 2016. Foreign assets represented less than 10% of the Company’s totals. During the three months ended March 31, 2017 and 2016 foreign sales represented 4.7% and 4.5%, respectively of total sales. No material amounts of the Company’s sales depended upon a single customer.