ELXSI Corporation

Consolidated Financial Statements

December 31, 2013 and 2012

McGladrey

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
ELXSI Corporation
Orlando, Florida

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ELXSI Corporation and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in stockholders equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ELXSI Corporation and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Orlando, Florida
March 31, 2014

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

A S S E T S

	December 31, 2013	December 31, 2012
Current assets:		
Cash and cash equivalents	$ 2,672	$ 4,436
Accounts receivable, less allowance for doubtful accounts of $298 and $259 in 2013 and 2012, respectively	8,675	7,075
Inventories, net	17,939	17,153
Prepaid expenses and other current assets	579	423
Total current assets	29,865	29,087
Property, buildings and equipment, net	7,672	5,901
Other	301	400
Total assets	$ 37,838	$ 35,388

Continued

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2013	December 31, 2012
Current liabilities:		
Accounts payable	$ 3,698	$ 2,285
Accrued expenses	4,066	6,146
Capital lease obligations - current	46	45
Total current liabilities	7,810	8,476
Capital lease obligations - noncurrent	243	291
Deferred financing obligations	1,170	1,240
Phantom stock option plan (Note 8)	2,854	2,854
Total liabilities	12,077	12,861
Commitments and contingencies (Note 10)		
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—3,485,117 at		
December 31, 2013 and 3,966,757 at		
December 31, 2012	3	4
Additional paid-in-capital	207,682	220,833
Notes receivable - related parties	--	(11,972)
Accumulated deficit	(181,891)	(186,374)
Accumulated other comprehensive (loss) income	(33)	36
Total stockholders' equity	25,761	22,527
Total liabilities and stockholders' equity	$ 37,838	$ 35,388

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)

	Years Ended December 31,	
	2013	2012
Net sales	$ 64,422	$ 63,908
Costs and expenses:		
Cost of sales	44,086	45,095
Selling, general and administrative	14,432	13,348
Depreciation	934	767
	59,452	59,210
Gain for restaurant closures and lease termination costs and sales of property and buildings	--	197
Operating income	4,970	4,895
Other income (expense):		
Interest expense	(384)	(429)
Other income	3	10
	(381)	(419)
Income before (provision) benefit for income taxes	4,589	4,476
(Provision) benefit for income taxes	(106)	122
Net income	4,483	4,598
Other comprehensive loss:		
Foreign currency translation adjustment, net of tax	(69)	(35)
Comprehensive income	$ 4,414	$ 4,563
Basic and diluted earnings per common share	$ 1.17	$ 1.15
Basic and diluted weighted average number of common and common equivalent shares outstanding	3,842	3,987

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

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

	Common Stock Shares	Common Stock Dollars	Additional Paid-In-Capital	Notes Receivable - Related Parties	Accum-ulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2011	4,012,197	$ 4	$ 221,194	$ (11,972)	$ (190,972)	$ 71	$ 18,325
Other comprehensive loss	--	--	--	--	--	(35)	(35)
Purchase and retirement of common stock	(45,440)	--	(361)	--	--	--	(361)
Net income	--	--	--	--	4,598	--	4,598
Balances at December 31, 2012	3,966,757	4	220,833	(11,972)	(186,374)	36	22,527
Other comprehensive loss	--	--	--	--	--	(69)	(69)
Purchase and retirement of common stock	(113,401)	(1)	(1,179)	--	--	--	(1,180)
Exchange related party notes receivable for common stock	(368,239)	--	(11,972)	11,972	--	--	--
Net income	--	--	--	--	4,483	--	4,483
Balances at December 31, 2013	3,485,117	$ 3	$ 207,682	$ --	$ (181,891)	$ (33)	$ 25,761

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

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

	Years Ended December 31, 2013	2012
Cash flows from operating activities:		
Net income	$ 4,483	$ 4,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	934	767
Amortization of other assets – software development costs	412	343
Provision for obsolete and slow moving inventories	90	75
Gain on restaurant closures and lease termination costs and sales of property and buildings	--	(197)
(Increase) decrease in assets:		
Accounts receivable	(1,600)	2,927
Inventories	(876)	(1,025)
Prepaid expenses and other current assets	(156)	(6)
Other	(3)	(7)
(Decrease) increase in liabilities:		
Accounts payable	1,413	(671)
Accrued expenses	(2,080)	1,311
Net cash provided by operating activities	2,617	8,115
Cash flows from investing activities:		
Purchase of property, buildings and equipment	(2,705)	(1,576)
Other assets – software development costs	(310)	(439)
Proceeds from sale of property, buildings and equipment	--	40
Net cash used in investing activities	(3,015)	(1,975)
Cash flows from financing activities:		
Purchase and retirement of common stock	(1,180)	(361)
Principal payments on deferred financing obligations	(70)	(76)
Principal payments on capital lease obligations	(47)	(51)
Net payments on line of credit	--	(1,671)
Principal payments on long-term debt	--	(81)
Proceeds from capital lease obligations	--	28
Net cash used in financing activities	(1,297)	(2,212)

Continued

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

	Years Ended December 31, 2013	2012
Effect of exchange rate changes on cash and cash equivalents	(69)	(35)
(Decrease) increase in cash and cash equivalents	(1,764)	3,893
Cash and cash equivalents, beginning of year	4,436	543
Cash and cash equivalents, end of year	$ 2,672	$ 4,436
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	$ 384	$ 436
Income taxes	$ 290	$ 281

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

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

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 December 31, 2013, 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. Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The accompanying consolidated financial statements include the accounts of ELXSI Corporation and its subsidiaries, all of which are wholly-owned. Material intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year. Both the Company's corporate functions and Cues Division have fiscal years consisting of four calendar quarters ending on December 31. The Restaurant Operations' fiscal year consists of four 13-week quarters (one 52-week period) ending on the last Monday in December; this requires that every six or seven years the Restaurant Operation adds an extra week at the end of the fourth quarter and fiscal year. The Restaurant Operations had 52 and 53 week years in fiscal years 2013 and 2012, respectively, resulting in years ending on December 30, 2013 and December 31, 2012, respectively.

