FORTUNE INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND JUNE 30, 2015

FORTUNE INDUSTRIES, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

SOMERSET
CPAs AND ADVISORS

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Fortune Industries, Inc. and Subsidiaries
Brentwood, Tennessee

We have audited the accompanying consolidated balance sheets of Fortune Industries, Inc. and Subsidiaries as of June 30, 2016 and 2015, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and 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 financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fortune Industries, Inc. and Subsidiaries as of June 30, 2016 and 2015 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The audit of the consolidated balance sheet of Fortune Industries, Inc. and Subsidiaries as of June 30, 2014 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended, were conducted by us in accordance with auditing standards generally accepted in the United States of America. Our report thereon, dated October 1, 2014, stated the consolidated financial statements presented fairly, in all material respects, the financial position of Fortune Industries, Inc. and Subsidiaries as of June 30, 2014 and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Somerset CPAs, P.C.

Indianapolis, Indiana
October 12, 2016

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

	June 30, 2016	June 30, 2015
ASSETS		
CURRENT ASSETS		
Cash and equivalents (Note 1)	$ 10,130	$ 7,641
Restricted cash (Note 1)	1,930	2,230
Accounts receivable, net (Note 1)	3,100	3,084
Deferred tax assets, net (Note 6)	808	940
Prepaid expenses and other current assets	1,502	801
Total Current Assets	17,470	14,696
OTHER ASSETS		
Property and equipment, net (Note 2)	110	164
Deferred tax assets, net (Note 6)	1,318	1,345
Goodwill (Note 3)	7,548	7,548
Other intangible assets, net (Note 3)	1,760	2,012
Other long-term assets	42	55
Total Other Assets	10,778	11,124
TOTAL ASSETS	$ 28,248	$ 25,820

See Accompanying Notes to the Consolidated Financial Statements

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

	June 30, 2016	June 30, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 4)	$ 1,516	$ 1,339
Accounts payable	294	455
Payroll taxes and withholdings	3,122	3,158
Accrued worksite employee payroll costs	1,736	1,741
Workers compensation reserves (Note 1)	317	733
Accrued expenses	2,255	2,483
Customer deposits	2,872	683
Total Current Liabilities	12,112	10,592
LONG-TERM LIABILITIES		
Long term debt, less current maturities (Note 4)	4,854	7,997
Workers compensation reserves (Note 1)	835	719
Total Liabilities	17,801	19,308
SHAREHOLDERS' EQUITY (NOTE 7)		
Common stock, $0.000010 par value; 150,000,000 authorized; 55,456,734 issued and outstanding at June 30, 2016 and 2015	1	1
Additional paid-in capital	3,016	3,025
Retained earnings	7,010	3,454
Total Shareholders' Equity of Fortune Industries, Inc.	10,027	6,480
Noncontrolling Interest in Consolidated Affiliate	420	32
Total Shareholders’ Equity	10,447	6,512
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 28,248	$ 25,820

See Accompanying Notes to the Consolidated Financial Statements

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

	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2014
REVENUES, NET	$ 64,920	$ 62,120	$ 58,882
COST OF REVENUES, NET	47,963	46,800	44,335
GROSS PROFIT	16,957	15,320	14,547
OPERATING EXPENSES			
Selling, general and administrative expenses	11,061	10,272	10,635
Employee stock compensation (Note 7)	388	817	-
Depreciation and amortization	317	350	327
Total Operating Expenses	11,766	11,439	10,962
OPERATING INCOME	5,191	3,881	3,585
OTHER INCOME (EXPENSE)			
Interest income	38	10	25
Interest expense	(482)	(885)	(1,028)
Total Other Income (Expense)	(444)	(875)	(1,003)
INCOME BEFORE PROVISION FOR INCOME TAXES	4,747	3,006	2,582
Provision for income taxes (Note 6)	1,191	1,185	949
NET INCOME	3,556	1,821	1,633
Net Income Attributable to the Noncontrolling Interest	-	-	-
NET INCOME ATTRIBUTABLE TO FORTUNE INDUSTRIES, INC.	$ 3,556	$ 1,821	$ 1,633

