

FORTUNE INDUSTRIES, INC.
For The Three Months Ended September 30, 2015

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

	<u>September 30, 2015</u>	<u>June 30, 2015</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$8,264	\$7,641
Restricted cash	2,298	2,230
Accounts receivable, net of allowance for doubtful accounts of \$36 and \$37	2,235	3,084
Deferred tax assets, net	900	940
Prepaid expenses and other current assets	<u>527</u>	<u>801</u>
Total Current Assets	<u>14,224</u>	<u>14,696</u>
OTHER ASSETS		
Property and equipment, net of accumulated depreciation of \$1,997 and \$1,982	150	164
Deferred tax assets, net	960	1,345
Goodwill	7,548	7,548
Other intangible assets, net of accumulated amortization of \$566 and \$503	1,949	2,012
Other long-term assets	<u>52</u>	<u>55</u>
Total Other Assets	<u>10,659</u>	<u>11,124</u>
TOTAL ASSETS	<u><u>\$24,883</u></u>	<u><u>\$25,820</u></u>

See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements

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

	September 30, 2015	June 30, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$1,358	\$1,339
Accounts payable	251	455
Payroll taxes and withholdings	2,254	3,158
Accrued worksite employee payroll costs	1,703	1,741
Workers' compensation reserves	888	733
Customer deposits	1,278	683
Accrued expenses	<u>1,675</u>	<u>2,483</u>
Total Current Liabilities	9,407	10,592
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	7,648	7,997
Workers' compensation reserves	<u>482</u>	<u>719</u>
Total Liabilities	<u>17,537</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>4,191</u>	<u>3,454</u>
Total Shareholders' Equity of Fortune Industries, Inc.	7,217	6,480
Noncontrolling Interest in Consolidated Affiliate	<u>129</u>	<u>32</u>
Total Shareholders' Equity	<u>7,346</u>	<u>6,512</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$24,883</u></u>	<u><u>\$25,820</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 Three Months Ended	
	September 30, 2015	September 30, 2014
REVENUES	\$15,311	\$14,790
COST OF REVENUES	<u>11,404</u>	<u>11,298</u>
GROSS PROFIT	<u>3,907</u>	<u>3,492</u>
OPERATING EXPENSES		
Selling, general and administrative expenses	2,457	2,467
Depreciation and amortization	80	76
Employee stock compensation	<u>97</u>	<u>-</u>
Total Operating Expenses	<u>2,634</u>	<u>2,543</u>
OPERATING INCOME	1,273	949
OTHER INCOME (EXPENSE)		
Interest income	9	2
Interest expense	<u>(132)</u>	<u>(232)</u>
Total Other Income (Expense)	<u>(123)</u>	<u>(230)</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	1,150	719
Provision for income taxes	<u>413</u>	<u>67</u>
NET INCOME	<u><u>\$737</u></u>	<u><u>\$652</u></u>

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 <u>Stock</u>	Additional <u>Paid-in Capital</u>	Retained <u>Earnings</u>	Noncontrolling Interest In Consolidated <u>Affiliate</u>	Total Shareholders' <u>Equity</u>
BALANCE AT JUNE 30, 2015 (Audited)	\$1	\$3,025	\$3,454	\$32	\$6,512
Restricted stock award	-	-	-	97	97
Net income	-	-	737	-	737
BALANCE AT SEPTEMBER 30, 2015 (Unaudited)	\$1	\$3,025	\$4,191	\$129	\$7,346

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 Three Months Ended	
	September 30, 2015	September 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$737	\$652
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	80	76
Employee stock compensation	97	-
Provision for losses on accounts receivable	(1)	41
Provision for deferred income taxes	300	-
Changes in certain operating assets and liabilities:		
Restricted cash	(68)	(103)
Accounts receivable	850	603
Prepaid assets and other current assets	274	64
Other long-term assets	3	-
Accounts payable	(204)	(185)
Payroll taxes and withholdings	(904)	(288)
Accrued worksite employee payroll costs	(38)	59
Workers' compensation reserves	(82)	117
Customer deposits	595	(636)
Accrued expenses	(683)	22
Net Cash Provided by Operating Activities	<u>956</u>	<u>422</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(3)</u>	<u>(5)</u>
Net Cash Used in Investing Activities	<u>(3)</u>	<u>(5)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on term debt	<u>(330)</u>	<u>(573)</u>
Net Cash Used in Financing Activities	<u>(330)</u>	<u>(573)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	623	(156)
CASH AND EQUIVALENTS		
Beginning of Period	<u>7,641</u>	<u>7,826</u>
End of Period	<u><u>\$8,264</u></u>	<u><u>\$7,670</u></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)

	For the Three Months Ended	
	September 30, 2015	September 30, 2014
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$132	\$232
Income taxes paid	\$113	\$67

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 September 30, 2015 and the consolidated statements of operations, cash flows and shareholders’ equity for the period ended September 30, 2015 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 three month period ended September 30, 2015 are not necessarily indicative of the operating results to be expected for the full fiscal year.