Revenue Recognition. Revenues for the Cues Division's (1) equipment sales are recognized when products are shipped or delivered (based on respective shipping terms) and the risk of loss transfers to an unrelated third party; and (2) sales of services are recognized when services are provided to customers, the price to the third party is fixed or determinable and collectability is reasonably assured.

The Cues Division also derives revenue from the licensing of software and related maintenance fees, and fees for professional services related to software implementation, customization and training. Software licensing revenues consist of fees earned from the granting of perpetual licenses to use the software products. The Company recognizes revenue from the sale of software licenses when all of the following conditions are met: a signed contract exists; the software has been shipped or electronically delivered; the license fee is fixed or determinable; and the Company believes that the collection of the fees is reasonably assured. License revenue is recorded upon delivery with an appropriate deferral for annual support plans, if purchased by the customer at published rates. Annual support plans provide customers with technical product support and product upgrades and are renewable each year. Annual support plans are generally billed in advance on an annual basis. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. The total fee from the arrangement is allocated based on vendor specific objective evidence (VSOE) of fair value of each of the undelivered elements. VSOE of fair value of annual support plans is established on the stated renewal rates. Services provided to customers under maintenance agreements include technical product support and minor version upgrades. VSOE of fair value for the professional service element is based on the standard hourly rates the Company charges for services when such services are sold separately.

Revenues for the Restaurant Operations are recognized when services are provided to customers and is presented net of sales-related taxes.

Cash and Cash Equivalents. The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments. The carrying amounts 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 maturity of these instruments.

Accounts Receivable and Allowance for Doubtful Accounts. Accounts receivable relate to the Cues Division and are uncollateralized customer obligations due under normal trade terms requiring payment within thirty days from the invoice date, and are recorded at net realizable value. Unpaid accounts receivable with invoice dates over thirty days old do not accrue interest.

The Company evaluates the collectability of accounts receivable based on numerous factors including past transaction history with customers and their creditworthiness. Initially, the Company estimates an allowance for doubtful accounts as a percentage of net sales based on historical bad debt experience. This estimate is adjusted when the Company becomes aware of a specific customer's inability to meet its financial obligations, or periodically as a result of changes in the overall aging of accounts receivable. While the Company has a large customer base that is geographically dispersed, a slowdown in the markets in which the Company operates or other factors or events may result in a higher than expected uncollectable accounts, and therefore, the need to revise the estimate for bad debts. Generally, the Company has experienced relatively low bad debt expense partially because Cues's customers depend on the Company to provide parts and labor to repair and service equipment, which gives the Company's customers an incentive to pay past due balances. As of December 31, 2013 and 2012, the allowance for doubtful accounts reflects management's best estimate of future uncollectable amounts.

Inventories. Inventories are stated at the lower of cost or market determined by the first-in, first-out method. The Company evaluates its inventory balances at the end of each quarter to ensure that they are carried at the lower of cost or market. This evaluation includes the analysis of regular cycle counts, a review for obsolete inventory and an analysis of potential slow-moving and excess inventory items. Events which could effect the amount of reserves for obsolete or slow-moving inventory include a decrease in demand for the Company's products due to economic conditions, innovations or technology introduced by Cues or a competitor, price decreases by competitors on specific products or systems, or the discontinuance by a vendor of a component part required in production requiring a re-design of a Cues product. As of December 31, 2013 and 2012, the reserve for obsolete and slow-moving inventory was $3,520,000 and $3,172,000, respectively. To the extent future events impact, either favorably or unfavorably, the salability of the Company's products or its relationship with certain key vendors, the Company's inventory reserves could differ significantly, resulting in either higher or lower future inventory provisions.

Software Development Costs. Certain software development costs are capitalized and amortized over their estimated economic life, principally 24 months commencing with each product's availability for general release. Costs are expensed as incurred until technological feasibility has been established. Technological feasibility is established upon completion of a working model, and thereafter, all software production costs are capitalized and subsequently reported at the lower of unamortized cost or net realizable value. Software development costs primarily consist of labor. Management assesses the recoverability of these assets by comparing the carrying value to the estimate of the assets fair value. Any impairment of the assets is recorded as an expense in the period the impairment occurs.

Property, Buildings and Equipment. Property, buildings and equipment, including buildings under capital leases, are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method of accounting over the estimated useful lives of individual assets or classes of assets. Buildings held pursuant to capital leases and improvements to leased properties or fixtures are amortized over the shorter of the remaining term of the applicable lease or the estimated useful life.

Estimated useful lives are:

Buildings	30	years
Building improvements	20	years or remaining lease term
Equipment, furniture and fixtures	3-7	years

Normal repairs and maintenance are expensed as incurred. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. The property, buildings and equipment accounts are relieved of the cost of the items being replaced and the accumulated depreciation of disposed assets is eliminated, with any resulting gain or loss on disposal being recorded in the accompanying consolidated statements of income and comprehensive income.

Impairment of Long-Lived Assets. Long-lived assets are evaluated for impairment whenever events or changes in circumstances have indicated that an asset may not be recoverable and are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest charges) is less than the carrying value of the assets, the assets will be written down to the estimated fair value and such loss is recognized in income from continuing operations in the period in which the determination is made. Management determined that no impairment of long-lived assets existed as of December 31, 2013 and 2012.

Related Party Notes Receivable. The Company was owed substantial amounts under related party promissory notes receivable as discussed in Note 5 below. These notes receivable had been reflected in the equity section of the accompanying consolidated balance sheets as a contra-equity account from 2001 through December 31, 2012. Alexander M. Milley, the Company's Chairman, President and Chief Executive Officer and principal stockholder ("Alexander M. Milley"), and certain companies he controls had guaranteed payment of these notes receivable. In addition, Alexander M. Milley and these companies had pledged assets, primarily consisting of shares of the Company's common stock, under pledge and security agreements. During 2013, an Independent Committee of the Company's Board of Directors, approved terms for the retirement of the related party promissory notes. In this transaction, the Company recovered and retired 368,239 shares of the Company's Common Stock which had been purchased for cash during various periods beginning in 1989. In addition, the performance based Cadmus Corporation management contract, which had been an ongoing renewable obligation of the Company, was cancelled in total as part of the retirement consideration effective January 1, 2014. Alexander M. Milley agreed to remain as Chairman, President and Chief Executive Officer of the Company for the next five years.