See Accompanying Notes to the Consolidated Financial Statements

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

	Common Stock	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Noncontrolling Interest In Consolidated Affiliate	Total Shareholders' Equity
BALANCE AT JUNE 30, 2013	**$1,226**	**$27,133**	**($809)**	**$20,383**	**($31,733)**	**$-**	**$16,200**
Agreement and Plan of Merger with CEP, Inc., effective July 1, 2013	(1,225)	(27,133)	809	(17,358)	31,733	-	(13,174)
Net income	-	-	-	-	1,633	-	1,633
BALANCE AT JUNE 30, 2014	**1**	**-**	**-**	**3,025**	**1,633**	**-**	**4,659**
Restricted stock award	-	-	-	-	-	32	32
Net income	-	-	-	-	1,821	-	1,821
BALANCE AT JUNE 30, 2015	**1**	**-**	**-**	**3,025**	**3,454**	**32**	**6,512**
Cancel and extinguish remaining shares of common stock held by Small Block Holders in accordance with Agreement and Plan of Merger with CEP, Inc.	-	-	-	(9)	-	-	(9)
Restricted stock award	-	-	-	-	-	388	388
Net income	-	-	-	-	3,556	-	3,556
BALANCE AT JUNE 30, 2016	**$1**	**$-**	**$-**	**$3,016**	**$7,010**	**$420**	**$10,447**

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

	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,556	$ 1,821	$ 1,633
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	317	350	327
Provision for losses on accounts receivable	(36)	(20)	(130)
Provision for deferred income taxes	159	130	335
Employee stock compensation	388	32	-
Changes in certain operating assets and liabilities:			
Restricted cash	300	(80)	(75)
Accounts receivable	20	(16)	(418)
Prepaid expenses and other current assets	(701)	(185)	(11)
Other long-term assets	2	5	98
Accounts payable	(161)	(318)	(79)
Payroll taxes and withholdings	(36)	121	(1,000)
Accrued worksite employee payroll costs	(5)	8	408
Workers' compensation reserves	(300)	335	(259)
Accrued expenses	(237)	618	327
Customer deposits	2,189	(441)	863
Net Cash Provided by Operating Activities	5,455	2,360	2,019
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	-	(81)	(44)
Net Cash Used in Investing Activities	-	(81)	(44)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments on term debt	(2,966)	(2,464)	(1,500)
Net Cash Used in Financing Activities	(2,966)	(2,464)	(1,500)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	2,489	(185)	475
CASH AND EQUIVALENTS			
Beginning of Year	7,641	7,826	7,351
End of Year	$ 10,130	$ 7,641	$ 7,826
SUPPLEMENTAL DISCLOSURES			
Interest paid	$ 482	$ 885	$ 1,028
Income taxes paid	$ 1,152	$ 678	$ 520

See Accompanying Notes to the Consolidated Financial Statements

(DOLLARS IN THOUSANDS UNLESS OTHERWISE INDICATED)

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

Nature of Operations: Fortune Industries, Inc. (formerly known as Fortune Diversified Industries, Inc.) is a Tennessee corporation, originally incorporated in Delaware in 1988. The term "Company" as used herein refers to Fortune Industries, Inc. and its subsidiaries unless the context otherwise requires. The Company provides full service human resources outsourcing services through co-employment relationships with its clients throughout the United States of America, with significant concentrations in Tennessee, Indiana, Utah, Arizona and Colorado.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Fortune Industries, Inc. and its wholly-owned subsidiaries (Note 13). All significant inter-company accounts and transactions of the Company have been eliminated.

The Company is also the primary beneficiary of its majority shareholder, CEP, Inc. ("CEP"), which qualifies as a variable interest entity because the Company has the power to direct the activities that most significantly impact CEP's economic performance. Accordingly, the assets, liabilities, revenues and expenses of CEP have been included in the accompanying consolidated financial statements. CEP has an amount due from the Company and cash of $420 and $1, respectively, at June 30, 2016. CEP had an amount due from the Company and cash of $31 and $1, respectively, at June 30, 2015. CEP did not have any revenues or expenses for any of the years ended June 30, 2016, 2015 or 2014. CEP has granted restricted shares of its common stock to certain employees of the Company (Note 7). In addition, the Company and CEP have co-borrowed certain term debts in the amount of $6,370 and $9,336 at June 30, 2016 and 2015, respectively (Note 4). The Company's future maximum exposure to loss could only increase if additional financial support is provided to CEP. All significant intercompany balances and transactions have been eliminated in consolidation.

