

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

- ANNUAL REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
 TRANSITION REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the period from July 1, 2009 to June 30, 2010

Commission file number: 0-19049

Fortune Industries, Inc.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of
incorporation or organization)

20-2803889

(I.R.S. Employer Identification No.)

6402 Corporate Drive, Indianapolis, Indiana

(Address of principal executive offices)

46278

(Zip Code)

(317) 532-1374

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock (\$0.10 par value per share) ("Common
Stock");

(Title of Class)

NYSE Amex

(Name of Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of December 31, 2009, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's Common Stock and Preferred Stock held by non-affiliates, based upon the closing price per share for the registrant's common stock as reported on the NYSE Amex, was approximately \$2.8 million.

The number of shares of the registrant's Common Stock, outstanding as of September 28, 2010 was 12,234,290. The number of shares of the registrant's Preferred Stock, outstanding as of September 28, 2010 was 296,180.

For the purpose of calculating the aggregate market value of the Company's Common Stock held by non-affiliates, the Company utilized the definition of "affiliates" provided by Rule 12b-2 of the Exchange Act. In applying that definition, the Company has considered all individual members of the "Control Group" as designated in the Schedule 13D filed by the Company on August 7, 2000 and on any amendments thereto to be affiliates, as well as all then current directors and officers. As used for purposes of determining the aggregate market value of the Voting Common Stock held by non-affiliates, "beneficial ownership" of securities means the sole or shared power to vote, or to direct the voting of, such securities, or the sole or shared investment power with respect to such securities, including the power to dispose of, or to direct the disposition of, such securities. In addition, for purposes of this calculation, a person is deemed to have beneficial ownership of any security that such person had the right to acquire within 60 days after December 31, 2009. The Company then multiplied the beneficial ownership of the non-affiliates by the closing price of the Company's Common Stock, as of the date stated above, to derive the market value, or 'float.'

DOCUMENTS INCORPORATED BY REFERENCE

None.

TABLE OF CONTENTS

PART I		
Item 1.	Business	3
Item 1A.	Risk Factors	8
Item 1B.	Unresolved Staff Comments	12
Item 2.	Properties	12
Item 3.	Legal Proceedings	12
Item 4.	(Removed and Reserved)	12
PART II		
Item 5.	Market for the Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	13
Item 6.	Selected Financial Data	13
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	25
Item 8.	Financial Statements and Supplementary Data	25
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	53
Item 9A.	Controls and Procedures	53
Item 9B.	Other Information	53
PART III		
Item 10.	Directors and Executive Officers of the Registrant and Corporate Governance	54
Item 11.	Executive Compensation	56
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	59
Item 13.	Certain Relationships and Related Transactions, and Director Independence	60
Item 14.	Principal Accountant Fees and Services	61
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	62
SIGNATURES		62

PART I

Item 1. *Business*

General

Fortune Industries, Inc. is a holding company of providers of full service human resources outsourcing services through co-employment relationships with the company's clients. The terms "we," "our," "us," "the Company," and "management" as used herein refers to Fortune Industries, Inc. and its subsidiaries unless the context otherwise requires. Effective November 30, 2008, we approved the sale of all of our remaining operating subsidiaries within four of our five segments (Wireless Infrastructure, Transportation Infrastructure, Ultraviolet Technologies, and Electronics Integration) to a related party. Consequently, as of the effective date of the transaction, our Business Solutions segment is the Company's remaining operating segment. The sales transaction, combined with other significant events disclosed in Note 2 of our financial statements in Item 8, have changed the focus of our Company in fiscal 2009 and thereafter. This operational change in our Company will impact the comparability of our financial information compared to historical data presented in past filings.

Our operations are largely decentralized from the corporate office. Autonomy is given to subsidiary entities, and there are few integrated business functions (i.e. sales, marketing, purchasing and human resources). Day-to-day operating decisions are made by subsidiary management teams. Our corporate management team assists in operational decisions when deemed necessary, selects subsidiary management teams and handles capital allocation among our operations.

We were incorporated in the state of Delaware in 1988, restructured in 2000 and redomesticated to the state of Indiana in May 2005. Prior to 2001, we conducted business mainly in the entertainment industry.

Recent Developments

On January 15, 2010, the Company entered into a Settlement Agreement with its Chief Executive Officer John F. Fisbeck which included (a) immediate resignation of Mr. Fisbeck as CEO of the company, (b) immediate resignation of Mr. Fisbeck from the Company's board of directors, and (c) waiver of certain severance payments included in its current Employment Agreement.

On January 15, 2010, our Board of Directors appointed Tena Mayberry to the position of Chief Executive Officer of the Company. Ms. Mayberry replaced John F. Fisbeck as the Company's Chief Executive Officer.

On April 13, 2009, our Board of Directors approved a change in the Company's fiscal year end from August 31st to June 30th commencing with our fiscal year 2009. This resulted in our fiscal year 2009 being shortened from 12 months to 10 months and ended on June 30, 2009.

Effective November 30, 2008, the Company completed a transaction to sell all of the outstanding shares of common stock of the following wholly-owned subsidiaries: James H Drew Corporation, Nor-Cote International, Inc., Fortune Wireless, Inc. and Commercial Solutions, Inc. The subsidiaries were sold to related parties entities owned by the Company's majority shareholders in exchange for a \$10,000,000 reduction in the outstanding balance of the term loan note due to the majority shareholder and a three-year term note in the amount of \$3,240,000. The transaction also included the conversion of the remaining term loan note balance to Preferred Stock and the issuance of additional warrants. For further discussion of this transaction, see Note 2 - Disposition of Assets and ProForma Results in the Notes to the Consolidated Financial Statements.

Effective November 30, 2008, the Company no longer operated in the Wireless Infrastructure, Transportation Infrastructure, Ultraviolet Technologies and Electronics Integration Segments.

Business Solutions Segment

The Business Solutions segment is comprised of Professional Employer Organizations (PEOs) which provide full-service human resources outsourcing services through co-employment relationships with their clients. Companies operating in the Business Solutions Segment include Professional Staff Management, Inc. and related entities ("PSM"); CSM, Inc. and related subsidiaries ("CSM"); Precision Employee Management, LLC ("PEM"); and Employer Solutions Group, Inc. and related entities ("ESG").

The Companies in the Business Solutions segment bill their clients under Professional Services Agreements as licensed PEOs. The billing includes amounts for the client's gross wages, payroll taxes, employee benefits, workers' compensation insurance and an administration fee. The administration fee charged by the companies in this segment is typically a percentage of the gross payroll and is sufficient to allow the companies in this segment to provide payroll administration services, human resources consulting services, worksite safety training, and employment regulatory compliance for no additional fees.

The component of the administration fee related to administration varies, in part, according to the size of the client, the amount and frequency of payroll payments and the delivery method of such payments. The component of the administration fee related to health, workers' compensation and unemployment insurance is based, in part, on the client's historical claims experience. Charges by the Companies in this segment are invoiced along with each periodic payroll delivered to the client.

Through the co-employment contractual relationship, the Companies in the Business Solutions segment become the statutory employer and, as such, all payroll-related taxes are filed on these Companies' federal, state, and local tax identification numbers. The clients are not required to file any payroll related taxes on their own behalf. The calculations of amounts the Companies in this segment owe and pay the various government and employment insurance vendors are based on the experience levels and activity of the companies in this segment.

The services rendered by this segment accounted for 100% of our consolidated revenue in fiscal 2010, 73% of our consolidated revenues in 2009, and 47% of our consolidated revenues in 2008.

Customers

Customers in this segment represent a wide variety of industries including healthcare, professional services, software development, manufacturing logistics, telemarketing and construction. Combined, these organizations provide co-employment services to approximately 14,000 employees in 48 states. Management's focus is on providing PEO services to small and medium-sized businesses with 10 to 1,000 employees. The Business Solutions segment's customer base is diverse with only one customer with more than 10% of sales and no customers exceeding 15% of sales. While worksite employees are located throughout the United States, the segment's client operations are primarily headquartered in Utah, Colorado, Arizona, Indiana, and Tennessee.

Competition

The Companies in our Business Solutions segment compete with other PEOs, third-party payroll processing and human resources consulting companies, and in-house human resources divisions. The PEO industry is highly fragmented between local, regional and national PEO operators.

Vendor Relationships

The Companies in the Business Solutions segment provide employee benefits to worksite employees under arrangements with a variety of vendors. These companies provide group health insurance coverage to the customers' worksite employees through a partially self-funded health arrangement with AIU Insurance Company for reinsurance and the United Healthcare Networks and various other fully-insured policies or service contracts.

Under the partially self-funded health insurance policy one of our wholly owned subsidiaries is liable for the first \$225,000 of claims per individual per plan year. The total annual corporate claims aggregate is \$7.6M per plan year. AIU is responsible for all claims over the individual \$225,000 and corporate aggregate \$7.6M.

The PEO's also provide collateralized high deductible workers compensation insurance coverage for our customers' worksite employees through Liberty Mutual ("Liberty") and Lumberman's Underwriting Alliance ("LUA") and various other fully insured policies. Under the Liberty policy, the PEO's are liable for the first \$250,000 of claims per accident with a \$1.75M annual corporate aggregate. Under the LUA policy, the PEO's are liable for the first \$350,000 of claims per accident. The LUA policy has no aggregate coverage.

Industry Regulation

Numerous federal and state laws and regulations relating to employment matters, benefit plans and employment taxes affect the operations of the Company or specifically address issues associated with co-employment. Many of these federal and state laws were enacted before the development of non-traditional employment relationships, such as professional employer organizations, temporary employment and other employment-related outsourcing arrangements and, therefore, do not specifically address the obligations and responsibilities of a professional employer organization.

Other federal and state laws and regulations are relatively new, and administrative agencies and federal and state courts have not yet interpreted or applied these regulations to the Company's business or its industry. The development of additional regulations and interpretation of those regulations can be expected to evolve over time. In addition, from time to time, states have considered, and may in the future consider, imposing certain taxes on gross revenues or service fees of the Company and its competitors.

Many states have passed laws that have licensing, registration or other regulatory requirements for professional employer organizations and several other states are currently considering similar regulations. Such laws vary from state to state, but generally codify the requirements that a professional employer organization must reserve a right to hire, terminate and discipline client employees and secure workers' compensation insurance coverage. The Company delegates or assigns such rights to the client where allowed under state law. The laws also generally provide for monitoring the fiscal responsibility of professional employer organizations and, in many cases, the licensure of the controlling officers of the professional employer organization.

In addition, some states through legislative or other regulatory action may propose to modify the manner in which the Company is allowed to provide services to its clients. Such regulatory action could increase the administrative cost associated with providing such services.