Use of Estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk. Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and accounts receivable. The Company maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The allowance for non-collection of accounts receivable is based upon the expected collection rate across all accounts receivable.

The Company does not rely on any one vendor or supplier for its raw materials, and management believes that alternative suppliers are available that could provide for the Company's needs on comparable terms.

Foreign Currency Translation. The assets and liabilities of Cues Canada's operations are translated into U.S. dollars at year-end exchange rates, and revenue and expense items are translated at average rates of exchange prevailing during each respective year. Resulting translation adjustments are accumulated as a separate component of stockholders' equity.

Income Taxes. The Company accounts for income taxes utilizing the asset and liability method. Under this approach, the Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of existing assets and liabilities. The provision for income taxes includes the amount of income taxes for the year that would be paid by the Company, as determined by applying the provisions of the current tax law to taxable income for the year, and the net change during the year in the Company's deferred tax assets and liabilities. In determining the amount of any valuation allowance required to offset deferred tax assets, an assessment is made that includes anticipating future income and determining the likelihood of realizing deferred tax assets (see Note 4 below).

The utilization of the Company's net operating loss and tax credit carryforwards may be impaired or reduced under certain circumstances. Events which may affect the Company's ability to utilize these carryforwards include, but are not limited to, future profitability, cumulative stock ownership changes of 50% or more over a three-year period, as defined by Section 382 of the Internal Revenue Code, as amended (the "IRC"), and the timing of the utilization of the tax benefit carryforwards. Such changes in ownership would significantly restrict the Company's ability to utilize loss and credit carryforwards in accordance with Sections 382 and 383 of the IRC.

In addition, the Company has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the Company's consolidated financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. Management has assessed whether there were any uncertain tax positions which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying consolidated financial statements. The Company currently files income tax returns in the U.S. federal jurisdiction, various states (29 in total) and Canada. The Company is no longer subject to income tax examinations by the U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2009.

It is the Company's policy to classify interest and penalties on income tax liabilities as interest expense and administrative expense, respectively.

Warranty. The Company's warranty reserve is established based on its best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. A warranty is offered to customers of Cues and covers parts and labor for one year from the date of sale. While the Company believes that the warranty reserve is adequate and that its judgment is appropriately applied, such amounts estimated to be due and payable could differ materially from what will actually transpire in the future. Warranty activity for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Beginning accrued warranty expense	$ 622,000	$ 487,000
Less: Reductions for warranty payments, net	(646,000)	(593,000)
Plus: Additions to warranty accrual	706,000	728,000
Ending accrued warranty expense	$ 682,000	$ 622,000

Advertising. Advertising consists primarily of print advertisements and trade shows for Cues and print advertisement for the Restaurants. All costs are expensed as incurred and totaled $429,000 and $426,000 in 2013 and 2012, respectively. Advertising expenses are included as a component of selling, general and administrative expense in the accompanying consolidated statements of income and comprehensive income.

Shipping and Handling Costs. Net sales include the revenue related to shipping and handling charges billed to customers. The related costs associated with shipping and handling are included as a component of cost of sales in the accompanying consolidated statements of income and comprehensive income.

Comprehensive Income. Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It consists of net income or loss and other gains and losses affecting stockholders' equity that, under U.S. GAAP, are excluded from net income, such as foreign currency translation gains and losses. Currency translation is the only item of other comprehensive income impacting the Company's accumulated other comprehensive income.

Share-Based Payments. As of December 31, 2013, the Company had no equity stock incentive plans. All share-based payments to employees are required to be recognized in the financial statements based on their grant date fair values using an option-pricing model, such as the Black-Scholes model. The Company estimates forfeitures when recognizing compensation expense and this estimate of forfeitures is adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and also impacts the amount of unamortized compensation expense to be recognized in future periods. See Note 8 below for further information on share-based payments.

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 December 31, 2013 or 2012.

Accounting Standards. The Financial Accounting Standards Board and other entities issued new or modifications to, or interpretations of, existing accounting guidance during 2013. The Company has considered the new pronouncements that altered accounting principles generally accepted in the United States of America, and other than as disclosed in these notes to the financial statements, does not believe that any other new or modified principles will have a material impact on the Company's reported financial position or activities.

Reclassifications: Certain amounts in the 2012 consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the 2013 consolidated financial statements. The results of these reclassifications had no effect on previously reported net income, comprehensive income, stockholders' equity or cash flows.

Subsequent Events. The Company has evaluated subsequent events through March 31, 2014, the date on which the accompanying consolidated financial statements were available to be issued.

Note 3. Composition of Certain Financial Statement Components

	December 31, 2013	December 31, 2012
Assets:		
Inventories:		
Raw materials and finished goods	$ 15,077,000	$ 14,504,000
Work in process	6,382,000	5,821,000
	21,459,000	20,325,000
Less: reserve for slow moving and obsolete inventory	(3,520,000)	(3,172,000)
	$ 17,939,000	$ 17,153,000
Property, buildings and equipment:		
Land	$ 2,354,000	$ 2,354,000
Buildings and improvements	6,722,000	4,972,000
Buildings held pursuant to capital leases	1,234,000	1,234,000
Equipment, furniture and fixtures	8,902,000	7,960,000
	19,212,000	16,520,000
Less: accumulated depreciation	(11,540,000)	(10,619,000)
	$ 7,672,000	$ 5,901,000
Software Development Costs included in other assets**:**		
Capitalized software costs, beginning of year	$ 377,000	$ 281,000
Plus: Amounts capitalized during the year	310,000	439,000
Less: Amortization expense	(412,000)	(343,000)
Capitalized software costs, end of year	$ 275,000	$ 377,000

Amortization of capitalized software costs is included as a component of cost of sales in the accompanying consolidated statements of income and comprehensive income.