Estimates: Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Revenue and Cost Recognition: Professional Staff Management, Inc. and related entities ("PSM"); CSM, Inc. and subsidiaries ("CSM"); and Employer Solutions Group, Inc. and subsidiaries ("ESG") bill clients under their Professional Services Agreement as licensed Professional Employer Organizations (collectively the "PEOs"), which includes each worksite employee's gross wages, plus additional charges for employment related taxes, benefits, workers' compensation insurance, administrative and record keeping, as well as safety, human resources and regulatory compliance consultation. Most wages, taxes and insurance coverage are provided under the PEOs' federal, state and local or vendor identification numbers. No identification or recognition is given to the client when these monies are remitted or calculations are reported. Most calculations or amounts the PEOs owe the government and its employment insurance vendors are based on the experience levels and activity of the PEOs with no consideration to client detail. The PEOs bill the client their worksite employees' gross wages plus an overall service fee that includes components of employment related taxes, employment benefits insurance and administration of those items. The component of the service fee related to administration varies, in part, according to the size of the client, the amount and frequency of payroll payments and the method of delivery of such payments. The component of the service fee related to health, workers' compensation and unemployment insurance is based, in part, on the client's historical claims experience. Charges by the PEOs are invoiced along with each periodic payroll delivered to the client.

The PEOs report revenue in accordance with Financial Accounting Standards Board ("FASB") ASC 605-45, "Revenue Recognition - Principal Agent Considerations." The PEOs report revenue on a gross basis for the total amount billed to clients for service fees, which includes health and welfare benefit plan fees, workers' compensation insurance, unemployment insurance fees and employment-related taxes. The PEOs report revenue on a gross basis for such fees because the PEOs are the primary obligor and deemed to be the principal in these transactions under ASC 605-45. The PEOs report revenue on a net basis for the amount billed to clients for worksite employee salaries and wages and outside benefit plans. This accounting policy of reporting revenue net as an agent versus gross as a principal has no effect on gross profit, operating income or net income. The gross to net revenue revenue reconciliation is as follows:

	June 30, 2016	June 30, 2015	June 30, 2014
Gross billings	$563,911	$527,042	$485,895
Less worksite employee costs	498,991	464,922	427,013
Net revenue	$64,920	$62,120	$58,882

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The PEOs account for their revenue using the accrual method of accounting. Under the accrual method of accounting, revenues are recognized in the period in which the worksite employee performs work. The PEOs accrue unbilled receivables for service fees, health and welfare benefits plan fees, workers' compensation and unemployment insurance fees relating to work performed by worksite employees but unpaid at the end of each period. In addition, the related costs of services are accrued as a liability for the same period. Subsequent to the end of each period, such costs are paid and the related service fees are billed. Consistent with their revenue recognition policy, the PEOs' direct costs do not include the payroll cost of its worksite employees. The Company's direct costs associated with its revenue generating activities are comprised of all other costs related to its worksite employees, such as the employer portion of payroll-related taxes, employee benefit plan premiums and workers' compensation insurance costs.

Cash and Equivalents: Cash and equivalents may include money market fund shares, bank time deposits, certificates of deposits and other instruments with original maturities of three months or less.

Restricted Cash: Restricted cash includes certificates of deposits for letters of credit issued to collateralize the Company's obligations under its workers' compensation program and to comply with various state regulations. At June 30, 2016, the Company had $1.9 million in total restricted cash. Of this, $1.8 million is restricted for the Company's workers' compensation program in accordance with terms of its insurance carrier agreement and the remainder is restricted for certain standby letters of credit in accordance with various state regulations.

Accounts Receivable: Accounts receivable is stated at the amount billable to customers. The Company provides allowances for estimated doubtful accounts based on the Company's assessment of known delinquent accounts, historical experience and other currently available evidence of the collectability and the aging of the accounts receivable. Management had established an allowance for doubtful accounts of $1 and $37 as of June 30, 2016 and 2015, respectively. Delinquent receivables that are deemed uncollectible are written off based on individual credit evaluation and specific circumstances of the customer. The Company's policy is not to accrue interest on past due trade receivables.

Property, Equipment and Depreciation: Property and equipment are carried at cost and include expenditures for new additions and those which substantially increase the useful lives of existing assets. Depreciation is computed principally on the straight-line method over the estimated useful life. Depreciable lives range from 3 to 10 years.

Expenditures for normal repairs and maintenance are charged to operations as incurred. The cost of property or equipment retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts in the period of disposal with the resulting gain or loss reflected in earnings.

Goodwill and Other Indefinite-Lived Intangible Assets: The Company accounts for goodwill and other indefinite-lived intangible assets under FASB ASC 350, "Intangibles - Goodwill and Other." Under ASC 350, goodwill and other intangible assets with indeterminate lives are assessed for impairment at least annually and more often as triggering events occur. In making this assessment, management relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows and transactions and market place data. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of both goodwill and other intangible assets impairment. Since management's judgment is involved in performing goodwill and other intangible assets valuation analyses, there is risk that the carrying value of the goodwill and other intangible assets may be overstated or understated.