ERISA Requirements

Employee pension and welfare benefit plans are also governed by the Employee Retirement Income Security Act (ERISA). ERISA defines an “employer” as “any person acting directly as an employer, or indirectly in the interest of an employer, in relation to an employee benefit plan.” ERISA defines the term “employee” as “any individual employed by an employer.” The courts have held that the common law test of employment must be applied to determine whether an individual is an employee or an independent contractor under ERISA. However, in applying that test, control and supervision are less important for ERISA purposes when determining whether an employer has assumed responsibility for an individual’s benefits status. A definitive judicial interpretation of “employer” in the context of a professional employer organization or employee leasing arrangement has not been established.

If the Company were found not to be an employer for ERISA, Code purposes, or the tax qualification requirements of the Code, the Company would be subject to liabilities, including penalties, with respect to its cafeteria benefits plan for failure to withhold and pay taxes applicable to salary deferral contributions by its clients’ employees. In addition, as a result of such a finding, the Company and its plans would not enjoy, with respect to client employees, the preemption of state laws provided by ERISA and could be subject to varying state laws and regulation, as well as to claims based upon state common laws.

Government Regulation

Companies in our Business Solutions segment are subject to various federal, state and local laws and regulations pertaining to various employee benefit plans, employee retirement plans (such as the 401(k)), Section 125 cafeteria plans, group health plans, welfare benefit plans and health care flexible spending accounts.

The federal, state, and local regulations also apply to the payment of taxes based upon wages paid to the employees through the payroll process. These taxes include the withholding of income tax, obligations under the Federal Income Contribution Act (“FICA”) which includes both Social Security and Medicare taxes, the Federal Unemployment Tax Act (“FUTA”) and the State Unemployment Tax Act (“SUTA”).

In addition, compliance with COBRA, HIPAA and ERISA (for employee benefit plans sponsored solely by our PEOs) regulations are required. Certain states also have varying regulations regarding licensing, registration or certification requirements for PEOs.

Healthcare Reform Legislation

The Patient Protection and Affordable Care Act (“PPACA”) became law on March 23, 2010 and amended on March 30, 2010 by the Health Care and Education Reconciliation Act of 2010 (the “Reconciliation Act”). The PPACA and Reconciliation Act (collectively the “Act”) set forth a number of health care reforms, effective between 2010 through 2018. Until more guidance and information relating to employer responsibilities is determined, the full effect of the Act upon the Company and its customers is unknown at this time. However, we believe that we will be able to provide a valuable service for our existing and potential customers by providing the necessary expertise to ensure compliance with the new regulations, because most of our customer base consists of small to medium-sized businesses without the in-house proficiency to do so.

Our initial interpretations of the Act include certain requirements that we anticipate to materially affect the Company. The most immediate provision, effective in 2010, would enable eligible small business to receive a tax credit for offering health care coverage to employees. The Act does not expressly address whether small business that are in co-employer relationships with a PEO would receive these tax credits, but discussion in the Congressional Record leads us to believe our qualifying customers and potential customers would be entitled to such tax credits.

The Act contains a number of mandates for health insurance plans to be implemented starting in 2011. We anticipate the ability to meet all of the requirements we do not already meet and provide that service to our customers. The Company’s cost of implementing any necessary changes may be passed through to our customers, which may affect our ability to attract and retain customers. If we are unable to pass those increases along to our customers for any reason, such as contractual obligations, the increases may negatively impact the Company’s earnings.

The Act provides for the establishment of state insurance exchanges effective in 2014, which would make health insurance available to individuals and small employers with 100 or less employees. Tax credits and subsidies will be provided to eligible small businesses, as well as individuals who purchase health insurance through the state insurance exchanges. Employers with at least 50 full-time employees will incur penalties if they fail to offer the minimal essential coverage as defined in the Act to eligible employees.

The Act includes an excise tax provision which levies a 40% nondeductible tax to the employer on the annual value of health plan costs for employees that exceed \$10,200 for single coverage or \$27,500 for family coverage in 2018. The effect this tax will have on the Company and our customers will depend on the benefit plans offered to our customers' employees. We believe our expertise will allow us to provide guidance to our customers on the best ways to avoid incurring any such excise taxes.

At this time, we do not know what effect, if any, the Act will have on our business. The overall interpretation and implementation of the requirements in the Act will likely be determined by future guidance from various governmental entities. Based on our initial research and interpretations, and due to the scheduled implementation of the provisions of the Act, we do not expect the Act to have a material adverse impact on our results of operations in 2011.

Wireless Infrastructure Segment

Through November 30, 2008, we invested in wireless infrastructure businesses, having completed six acquisitions primarily related to infrastructure products and service offerings related to the development, marketing, management, maintenance and upgrading of wireless telecommunications sites. While services are still offered under certain subsidiaries, in November 2005 we began marketing the consolidated services of these subsidiaries under the Fortune Wireless name brand to promote our 'turn-key' service offerings whereby we assist with multiple areas of wireless infrastructure under integrated contracting arrangements. Turn-key services include site acquisition, engineering, architecture and design, and construction/technical services.

Subsidiaries operating in the Company's Wireless Infrastructure segment included Fortune Wireless, Magtech Services, Inc., Cornerstone Wireless Construction Services, Inc. and James Westbrook & Associates, LLC.

The services rendered by this segment accounted for 0% of our revenue in fiscal 2010, 5% of our consolidated revenues in 2009, and 10% of our consolidated revenues in 2008.

Effective November 30, 2008, the Company sold its subsidiaries operating in the Wireless Infrastructure segment and was no longer active in this segment. The Wireless Infrastructure entities continued operations as wholly-owned subsidiaries of the acquiring entity.

Transportation Infrastructure Segment

The Transportation Infrastructure segment assists customers with the development, maintenance and upgrading of transportation infrastructure and commercial construction projects. Transportation infrastructure products and services are performed by James H Drew Corp. and subsidiaries (JH Drew). JH Drew was acquired in April 2004 and has been operating for over fifty years servicing contractors and state departments of transportation throughout the Midwestern United States. JH Drew is a leading specialty contractor in the field of transportation infrastructure, including guardrail, electrical components, and the fabrication and installation of structural steel for commercial buildings.

The products and services rendered by this segment accounted for 0% of our revenue in fiscal 2010, 17% of our consolidated revenues in 2009, and 28% of our consolidated revenues in 2008.

Effective November 30, 2008, the Company sold its subsidiary operating in the Transportation Infrastructure segment and was no longer active in this segment. The Transportation Infrastructure entity continued operations as a wholly-owned subsidiary of the acquiring entity.

Ultraviolet Technologies Segment

The Ultraviolet (UV) Technologies segment manufactures UV curable screen printing inks. UV Technologies products are manufactured by Nor-Cote International, Inc. and subsidiaries (Nor-Cote), which we acquired in July 2003. These ink products are printed on many types of plastic, metals and other substrates that are compatible with the UV curing process. Typical applications are plastic sheets, point-of-purchase (POP) signage, banners, decals, cell phones, bottles and containers, CD and DVD, rotary-screen printed labels, and membrane switch overlays for conductive ink. Nor-Cote has operating facilities in the United States, United Kingdom, China, Singapore and Mexico, with worldwide distributors located in South Africa, Australia, Canada, China, Colombia, Hong Kong, India, Indonesia, Italy, Japan, Korea, Mexico, New Zealand, Poland, Spain, Taiwan, Thailand and the United States.

The products produced by this segment accounted for 0% of our revenue in fiscal 2010, 4% of our consolidated revenues in 2009, and 8% of our consolidated revenues in 2008.

Effective November 30, 2008, the Company sold its subsidiary operating in the Ultraviolet Technology segment and was no longer active in this segment. The Ultraviolet Technology entity continued operations as a wholly-owned subsidiary of the acquiring entity.

Electronics Integration Segment

The Electronics Integration segment sells and installs a variety of electronic products and equipment, including video, sound and security products. Subsidiaries include Kingston Sales Corporation (Kingston), Commercial Solutions, Inc. (Commercial Solutions) and Telecom Technologies, Corp. (TTC).

Kingston and Commercial Solutions are distributors for prominent national companies in the electronic, sound, security, and video markets. Customers include businesses in the hospitality, healthcare, education, transportation and retail industries. Product offerings include the latest technology in HDTV displays, including LCD and plasma televisions, sound systems, electronic locking devices, wire, cable and fiber optics, and intercom systems. The Electronics Integration segment also includes mobile audio products for the RV and marine industry as well as telecommunications products for commercial and residential applications.

TTC provides a wide range of design, engineering and installation of residential, commercial, and retail audio and video systems including video-conferencing, digital signage, touch panel control systems, board-room, home-theater, surround sound audio and security and CCTV systems, as well as design, engineering and installation of structured cabling systems, digital satellite television and wireless and network high speed (broadband) internet.

The products and services rendered by this segment accounted for 0% of our revenue in fiscal 2010, 2% of our consolidated revenues in 2009, and 8% of our consolidated revenues in 2008.

Effective November 30, 2008, the Company sold Commercial Solutions, and Kingston and TTC ceased operations. The Company was no longer active in the Electronics Integration segment. Commercial Solutions continued operations as a wholly-owned subsidiary of the acquiring entity.

Employees

As of September 1, 2010, we employed approximately 93 full-time employees. Additionally, within the Business Solutions segment, we had approximately 14,000 co-employees under customer-contract relationships. Our in-house staff is supplemented with contract personnel on an as-needed basis. Management believes that its relationships with its employees are generally satisfactory.

Control Group

At July 1, 2009, a Control Group held 72.5% or 8,756,874 shares of our outstanding common stock. Members of the control group included our CEO, Mr. John F. Fisbeck, and our Chairman of the Board, Mr. Carter M. Fortune. Individually, each of the above persons or entities had the sole voting and dispositive power over the following number of shares of the Company's Common Stock as of July 1, 2009: John F. Fisbeck, 1,637,701 (or 13.6%) and Carter M. Fortune, 4,135,010 (or 34.2%). In addition to the above shares, Messrs. Fisbeck and Fortune shared dispositive control over 2,682,073 (or 22.2%) shares of the Company's Common Stock held by 14 West, LLC.

Effective January 15, 2010, John F. Fisbeck resigned as CEO of the Company and a member of the Board of Directors of the Company, and as a result, the Control Group ceased to exist.

Fisbeck Fortune Development, LLC

Through November 30, 2008, the Company leased a total of five facilities from a consolidated variable interest entity, whose primary purpose is to own and lease these properties to the Company. Effective November 30, 2008, the Company terminated its lease agreement for its corporate headquarters and sold its JH Drew and Nor-Cote subsidiaries which leased facilities from the variable interest entity; therefore, the Company was no longer required to consolidate the variable interest entity because the Company was no longer the primary beneficiary as defined by Financial Accounting Standards Board ("FASB") ASC 810-10 (formerly FIN46R), "Consolidation - Variable Interest Entities".

