ELXSI CORPORATION REPORTS NET INCOME
FOR THE YEAR ENDED
December 31, 2016

ORLANDO, Florida – March 31, 2017 - ELXSI Corporation today announced that it reported net income of $10,201,000, or $2.79 per diluted share during 2016, as compared to net income of $26,114,000, or $7.39 per diluted share during 2015. However, the 2015 net income was disproportionately increased as a result of the accounting standard for income taxes ("ASC 740"). Under ASC 740, in 2015, the Company recorded a deferred income tax benefit of $16,556,000, and in 2016, the Company recorded a deferred income tax expense of $4,074,000. Excluding the impact of ASC 740, the Company earned $3.90 per diluted share during 2016, as compared to $2.70 during of 2015, a 44% increase.

In addition, in December 2015, the Company recorded an associated increase in the balance sheet net deferred income tax asset of $16,790,000. The deferred tax asset represented the future expected use of the Company's remaining tax loss carryforwards, tax credits and temporary deductions. In 2016 and subsequent years, the Company will record Federal income tax expense exceeding the alternative minimum tax paid while utilizing remaining net operating loss carryforwards and credits. Therefore, reported net income and earnings per share will be reduced by higher Federal and State tax expense compared to lower tax expense in 2015 and prior years based on Federal alternative minimum and state tax rates. However, for 2016 and future years cash flows will not be diminished as the net operating loss ("NOL") carryforward will be available as in prior years until fully utilized.

ASC 740 was an attempt to simplify and normalize the historical trend by accelerating all of the expected value in the remaining NOL's under the assumption that the NOL's will be consumed by future expected pre-tax profit. However, the rule serves to distort significantly the historical year to year comparative results in the year the deferred tax asset is recorded and the subsequent years when that asset is reduced to zero through deferred income tax expense.

Cues. Cues is a leading manufacturer of robotic video inspection equipment, repair equipment and asset management software for wastewater pipelines and drainage systems. The Company also provides consulting and specialty services related to pipeline markets. The business achieved record annual sales and operating income during 2016.

During 2016, net sales and operating income increased 8% and 21%, respectively, compared to 2015. The operating income increased as a result of the sales increase partially offset by 1% decrease in gross profit percentage during 2016 compared to 2015. Selling general and administrative expense during 2016 decreased 6% compared to 2015. Depreciation expense decreased by 7% during 2016 compared to 2015.

Management continues to evaluate the market for specialty inspection technology systems combining laser, sonar and digital video along with sophisticated data gathering and data processing performed by the Cues Mapping Services division. Neither segment contributed significantly to the record results achieved by Cues during 2016, but the segments have registered steady improvement.

Restaurant Operations. The restaurant sales and operating income (before the gain on disposal of property and building) represented approximately 7% and 1%, respectively, of the Company totals during 2016.

Restaurant net sales during 2016 decreased $1,086,000, or 14%, from $7,600,000 in 2015 to $6,514,000 in 2016. The Restaurants recorded operating income of $434,000 during 2016, compared to operating income of $285,000 in 2015. During March 2016, the Company sold its Salem, NH lease and the associated assets for $450,000. 2016 results were positively impacted by a $254,000 gain from that sale. Restaurant operating income (before the gain on disposal of property and building) during 2016 decreased $102,000, or 36%, from $282,000 in 2015 to $180,000 in 2016.

As of December 31, 2016, the Company operated four restaurants in Massachusetts. In addition, the Company leased four other properties at which the Company previously operated restaurants that are now closed and are no longer being operated by the Company because these restaurants were not profitable. The Company is currently subleasing the four remaining properties to third parties thereby reducing its financial exposure under the four lease obligations.

Corporate. As of December 31, 2016, the Company had cash and investments in marketable securities of $21,227,000 and no outstanding borrowings. The Company did not renew its $6,000,000 line of credit that expired on June 30, 2016 and eliminated all related costs.

Corporate administrative expense decreased $905,000, or 34% in 2016 compared to 2015. Included in administrative expense during both 2016 and 2015 was $457,000 and $1,601,000, respectively, in stock grant compensation expense for shares of Company Common Stock earned each year. Under the stock grant, which was effective January 1, 2014 and expires on December 31, 2018, up to 400,000 shares can be earned contingent on the Company achieving certain minimum operating income levels. As of December 31, 2016 all 400,000 shares were earned and recorded in compensation expense. The earned shares were distributable at a maximum rate of 80,000 shares per year beginning in 2015, except for the final plan year when a maximum of 160,000 shares can be distributed. During both 2016 and 2015, 80,000 shares were issued.