Long-lived Assets: The Company evaluates the carrying value of long-lived assets, primarily property and equipment and other definite-lived intangible assets, whenever significant events or changes in circumstances indicate the carrying value of these assets may be impaired. If such indicators of impairment are present, the Company determines whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. The fair value of the asset then becomes the asset's new carrying value, which the Company depreciates over the remaining estimated useful life of the asset. Fair value is determined by discounted future cash flows, appraisals or other methods.

Stock-based Compensation: The Company accounts for stock-based compensation under the provisions of FASB ASC 718, "Stock Compensation" using the modified prospective method. The Company recognizes compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards using the Black-Scholes model and other techniques, as applicable, and consideration of various assumptions including but not limited to the volatility of the Company's stock, risk free rates and the expected lives of these equity instruments.

Income Taxes: The Company accounts for income taxes under the provisions of FASB ASC 740, "Income Taxes." Accordingly, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates. Changes in deferred income tax assets and liabilities are included as a component of income tax expense.

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs: Advertising costs including marketing, advertising, publicity, promotion and other distribution costs, are expensed as incurred and totaled $21, $27 and $83, for the fiscal periods ended June 30, 2016, 2015 and 2014, respectively.

Workers' Compensation: The Company's PEO subsidiaries maintain fully insured high deductible workers' compensation insurance programs. Under the insurance policies established at each company, from July 1, 2015 to December 31, 2015, PSM and CSM's deductible liability was limited to $250 per incident, with an aggregate liability limit of approximately $2.0 million. Effective January 1, 2016, the deductible liability for all subsidiaries is limited to $350 per incident, with no aggregate annual liability limit.

Recently Issued Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers", which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States of America. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing accounting principles generally accepted in the United States of America. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on the consolidated financial statements and has not yet determined the method by which the Company will adopt the standard during the year ended June 30, 2019.

In March 2016, the FASB issued Accounting Standards Update 2016-08, "Revenue from Contracts with Customers, Principal versus Agent Considerations (Reporting Revenues Gross versus Net)". The amendment updates ASU 2014-09 by clarifying certain implementation guidance, but does not change the core principle of the new revenue standard. The updates (i) require an entity to determine whether it is a principal or an agent for each distinct good or service (or a distinct bundle of goods or services) to be provided to the customer; (ii) illustrate how an entity that is a principal might apply the control principle to goods, services or rights to services, when another party is involved in providing goods or services to a customer and; (iii) clarify that the purpose of certain specific control indicators is to support or assist in the assessment of whether an entity controls a good or service before it is transferred to the customer, provide more specific guidance on how the indicators should be considered and clarify that their relevance will vary depending on the facts and circumstances. The amendments are effective concurrent with ASU 2014-09, and the Company is currently evaluating the impact of this accounting standards update.

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases". The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard also requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of this accounting standards update.

In November 2015, the FASB issued Accounting Standards Update 2015-17, "Income Taxes", which eliminate the prior guidance that required an entity to separate deferred tax liabilities and assets between current and noncurrent amounts in a classified balance sheet. Rather, deferred taxes will be presented as noncurrent under the new standard. The new standard is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal year beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the impact of this accounting standards update.

In April 2015, the FASB issued Accounting Standards Update 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires that debt issuance costs be reported in the balance sheet as a direct deduction from the face amount of the related liability. Further, the amendment requires the amortization of debt issuance costs to be reported as interest expense. The amendment is effective for annual periods beginning after December 15, 2015, and interim periods within those fiscal years. The amendment must be applied retrospectively. The Company is currently evaluating the impact of this accounting standards update.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment, including capital leases, are comprised of the following:

	June 30, 2016	June 30, 2015
Office equipment	$ 2,081	$ 2,102
Vehicles	30	30
Leasehold improvements	14	14
	2,125	2,146
Less accumulated depreciation	(2,015)	(1,982)
	$ 110	$ 164

The provision for depreciation expense was $54, $53 and $68 for the years ended June 30, 2016, 2015 and 2014, respectively. The Company did not recognize any gain or loss on the disposal of assets during the years ended June 30, 2016, 2015 or 2014.

NOTE 3 - GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has goodwill of $7,548, which is not subject to amortization, and customer relationships of $2,515, which is subject to amortization. There were no significant changes in the carrying amount of goodwill during the fiscal year ended June 30, 2016. The total amount of goodwill that is deductible for tax purposes is $3,094, $3,705 and $4,316 at June 30, 2016, 2015 and 2014, respectively.