As described in Note 4 of the accompanying consolidated financial statements, the termination of the lease and the sale of subsidiaries provided for a triggering event under ASC 810-10. As a result, effective November 30, 2008 the Company was no longer considered the primary beneficiary of the variable interest entity and was not required to consolidate Fisbeck-Fortune Development as of this date.

Additional information with respect to the Company's businesses

The amounts of assets, revenues and earnings attributable to the aforementioned operating segments are included in Note 22 to the Company's Consolidated Financial Statements contained in Item 8, Financial Statements and Supplementary Data.

Our common stock is traded on the NYSE Amex under the symbol “FFI”. We maintain a website (<http://www.ffi.net>) where our annual reports, certain corporate governance documents, press releases, interim shareholder reports and links to our subsidiaries’ websites can be found. The Company’s periodic reports filed with the SEC, which include Form 10-K’s, Form 10-Q’s, Form 8-K’s and amendments thereto, are included on our website and may be accessed by the public free of charge from the SEC and through the Company. Electronic copies of these reports can be accessed at the SEC’s website (<http://www.sec.gov>) and indirectly through our website (<http://www.ffi.net>). Copies of these reports may also be obtained, free of charge, upon written request to the Company’s principal executive office at: Fortune Industries, Inc., 6402 Corporate Drive, Indianapolis, IN 46278, Attn: Corporate Secretary (1-317-532-1374) or may be obtained from the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549 (1-800-SEC-0330).

Item 1A. Risk Factors

Our businesses are subject to a variety of risks and uncertainties which are described below. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not described or not known to management of the Company may also impair business operations. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected.

We could have unfavorable health insurance and workers’ compensation claim experiences.

The Business Solutions segment calculates reserves for workers’ compensation and health insurance claims by estimating unpaid losses and loss expenses with respect to claims occurring on or before the balance sheet date, and in certain instances, we carry high deductibles on these policies. 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. We cannot be certain that future claims will be consistent with past experience.

We could face additional liability for worksite employee payroll and benefits costs.

Under customer service agreements in our Business Solutions segment, we become a co-employer of worksite employees and assume the obligations to pay the salaries, wages and related benefits costs and payroll taxes of such worksite employees. Our obligations include responsibility for:

- payment of the salaries and wages for work performed by worksite employees, regardless of whether the client timely pays us the associated service fee; and
- providing benefits to worksite employees even if our costs to provide such benefits exceed the fees the client pays us.

If a client does not pay us, or if the costs of benefits we provide to worksite employees exceed the fees a client pays us, our ultimate liability for worksite employee payroll and benefits costs could have a material adverse effect on our financial condition or results of operations.

We may face operational challenges as a result of changes in federal, state and local regulations.

As a major employer, our operations in the Business Solutions segment are affected by numerous federal, state and local laws and regulations relating to labor, tax and employment matters. By entering into a co-employer relationship with employees of our clients, we assume certain obligations and responsibilities of an employer under these laws. However, many of these laws (such as ERISA and federal and state employment tax laws) do not specifically address the obligations and responsibilities of non-traditional employers such as PEOs, and the definition of “employer” under these laws is not uniform. In addition, some of the states in which we operate have not addressed the PEO relationship for purposes of compliance with applicable state laws governing the employer/employee relationship. Any adverse application of these other federal or state laws to the PEO relationship with our worksite employees could have a material adverse effect on our results of operations or financial condition. However, due to the strong legislative efforts of the National Association of Professional Employer Organizations (NAPEO), much of this risk is being mitigated, as NAPEO has put in place in many states, via legislation, regulations that satisfy most state legislatures. These self-imposed industry regulations also help to clarify or define the PEO co-employment relationship in various areas of state employment law and have greatly reduced the risk of legislative change negatively affecting PEOs at the state level.

While many states do not explicitly regulate PEOs, various states have passed or may be considering passing laws that have licensing or registration requirements for PEOs. Such laws vary from state to state, but generally provide for monitoring the fiscal responsibility of PEOs, and in some cases codify and clarify the co-employment relationship for unemployment, workers’ compensation and other purposes under state law. While we generally support licensing regulation because it serves to validate the PEO relationship, we typically satisfy licensing requirements or other applicable regulations for the states we currently operate in. However, there can be no assurance that we will be able to obtain licenses in all states.

We may face additional liabilities as a result of increases in unemployment tax rates.

We record our state unemployment tax expense based on taxable wages and tax rates assigned by each state. State unemployment tax rates vary by state and are determined, in part, based on prior years' compensation experience in each state. Should our claim experience increase, our unemployment tax rates could increase. In addition, states have the ability under law to increase unemployment tax rates to cover deficiencies in the unemployment tax fund. Some states have implemented retroactive cost increases. Some client contractual arrangements limit our ability to incorporate such increases into service fees, which could result in a delay before such increases could be reflected in service fees.

Our results of operations could be adversely affected as a result of goodwill impairments.

When we acquire a business, we record goodwill equal to the excess amount we pay for the business, including liabilities assumed, over the fair value of the tangible and intangible assets of the business we acquire. FASB ASC 350 (formerly SFAS 142), "Intangibles - Goodwill and Other" which provides that goodwill and other intangible assets that have indefinite useful lives not be amortized, but instead must be tested at least annually for impairment, and intangible assets that have finite useful lives should continue to be amortized over their useful lives. ASC 350 also provides specific guidance for testing goodwill and other non-amortized intangible assets for impairment. ASC 350 requires management to make certain estimates and assumptions when allocating goodwill to reporting units and determining the fair value of reporting unit net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, investment rates, cost of capital and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. Fair value is determined using a combination of the discounted cash flow, market multiple and market capitalization valuation approaches. Absent any impairment indicators, we perform our impairment tests annually as of the end of the fiscal first quarter. Future impairments, if any, will be recognized as operating expenses.

We may not be able to successfully achieve the expected benefits of acquisitions, which expose us to risks associated with these transactions.

We have made and may continue to make acquisitions or investments in or engage in strategic partnering relationships with other companies or technologies. We may not be able to successfully achieve expected benefits. Additionally, we may be exposed to factors including but not limited to unanticipated contingent liabilities, additional expenses, loss of key employees or customers, or other contingencies consistent with acquisition risks, which ultimately could result in significantly decreased earnings and material and adverse effects on our business, financial condition and results of operations.

The departure of key personnel could disrupt our business, and few of our key personnel have employment contracts requiring a service commitment.

We depend on the continued efforts of our executive officers and on the senior management of the businesses we acquire. Although we intend to enter into an employment agreement with each of our executive officers and certain other key employees, we cannot be certain that any individual will continue in such capacity for any particular period of time. The loss of key personnel, or the inability to hire and retain qualified employees, could adversely affect our business, financial condition and results of operations. We do not carry key-person life insurance on some key employees, including our majority shareholder that guarantees certain debt obligations.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. In the past we have reported material weaknesses in our internal control over financial reporting that, if we do not substantially remedy, could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our stock.

Certain businesses we have acquired may have had limited infrastructure and systems of internal controls. Performing assessments of internal controls, implementing necessary changes, and maintaining an effective internal controls process is costly and requires considerable management attention, particularly in the case of newly acquired entities. Internal control systems are designed in part upon assumptions about the likelihood of future events, and all such systems, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

We also cannot assure that we will implement and maintain adequate controls over our financial processes and reporting in the future or that additional material weaknesses or significant deficiencies in our internal controls will not be discovered in the future. Any failure to remediate any future material weaknesses or implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements or other public disclosures. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

The requirements of being a public company may strain our resources and require significant management time and attention.

As a public company we are subject to the reporting requirements of the Securities Exchange Act of 1934 and the rules of the NYSE Amex. The requirements of these rules and regulations have increased, and may further increase in the future, our legal and financial compliance costs, make some activities more difficult, time consuming or costly and may also place undue strain on our systems and resources. The Securities Exchange Act of 1934 requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. In order to maintain and improve the effectiveness of our disclosure controls and procedures, and internal controls over financial reporting, significant resources and management oversight will be required. These rules and regulations could also make it more difficult for us to attract and retain qualified independent members of our Board of Directors and qualified members of our management team.

The financial markets have recently experienced significant turmoil which may negatively impact our liquidity, our ability to obtain financing and our ability to process transactions through the banking system.

Our liquidity and our ability to obtain financing may be negatively impacted if one of our Lenders under our credit facility, or another financial institution, suffers liquidity issues or ceases operations. In such an event, we may not be able to draw on all, or a substantial portion of, our credit facility or timely process payroll and collection transactions through the banking system. Also, if we attempt to obtain future financing, in addition to our current credit facility, we may be unable to obtain such financing which could materially adversely affect our operations, financial condition and cash flows.

Our short-term results may be negatively impacted due to changes in health insurance claims, state unemployment tax rates and workers' compensation rates, which we may not be able to immediately pass through to our clients.

Health insurance costs, workers' compensation and employment practices liability insurance rates and state unemployment taxes are primarily determined by our claims experience and comprise a significant portion of our actual costs. Should we experience a significant increase in claims activity, due to the current economic downturn or otherwise, we may experience a substantial increase in our health insurance premiums, unemployment taxes, or workers' compensation and employment practices liability insurance rates. Our ability to pass such increases through to our clients on a timely basis may be delayed and our clients may not agree to the increases, which could have a material adverse effect on our financial condition, results of operations and cash flows.

Our insurance-related loss reserves may be inadequate to cover our ultimate liability for losses and as a result our financial results could be materially and adversely affected.

We maintain loss reserves to cover our liabilities for the costs of our health care and workers' compensation programs. These reserves are not an exact calculation of our liability, but rather are estimates based on a number of factors including but not limited to actuarial calculations, current and historical loss trends and payment patterns, the number of open claims, developments relating to the actual claims incurred, medical trend rates and the impact of acquisitions, if any. Variables in the reserve estimation may be affected by both internal and external factors, such as changes in claims handling procedures, fluctuations in the administrative costs associated with the program, economic conditions, fiscal policies, interest rates, legal determinations and legislative and regulatory changes. Although our reserves estimates are regularly refined as historical loss experience develops and additional claims are reported and settled, because of the uncertainties of estimating loss reserves, we cannot assure you that our reserves are adequate, and actual costs and expenses may exceed our reserves. If our reserves are insufficient to cover actual losses we may incur potentially material charges to our earnings.

Our ability to manage health care costs affects our profitability.