Consolidated interest expense was $166,000 and $324,000 during 2016 and 2015, respectively. The Company paid the full $2,854,000 principal balance of its phantom stock payable during the second quarter of 2016 and recorded approximately $59,000 in associated administrative expense during the second quarter of 2016. The principal bore interest at a fixed rate of 7% per annum, therefore future annual interest expense will decline by approximately $200,000 per year.

During 2016, the Company repurchased 14,285 shares of its common stock under its previously announced programs to repurchase up to $5,000,000 of its common stock on the open market and in privately negotiated transactions. Since announcement of this program in 2012, the Company has repurchased an aggregate of 331,286 shares of its common stock for $3,670,000. The Company will continue to repurchase shares under this program from time to time subject to market conditions. In addition, under the Company's executive stock compensation program, the Company bought back at market value 47,626 of the 80,000 shares issued in 2016 to reimburse withholding taxes owed to the Company.

Summary. Below is a summary of the 2016 and 2015 annual results.

	Year Ended December 31,	
	2016	2015
	(amounts in $000's, except per share data)	
Sales	$ 88,697	$ 83,370
Gain on restaurant closures and lease terminations costs and sales of property and buildings	266	10
Operating income	14,640	10,773
Income tax (expense) benefit	(4,568)	15,821
Net income	$ 10,201	$ 26,114
Earnings per common share:		
Basic	$ 3.00	$ 7.71
Diluted	$ 2.79	$ 7.39
Weighted average number of common and common equivalent shares outstanding"		
Basic	3,400	3,389
Diluted	3,663	3,532
Effect of ASC 740 included in above results:		
Deferred tax (expense) benefit	$ (4,074)	$ 16,556
Diluted net deferred tax (expense) benefit per share	(1.11)	4.69
Diluted earnings per share adjusted for the effect of ASC 740:		
Reported diluted earnings per share	2.79	7.39
Effect of ASC 740 tax expense (benefit) per share	1.11	(4.69)
Adjusted diluted earnings per share without the effect of ASC 740	3.90	2.70

The Company's net book value was $20.08 per share at December 31, 2016.

The Company's common stock can be traded through the "OTC Pink" marketplace, an electronic quotation service for over-the-counter securities. The Company's financial statements for the year ended December 31, 2016 and the fiscal quarters ended September 30, 2016, June 30, 2016 and March 31, 2016 are located at www.otcmarkets.com under the symbol ELXS. Contact David M. Doolittle, (407) 849-0190 ext. 211 for additional information.

This Press Release includes forward-looking statements that involve risks and uncertainties. Additional written or oral forward-looking statements may be made by or on behalf of the Company from time to time in press releases and other public announcements, or otherwise. Such statements may include, but not be limited to, projections of revenue, income, losses and cash flows, plans for future capital and other expenditures, plans for future operations, expectations with respect to the Company's restructuring activities, financing needs or plans and the adequacy of the funds available to operate the Company's business, plans relating to products or services, estimates concerning the effects of litigation or other disputes, as well as expectations and assumptions relating to any or all of the foregoing, relating to the Company, its subsidiaries and/or divisions.

Although the Company believes that its forward-looking statements are based on expectations and assumptions that are reasonable, forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted. Accordingly, no assurance can be given that such expectations or assumptions will prove to have been correct, and future events and actual results could differ materially from those described in or underlying the forward-looking statements. Among the factors that could cause future events and actual results to differ materially are: the demand for the Company's products and services and other market acceptance risks; the presence in the Company's markets of competitors with greater financial resources, the impact of competitive products and services and pricing; the loss of any significant customers or group of customers; general economic and market conditions nationally and (in the case of the Company's restaurant operations) in New England, the ability of the Cues Division to develop new products; capacity and supply constraints or difficulties; the emergence of future opportunities; the Company's ability to meet certain covenant requirements under its borrowing agreements; the ability of the Company to utilize its deferred tax assets; the Company's ability to collect outstanding accounts receivable; and the effects of the Company's accounting policies.

The Company assumes no obligation to update its forward-looking statements or advise of changes in the expectations, assumptions and factors on which they are based.