The following table sets forth the gross carrying amount and accumulated amortization of the Company's other intangible assets:

	June 30, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Amortization Period (in years)
Customer relationships	$ 2,515	$ 755	$ 1,760	10

	June 30, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Amortization Period (in years)
Customer relationships	$ 2,515	$ 503	$ 2,012	10

Intangible asset amortization expense was $252, $252 and $251 for the fiscal years ended June 30, 2016, 2015 and 2014

Amortization expense on intangible assets at June 30, 2016 for each of the next five fiscal years is as follows:

2017	$ 251
2018	251
2019	251
2020	251
2021	251
Thereafter	505
Total	$ 1,760

NOTE 4 - LONG-TERM DEBT

Effective July 1, 2013, the Company and CEP entered into a $7.0 million term loan agreement as co-borrowers with a bank. The term loan required installment payments of $116, due monthly, bearing interest at a fixed annual rate of 6% and matured on June 28, 2017. The term loan was collateralized by all assets of the Company and was guaranteed by the Company along with limited guarantees of two executive members of management. The loan required the Company to maintain a minimum fixed charge coverage ratio of 1.10 to 1.0 among other covenants. Monthly principal and interest payments were calculated based on a six-year straight-line amortization.

Effective July 1, 2013, the Company and CEP entered into a $6.3 million promissory note as co-borrowers with the estate of the former majority shareholder. The loan required interest only payments, due monthly at a fixed annual rate of 10% with a balloon payment due at maturity on June 28, 2018. The loan was subordinated to the $7.0 million bank term loan agreement.

Effective June 23, 2015, the Company and CEP refinanced the original bank term loan dated July 1, 2013 and the promissory note dated July 1, 2013 into a single $9.3 million term loan agreement as co-borrowers with a bank. The term loan requires installment payments of $154, due monthly, bearing interest at a fixed annual rate of 5.75% and matures on June 23, 2019. The term loan was collateralized by all assets of the Company and is guaranteed by the Company along with limited guarantees of two executive members of management. The loan requires the Company to maintain a minimum fixed charge coverage ratio of 1.15 to 1.0 among other covenants.

Principal payments due on long-term debt outstanding at June 30, 2016, are as follows:

2017	$ 1,516
2018	1,607
2019	3,247
Total debt obligations	6,370
Less current maturities	(1,516)
Long-term portion of outstanding debt	$ 4,854

NOTE 5 - RETIREMENT PLAN

The Company maintains a 401(k) savings plan whereby employees can contribute and defer taxes on compensation contributed to the plan. The Company is not required to contribute to the plan but may make a discretionary contribution.

NOTE 6 - INCOME TAXES

The reconciliation for the 2016, 2015 and 2014 income tax expense computed at the U.S. Federal statutory tax rate to the Company's effective income rate is as follows (in percentages):

	June 30, 2016	June 30, 2015	June 30, 2014
Tax at U.S. Federal statutory rate	34.0	34.0	34.0
State and local taxes, net of federal benefit	5.6	5.6	5.6
Change in valuation allowance	(14.5)	(0.2)	(2.8)
	25.1	39.4	36.8

NOTE 6 - INCOME TAXES (CONTINUED)

The significant components of the provision for income tax expense from continuing operations are as follows:

	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2014
Current:			
Federal	$ 808	$ 955	$ 289
State	223	100	43
	1,031	1,055	332
Deferred:			
Federal	735	332	881
State	209	50	257
	944	382	1,138
Decrease in valuation allowance	(784)	(252)	(521)
Net income tax	$ 1,191	$ 1,185	$ 949

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets (liabilities) are as follows:

	June 30, 2016	June 30, 2015
Current:		
Amortization of intangible assets	$ 276	$ 276
Workers' compensation reserves	430	542
Accrued liabilities and other	107	122
Net operating loss carryforwards	140	-
Employee stock compensation	(145)	-
	808	940
Noncurrent:		
Amortization of intangible assets	1,069	1,345
Net operating loss carryforwards	472	850
Employee stock compensation	(157)	-
	1,384	2,195
Valuation allowance	(66)	(850)
Total deferred tax assets	$ 2,126	$ 2,285

ASC 740 requires a valuation allowance to reduce the deferred tax assets reported, if at June 30, 2016 and 2015, the Company had federal tax operating losses based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

This evidence includes consideration of various uncertainties that management has identified as risk factors to the Company. Recent events, including increased competition and significant turmoil within the domestic and foreign financial markets, healthcare legislation and increasing unemployment tax rates and taxable wage thresholds, more than likely are expected to contribute to atypical customer attrition and decreased gross profits. The Company's deferred tax assets and liabilities are susceptible to erratic changes due to the inherent unpredictable nature of the Company's insurance claim liabilities and sensitivity to unemployment and wage volatility. Changes in the economy and federal and state legislature, both favorable and unfavorable, will impact management's assumptions and estimates in future periods. However, the Company has experienced historical taxable income, steadily increasing, for the past six fiscal years.