Our profitability depends in part on our ability to appropriately predict and manage future health care costs through underwriting criteria and negotiation of favorable contracts with health care plan providers. The aging of the population and other demographic characteristics, the introduction of new or costly treatments resulting from advances in medical technology and other factors continue to contribute to rising health care costs. Government-imposed limitations on Medicare and Medicaid reimbursements have also caused the private sector to assume a greater share of increasing health care costs. Changes in health care practices, inflation, new technologies, increases in the cost of prescription drugs, direct-to-consumer marketing by pharmaceutical companies, clusters of high cost cases, utilization levels, changes in the regulatory environment, health care provider or member fraud, and numerous other factors affecting the cost of health care can be beyond any health plan provider's control and may adversely affect our ability to predict and manage health care costs, as well as our business, financial condition and operating results.

We use actuarial data to assist us in analyzing and projecting these amounts, however, we and our carriers may not be successful in managing the cost of our plans. Accordingly, our costs under our health benefit plans may exceed our estimates, requiring us to fund the difference. Any significant funding obligation may have a material adverse effect on our financial condition, results of operations and liquidity.

We operate in a complex regulatory environment and failure to comply with applicable laws and regulations could adversely affect our business.

The human resource outsourcing and PEO environment is subject to a number of federal and state laws and regulations, including those applicable to payroll practices, taxes, benefits administration, insurance, wage and hour, employment practices and data privacy. As many of these laws do not specifically address the obligations and responsibilities of a professional employer organization, assuring compliance with such laws and assessing the financial impact of such compliance can be difficult.

Because our clients have employees in states throughout the United States, we must also perform our services in compliance with the legal and regulatory requirements of multiple jurisdictions. Some of these laws and regulations may be difficult to ascertain or interpret, may conflict and may change over time, and the addition of new services may subject us to additional laws and regulations. Many of these laws and regulations were instituted prior to the development of the professional employer organization industry, and therefore can be difficult to interpret or assess and may change over time. As a result of uncertainty and inconsistency in the interpretation and application of many of these laws and regulations, from time to time we have had disagreements with regulatory agencies in various states, some of which have resulted in administrative proceedings between a state agency and us. If we are unable to continue to provide certain contractual obligations, such as the payment of employment taxes on the salaries and wages paid to client employees, due to an adverse determination regarding our regulatory status as an "employer", our clients may be held jointly and severally liable for such payments. Violation of these laws and regulations could subject us to fines and penalties, damage our reputation, constitute breach of our client contracts and impair our ability to do business in various jurisdictions or in accordance with established processes.

In addition, many states in which we operate have enacted laws that require licensing or registration of professional employer organizations, including Florida and Texas, and additional states are considering such legislation. We may not be able to satisfy the licensing requirements or other applicable regulations of any particular state, or we may be unable to renew our licenses in the states in which we currently operate upon expiration of such licenses, which could prevent us from providing services to client employees in a certain state. In addition, many of these states have reciprocal disciplinary arrangements under which disciplinary action in one state can be the basis for disciplinary action in one or more other states. Future changes in or additions to these requirements may require us to modify the manner in which we provide services to our clients, which may increase our costs in providing such services.

We are also increasingly affected by legal requirements relating to privacy of information. We anticipate that additional federal and state privacy laws and regulations beyond the federal Health Insurance Portability and Accountability Act of 1996 and the regulations promulgated there under will continue to be enacted and implemented. The scope of any such new laws and regulations may be very broad and entail significant costs for us to be in compliance.

As a result of our co-employment relationship with most of our clients and client employees, we may be subject to liabilities as a result of their acts or omissions.

We enter into a contractual relationship with each of our clients, whereby the client transfers certain employment-related risks and liabilities to us and retains other risks and liabilities. Many federal and state laws that apply to the employer-employee relationship do not specifically address the obligations and responsibilities of this "co-employment" relationship. Consequently, we may be subject to liability for violations of employment or discrimination laws, including violations of federal and state wage and hour laws, by our clients despite the contractual division of responsibilities between us, even if we do not participate in such violations. In addition, our client employees may also be deemed to be acting as our agents, subjecting us to further liability for the acts or omissions of such client employees. Although our professional services agreement provides that the client will indemnify us for any liability attributable to its own or its employees' conduct, we may not be able to effectively enforce or collect such contractual indemnification. While we do maintain Employer Practices Liability Insurance ("EPLI") to mitigate some of this risk, any such liability imposed upon us could have a material adverse impact on our results of operations, financial condition and cash flows.

Because we assume the obligation to make wage, tax and regulatory payments on behalf of our clients, we are exposed to certain credit risks with respect to our clients.

Under the terms of our professional services agreement, for clients serviced on a co-employed basis we generally assume responsibility for and manage the risks associated with each of our client's employee payroll obligations, including the payment of salaries, wages and associated taxes, and, at the client's option, the responsibility for providing group health, welfare and retirement benefits to each client employee. In this "co-employment" relationship, we directly assume these obligations, and unlike payroll processing service providers, we issue payroll checks to each client employee drawn on our own bank accounts. In several states, we are required to pay wages, payroll taxes and other amounts related to payroll regardless of whether the client timely funds such payments to us. For clients serviced either on a co-employed or non co-employed basis, who meet certain financial underwriting requirements, the Company may issue payroll to a client's employees prior to irrevocable receipt of payroll, taxes and associated service fees. If we are unable to collect these payments from our larger clients, there may be a material adverse effect on our results of operations, financial condition and cash flows.

Our majority shareholder owns a substantial majority of our common stock and 100 percent of the company's outstanding preferred stock.

As of June 30, 2010, our majority shareholder, Carter M. Fortune owns 6,084,853 shares (or 49.8%) of our outstanding common stock. In addition to the above shares, Mr. Fortune has dispositive control over 1,259,834 shares (or 10.3%) of the Company's Common Stock held by 14 West, LLC as of June 30, 2010.

As a result, this person could have a controlling influence in determining the outcome of any corporate matters submitted to our shareholders for approval, including mergers, consolidations, election of directors and any other significant corporate actions. The interests of this shareholder may differ from the interests of the Company's other shareholders and their stock ownership and thereby may limit the ability of other shareholders to influence the management and affairs of the Company.

Our majority shareholder has pledged his ownership holdings in the Company as collateral on certain personal debt obligations. If our majority shareholder were to default on these debt obligations and the collateral is called upon by the lending institution, it could result in a potential change in ownership of the public company which could be viewed as a negative occurrence by vendors, customers and/or various contractual partners. The occurrence of such an event could have a material adverse effect on the operations of the Company as a whole.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

As of June 30, 2010, we maintained the following operating facilities:

<u>Segment</u>	<u>Location(s)</u>	<u>Description</u>	<u>Owned / Leased</u>	<u>Approximate Square Footage</u>
Corporate	Indianapolis, IN	Corporate offices	Leased (1)	10,500
Business Solutions	Richmond, IN	Offices	Leased (2)	10,000
	Brentwood, TN	Offices	Leased	10,000
	Provo, UT	Offices	Leased (3)	13,000
	Tucson, AZ	Offices	Leased	2,700
	Loveland, CO	Offices	Leased	1,400
	Phoenix, AZ	Offices	Leased	1,000

- (1) The leases on these properties are with an entity owned by the Company's majority shareholder. Refer to the consolidated financial statements and notes thereto included elsewhere in this Form 10-K.
- (2) The leases on this property are with a limited liability company owned by the former Chief Operating Officer of the Company. Refer to the consolidated financial statements and notes thereto included elsewhere in this Form 10-K.
- (3) The leases on this property are with a limited liability company in which ESG's former President is a member of the limited liability company.

In the opinion of management of the Company, its properties are adequate for its present needs. We do not anticipate difficulty in renewing existing leases as they expire or in finding alternative facilities.

Item 3. Legal Proceedings

The Company is a party to certain pending claims that have arisen in the ordinary course of business, none of which, in the opinion of management, is expected to have a material adverse effect on the consolidated financial position, results of operations, or cash flows if adversely resolved.

Item 4. (Removed and Reserved)

PART II

Item 5. Market for the Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

The Common Stock of Fortune Industries, Inc. is traded on the NYSE Amex (Symbol: FFI). As of June 30, 2010, there were 249 holders of record of the common stock. This number does not include shareholders for whom shares were held in "nominee" or "street name". Prior to June 23, 2005, our stock traded on the NASD OTC Bulletin Board under the symbol "FDVI" for the period June 17, 2001 through June 1, 2005 and under the symbol "FDVF" for the period June 2, 2005 through June 22, 2005. High and low quotations reported by the NYSE Amex during the periods indicated are shown below. These quotations reflect inter-dealer prices, without retail mark-ups, markdowns or commissions and may not represent actual transactions.

	<u>High</u>	<u>Low</u>
Fiscal Year Ending June 30, 2010		
Fourth Quarter	\$ 0.67	\$ 0.31
Third Quarter	0.80	0.41
Second Quarter	1.25	0.73
First Quarter	1.06	0.37
Fiscal Ten Months Ending June 30, 2009		
Fourth Quarter	\$ 0.71	\$ 0.60
Third Quarter	0.71	0.36
Second Quarter	0.80	0.20
First Quarter	1.15	0.29

The Company has never declared or paid any dividends on its Common Stock. Future dividends, if any, will be at the discretion of the Board of Directors and will depend upon our operating performance, capital requirements, contractual restrictions, and other factors deemed relevant by the Board of Directors.

Unregistered Shares Issuances

There were no issuances of unregistered shares of Company stock that were not reported by the Company in a Current Report on Form 8-K or in a Quarterly Report on Form 10-Q during the fiscal year ended June 30, 2010.

Item 6. Selected Financial Data

The following selected financial data as of and for each of the previous five fiscal periods ending June 30 and August 31, which have been derived from our consolidated financial statements.

