

FORTUNE INDUSTRIES, INC.
For The Nine Months Ended March 31, 2016

INDEX

	Page
Financial Statements	
Consolidated Balance Sheets as of March 31, 2016 (unaudited) and June 30, 2015 (audited)	2
Consolidated Statements of Operations for the nine month periods ended March 31, 2016 (unaudited) and March 31, 2015 (unaudited)	4
Consolidated Statement of Changes in Shareholders' Equity for the nine month period ended March 31, 2016 (unaudited)	5
Consolidated Statements of Cash Flows for the nine month periods ended March 31, 2016 (unaudited) and March 31, 2015 (unaudited)	6
Notes to the Unaudited Interim Consolidated Financial Statements	8

FORTUNE INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

	<u>March 31,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$11,856	\$7,641
Restricted cash	2,346	2,230
Accounts receivable, net of allowance for doubtful accounts of \$37 and \$37	2,009	3,084
Deferred tax assets, net	750	940
Prepaid expenses and other current assets	<u>361</u>	<u>801</u>
Total Current Assets	<u>17,322</u>	<u>14,696</u>
OTHER ASSETS		
Property and equipment, net of accumulated depreciation of \$2,019 and \$1,982	123	164
Deferred tax assets, net	830	1,345
Goodwill	7,548	7,548
Other intangible assets, net of accumulated amortization of \$692 and \$503	1,823	2,012
Other long-term assets	<u>56</u>	<u>55</u>
Total Other Assets	<u>10,380</u>	<u>11,124</u>
TOTAL ASSETS	<u>\$27,702</u>	<u>\$25,820</u>

See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements

FORTUNE INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(DOLLARS IN THOUSANDS)

	<u>March 31,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$1,459	\$1,339
Accounts payable	200	455
Payroll taxes and withholdings	3,662	3,158
Accrued worksite employee payroll costs	1,713	1,741
Workers' compensation reserves	529	733
Customer deposits	2,485	683
Accrued expenses	<u>2,171</u>	<u>2,483</u>
Total Current Liabilities	12,219	10,592
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	5,871	7,997
Workers' compensation reserves	<u>458</u>	<u>719</u>
Total Liabilities	<u>18,548</u>	<u>19,308</u>
SHAREHOLDERS' EQUITY		
Common stock, \$0.000010 par value; 150,000,000 authorized; 55,456,734 issued and outstanding	1	1
Additional paid-in capital	3,025	3,025
Retained earnings	<u>5,804</u>	<u>3,454</u>
Total Shareholders' Equity of Fortune Industries, Inc.	8,830	6,480
Noncontrolling Interest in Consolidated Affiliate	<u>324</u>	<u>32</u>
Total Shareholders' Equity	<u>9,154</u>	<u>6,512</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$27,702</u>	<u>\$25,820</u>

See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements

FORTUNE INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	For the Nine Months Ended	
	March 31, 2016	March 31, 2015
REVENUES	\$48,298	\$46,263
COST OF REVENUES	35,726	34,891
GROSS PROFIT	12,572	11,372
OPERATING EXPENSES		
Selling, general and administrative expenses	7,878	7,288
Depreciation and amortization	239	234
Employee stock compensation	292	-
Total Operating Expenses	8,409	7,522
OPERATING INCOME	4,163	3,850
OTHER INCOME (EXPENSE)		
Interest income	28	7
Interest expense	(378)	(689)
Total Other Income (Expense)	(350)	(682)
INCOME BEFORE PROVISION FOR INCOME TAXES	3,813	3,168
Provision for income taxes	1,463	963
NET INCOME	\$2,350	\$2,205

See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements

FORTUNE INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(DOLLARS IN THOUSANDS)

	Common	Additional	Retained	Noncontrolling	Total
	<u>Stock</u>	<u>Paid-in Capital</u>	<u>Earnings</u>	<u>Interest In</u>	<u>Shareholders'</u>
				<u>Consolidated</u>	<u>Equity</u>
				<u>Affiliate</u>	
BALANCE AT JUNE 30, 2015 (Audited)	\$1	\$3,025	\$3,454	\$32	\$6,512
Restricted stock award	-	-	-	292	292
Net income	-	-	2,350	-	2,350
BALANCE AT MARCH 31, 2016 (Unaudited)	\$1	\$3,025	\$5,804	\$324	\$9,154

See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements

FORTUNE INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	For the Nine Months Ended	
	March 31, 2016	March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$2,350	\$2,205
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	239	234
Employee stock compensation	292	-
Provision for losses on accounts receivable	-	13
Provision for deferred income taxes	705	100
Changes in certain operating assets and liabilities:		
Restricted cash	(116)	(78)
Accounts receivable	1,075	909
Prepaid assets and other current assets	440	240
Other long-term assets	(10)	10
Accounts payable	(255)	(553)
Payroll taxes and withholdings	504	1,069
Accrued worksite employee payroll costs	(28)	61
Workers' compensation reserves	(465)	97
Customer deposits	1,802	(840)
Accrued expenses	(312)	335
Net Cash Provided by Operating Activities	<u>6,221</u>	<u>3,802</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	-	(3)
Net Cash Used in Investing Activities	<u>-</u>	<u>(3)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on term debt	(2,006)	(1,727)
Net Cash Used in Financing Activities	<u>(2,006)</u>	<u>(1,727)</u>
NET INCREASE IN CASH AND EQUIVALENTS	4,215	2,072
CASH AND EQUIVALENTS		
Beginning of Period	<u>7,641</u>	<u>7,826</u>
End of Period	<u>\$11,856</u>	<u>\$9,898</u>

See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements

FORTUNE INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	<u>For the Nine Months Ended</u>	
	<u>March 31,</u> <u>2016</u>	<u>March 31,</u> <u>2015</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$378</u>	<u>\$689</u>
Income taxes paid	<u>\$506</u>	<u>\$ 63</u>

See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements

FORTUNE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS UNLESS OTHERWISE INDICATED)
(UNAUDITED)

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Basis of Presentation: The financial data presented herein is unaudited and should be read in conjunction with the consolidated financial statements and accompanying notes included in the 2015 Annual Audit Report for Fortune Industries, Inc. (which, together with its subsidiaries unless the context requires otherwise, shall be referred to herein as the “Company”). The consolidated balance sheet at June 30, 2015 has been derived from the audited financial statements at that date, but does not include all of the information or footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The Company’s consolidated balance sheet at March 31, 2016 and the consolidated statements of operations, cash flows and shareholders’ equity for the period ended March 31, 2016 have been prepared by the Company without audit. These unaudited financial statements contain, in the opinion of management, all adjustments (consisting of normal accruals and other recurring adjustments) necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America. The Company has evaluated subsequent events through the time these financial statements were filed with the OTCIQ. The operating results for the nine month period ended March 31, 2016 are not necessarily indicative of the operating results to be expected for the full fiscal year.