NOTE 6 - INCOME TAXES (CONTINUED)

After consideration of the evidence, both positive and negative, management has determined that a $66 and $850 valuation allowance at June 30, 2016 and 2015, respectively, is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The change in the valuation allowance is a decrease of $784 and $252 for the fiscal years ended June 30, 2016 and 2015, respectively. The Company has federal net operating loss carryforwards of approximately $1.8 million and $2.3 million at June 30, 2016 and 2015, respectively, which expire in 2030.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2016, 2015 and 2014, the Company made no provisions for interest or penalties related to uncertain tax positions. The tax years beginning July 1, 2012 through July 1, 2015 remain open to examination by the Internal Revenue Service of the United States of America.

NOTE 7 - EQUITY INCENTIVE PLANS AND OTHER STOCK COMPENSATION

Restricted Share Units of Fortune Industries, Inc.

Effective April 13, 2006, the Company's shareholders approved the 2006 Equity Incentive Plan. Under terms of the 2006 Equity Incentive Plan, the Company may grant options, restricted share units and other stock-based awards to its management personnel as well as other individuals for up to 1.0 million shares of common stock. No restricted shares were issued under this plan during the years ended June 30, 2016, 2015 or 2014.

On August, 1, 2013 and unrelated to the 2006 Equity Incentive Plan, the Company granted a stock appreciation right award to a key employee for the equivalent of 250 thousand shares of common stock at an exercise price of $0.005. The award vests and can only be exercised upon a change in control event and is also contingent upon the key employee's continued service and employment. Upon exercise, the key employee is to receive a cash payment for the difference between the fair value of the Company's stock on the exercise date and the exercise price. No liability has been recorded as of June 30, 2016 and 2015, since a change in control event had not yet occurred.

Restricted Share Units of CEP, Inc.

During the quarter ended June 30, 2015, management of CEP approved a reallocation of ownership within that entity which caused no impact to the Company's shareholders. For those CEP shareholders receiving an increase in ownership, the reallocation required CEP to issue additional restricted shares of its stock to these same shareholders, which vest on the earlier of August 1, 2018 or a change in control event. Issuance of these restricted shares resulted in no change to the Company's total outstanding common stock and consequently no dilution to the Company's existing shareholders. In accordance with generally accepted accounting principles in the United States of America, the Company will recognize a non-recurring expense of approximately $2 million over the requisite service period as follows:

2015	$ 817
2016	389
2017	389
2018	389
2019	32
Total	$ 2,016

For income tax purposes, the Company will receive tax deductions in the amount of $1,231 and $785 for the years ended June 30, 2016 and 2015, respectively.

NOTE 8 - OPERATING LEASE COMMITMENTS

Property Lease Commitments:

Locations:	Description:
Brentwood, TN (1); Provo, UT (2); Tucson, AZ (3); Loveland, CO (4); Phoenix, AZ (5); Indianapolis, IN (6)	Offices

(1) The Company maintains an operating lease agreement that provides for monthly base rent of $14 through January 1, 2019 and is increased 3% annually. In addition to an escalating base monthly rent, the agreement requires the Company to pay any increase in operating costs, real estate taxes or utilities over the base year.

(2) The operating lease agreement provides for monthly base rent of $20 through January 31, 2020. Base rent is increased by 3% for months 13 through 24 and by 5% for the remaining months thereafter. The lessee pays most expenses related to repairs, maintenance, property taxes and insurance. The lessor is required to carry minimal amounts of insurance.

(3) The Company maintains an operating lease agreement that provides for monthly base rent of $2 through May 31, 2018. The lessee has the right to terminate the lease at its election after a three year period with minimum penalty. The lessor pays most expenses related to repairs, maintenance, property taxes and insurance. The lessor is required to carry minimal amounts of insurance.

(4) The Company maintains an operating lease agreement that provides for monthly base rent of $2 through January 31, 2019 and is increased 2% annually. In addition to an escalating base monthly rent, the agreement requires the Company to pay most expenses related to repairs, maintenance, property taxes and insurance. The lessor is required to carry minimal amounts of insurance.