	<u>Year Ended June 30, 2010</u>	<u>Ten Months Ending June 30, 2009</u>	<u>Year Ended August 31,</u>		
			<u>2008</u>	<u>2007 (1)</u>	<u>2006 (2)</u>
(Dollars in thousands, except per share data)					
Total Revenues	\$ 60,694	\$ 72,906	\$ 158,399	\$ 158,349	\$ 157,113
Net Income (Loss) from Continuing Operations	1,440	1,458	(19,035)	(7,286)	2,219
Net Income (Loss) from Discontinued Operations	(19)	(74)	-	-	-
Net Income (Loss)	1,421	1,384	(19,035)	(7,286)	2,219
Net Income (Loss) Available to Common Shareholders	828	446	(19,581)	(7,782)	1,888
Basic Income (Loss) per share:					
Income (Loss) from Continuing Operations	\$ 0.07	\$ 0.05	\$ (1.72)	\$ (0.72)	\$ 0.18
Income (Loss) from Discontinued Operations	\$ 0.00	\$ (0.01)	\$ 0.00	\$ 0.00	\$ 0.00
Net Income (Loss)	\$ 0.07	\$ 0.04	\$ (1.72)	\$ (0.72)	\$ 0.18
Diluted Income (Loss) per share:					
Income (Loss) from Continuing Operations	\$ 0.06	\$ 0.04	\$ (1.72)	\$ (0.72)	\$ 0.18
Income (Loss) from Discontinued Operations	\$ 0.00	\$ (0.01)	\$ 0.00	\$ 0.00	\$ 0.00
Net Income (Loss)	\$ 0.06	\$ 0.03	\$ (1.72)	\$ (0.72)	\$ 0.18
Weighted Average Shares Outstanding:					
Basic	12,178	11,854	11,391	10,841	10,582
Diluted	14,688	13,825	11,720	12,394	11,845
Consolidated Balance Sheet Data:					
Cash and Short-Term Investments	\$ 2,324	\$ 1,686	\$ 4,740	\$ 9,830	\$ 4,913
Working Capital	1,212	(1,009)	3,694	(15,896)	23,383
Goodwill and Intangibles, net	15,196	15,602	16,093	25,911	16,283
Total Assets	29,341	30,513	66,112	88,355	74,285
Long-Term Obligations and Preferred Stock	30,471	29,629	43,389	16,364	34,512
Shareholders' Equity	19,609	18,685	(3,413)	14,089	20,950

(1) Includes the acquisition of PEM in February 2007 and ESG in March 2007.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto and the other financial data appearing elsewhere in this Form 10-K.

Overview

As a holding company of various product and service entities, we have historically invested in businesses that we believe are undervalued or underperforming, and /or in operations that are poised for significant growth. Management's strategic focus is to support the growth of its operations by increasing revenues and revenue streams, managing costs and creating earnings growth.

Our operations are largely decentralized from the corporate office. Autonomy is given to subsidiary entities, and there are few integrated business functions (i.e. sales, marketing, purchasing and human resources). Day-to-day operating decisions are made by subsidiary management teams. Our Corporate management team assists in operational decisions when deemed necessary, selects subsidiary management teams and handles capital allocation among our operations.

We were incorporated in the state of Delaware in 1988, restructured in 2000 and redomesticated to the state of Indiana in May 2005. Prior to 2001, we conducted business mainly in the entertainment industry.

Until November 30, 2008, we classified our businesses under five operating segments: Business Solutions; Wireless Infrastructure; Transportation Infrastructure; Ultraviolet Technologies; and Electronics Integration. Effective November 30, 2008, we approved the sale of all of our remaining operating subsidiaries within four of our five segments (Wireless Infrastructure, Transportation Infrastructure, Ultraviolet Infrastructure, and Electronics Integration). Consequently, as of the effective date of the transaction, our Business Solutions segment is the Company's remaining operating segment. The sales transaction, combined with other significant events disclosed in Note 2 of our financial statements in Item 8, changed the focus of our Company in fiscal 2009 and thereafter. This operational change in our Company will impact the comparability of our financial information compared to historical data presented in past filings.

Key Factors Affecting or Potentially Affecting Results of Operations and Financial Condition

Management considers the following factors, events, trends and uncertainties to be important to understanding its results of operations and financial condition:

Holding Company

Over the past eight fiscal periods, we have completed six key acquisitions. Four of these key acquisitions have been in the PEO industry. In February 2007, the Company acquired PEM, a PEO located in Arizona. In March 2007, the Company acquired ESG, a PEO located in Utah and Colorado. The Company's acquisition of ESG enabled the Company to expand its geographic presence in the PEO marketplace. In April 2005, we acquired CSM, a PEO located in Nashville, Tennessee. This acquisition of the oldest PEO in the state expanded our Business Solutions segment service offerings. In April 2004, we acquired JH Drew, a construction installer of highway-products and commercial structural steel. This acquisition allowed us to gain entry into the transportation infrastructure business in the Midwestern United States. In October 2003 we acquired PSM, a PEO located in Indianapolis, Indiana. This acquisition allowed us to gain entry into the PEO market. In July 2003 we acquired Nor-Cote, a specialty ink manufacturer with worldwide distribution channels. This acquisition allowed us to gain entry into the ultraviolet ink business.

There are several key factors that have affected or potentially may affect our results of operations including the following:

- Earnings are dependent on a number of factors including our ability to execute operational strategies and integrate acquired companies into our existing operations. Our historical growth has been due to several significant acquisitions over the past eight fiscal periods. Future growth in revenues and earnings may not increase at the same rate as historical growth.
- Certain expenses, such as wages, benefits and rent, are subject to normal inflationary pressures. Inflation for medical costs can impact both our reserves for self-funded medical plans as well as our reserves for workers' compensation claims.
- Our majority shareholder effectively owns 59.7% of the outstanding Common Stock and 100% of the outstanding Preferred Stock of the Company. As a result, he could have a controlling influence in determining the outcome of any corporate matters submitted to our shareholders for approval, including mergers, consolidations, election of directors and any other significant corporate actions. The interests of this shareholder may differ from the interests of the Company's other shareholders and his stock ownership may thereby limit the ability of other shareholders to influence the management and affairs of the Company.

Business Solutions

Our PEOs provide services typically managed by a company's internal human resources and accounting departments, including payroll and tax processing and management, worker's compensation and risk management, benefits administration, unemployment administration, human resource compliance services, 401k and retirement plan administration and employee assessments. The majority of customer operations are concentrated in the Arizona, Colorado, Indiana, Tennessee and Utah markets. Financial results may be affected by changes in the state regulatory environments, results under our partially self-funded health and partially self-funded workers' compensation insurance plans, and economic conditions.

Wireless Infrastructure

Through November 30, 2008, we invested in wireless infrastructure businesses, having completed six acquisitions primarily related to infrastructure products and service offerings related to the development, marketing, management, maintenance and upgrading of wireless telecommunications sites. Subsidiaries operating in the Company's Wireless Infrastructure segment included Fortune Wireless, Magtech Services, Inc., Cornerstone Wireless Construction Services, Inc. and James Westbrook & Associates, LLC.

Effective November 30, 2008, the Company sold its subsidiaries operating in the Wireless Infrastructure segment.

Transportation Infrastructure

Through November 30, 2008, the Company owned subsidiaries in its Transportation Infrastructure segment that assist customers with the development, maintenance and upgrading of transportation infrastructure and commercial construction projects. Transportation infrastructure products and services are performed by JH Drew. JH Drew was acquired in April 2004 and has been operating for over fifty years servicing contractors and state departments of transportation throughout the Midwestern United States. JH Drew is a leading specialty contractor in the field of transportation infrastructure, including guardrail, electrical components, and the fabrication and installation of structural steel for commercial buildings.

Effective November 30, 2008, the Company sold its subsidiaries operating in the Transportation Infrastructure segment.

Ultraviolet Technologies

Through November 30, 2008, the Company owned subsidiaries in its Ultraviolet (UV) Technologies segment that manufactured UV curable screen printing inks. UV Technologies products are manufactured by Nor-Cote, which we acquired in July 2003. These ink products are printed on many types of plastic, metals and other substrates that are compatible with the UV curing process. Typical applications are plastic sheets, point-of-purchase (POP) signage, banners, decals, cell phones, bottles and containers, CD and DVD, rotary-screen printed labels, and membrane switch overlays for conductive ink. Nor-Cote has operating facilities in the United States, United Kingdom, China, Singapore and Mexico, with worldwide distributors located in South Africa, Australia, Canada, China, Colombia, Hong Kong, India, Indonesia, Italy, Japan, Korea, Mexico, New Zealand, Poland, Spain, Taiwan, Thailand and the United States.

Effective November 30, 2008, the Company sold its subsidiaries operating in the Ultraviolet Technologies segment.

Electronics Integration

Through November 30, 2008, the Company owned subsidiaries in its Electronics Integration segment that sell and install a variety of electronic products and equipment, including video, sound and security products. Subsidiaries included Kingston, Commercial Solutions and Telecom Technology Corp. (TTC) d/b/a Audio-Video Revolution, Inc. (AVR).

Effective November 30, 2008, the Company sold its subsidiary Commercial Solutions and discontinued operations of its subsidiaries Kingston and TTC d/b/a AVR in its Electronics Integration segment.

Results of Operations

Results of operations for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008 are as follows:

	Revenue for the			Operating income (loss) for the		
	Year Ended	Ten	Year Ended	Year	Ten	Year Ended
	June 30,	Months	August 31,	Ended	Months	August 31,
	2010	Ended	2008	June,	Ended	2008
		June 30,		2010	June 30,	
		2009			2009	2008
	(Dollars in thousands)					
Business Solutions	\$ 60,694	\$ 53,482	\$ 74,894	\$ 810	\$ 366	\$ (4,207)
Wireless Infrastructure	-	3,312	15,683	-	193	(638)
Transportation Infrastructure	-	12,090	43,757	-	557	867
Ultraviolet Technologies	-	2,771	11,965	-	(204)	(5,385)
Electronics Integration	-	1,251	12,094	-	100	(2,648)
Holding Company	-	-	-	-	(600)	(4,187)
Variable Interest Entity	-	-	1,725	-	-	1,495
Variable Interest Entity Elimination	-	-	(1,719)	-	-	-
Segment Totals	\$ 60,694	\$ 72,906	\$ 158,399	\$ 810	\$ 412	\$ (14,703)
Net Income (Loss) Available to Common Shareholders				\$ 828	\$ 446	\$ (19,581)

Year ended June 30, 2010 versus Fiscal period ended June 30, 2009

Net income allocable to common stock shareholders was \$0.8 million, or \$0.06 per diluted share on revenues of \$60.7 million for the year ended June 30, 2010 compared with net income of \$0.4 million, or \$0.03 per diluted share on revenues of \$72.9 million for the ten months ended June 30, 2009. The decrease in revenue is a direct result of the sale of the non PEO subsidiaries in the prior fiscal year along with a decrease in worksite employee accounts and processed payroll during the current year. The increase in operating income is due to the reduction of losses on the health care plan and continued efficiency improvements and expense reductions in all aspects of the companies operations.

Fiscal period ended June 30, 2009 versus August 31, 2008

Net income allocable to common stock shareholders was \$0.4 million, or \$0.03 per diluted share on revenues of \$72.9 million for the ten months ended June 30, 2009 compared with a net loss of \$19.6 million, or \$1.72 per diluted share on revenues of \$158.4 million for the year ended August 31, 2008. The decrease in revenue and increase in operating income is due to the sale of subsidiaries and or discontinuation of operations within our Wireless, Transportation, Ultraviolet, and Electronics segments.