	December 31, 2013	December 31, 2012
Liabilities:		
Accrued expenses:		
Salaries, benefits and vacation	$ 1,874,000	$ 1,868,000
Deferred fee revenue	1,025,000	1,106,000
Warranty	682,000	622,000
Management fees due to related party (Note 5)	--	1,826,000
Other accruals	485,000	724,000
	$ 4,066,000	$ 6,146,000

Note 4. Income Taxes

Income (loss) before provision for income taxes for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Domestic	$ 4,698,000	$ 4,639,000
Foreign	(109,000)	(163,000)
Total	$ 4,589,000	$ 4,476,000

The components of (provision) benefit for income taxes for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Current:		
Federal	$ (26,000)	$ 289,000
State and local	(80,000)	(167,000)
	$ (106,000)	$ 122,000

Deferred income taxes are provided for temporary differences between income tax and financial statement recognition of revenues and expenses. Significant components of the deferred tax assets and liabilities were comprised of the following as of December 31, 2013 and 2012:

	2013	2012
Fixed asset and other	$ (3,348,000)	$ (3,004,000)
Gross deferred tax liabilities	(3,348,000)	(3,004,000)
Accrued expenses and other	3,519,000	5,532,000
Loss carryforwards	14,925,000	14,693,000
Credit carryforwards	4,865,000	4,912,000
Gross deferred tax assets	23,309,000	25,137,000
Deferred tax asset valuation allowance	(19,961,000)	(22,133,000)
Net deferred taxes	$ --	$ --

As of December 31, 2013 and 2012, the Company had net operating loss carryforwards for federal income tax purposes of $43,000,000 and $42,000,000, respectively. As of December 31, 2013, the Company had tax credit carryforwards of $4,900,000. Included in the tax credit carryforwards are alternative minimum tax credit carryforwards of $1,700,000, which have an unlimited carryforward period. These net operating loss and tax credit carryforwards expire as follows:

	Net Operating Loss Carryforwards	Tax Credit Carryforwards
2014	$ --	$ --
2015	--	--
2016	--	--
2017	--	--
2018	--	--
2019 through 2030	43,000,000	4,900,000
	$ 43,000,000	$ 4,900,000

The Company continually reviews the adequacy of its carryforward valuation allowances and recognizes deferred tax asset benefits only as reassessment indicates that it is more likely than not that the benefits will be realized.

During 2013, the Company's gross deferred tax asset decreased by $1,828,000, the gross deferred liabilities increased by $344,000 and the Company decreased the associated valuation allowance by $2,172,000 as a result of the uncertainty of future income during the remaining life of the net operating loss carryforwards and tax credits. In addition, the remaining deferred charge from establishing the taxable basis in the restaurant's assets transferred during 2000 of $3,348,000 was fully offset by a valuation allowance.

During 2012, the Company's gross deferred tax asset decreased by $2,305,000, the gross deferred liabilities increased by $409,000 and the Company decreased the associated valuation allowance by $3,714,000 as a result of the uncertainty of future income during the remaining life of the net operating loss carryforwards and tax credits. In addition, the remaining deferred charge from establishing the taxable basis in the restaurant's assets transferred during 2000 of $3,004,000 was fully offset by a valuation allowance.

A reconciliation of the statutory federal tax rate and the Company's effective income tax rates for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Federal income tax rate	34.0%	34.0%
State income taxes, net of federal benefit	3.8	3.4
Permanent differences	1.5	1.7
Expired FICA Credit	1.0	9.0
Other	8.2	7.7
Changes in valuation allowance for deferred tax assets	(46.2)	(58.5)
Effective income tax rate (benefit)	2.3%	(2.7)%

During the years ended December 31, 2013 and 2012, there was no activity related to prior or current years' tax positions, settlements or reductions resulting from expirations of unrecognized tax benefits or obligations. To the Company's knowledge, there are no unrecognized tax benefits that, if recognized, would affect the effective tax rate. No interest or penalties have been accrued in the accompanying consolidated financial statements related to unrecognized tax benefits. The Company does not expect a significant increase in unrecognized tax benefits during the next 12 months.

Note 5. Related Party Transactions

Note Receivable with Related Parties

The Company had notes receivable with two related parties, ELX Limited Partnership ("ELX") and Cadmus Corporation ("Cadmus") in aggregate principal amount of $11,972,000. Alexander M. Milley is the sole general partner of ELX. Alexander M. Milley is the controlling stockholder and director of Cadmus, and another officer of the Company is an officer and director of Cadmus.

The aggregate principal balance of these notes receivable of $11,972,000 was reflected in the equity section of the accompanying consolidated balance sheets as a contra-equity since 2001.

During 2013, the Company agreed to retire the outstanding principal and uncollectable accrued interest in the amount of $11,972,000 and $4,055,000, respectively. In the transaction, ELX and Cadmus furnished to the Company a total of 368,239 shares of the Company's common stock for cancellation. Cadmus also agreed to cancel the Cadmus management contract (described below) effective January 1, 2014. In conjunction with the retirement of debt, Alexander M. Milley agreed to continue as Chairman, President and Chief Executive Officer of the Company for the next five years.

As of December 31, 2012, the Company had outstanding promissory notes receivable from ELX and Cadmus in the aggregate of $15,961,000 including accrued and unpaid interest for which the Company has recorded a full allowance for uncollectability in the accompanying consolidated financial statements. The full allowance had been recorded since 2001.

ELX Limited Partnership. The Company loaned ELX $1,156,000 under a promissory note. The proceeds of this note were used by ELX to purchase 369,800 shares of the Company's common stock held by The Airlie Group L.P. ("Airlie") under an option granted to ELX at $3.125 per share. The note matured on September 30, 2013 and bore interest at 0.67% per annum. On October 31, 2013, the Company retired the outstanding principal and accrued interest on this note totaling $2,151,000. As of December 31, 2012 the outstanding principal balance and accrued interest on the note was $2,142,000. During 2013 and 2012, the Company did not record $9,000 and $11,000 of accrued interest due to its uncollectability. The aggregate accrued interest of $545,000 was fully offset by an allowance for uncollectability of the same amount.