(5) The Company maintains an operating lease agreement that provides for monthly base rent of $3 through September 30, 2018. In addition to an escalating base monthly rent, the agreement requires the Company to pay most expenses related to repairs, maintenance, property taxes and insurance.

(6) The Company maintains an operating lease agreement that provides for monthly base rent of $2 through March 31, 2019. In addition to an adjustable base monthly rent, the agreement requires the Company to pay most expenses related to repairs, maintenance, property taxes and insurance. The lessor is required to carry minimal amounts of insurance.

Rent expense under these agreements and various office equipment leases expiring at various dates through May 2020, amounted to $632, $612 and $546 for the fiscal years ended June 30, 2016, 2015 and 2014, respectively.

Future minimum commitments under these agreements at June 30, 2016 are approximately as follows:

2017	$ 563
2018	575
2019	430
2020	164
Total	$ 1,732

NOTE 9 - SIGNIFICANT ESTIMATES

Significant estimates have been made by management with respect to the realizability of the Company's deferred tax assets. Actual results could differ from these estimates making it reasonably possible that a change in these estimates could occur in the near term. The net decrease in the valuation allowance for deferred income tax assets was $784, $252 and $521 for the fiscal years ended June 30, 2016, 2015 and 2014, respectively. The valuation allowance relates primarily to net operating loss carryforwards, tax credit carryforwards and net deductible temporary differences. The Company evaluates a variety of factors in determining the amount of the deferred income tax assets to be recognized pursuant to ASC 740, including the number of years the Company's operating loss and tax credits can be carried forward, the existence of taxable temporary differences, the Company's earnings history and the Company's near-term earnings expectations. At June 30, 2016, management believes it is more likely than not that only an insignificant portion of net deferred income tax assets will not be realized in the next few years.

The Company's subsidiaries establish reserves for workers' compensation claims by estimating unpaid losses and loss expenses with respect to claims occurring on or before the balance sheet date. Such estimates include provisions for reported claims and provisions for incurred-but-not-reported claims. The estimates of unpaid losses are established and continually reviewed by the Company using a variety of statistical and analytical techniques. Reserve estimates reflect past claims experience, currently known factors and trends and estimates of future claim trends.

NOTE 9 - SIGNIFICANT ESTIMATES (CONTINUED)

Irrespective of the techniques used, estimation error is inherent in the process of establishing unpaid loss reserves as of any given date. Uncertainties in projecting ultimate claim amounts are enhanced by the time lag between when a claim actually occurs and when it becomes reported and settled. Although these policies do not contain aggregate limits of indemnification, there are individual limits per claim, so the risks of additional claim exposure under the contracts are limited. For the reasons previously discussed, the amounts of the reserves established as of a given balance sheet date and the subsequent actual losses and loss expenses paid will likely differ, perhaps by a material amount. There is no guaranty that the recorded reserves will prove to be adequate. Changes in unpaid loss estimates arising from the review process are charged or credited, as applicable, to earnings in the period of the change.

NOTE 10 - CONCENTRATION OF CREDIT RISK

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash and accounts receivables. The Company places its cash and cash equivalents and restricted cash with several regional and national banking institutions. At times, such amounts may be in excess of the FDIC insured limit. The Company routinely assesses the financial strength of its customers and as a consequence, believes that its accounts receivable credit risk exposure is limited.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Litigation

The Company is involved in various legal proceedings. The Company believes it has adequate legal defenses with respect to each of the suits and intends to vigorously defend against these actions. However, it is reasonably possible that these cases could result in outcomes unfavorable to the Company. While the Company currently believes that the amounts of the ultimate potential loss would not be material to the Company's financial position, the outcome of litigation is inherently difficult to predict. In the event of an adverse outcome, the ultimate potential loss could have a material effect on the financial position or reported results of operations in a particular quarter.

Regulatory Matters

The Company's employer and health care operations are subject to numerous federal, state and local laws related to employment, taxes and benefit plan matters. Generally, these rules affect all companies in the United States. However, the rules that govern professional employer organizations ("PEO") constitute an evolving area due to uncertainties resulting from the non-traditional employment relationship among the PEO, the client and the client employees. Many federal and state laws relating to tax and employment matters were enacted before the widespread existence of PEO's and do not specifically address the obligations and responsibilities of these PEO relationships. If the Internal Revenue Service concludes that PEO's are not "employers" of certain client employees for purposes of the Internal Revenue Code of 1986, as amended, its cafeteria plan may lose its favorable tax status, the Company may no longer be able to assume the client's federal employment tax withholding obligations and certain defined employee benefit plans maintained by the Company may be denied the ability to deliver benefits on a tax-favored basis as intended.