The following factors contributed to the increases and decreases in revenues in fiscal 2009:

- The Business Solutions decreases are due to a decrease in the total number of worksite employees as a result of clients reducing their payrolls, bonus programs and overall staffing levels in the current year. The decrease is also due to an overall loss in customers as a direct result of the overall downturn in economic conditions during the current year.
- The Wireless Infrastructure, Ultraviolet Technologies, and the Electronics Integration decreases are due to the sale and or discontinuation of operations for the subsidiaries in these divisions.

The following factors contributed to the increases in net income in fiscal 2009:

- Increases in the Business Solutions are due to a reduction in amortization due to prior year impairment charges, an overall reduction of internal staffing and continued efficiency improvements and expense reductions in all aspects of the companies operations. The increases in net income as a result of these initiatives were offset by an increase in health care claims.
- The Wireless Infrastructure, Ultraviolet Technologies, and the Electronics Integration increases are due to the sale and or discontinuation of operations for the subsidiaries in these divisions.

Results by segment are described in further details as follows:

Business Solutions

Business Solutions segment operating results for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008 are as follows:

	Year Ended		Ten Month Period		Year Ended	
	June 30, 2010		June 30, 2009		August 31, 2008	
	(Dollars in thousands)					
Revenues	\$ 60,694	100%	\$ 53,482	100%	\$ 74,894	100%
Cost of revenues	48,068	79.2%	43,317	81.0%	61,459	82.1%
Gross profit	12,626	20.8%	10,165	19.0%	13,435	17.9%
Operating expenses						
Selling, general and administrative	11,046	18.2%	9,251	17.2%	14,079	18.8%
Depreciation and amortization	770	1.3%	548	1.0%	1,267	1.7%
Impairment	-	0.0%	-	0.0%	2,296	3.1%
Total operating expenses	11,816	19.5%	9,799	18.3%	17,642	23.6%
Segment operating income (loss)	\$ 810	1.3%	\$ 366	0.7%	\$ (4,207)	-5.6%

Revenues

Revenues for the year ended June 30, 2010 were \$60.7 million, compared to \$53.4 million for the ten months ended June 30, 2009, an increase of \$7.2 million, or 13%. Revenue increased primarily due to reporting a twelve-month fiscal year versus a ten-month interim reporting period. Average monthly revenue for the year ended June 30, 2010 was approximately \$300,000 less (or 4.7%) than the prior year ending. This was a direct result of a reduction of worksite employees and decreased levels of payroll during the current year.

Revenues for the ten months ended June 30, 2009 were \$53.5 million, compared to \$74.9 million for the year ended August 31, 2008, a decrease of \$21.4 million, or 29%. Revenue decreased primarily due to attrition of customers and the impact of the economic slowdown on our customers.

Gross Profit

Gross profit for the year ended June 30, 2010 was \$12.6 million, representing 21% of revenue, compared to \$10.2 million, representing 19% of revenues for the ten months ended June 30, 2009. Gross profit dollars increased largely due to the current year being a 12 month fiscal period as compared to a 10 month fiscal period. Gross profit percentage increased due to a reduction in losses on the health plan during the current fiscal year.

Gross profit for the ten months ended June 30, 2009 was \$10.2 million, representing 19% of revenue, compared to \$13.4 million, representing 18% of revenues for the year ended August 31, 2008. Gross profit as a dollar amount decreased due to the reduction in revenue. Gross profit as a percentage of revenue increased due to a decrease in claims related to the workers' compensation plan and implementing a more efficient tracking system for the benefit plans.

Operating Income

Operating income for the year ended June 30, 2010 was \$0.8 million, compared to operating income of \$0.4 million for the ten months ended June 30, 2009, an increase of \$0.4 million, or 100%. Operating income increased due to a reduction in losses on the health plan and overall efficiency improvements and expense reductions in all areas of the companies operations.

Operating income for the ten months ended June 30, 2009 was \$0.4 million, compared to operating loss of \$(4.2) million for the year ended August 31, 2008, an increase of \$4.6 million, or 109%. Operating income increased due to a reduction in amortization of prior year impairment charges, reductions in internal staffing levels and overall efficiency improvements and expense reductions in all areas of the companies operations.

Wireless Infrastructure

Wireless Infrastructure segment operating results for the fiscal period ended June 30, 2010 and 2009 and August 31, 2008 are as follows:

	Year Ended		Ten Month Period		Year Ended		
	June 30, 2010		June 30, 2009		August 31, 2008		
	(Dollars in thousands)						
Revenues	\$	-	\$	3,312	100%	\$ 15,683	100%
Cost of revenues		-		2,458	74.2%	11,991	76.5%
Gross profit		-		854	25.8%	3,692	23.5%
Operating expenses							
Selling, general and administrative		-		650	19.6%	4,177	26.6%
Depreciation and amortization		-		11	0.3%	153	1.0%
Impairment		-		-	0.0%	-	0.0%
Total operating expenses		-		661	20.0%	4,330	27.6%
Segment operating income (loss)	\$	-	\$	193	5.8%	\$ (638)	-4.1%

Revenues

Effective November 30, 2008, the Company sold its subsidiaries operating in the Wireless Infrastructure segment resulting in the decrease in revenues for the ten month period ending June 30, 2009.

Gross Profit

Effective November 30, 2008, the Company sold its subsidiaries operating in the Wireless Infrastructure segment resulting in the decrease in gross profit for the ten month period ending June 30, 2009.

Operating Income (Loss)

Effective November 30, 2008, the Company sold its subsidiaries operating in the Wireless Infrastructure segment resulting in the increase in operating income for the ten month period ending June 30, 2009.

Transportation Infrastructure

Transportation Infrastructure segment operating results for the fiscal period ended June 30, 2010 and 2009 and August 31, 2008 are as follows:

	Year Ended		Ten Month Period		Year Ended		
	June 30, 2010		June 30, 2009		August 31, 2008		
	(Dollars in thousands)						
Revenues	\$	-	\$	12,090	100%	\$ 43,757	100%
Cost of revenues		-		10,747	88.9%	39,005	89.1%
Gross profit		-		1,343	11.1%	4,752	10.9%
Operating expenses							
Selling, general and administrative		-		781	6.5%	3,861	8.8%
Depreciation and amortization		-		5	0.0%	24	0.1%
Total operating expenses		-		786	6.5%	3,885	8.9%
Segment operating income		-	\$	557	4.6%	\$ 867	2.0%

Revenues

Effective November 30, 2008, the Company sold its subsidiary operating in the Transportation Infrastructure segment resulting in the decrease in revenues for the ten month period ending June 30, 2009.

Gross Profit

Effective November 30, 2008, the Company sold its subsidiary operating in the Transportation Infrastructure segment resulting in the decrease in gross profit for the ten month period ending June 30, 2009.

Operating Income

Effective November 30, 2008, the Company sold its subsidiary operating in the Transportation Infrastructure segment resulting in the decrease in operating income for the ten month period ending June 30, 2009.

Ultraviolet Technologies

Ultraviolet Technologies segment operating results for the fiscal period ended June 30, 2010 and 2009 and August 31, 2008 are as follows:

	Year Ended		Ten Month Period		Year Ended	
	June 30, 2010		June 30, 2009		August 31, 2008	
	(Dollars in thousands)					
Revenues	\$	-	\$	2,771	100%	\$ 11,965 100%
Cost of revenues		-		1,596	57.6%	6,904 57.7%
Gross profit		-		1,175	42.4%	5,061 42.3%
Operating expenses						
Selling, general and administrative		-		1,320	47.6%	4,956 41.4%
Depreciation and amortization		-		59	2.1%	322 2.7%
Impairment		-		-	0.0%	5,168 43.2%
Total operating expenses		-		1,379	49.8%	10,446 87.3%
Segment operating income (loss)	\$	-	\$	(204)	- 7.4%	\$ (5,385) -45.0%

Revenues

Effective November 30, 2008, the Company sold its subsidiary operating in the Ultraviolet Technologies segment resulting in the decrease in revenues for the ten month period ending June 30, 2009.

Gross Profit

Effective November 30, 2008, the Company sold its subsidiary operating in the Ultraviolet Technologies segment resulting in the decrease in gross profit for the ten month period ending June 30, 2009.

Operating Income (Loss)

Effective November 30, 2008, the Company sold its subsidiary operating in the Ultraviolet Technologies segment resulting in the increase in operating income for the ten month period ending June 30, 2009.

Electronics Integration

Electronics Integration segment operating results for the fiscal period ended June 30, 2010 and 2009 and August 31, 2008 are as follows:

	Year Ended		Ten Month Period		Year Ended	
	June 30, 2010		June 30, 2009		August 31, 2008	
	(Dollars in thousands)					
Revenues	\$	-	\$	1,251	100%	\$ 12,094 100%
Cost of revenues		-		912	72.9%	11,119 91.9%
Gross profit		-		339	27.1%	975 8.1%
Operating expenses						
Selling, general and administrative		-		238	19.0%	2,300 19.0%
Depreciation and amortization		-		1	0.1%	47 0.4%
Impairment		-		-	0.0%	1,276 10.6%
Total operating expenses		-		239	19.1%	3,623 30.0%
Segment operating income (loss)	\$	-	\$	100	8.0%	\$ (2,648) -21.9%

Revenues

Effective November 30, 2008, the Company sold its subsidiary Commercial Solutions and discontinued operations of its subsidiaries Kingston and TTC d/b/a AVR in its Electronics Integration segment resulting in the decrease in revenues for the ten months ending June 30, 2009.

Gross Profit

Effective November 30, 2008, the Company sold its subsidiary Commercial Solutions and discontinued operations of its subsidiaries Kingston and TTC d/b/a AVR in its Electronics Integration segment resulting in the decrease in gross profit for the ten months ending June 30, 2009.

Operating Income (Loss)

Effective November 30, 2008, the Company sold its subsidiary Commercial Solutions and discontinued operations of its subsidiaries Kingston and TTC d/b/a AVR in its Electronics Integration segment resulting in the increase in operating income for the ten months ending June 30, 2009.

Holding Company

Interest Expense

Interest expense was \$0.1 million for the year ended June 30, 2010, compared to \$0.1 million for the ten months ended June 30, 2009. There was no significant change to interest expense.

Interest expense was \$0.1 million for the ten months ended June 30, 2009, compared to \$3.1 million for the year ended August 31, 2008, a decrease of \$2.9 million or 96%. The decrease was primarily due to eliminating the consolidation of the VIE as a result of terminating the lease agreement with the VIE as of November 30, 2008 and due to the sale of our subsidiaries for satisfaction of our related party debt.

Income Taxes

There was \$0.3 and \$0.9 million of income tax benefit for the year ended June 30, 2010 and for the ten months ended June 30, 2009, respectively. A valuation allowance is necessary to reduce the deferred tax assets, if the Company had a federal tax operating loss and 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. Management has determined that a \$7.0 million valuation allowance at June 30, 2010 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 for the current period is (\$0.6) million.