The Company also loaned ELX $909,000 under a separate promissory note. The proceeds of this note were used by ELX to exercise an option to purchase another 110,200 shares of the Company's common stock held by Bank America Capital Corporation ("BACC") and to purchase the remaining 110,200 shares of the Company's common stock held by BACC for $5.125 per share. The note matured on September 30, 2013 and bore interest at 0.67% per annum. On October 31, 2013, the Company retired the outstanding principal and accrued interest on this note totaling $1,825,000. As of December 31, 2012 the outstanding principal balance and accrued interest on the note was $1,817,000. During 2013 and 2012, the Company did not record $8,000 and $9,000, respectively of accrued interest due to its uncollectability. The aggregate accrued interest of $462,000 was fully offset by an allowance for uncollectability of the same amount.

In connection with the retirement of the two notes above, ELX furnished 118,751 shares of the Company's common stock to the Company for cancellation. The notes from ELX described above, and the retirement of the notes are included as contra-equity in the accompanying statements of changes in stockholders' equity.

Cadmus Corporation. ELXSI previously loaned Cadmus $2,000,000 under a promissory note. The note matured on September 30, 2013 and bore interest at 0.67% per annum. On October 31, 2013, the Company retired the outstanding principal and accrued interest on this note totaling $2,677,000. As of December 31, 2012 the outstanding principal balance and accrued interest on the note was $2,666,000. During 2013 and 2012, the Company did not record $11,000 and $13,000, respectively, of accrued interest due to its uncollectability. The accrued interest of $677,000 was fully offset by an allowance for uncollectability of the same amount.

The Company also advanced Cadmus $6,732,000 under a promissory note. The note bore interest at 0.67% and was due on September 30, 2013. On October 31, 2013 the Company retired the principal and accrued interest on the note totaling $9,374,000. As of December 31, 2012 the principal balance and accrued interest was $9,335,000. During 2013 and 2012, the Company did not record $39,000 and $47,000, respectively of accrued interest due to its uncollectability. The accrued interest of $2,371,000 was fully offset by an allowance for uncollectability in the same amount.

In connection with the retirement of the two notes above, Cadmus provided 249,488 shares of the Company's common stock to the Company for cancellation. The notes from Cadmus described above, and the retirement of the notes are included as contra-equity in the accompanying statements of changes in stockholders' equity.

ELXSI was party to a management contract whereby Cadmus provided certain advice and services with respect to the Company's business, financial management and long-range planning. The management contract called for an annual fee payable to Cadmus that was earned and payable only in the years the Company's operating income exceeded $4,000,000. Under the management contact (in force since 1989), the Company did not reach the operating income threshold during the period of years from 2002-2010. The fee was initially set at a fixed amount increasing at 5% each year the agreement is in place. The management fee was $1,294,000 and $1,233,000 in 2013 and 2012, respectively. In connection with the retirement terms during December 2013, the Company paid Cadmus $3,121,000, which was the full amount owed under the management agreement. As of December 31, 2012, the management fee payable to Cadmus was $1,826,000. Effective January 1, 2014, the management contract with Cadmus was terminated.

Transactions with Management. In order to generate funds necessary to reduce outstanding debt and avoid paying significant bank fees, the Company sold certain Bickford's properties to related parties.

In April 2004, BFRI sold its Burlington, Massachusetts property (the "Burlington Property") to Alexander Milley ("Mr. Milley") for $1,000,000. Mr. Milley is the father of Alexander M. Milley. The sale price was determined using an independent appraisal based upon an amount that was greater than the real estate alone and less than the maximum value of the real estate potential and was approved by the Board of Directors. Upon consummation of the sale, Mr. Milley leased the Burlington Property back to BFRI for a term of fifteen years, with three five-year renewal options (the "Burlington Lease"). The Burlington Lease provides that the base annual rent for the Burlington Property is $110,000. Until the expiration of the term of the Burlington Lease, BFRI may repurchase the Burlington Property at the greater of: (a) the fair market value of the property; or (b) $1,100,000.

In October 2004, BFRI sold its Leominster, Massachusetts property (the "Leominster Property") to a trust (the "Leominster Trust") for $600,000. The trustee of the Leominster Trust is Linda Milley, the wife of Alexander M. Milley, and the beneficiaries of the Leominster Trust are the sons of Alexander M. Milley. The sale price was determined using an independent appraisal based upon an amount that was greater than the real estate alone and less than the maximum value of the real estate potential and was approved by the Board of Directors. Upon consummation of the sale, the Leominster Trust leased the Leominster Property back to BFRI for a term of fifteen years, with three five-year renewal options (the "Leominster Lease"). The Leominster Lease provides that the base annual rent for the Leominster

Property is $66,000. Until the expiration of the term of the Leominster Lease, BFRI may repurchase the Leominster Property at the greater of: (a) the fair market value of the property; or (b) $660,000. As of December 31, 2013 and 2012, the Company owed the Leominster Trust $0 and $12,000, respectively, in unpaid rent under the Leominster Lease, which is included in accounts payable in the accompanying consolidated balance sheets.

See Note 7 below for a discussion of the accounting treatment of these sales in the accompanying consolidated financial statements.

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 are limited and collateralized by eligible accounts receivable, inventories and certain Cues assets. As of December 31, 2013 and 2012, no amounts were outstanding under the Credit Facility. As of December 31, 2013 and 2012, the Company had $8,000,000 available for borrowing under the Credit Facility.

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.

Note 7. Deferred Financing Obligations

During 2004, BFRI sold its Burlington Property and Leominster Property to related parties (as described in Note 5 above). As a result of the repurchase options contained in the leases, the Company recorded the proceeds from the sales of these properties in accordance with finance lease accounting provisions. The proceeds were recorded as a direct financing obligation and the assets were included in the accompanying consolidated balance sheets. Additionally, no gain or loss was initially recognized on the sale of these properties. Rent payments by the Company reduced the deferred financing obligations and resulted in interest expense.

During 2013, the Company's rental payments in connection with the Burlington Property and the Leominster Property reduced the deferred financing obligations $70,000 and resulted in interest expense of $123,000. The unrecognized loss on these remaining two properties included under deferred financing obligations was $40,000 as of December 31, 2013.

During 2012, the Company's rental payments in connection with the Burlington Property and the Leominster Property reduced the deferred financing obligations $76,000 and resulted in interest expense of $128,000. The unrecognized loss on these remaining two properties included under deferred financing obligations was $101,000 as of December 31, 2012.

