

FORTUNE INDUSTRIES, INC.
For The Quarterly Period Ended December 31, 2014

INDEX

	Page
Financial Statements	
Consolidated Balance Sheets as of December 31, 2014 (unaudited) and June 30, 2014 (audited)	2
Consolidated Statements of Operations for the six month periods ended December 31, 2014 (unaudited) and December 31, 2013 (unaudited)	4
Consolidated Statement of Changes in Shareholders' Equity for the six month period ended December 31, 2014 (unaudited)	5
Consolidated Statements of Cash Flows for the six month periods ended December 31, 2014 (unaudited) and December 31, 2013 (unaudited)	6
Notes to the Unaudited Interim Consolidated Financial Statements	8

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

	<u>December 31,</u> <u>2014</u>	<u>June 30,</u> <u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$9,741	\$7,826
Restricted cash	2,253	2,150
Accounts receivable, net of allowance for doubtful accounts of \$56 and \$15	3,073	3,048
Deferred tax assets, net	793	793
Prepaid expenses and other current assets	<u>636</u>	<u>661</u>
Total Current Assets	16,496	14,478
OTHER ASSETS		
Property, plant & equipment, net of accumulated depreciation of \$1,958 and \$1,799	111	136
Deferred tax assets, net	1,622	1,622
Goodwill	7,548	7,548
Other intangible assets, net of accumulated amortization of \$377 and \$251	2,138	2,264
Other long-term assets	<u>65</u>	<u>60</u>
Total Other Assets	<u>11,484</u>	<u>11,630</u>
TOTAL ASSETS	<u><u>\$27,980</u></u>	<u><u>\$26,108</u></u>

See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements

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

	<u>December 31, 2014</u>	<u>June 30, 2014</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$1,163	\$1,092
Accounts payable	394	773
Payroll taxes and withholdings	4,425	3,037
Accrued worksite employee payroll costs	1,759	1,733
Workers' compensation reserves	632	257
Customer deposits	1,553	1,124
Accrued expenses	<u>1,980</u>	<u>1,865</u>
Total Current Liabilities	11,906	9,881
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	9,487	10,708
Workers' compensation reserves	<u>757</u>	<u>860</u>
Total Liabilities	22,150	21,449
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	2,804	1,633
Total Shareholders' Equity	<u>5,830</u>	<u>4,659</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$27,980</u></u>	<u><u>\$26,108</u></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 Six Months Ended	
	December 31, 2014	December 31, 2013
REVENUES	\$29,796	\$27,531
COST OF REVENUES	<u>22,738</u>	<u>20,857</u>
GROSS PROFIT	7,058	6,674
OPERATING EXPENSES		
Selling, general and administrative expenses	4,904	4,935
Depreciation and amortization	<u>158</u>	<u>153</u>
Total Operating Expenses	<u>5,062</u>	<u>5,088</u>
OPERATING INCOME	1,996	1,586
OTHER INCOME (EXPENSE)		
Interest income	4	16
Interest expense	<u>(461)</u>	<u>(524)</u>
Total Other Income (Expense)	<u>(457)</u>	<u>(508)</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	1,539	1,078
Provision for income taxes	<u>368</u>	<u>452</u>
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	<u><u>\$1,171</u></u>	<u><u>\$626</u></u>

See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements

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

	Common <u>Stock</u>	Additional <u>Paid-in Capital</u>	Retained <u>Earnings</u>	Total Shareholders' <u>Equity</u>
BALANCE AT JUNE 30, 2014 (Audited)	\$1	\$3,025	\$1,633	\$4,659
Net income	-	-	1,171	1,171
BALANCE AT SEPTEMBER 30, 2014 (Unaudited)	\$1	\$3,025	\$2,804	\$5,830

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 Six Months Ended	
	December 31,	December 31,
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$1,171	\$626
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	158	153
Provision for losses on accounts receivable		(26)
Changes in certain operating assets and liabilities:		
Restricted cash	(104)	(57)
Accounts receivable	(24)	(943)
Prepaid assets and other current assets	25	(87)
Other long-term assets	(5)	(57)
Accounts payable	(383)	(376)
Workers' compensation reserves	272	68
Customer deposits	429	(132)
Accrued expenses	1,528	825
Net Cash Provided by (Used In) Operating Activities	3,067	(6)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(3)	(35)
Net Cash Used in Investing Activities	(3)	(35)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on term debt	(1,149)	(492)
Net Cash Used in Financing Activities	(1,149)	(492)
NET DECREASE IN CASH AND EQUIVALENTS	(1,915)	(533)
CASH AND EQUIVALENTS		
Beginning of Period	7,826	7,351
End of Period	\$9,741	\$6,818

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)

	For the Six Months Ended	
	December 31, 2014	December 31, 2013
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$461	\$524
Income taxes paid	\$68	\$452

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 2014 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, 2014 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 for complete financial statements. The Company’s consolidated balance sheet at December 31, 2014 and the consolidated statements of operations, cash flows and shareholders’ equity for the period ended December 31, 2014 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. The Company has evaluated subsequent events through the time these financial statements were filed with the OTCIQ. The operating results for the six month period ended December 31, 2014 are not necessarily indicative of the operating results to be expected for the full fiscal year.