There was (\$0.9) and \$0.1 million of income tax expense (benefit) for the ten months ended June 30, 2009 and for the year ended August 31, 2008, respectively. A valuation allowance is necessary to reduce the deferred tax assets, if the Company had a federal tax operating loss and 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. Management has determined that a \$7.6 million valuation allowance at June 30, 2009 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 for the current period is (\$0.9) million.

Liquidity and Capital Resources

Our principal sources of liquidity include cash and equivalents, marketable securities and proceeds from debt borrowings. We had \$2.3 million and \$1.7 million of cash and equivalents and marketable securities at June 30, 2010 and 2009, respectively.

We had working capital of \$1.2 million at June 30, 2010 compared with \$(1.0) million at June 30, 2009. The increase in working capital was primarily due to the positive cash flow generated by operations during the current year. Current assets are composed primarily of cash and equivalents, net accounts receivable, and prepaid expenses.

The Company is required to collateralize its obligations under its workers' compensation and health benefit plans and certain general insurance coverage. The Company uses its cash and cash equivalents to collateralize these obligations. Restricted cash was approximately \$2.8 and \$3.1 at June 30, 2010 and June 30, 2009, respectively.

Total debt was \$0.9 and \$0.3 million at June 30, 2010 and 2009, respectively. The increase in debt was due to the addition of a \$1.0 million term note put in place during the current year less the extinguishment of the term note in place in the prior year.

The debt agreement contains restrictive covenants which limit, among other things, certain mergers and acquisitions, redemptions of common stock, and payment of dividends. In addition, we must meet certain financial ratios.

Majority Shareholder

As of June 30, 2010, our Chairman of the Board, Mr. Carter M. Fortune effectively owned and controlled 7,294,687 shares (or 59.7%) of our outstanding common stock. Mr. Fortune also is the sole owner of 100% of the 296,180 shares of Series C Preferred Stock outstanding at June 30, 2010. The common stock and preferred stock owned and held by Mr. Fortune serves as collateral for certain personal debt obligations of Mr. Fortune that do not represent liabilities of the Company.

Critical Accounting Policies

The Company has identified the following policies as critical to its business and the understanding of its results of operations. The impact of these policies is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where these policies affect reported and anticipated financial results. For a detailed discussion on the application of these and other accounting policies see the Notes to the Consolidated Financial Statements. Preparation of this report requires the Company's use of estimates and assumptions that affect the reported amounts of assets, liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported revenue and expense amounts for the periods being reported. On an ongoing basis, the Company evaluates these estimates, including those related to the valuation of accounts receivable and inventory reserves, the potential impairment of long-lived assets and income taxes, valuation of contingent consideration resulting from acquisitions, and valuation of certain liability reserves. The Company bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Senior management has discussed the development, selection, and disclosure of these estimates with the Company's audit committee.

Management believes the following critical accounting policies affect its more significant judgments and estimates used in preparation of its consolidated financial statements.

Revenue and Cost Recognition

In the Business Solutions segment, PSM, CSM, and ESG and related entities 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 revenues in accordance FASB ASC 605-45 (formerly EITF 99-19), "Revenue Recognition - Principal Agent Considerations." The PEOs report revenues on a gross basis, 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 revenues 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 revenues on a net basis for the amount billed to clients for worksite employee salaries and wages. 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 PEOs account for their revenues 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 revenues for service fees and payroll taxes relating to work performed by worksite employees but unpaid at the end of each period. The PEOs accrue unbilled receivables for payroll taxes and service 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.

In the Wireless Infrastructure segment, Fortune Wireless enters into contracts principally on the basis of competitive bids, the final terms and prices of which are frequently negotiated with the customer. Although the terms of its contracts vary considerably, most are made on a unit price basis in which the Company agrees to do the work for units of work performed. The Company also performs services on a cost-plus or time and materials basis. The Company completes most projects within twelve months. The Company generally recognizes revenue utilizing output measures, such as when services are performed, units are delivered or when contract milestones are reached. Cornerstone Construction recognizes revenue solely using the percentage of completion method on contracts in process. Under this method, the portion of the contract price recognized as revenue is based on the ratio of costs incurred to the total estimated cost of the contract. The estimated total cost of a contract is based upon management's best estimate of the remaining costs that will be required to complete a project. The actual costs required to complete a project and, therefore, the profit eventually realized, could differ materially in the near term. Costs and estimated earnings in excess of billings on uncompleted contracts are shown as a current asset. Billings in excess of costs and estimated earnings on uncompleted contracts are shown as a current liability. Anticipated losses on contracts, if any, are recognized when they become evident.

In the Transportation Infrastructure segment, JH Drew recognizes revenue using the percentage of completion method on contracts in process. Under this method, the portion of the contract price recognized as revenue is based on the ratio of costs incurred to the total estimated cost of the contract. The estimated total cost of a contract is based upon management's best estimate of the remaining costs that will be required to complete a project. The actual costs required to complete a project and, therefore, the profit eventually realized, could differ materially in the near term. Costs and estimated earnings in excess of billings on uncompleted contracts are reported as a current asset. Billings in excess of costs and estimated earnings on uncompleted contracts are reported as a current liability. Anticipated losses on contracts, if any, are recognized when they become evident.

In the Ultraviolet Technologies segment, revenue from the sale of products at Nor-Cote is recognized according to the terms of the sales arrangement, which is generally upon shipment. Revenues are recognized, net of estimated costs of returns, allowances and sales incentives, title and principal ownership transfers to the customer, which is generally when products are shipped to customers. Products are generally sold on open account under credit terms customary to the geographic region of distribution. Ongoing credit evaluations are performed on customers and the Company does not generally require collateral to secure accounts receivable.

In the Electronics Integration segment, revenue from the sale of products at Kingston and Commercial Solutions is recognized according to the terms of the sales arrangement. Revenues are recognized when title and principal ownership transfers to the customer, which is generally when products are shipped to customers. Products are generally sold on open account under credit terms customary to the geographic region of distribution. Ongoing credit evaluations are performed on customers and the Company does not generally require collateral to secure accounts receivable. TTC enters into contracts principally on the basis of competitive bids, the final terms and prices of which are frequently negotiated with the customer. Although the terms of its contracts vary considerably, most are made on a unit price basis in which the Company agrees to do the work for units of work performed. The Company also performs services on a cost-plus or time and materials basis. The Company completes most projects within one month. The Company generally recognizes revenue utilizing output measures, such as when services are performed, units are delivered or when contract milestones are reached.

Revenue is reduced by appropriate allowances, estimated returns, price concessions, and similar adjustments, as applicable.

Valuation of Accounts Receivable and Inventory Reserves:

Collectability of accounts receivable is evaluated for each subsidiary based on the subsidiary's industry and current economic conditions. Other factors include analysis of historical bad debts, projected losses, and current past due accounts. Inventories are valued at lower of cost or market using the first-in, first-out method based on average cost. The Company's valuation of inventory includes both a markdown reserve for inventory that will be sold below original cost, and a usage reserve. The reserve values are evaluated by each subsidiary based upon historical information and assumptions about future demand and market conditions. The usage reserve value is based on historical information and assumptions as to usage of current product in inventory and related usage trends. The Company's accounts receivable and inventory reserves decreased by \$.07 million and \$0.1 million respectively, at June 30, 2010 compared to June 30, 2009. It is possible that changes to the markdown and usage reserves could be required in future periods due to changes in market conditions.

Goodwill and Other Intangible Assets:

With the adoption of ASC 350, material goodwill included in the Company's Business Solutions segment was assessed for impairment. 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 goodwill 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.

In the fiscal year ended August 31, 2008, the Company recognized impairment on certain intangible assets in its Business Solutions segment of \$2.3 million. Management determined the assets were impaired based upon violation of non-compete agreements with certain terminated employees, a substantial change in the customer mix and number of worksite employees within our Business Solutions segment.

The Company has elected to perform the annual impairment test of recorded goodwill as required by ASC 350 as of the end of fiscal first quarter.

The Company did not recognize any impairment of goodwill or intangible assets for year ended June 30, 2010 and ten month period ended June 30, 2009.

Impairment of Long-Lived Assets:

The Company evaluates the recoverability of its long-lived assets in accordance with FASB ASC 360 (formerly SFAS 144), "Property, Plant, and Equipment," which generally requires the Company to assess these assets for recoverability whenever events or changes in circumstance indicate that the carrying amounts of such assets may not be recoverable. The Company considers historical performances and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated non-discounted future cash flows expected to result from the use of the asset. If such assets are considered to be impaired, the impairment recognized is measured by comparing projected individual segment discounted cash flows to the asset segment carrying values. The estimation of fair value is measured by discounting expected future cash flows at the discount rate the Company utilizes to evaluate potential investments. Actual results may differ from these estimates and as a result the estimation of fair values may be adjusted in the future.

Income Taxes:

Deferred tax assets are recognized for taxable temporary differences, tax credit and net operating loss carryforwards. These assets are reduced by a valuation allowance, which is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of June 30, 2010, Management has determined that a 100% valuation allowance against the Company's \$4.9 million component of deferred tax assets generated by the net operating loss carry forward of \$13.9 million is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. As of June 30, 2010, Management has also determined that a \$2.2 million valuation allowance against the Company's \$4.9 million of deferred tax assets generated by book versus tax differences of certain assets and liabilities is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The Company released \$0.6 million of the valuation allowance in fiscal 2010 due to the positive earnings in the Company's operations and projected earnings in fiscal 2011 and 2012.

As of June 30, 2009, Management utilized a 100% valuation against the Company's \$4.8 million component of deferred tax assets generated by the net operating loss carry forward of \$12.075 million to reduce the deferred tax assets to the amount that will more likely than not be realized. As of June 30, 2009, Management utilized a valuation allowance of \$2.8 million against the Company's \$5.3 million component of deferred tax assets generated by book versus tax differences to reduce the deferred tax assets to the amount that will more likely than not be realized. During fiscal 2009, the Company released \$1.25 million of the valuation allowance based on the Company's earnings trend and projected earnings.

In addition, management is required to estimate taxable income for future years by taxing jurisdictions and to consider this when making its judgment to determine whether or not to record a valuation allowance for part or all of a deferred tax asset. A one percent change in the Company's overall statutory tax rate for 2010 would not have a material effect in the carrying value of the net deferred tax assets or liabilities.

The Company has operations in multiple taxing jurisdictions and is subject to audit in these jurisdictions. Tax audits by their nature are often complex and can require several years to resolve. Accruals of tax contingencies require management to make estimates and judgments with respect to the ultimate outcome of tax audits. Actual results could vary from these estimates.