Note 8. Stockholders' Equity

Common Stock Grant. Effective January 1, 2014, Company approved a plan to grant Alexander M. Milley the right to receive up to 80,000 shares of Common Stock per year over each of the five years ended December 31, 2019 provided that the Company earns operating income, as defined, of at least $4 million per year. The maximum number of shares to be earned under this grant is 400,000 shares. The grant does not require Alexander M. Milley to pay an exercise price for the shares and the Company will record expense each year equal to the number of shares earned under the grant times the market value per share on the date the shares are earned.

Phantom Stock Option Plan. The ELXSI phantom stock option plan was implemented in 1992 as a long-term incentive plan for four key executives of the Restaurants (the "Group"). At the inception of the incentive plan, the Group paid an initial investment totaling $116,000. In October 1997, the Company returned the Group's initial investment and simultaneously received notes for the same amount from each Group member. These notes bore interest at 9% per annum and were due June 30, 2001. Each Group member was entitled under this plan to receive, upon exercise, a cash payment equal to his individual vested percentage of the appraised value of the Restaurants, as defined, less the balance of his exercise price payable upon exercise. Full vesting occurred on July 1, 1996, at which time the Group, as a whole, was entitled to 13.9% of such appraised value. Each Group member's phantom stock options could be exercised at the earliest of July 1, 2001, termination of employment, death or the sale of the Restaurants.

On July 2, 2001, the Group exercised in full their rights to receive payment under this plan. In November 2001, the Company and the Group reached an agreement which provided that the Group would receive $3,638,000 in the aggregate in principal payments. A deferred payment schedule was negotiated to provide for approximately three-quarters of the balance due to be paid by October 2002. The remaining principal balance was to be paid on October 1, 2003. As a result of a decrease in earnings and lack of borrowing availability, the Company did not make any principal payments during 2002 under the deferred payment schedule. Unpaid principal bears interest at a fixed rate of 7% per annum.

In March 2003, the Company reached agreements with three of the Group members under which they were to receive monthly principal payments over four years totaling $2,854,000. However, payments are subject to the approval of the Board of Directors of the Company, which approval (1) shall not be unreasonably withheld; and (2) may in any event be withheld if the Board of Directors determines, in its good faith judgment, that the payment thereof would be detrimental to the Company as a result of general economic or business conditions and/or the Company's financial or liquidity position. To date, the Board of Directors of the Company has determined in its good faith judgment, that the payment of the principal payments would be detrimental to: (1) the Company as a result of general economic or business conditions; and (2) the Company's financial or liquidity position, and therefore, principal payments have not commenced. Principal payments are also restricted under the New Credit Facility (see Note 6).

During 2013 and 2012, the Company recorded no compensation expense related to the phantom stock option plan. As of December 31, 2013 and 2012, a liability totaling $2,854,000 is included in the accompanying consolidated balance sheets as a result of the March 2003 agreement. During 2013 and

2012, the Company recorded and paid interest expense related to the phantom stock option plan of $200,000 in each year.

Stock Purchase Rights. On April 15, 2008, the Board of Directors of the Company declared a dividend of one preferred share purchase right (a "Right") for each share of the Company's Common Stock outstanding on April 25, 2008. Each Right entitles the registered holder of a share of Common Stock to purchase from the Company one one-hundredth (1/100th) of a share of Series B Junior Participating Preferred Stock, par value $0.002 per share (the "Preferred Shares"), at a fixed price of $10.00 per one one-hundredth of a Preferred Share (the "Purchase Price"), subject to adjustment.

The Rights are governed by the terms of a Rights Agreement dated as of April 23, 2008, as amended (the "Rights Agreement"), by and between the Company and Continental Stock Transfer & Trust Company (the "Rights Agent"). The Rights attached to all outstanding shares of the Company's Common Stock and will attach to all new shares of Common Stock issued.

Initially, until the earlier to occur of: (a) 10 days following a public announcement that a person or group of affiliated or associated persons, has become an Acquiring Person (as such term is defined in the Rights Agreement); or (b) 10 business days (or such later date as the Board of Directors may determine) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer which would result in the beneficial ownership by an Acquiring Person of 15% or more of the outstanding Common Stock (the earlier of such dates being called the "Distribution Date"), the Rights will be evidenced, with respect to any of the Common Stock certificates outstanding as of the Record Date or thereafter issued prior to a Distribution Notice Date (as such term is defined in the Rights Agreement), by the Common Stock certificate and will be transferable with and only with the Common Stock. In general, an "Acquiring Person" is a person, the affiliates or associates of such person, or a group, which has acquired beneficial ownership of 15% or more of the outstanding Common Shares, excluding certain share amounts owned by the Milley Group and the Kellogg Group (as such groups are defined in the Rights Agreement). As soon as practicable following the Distribution Notice Date, separate certificates evidencing the Rights ("Right Certificates") will be mailed to holders of record of the Common Stock as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights.

The Rights are not exercisable until the Distribution Notice Date, and thereafter are only exercisable by the holders of the Common Stock as of the Distribution Date. The Rights will expire on April 25, 2018 (the "Final Expiration Date"), unless the Final Expiration Date is extended or unless the Rights are earlier redeemed or exchanged by the Company. Until a Right is exercised, the holder thereof, in connection with such holder's status as a holder of a Right, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends. Rights held by a person or group that constitutes an Acquiring Person will be void and not be exercisable on any Distribution Date.

Preferred Shares purchasable upon exercise of the Rights will not be redeemable. Each Preferred Share will be entitled to a minimum preferential quarterly dividend payment of $1.00 per share, when, as and if declared by the Board of Directors, but will be entitled to an aggregate dividend of 100 times any dividend declared per share of Common Stock. In the event of liquidation, the holders of the Preferred Shares will be entitled to a minimum preferential liquidation payment of $100 per share, plus their pro rata share of any additional liquidation proceeds, and in any event will be entitled to an aggregate liquidation payment of 100 times the liquidation payment made to the holders of the shares of Common Stock. Each Preferred Share will have 100 votes, voting together with the shares of Common Stock.