Restricted Cash

Certain states and vendors require the Company to post letters of credit to ensure payment of taxes or payments to the Company's vendors under workers' compensation contracts and to guarantee performance under the Company's contracts. Such letters of credit are generally issued by a bank or similar financial institution. The letter of credit commits the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that the Company has failed to perform specified actions. If this were to occur, the Company would be required to reimburse the issuer of the letter of credit. Depending on the circumstances of such a reimbursement, the Company may also have to record a charge to earnings for the reimbursement. The Company does not believe that it is likely that any claims will be made under a letter of credit in the foreseeable future. As of June 30, 2016 and 2015, the Company had approximately $1.9 million and $2.2 million, respectively, in restricted cash primarily to secure obligations under its workers'compensation contracts and to comply with various state regulations.

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date on which the financial statements were issued.

On September 16, 2016, the Company paid in full the outstanding debt obligations disclosed in Note 4.

NOTE 12 - SUBSEQUENT EVENTS (CONTINUED)

Additionally on September 16, 2016, Oasis Outsourcing V, Inc. ("Oasis") acquired CEP, the holder of approximately ninety-one percent (91%) of the common stock of the Company, for $32.5 million. Oasis plans to effect a "short-form" merger of CEP with and into the Company under Indiana law, without a meeting of the Company's shareholders. This process will include the mailing of a copy and summary of a plan of merger to each record shareholder of the Company's common stock at least thirty days prior to filing the related articles of merger. Upon the closing of the short-form merger, Oasis will acquire all of the remaining shares of the Company's common stock for $0.586 per share, in cash. The shareholders of CEP have agreed to pay for certain transaction costs and to bear the risk of potential indemnity liabilities. After the completion of the merger, the Company will be a wholly-owned subsidiary of Oasis and shares of the Company will no longer be quoted on the OTC Pink platform.

As a result of the aforementioned change in control event, the vesting periods for the key employee's Company stock appreciation right and the restricted share units of CEP, as disclosed in Note 7, were accelerated to September 16, 2016, resulting in additional compensation expense of $145 and $810, respectively, plus any resulting employer payroll tax expenses for the period of July 1, 2016 to September 16, 2016.

NOTE 13 - LIST OF WHOLLY-OWNED SUBSIDIARIES

The consolidated financial statements include Fortune Industries, Inc. and the following wholly-owned subsidiaries:

Century II Services, Inc. (a subsidiary of CSM, Inc.)
Century II Staffing, Inc. (a subsidiary of CSM, Inc.)
Century II Staffing TN, Inc. (a subsidiary of Century II Staffing, Inc.)
Century II Staffing USA, Inc. (a subsidiary of Century II Staffing, Inc.)
Century II ASO, Inc. (a subsidiary of CSM, Inc.)
CSM, Inc.
Employer Solutions Group, Inc.
Employer Solutions Group of Idaho, Inc. (a subsidiary of Employer Solutions Group, Inc.)
Employer Solutions Group of SLC, Inc. (a subsidiary of Employer Solutions Group, Inc.)
Employer Solutions Group of Utah, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Achievement, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Administration, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Assistance, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Consulting, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Direction, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Entities, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG of Florida, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Fulfillment, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Insurance, Inc., d/b/a Aspen Cove Insurance, Inc.
ESG Management, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Offerings, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Consulting II, LLC (a subsidiary of ESG PEO, Inc.)
ESG Entities II, LLC (a subsidiary of ESG PEO, Inc.)
ESG PEO, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Services II, LLC (a subsidiary of ESG PEO, Inc.)
ESG Services, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Success, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESG Supervision, Inc. (a subsidiary of Employer Solutions Group, Inc.)
ESSG, Inc. (a subsidiary of Employer Solutions Group, Inc.)
Fortune Employer Solutions, Inc.
Fortune Staffing, Inc.
Fortune Strategic Products, Inc.
Employer Solutions Group of Utah II, Inc. (a subsidiary of Employer Solutions Group, Inc.)
Kingston Sales Corporation
Precision Employee Management, LLC, d/b/a ESG Tucson (a subsidiary of Employer Solutions Group, Inc.)
Precision Insurance, LLC (a subsidiary of Precision Employee Management, LLC)
Professional Staff Management, Inc.
Professional Staff Management, Inc. II
Professional Staff Management ASO, Inc.
Pro Staff, Inc.
PSM Financial Services, LLC (a subsidiary of Professional Staff Management, Inc.)
Telecom Technology Corporation