

FORTUNE INDUSTRIES, INC.
For The Six Months Ended December 31, 2015

INDEX

	Page
Financial Statements	
Consolidated Balance Sheets as of December 31, 2015 (unaudited) and June 30, 2015 (audited)	2
Consolidated Statements of Operations for the six month periods ended December 31, 2015 (unaudited) and December 31, 2014 (unaudited)	4
Consolidated Statement of Changes in Shareholders' Equity for the six month period ended December 31, 2015 (unaudited)	5
Consolidated Statements of Cash Flows for the six month periods ended December 31, 2015 (unaudited) and December 31, 2014 (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>2015</u>	<u>June 30,</u> <u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$10,900	\$7,641
Restricted cash	2,547	2,230
Accounts receivable, net of allowance for doubtful accounts of \$36 and \$37	2,735	3,084
Deferred tax assets, net	800	940
Prepaid expenses and other current assets	<u>419</u>	<u>801</u>
Total Current Assets	<u>17,401</u>	<u>14,696</u>
OTHER ASSETS		
Property and equipment, net of accumulated depreciation of \$2,008 and \$1,982	136	164
Deferred tax assets, net	850	1,345
Goodwill	7,548	7,548
Other intangible assets, net of accumulated amortization of \$629 and \$503	1,886	2,012
Other long-term assets	<u>56</u>	<u>55</u>
Total Other Assets	<u>10,476</u>	<u>11,124</u>
TOTAL ASSETS	<u><u>\$27,877</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)

	<u>December 31, 2015</u>	<u>June 30, 2015</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$1,387	\$1,339
Accounts payable	259	455
Payroll taxes and withholdings	5,572	3,158
Accrued worksite employee payroll costs	1,670	1,741
Workers' compensation reserves	683	733
Customer deposits	270	683
Accrued expenses	<u>2,389</u>	<u>2,483</u>
Total Current Liabilities	12,230	10,592
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	7,135	7,997
Workers' compensation reserves	<u>428</u>	<u>719</u>
Total Liabilities	<u>19,793</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>4,831</u>	<u>3,454</u>
Total Shareholders' Equity of Fortune Industries, Inc.	7,857	6,480
Noncontrolling Interest in Consolidated Affiliate	<u>227</u>	<u>32</u>
Total Shareholders' Equity	<u>8,084</u>	<u>6,512</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$27,877</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 Six Months Ended	
	December 31, 2015	December 31, 2014
REVENUES	\$31,422	\$29,796
COST OF REVENUES	<u>23,456</u>	<u>22,738</u>
GROSS PROFIT	<u>7,966</u>	<u>7,058</u>
OPERATING EXPENSES		
Selling, general and administrative expenses	5,191	4,904
Depreciation and amortization	159	158
Employee stock compensation	<u>195</u>	<u>-</u>
Total Operating Expenses	<u>5,545</u>	<u>5,062</u>
OPERATING INCOME	2,421	1,996
OTHER INCOME (EXPENSE)		
Interest income	19	4
Interest expense	<u>(260)</u>	<u>(461)</u>
Total Other Income (Expense)	<u>(241)</u>	<u>(457)</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	2,180	1,539
Provision for income taxes	<u>803</u>	<u>368</u>
NET INCOME	<u>\$1,377</u>	<u>\$1,171</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	-	-	-	195	195
Net income	-	-	1,377	-	1,377
BALANCE AT DECEMBER 31, 2015 (Unaudited)	\$1	\$3,025	\$4,831	\$227	\$8,084

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,
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$1,377	\$1,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	159	158
Employee stock compensation	195	-
Provision for losses on accounts receivable	(1)	41
Provision for deferred income taxes	635	-
Changes in certain operating assets and liabilities:		
Restricted cash	(317)	(103)
Accounts receivable	350	140
Prepaid assets and other current assets	382	176
Other long-term assets	(1)	(5)
Accounts payable	(196)	(379)
Payroll taxes and withholdings	2,414	1,388
Accrued worksite employee payroll costs	(71)	26
Workers' compensation reserves	(341)	272
Customer deposits	(413)	223
Accrued expenses	(94)	(36)
Net Cash Provided by Operating Activities	<u>4,076</u>	<u>3,072</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(5)</u>	<u>(7)</u>
Net Cash Used in Investing Activities	<u>(5)</u>	<u>(7)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on term debt	<u>(814)</u>	<u>(1,150)</u>
Net Cash Used in Financing Activities	<u>(814)</u>	<u>(1,150)</u>
NET INCREASE IN CASH AND EQUIVALENTS	3,259	1,915
CASH AND EQUIVALENTS		
Beginning of Period	<u>7,641</u>	<u>7,826</u>
End of Period	<u>\$10,900</u>	<u>\$9,741</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 Six Months Ended	
	December 31, 2015	December 31, 2014
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$260</u>	<u>\$461</u>
Income taxes paid	<u>\$142</u>	<u>\$ 68</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 December 31, 2015 and the consolidated statements of operations, cash flows and shareholders’ equity for the period ended December 31, 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 six month period ended December 31, 2015 are not necessarily indicative of the operating results to be expected for the full fiscal year.