Finally, in the event of any merger, consolidation or other transaction in which Common Stock is exchanged; each Preferred Share will be entitled to receive 100 times the amount received per share of Common Stock. These rights are protected by customary anti-dilution provisions. Because of the nature of the Preferred Shares' dividend, liquidation and voting rights, the value of the one one-hundredth interest in a Preferred Share purchasable upon exercise of each Right should approximate the value of one share of Common Stock. The Preferred Shares would rank junior to any other future series of the Company's preferred stock.

In the event that any person or group of affiliated or associated persons becomes an Acquiring Person, each holder of a Right, other than Rights beneficially owned by the Acquiring Person or any affiliate or associate thereof (which will thereafter be void), for a period of 60 days after the Distribution Notice Date, will have the right to receive upon exercise that number of shares of Common Stock having a market value of two times the exercise price of the Right.

In the event that the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold to an Acquiring Person, its affiliates or associates or certain other persons in which such persons have an interest, proper provision will be made so that each such holder of a Right will thereafter have the right to receive, upon the exercise thereof at the then current exercise price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction will have a market value of two times the exercise price of the Right.

At any time prior to the earlier of: (1) a Distribution Notice Date; or (2) the Final Expiration Date, the Board may redeem all, but not less than all, of the Rights at a price of $0.01 per Right (the "Redemption Price"). Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

At any time after a person or group becomes an Acquiring Person and prior to the acquisition by such person or group of 50% or more of the outstanding shares of Common Stock, the Board of Directors may exchange the Rights (other than Rights owned by such person or group which will have become void), in whole or in part, at an exchange ratio of one share of Common Stock per Right, or, under circumstances set forth in the Rights Agreement, cash, property or other securities of the Company per Right with value equal to a share of Common Stock.

Preferred Shares. In connection with the Rights and the Rights Agreement, the Company designated 600,000 shares of its authorized and unissued Preferred Stock as Series B Junior Participating Preferred Stock, par value $0.002 per share. Each share of Series B Junior Participating Preferred Stock, if issued, would carry a minimum preferential liquidation payment of $100 per share and be entitled to minimum quarterly dividend payment of $1 per share. Additional rights and obligations of the Series B Junior Participating Preferred Stock are described in this Note 8 above. As of December 31, 2013 and 2012, no Series B Junior Participating Preferred Stock has been issued.

Bylaw Transfer Restrictions. Article XV of the Company's Bylaws, as amended, imposed certain restrictions (the "Transfer Restrictions") on the transferability of shares of Company Common Stock, as well as certain other stock and warrants, options and other rights to purchase stock of the Company (hereinafter, "other equity securities"). The Transfer Restrictions are designed to address the possibility that certain transfers of Company Common Stock and other equity securities could result in the imposition of limitations on the ability of the Company and ELXSI to utilize the net operating loss

("NOL") and other credit or loss carryforwards available to them for federal income tax purposes (see Note 4 above for a discussion of the tax attributes).

The Transfer Restrictions do not apply to issuances of shares of capital stock by the Company or to the Company's grant of rights to acquire stock from the Company (i.e. options and warrants). As a result, the Transfer Restrictions do not prevent the acquisition of shares upon exercise of presently outstanding employee stock options of the Company. Consequently, persons or entities who are able to acquire the Company's common stock or other equity securities directly from the Company, including employees, officers and directors of the Company and their affiliates, may do so without application of the Transfer Restrictions, irrespective of the number of shares (or other units) being acquired.

The Transfer Restrictions generally restrict until December 31, 2020 (or earlier, in certain events, including the earlier repeal of the Article XV of the Bylaws, as amended, or if the effectiveness of Article XV of the Bylaws is otherwise earlier discontinued by a resolution adopted by the Board of Directors of the Company (or an authorized committee thereof)) any attempted transfer of Company Common Stock or any other securities of the Company that would be treated as "stock" of the Company under the applicable tax regulations (hereinafter, "Company Stock") to a person or group of persons who already own, or who would own as a result of such transfer, 5% or more of the Company Stock. The Transfer Restrictions also restrict any other attempted transfer of Company Stock that would result in the identification of a new "5-percent shareholder" of the Company (as determined under applicable tax regulations); this would include, among other things, an attempted acquisition of Company Stock from an existing 5-percent shareholder. For these purposes, numerous rules of attribution, aggregation and calculation prescribed under the IRC (and related regulations), will be applied in determining whether the 5% threshold has been met and whether a group exists. The restriction may also apply to proscribe the creation or transfer of certain "options" (which are broadly defined) in respect of Company Stock to the extent, generally, that exercise of the option would result in a proscribed level of Company Stock ownership.

Generally speaking, the Transfer Restrictions apply only with respect to the number of shares of Company Stock (or options with respect to Company Stock) purportedly transferred in excess of the threshold established in the Transfer Restrictions. In any event, these restrictions do not prevent a valid transfer if either the transferor or the purported transferee obtains the approval of the Board of Directors of the Company (or an authorized committee thereof). In deciding whether to approve any proposed transfer, the Board of Directors of the Company (or an authorized committee thereof) may require an opinion of counsel that it selects, in form and substance reasonably satisfactory to it, that the transfer will not result in the application of any Section 382 or Section 383 of the IRC limitations on the use of the tax benefits.

The Transfer Restrictions provide that the Company will not permit any employee or agent of the Company (which includes the Company's Transfer Agent) to record any transfer of Company Stock purportedly transferred in excess of the threshold established in the Transfer Restrictions. The foregoing may result in the delay or refusal of certain requested transfers of Company Stock.

The Bylaws, as amended, provide that any transfer attempted in violation of the Transfer Restrictions will be void, even if such transfer has been recorded by the Company's Transfer Agent and new certificates issued. The purported transferee of such Company Stock would not be entitled to any rights of stockholders, including the right to vote such Company Stock, or to receive dividends or distributions in liquidation in respect thereof, if any. If the Board of Directors of the Company determines that a purported transfer has violated the Transfer Restrictions, the Company may take a number of actions under the Bylaws, as amended, that, among other things, require the purported transferee to surrender the relevant Company Stock and any dividends that such purported transferee may have received thereon to an agent to be designated by the Board of Directors of the Company (or an authorized committee thereof) (the "Agent"). If the purported transferee has resold the Company Stock before receiving the Company's demand to surrender such Company Stock, the purported transferee generally will be required to transfer to the Agent the proceeds of the sale and any distributions such purported transferee has received on the Company Stock.

The Board of Directors of the Company (and any authorized committee thereof) has the discretion to approve a transfer of Company Stock that would otherwise violate the Transfer Restrictions. If the Board of Directors of the Company decides to permit a transfer that would otherwise violate the Transfer Restrictions, that transfer or later transfers may result in an "ownership change" that would limit the use of the NOL's and other tax attributes of the Company and its subsidiaries.

Note 9. Retirement Plan

In 1986, Cues established a contributory trustee administered defined contribution plan covering all of its employees who have completed 90 days of eligible service. Participants can make deferred cash contributions, not to exceed 16% of their annual compensation, which are supplemented by employer matching contributions in the amount of 50% of the participant's contribution up to a maximum employer contribution of 3%. Participants partially vest in the employer's contributions after the second year of service and are fully vested after the fourth year of service.

During 2013 and 2012, the Company elected to make safe harbor matching contributions whereby, the Company made matching contribution equal to 100% of the first 1% and 50% of the next 5% of the participant's contribution up to a maximum employer contribution of 3.5%. The participants will be fully vested in the employer's safe harbor contributions after the second year of service. The safe harbor matching contribution election will be made on an annual basis.

As of December 31, 2013 and 2012, the Company had accrued $200,000 each year as a profit sharing contribution to be allocated to all eligible employees as defined in the plan. The 2013 and 2012 profit sharing contributions were paid in March 2014 and 2013, respectively.

Thrift and profit sharing expense for 2013 and 2012 was $527,000 and $483,000, respectively, which is in selling, general and administrative expenses in the accompanying consolidated statements of income and comprehensive income.

Note 10. Commitments and Contingencies

Leases. The Company's Restaurant Operation conducts a portion of its operations utilizing leased facilities. As of December 31, 2013, the Company leased land and/or buildings at five of its six operating Restaurants under lease agreements with terms expiring at various dates (including extension options) through 2036. In addition, the Company leases three other Restaurants properties that were closed and no longer being operated by the Company and are subleased or assigned to third parties. The majority of the leases require that the Company pay all taxes, maintenance, insurance, and other occupancy expenses related to the leased premises. The rental payments for the Restaurant locations are based on a minimum annual rental. Generally, the leases provide for renewal options, and in most cases management expects that in the normal course of business lease agreements will be renewed or replaced by other leases.

The Company owns one restaurant located in Acton, Massachusetts and computer equipment under a capital lease, which is included in property, building and equipment in the accompanying consolidated balance sheets. The cost and accumulated depreciation for that property was $1,367,000 and $1,186,000, respectively, as of December 31, 2013 and $1,355,000 and $1,157,000, respectively, as of December 31, 2012.

Additionally, the Company has several non-cancelable operating leases, primarily for certain office and transportation equipment that expire over the next five years and generally provide for purchases or renewal options.

The following is a schedule of future minimum lease commitments for each of the years in the five-year period ending December 31, 2018, and thereafter:

	Capital Leases	Operating Leases
2014	$ 68,000	$ 813,000
2015	62,000	713,000
2016	62,000	518,000
2017	56,000	450,000
2018	56,000	366,000
Thereafter	56,000	806,000
Total minimum lease payments	360,000	$ 3,666,000
Less - Amount representing interest at 6.7% to 7.1%	(71,000)	
Present value of net minimum capital lease payments	289,000	
Less current portion	(46,000)	
Capital lease obligation – noncurrent	$ 243,000	

The following is a schedule of future sublease income for each of the years in the five-year period ending December 31, 2018, and thereafter:

	Sublease Income
2014	$ 245,000
2015	185,000
2016	85,000
2017	82,000
2018	82,000
Thereafter	482,000
Total sublease income	$ 1,161,000

Rent expense charged to operations amounted to $631,000 and $773,000 during 2013 and 2012, respectively, which is included in cost of sales in the accompanying consolidated statements of income and comprehensive income. Sublease income amounted to $241,000 and $319,000 during 2013 and 2012, respectively.

Litigation. The Company is involved in various claims and lawsuits incidental to its business. In the opinion of management, the resolution of any currently pending matters will not have a material impact on the Company’s consolidated financial position, results of operations or cash flows. Accordingly, the

Company has not made any accrual provisions for litigation in the accompanying consolidated balance sheets.

Note 11. Segment Reporting.

The Company has two reportable segments, restaurant operations ("Restaurants") and equipment manufacturing ("Equipment"). 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 December 31, 2013 and 2012, the restaurant operations segment includes Restaurants located in Massachusetts and New Hampshire operating under the Bickford's brand name. The equipment manufacturing segment produces sewer inspection equipment for sale to municipalities, contractors, and foreign governments.

Accounting policies of the segments are the same as those described in Note 2, Summary of Significant Accounting Policies above. 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 years ended December 31, 2013 and 2012 is summarized in the following table. The other lines include corporate related items, results of insignificant operations.

	2013	2012
Net Sales to External Customers:		
Equipment	$ 57,238,000	$ 55,983,000
Restaurants	7,184,000	7,925,000
	$ 64,422,000	$ 63,908,000
Segment Assets:		
Equipment	$ 33,438,000	$ 28,468,000
Restaurants	2,440,000	2,315,000
Other	1,960,000	4,605,000
	$ 37,838,000	$ 35,388,000
Capital Expenditures for Segment Assets:		
Equipment	$ 2,574,000	$ 1,350,000
Restaurants	131,000	226,000
	$ 2,705,000	$ 1,576,000
Depreciation:		
Equipment	$ 808,000	$ 629,000
Restaurants	117,000	129,000
Other	9,000	9,000
	$ 934,000	$ 767,000

	2013	2012
Interest Expense:		
Equipment	$ --	$ 2,000
Restaurants	143,000	163,000
Other	241,000	264,000
	$ 384,000	$ 429,000

There were no inter-segment sales or transfers during 2013 and 2012. Foreign assets represented less than 10% of the Company's totals. During 2013 and 2012 foreign sales represented 7.4% and 14.5%, respectively of total sales. No material amounts of the Company's sales depended upon a single customer.