Accrued Insurance and Workmen's Compensation Reserves:

The Company's Business Solutions segment recognizes significant reserves in relation to its partially self-funded worksite employees' health and partially self-funded workers' compensation programs based on (a) the amount of past claims incurred and (b) the estimated time lag to report and pay such claims. The Company's policy for its partially self-funded health plan is to accrue estimated unpaid claims incurred during the fiscal year based on the weighted average historical claims paid over a 2-month to 3-month lag period. PSM is insured for losses under its health plan in excess of approximately \$225 thousand per person with an aggregate liability limit of approximately \$7.6 million at June 30, 2010. Our deductible under our workers' compensation insurance at PSM and CSM is \$0.25 million with an aggregate liability limit of approximately \$2.0 million. Our deductible under the ESG LUA policy is \$0.35 million with no aggregate liability. The combined reserve recognized for unpaid health and workers' compensation benefits on the Company's consolidated balance sheet is \$1.7 million (for which approximately \$1.7 million of cash is restricted on the Company's consolidated balance sheet) for the year ended June 30, 2010.

New Accounting Pronouncements

See Note 1 of the Notes to the Consolidated Financial Statements of this report for a discussion of new accounting pronouncements.

Forward-Looking Statements:

Statements contained in this document, as well as some statements by the Company in periodic press releases and oral statements of Company officials during presentations about the Company constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”). Forward-looking statements include statements that are predictive in nature, depend on or refer to future events or conditions, which include words such as “expect,” “estimate,” “anticipate,” “predict,” “believe” and similar expressions. These statements are based on the current intent, belief or expectation of the Company with respect to, among other things, trends affecting the Company’s financial condition or results of operations. These statements are not guaranties of future performance and the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Actual events and results involve risks and uncertainties and may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. Factors that might cause or contribute to such differences, include, but are not limited to, the risks and uncertainties that are discussed under the heading “Risk Factors.” Readers should carefully review the risk factors referred to above and the other documents filed by the Company with the Securities and Exchange Commission.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Cash and cash equivalents as of June 30, 2010 was \$2.3 million and is primarily invested in money market interest bearing accounts. A hypothetical 10% adverse change in the average interest rate on the Company’s investments would not have had a material effect on net income for the year ended June 30, 2010. We do not currently utilize any derivative financial instruments to hedge interest rate risks.

Item 8. Financial Statements and Supplementary Data**FORTUNE INDUSTRIES, INC.****INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

Report of Independent Registered Public Accounting Firm	26
Consolidated Balance Sheets as of June 30, 2010 and 2009	27
Consolidated Statements of Operations for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008	29
Consolidated Statements of Shareholders’ Equity (Deficit) for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008	30
Consolidated Statements of Cash Flows for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008	31
Notes to Consolidated Financial Statements	33

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Fortune Industries, Inc. and Subsidiaries
Indianapolis, IN 46278

We have audited the accompanying consolidated balance sheets of Fortune Industries, Inc. and subsidiaries (the "Company") as of June 30, 2010 and 2009 and the related consolidated statements of operations, changes in shareholders' equity (deficit), and cash flows for each of the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008. Our audits also included the financial statement schedule listed in the Index at Part IV, Item 15. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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. An audit includes 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 opinions. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2010 and 2009, and the results of its operations and its cash flows for each of the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Somerset CPAs, P.C.

Indianapolis, Indiana
September 28, 2010

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

	<u>June 30,</u> <u>2010</u>	<u>June 30</u> <u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 2,324	\$ 1,686
Restricted cash (Note 1)	2,820	3,142
Accounts receivable, net (Note 5)	2,247	2,622
Deferred tax asset (Note 10)	1,750	1,750
Prepaid expenses and other current assets	943	1,483
Inventory, net	-	13
Assets of discontinued operations, net (Note 11)	8	112
Total Current Assets	10,092	10,808
OTHER ASSETS		
Property, plant & equipment, net (Note 6)	455	764
Term note receivable related party (Note 2)	2,536	2,546
Deferred tax asset (Note 10)	1,000	750
Goodwill (Note 7)	12,339	12,339
Other intangible assets, net (Note 7)	2,857	3,263
Other long-term assets	62	43
Total Other Assets	19,249	19,705
TOTAL ASSETS	\$ 29,341	\$ 30,513

See Accompanying Notes to Consolidated Financial Statements.

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

	<u>June 30,</u> <u>2010</u>	<u>June 30</u> <u>2009</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term debt and current maturities of long-term debt (Note 8)	\$ 511	275
Accounts payable	909	1,037
Health and workers' compensation reserves	1,696	4,125
Accrued expenses	5,530	5,376
Other current liabilities	234	1,003
Liabilities of discontinued operations, net (Note 11)	-	1
Total Current Liabilities	<u>8,880</u>	<u>11,817</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities (Note 8)	417	11
Long-term health and workers' compensation reserves	435	-
Total Long-Term Liabilities	<u>852</u>	<u>11</u>
Total Liabilities	9,732	11,828
SHAREHOLDERS' EQUITY (NOTE 13)		
Common stock, \$0.10 par value; 150,000,000 authorized; 12,224,290 and 12,082,173 outstanding at June 30, 2010 and 2009, respectively	1,206	1,187
Series B and C Preferred stock, \$0.10 par value; 1,000,000 authorized; 296,180 issued and outstanding at June 30, 2010 and 2009	29,618	29,618
Treasury stock, at cost, 48,263 shares	(186)	-
Additional paid-in capital and warrants outstanding	19,515	19,253
Accumulated deficit	<u>(30,544)</u>	<u>(31,373)</u>
Total Shareholders' Equity	19,609	18,685
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 29,341</u>	<u>\$ 30,513</u>

See Accompanying Notes to Consolidated Financial Statements.

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

	<u>Year Ended</u> <u>June 30,</u> <u>2010</u>	<u>Ten Months Ended</u> <u>June 30,</u> <u>2009</u>	<u>Year Ended</u> <u>August 31,</u> <u>2008</u>
REVENUES			
Service revenues	\$ 60,694	\$ 54,977	\$ 81,838
Product revenues	-	17,929	76,561
TOTAL REVENUES	60,694	72,906	158,399
COST OF REVENUES			
Service cost of revenues	48,068	44,086	65,350
Product cost of revenues	-	14,944	65,128
TOTAL COST OF REVENUES	48,068	59,030	130,478
GROSS PROFIT	12,626	13,876	27,921
OPERATING EXPENSES			
Selling, general and administrative expenses	11,046	12,598	31,102
Depreciation and amortization	770	866	2,782
Impairment (Note 1)	-	-	8,740
Total Operating Expenses	11,816	13,464	42,624
OPERATING INCOME (LOSS)	810	412	(14,703)
OTHER INCOME (EXPENSE)			
Interest income	123	159	191
Interest expense	(17)	(114)	(3,062)
Loss on disposal of assets	-	(20)	(350)
Exchange rate gain	-	1	36
Other income	262	76	27
Total Other Income (Expense)	368	102	(3,158)
INCOME (LOSS) BEFORE MINORITY INTEREST IN VARIABLE INTEREST ENTITY	1,178	514	(17,861)
Minority Interest in Variable Interest Entity (Note 4)	-	-	1,095
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	1,178	514	(18,956)
Provision for income taxes (Note 10)	(262)	(944)	79
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	1,440	1,458	(19,035)
DISCONTINUED OPERATIONS			
Loss from discontinued operations (Note 11)	(19)	(74)	-
NET INCOME (LOSS)	1,421	1,384	(19,035)
Preferred stock dividends	592	938	546
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ 828	\$ 446	\$ (19,581)
Basic Income (Loss) Per Common Share - Continuing Operations	\$ 0.07	\$ 0.05	\$ (1.72)
Basic Income (Loss) Per Common Share - Discontinued Operations	\$ -	\$ (0.01)	\$ -
Basic Income (Loss) Per Common Share	\$ 0.07	\$ 0.04	\$ (1.72)
Basic weighted average shares outstanding	12,177,741	11,853,957	11,391,130
Diluted Income (Loss) Per Common Share - Continuing Operations	\$ 0.06	\$ 0.04	\$ (1.72)
Diluted Income (Loss) Per Common Share - Discontinued Operations	\$ -	\$ (0.01)	\$ -
Diluted Income (Loss) Per Common Share	\$ 0.06	\$ 0.03	\$ (1.72)
Diluted weighted average shares outstanding	14,687,904	13,824,520	11,719,806

See Accompanying Notes to Consolidated Financial Statements.

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

	Common Stock	Treasury Stock	Preferred Stock	Additional Paid-in Capital and Warrants Outstanding	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity (Deficit)	Comprehensive Income (Loss)
BALANCE AT AUGUST 31, 2007								
(Restated)	\$ 1,117	\$ (923)	\$ 6,618	\$ 19,317	\$ (12,300)	\$ 260	\$ 14,089	
Issuance of 28,950 shares of common stock for compensation	3	-	-	56	-	-	59	-
Retirement of 30,270 shares of common stock	(3)	-	-	(132)	-	-	(135)	-
Net Loss	-	-	-	-	(19,035)	-	(19,035)	(19,035)
Retirement of 66,180 shares of series A preferred stock	-	-	(6,618)	-	-	-	(6,618)	-
Issuance of 79,180 shares of series B preferred stock	-	-	7,918	-	-	-	7,918	-
Preferred stock dividends	-	-	-	-	(546)	-	(546)	-
Foreign currency translation adjustments, net of tax	-	-	-	-	-	(68)	(68)	(68)
Distribution of 384,500 shares from variable interest entity	-	923	-	-	-	-	923	-
Total comprehensive loss	-	-	-	-	-	-	-	\$ (19,103)
BALANCE AT AUGUST 31, 2008	\$ 1,117	\$ -	\$ 7,918	\$ 19,241	\$ (31,881)	\$ 192	\$ (3,413)	
Issuance of 708,800 shares of common stock for compensation	71	-	-	124	-	-	195	-
Retirement of 10,000 shares of common stock	(1)	-	-	(61)	62	-	-	-
Net income	-	-	-	-	1,384	-	1,384	1,384
Retirement of 79,180 shares of series B preferred stock	-	-	(7,918)	-	-	-	(7,918)	-
Issuance of 100,880 shares of series C preferred stock	-	-	29,618	-	-	-	29,618	-
Disposition of productive business assets	-	-	-	(51)	-	(192)	(243)	(192)
Preferred stock dividends	-	-	-	-	(938)	-	(938)	-
Total comprehensive income	-	-	-	-	-	-	-	\$ 1,192
BALANCE AT JUNE 30, 2009	\$ 1,187	\$ -	\$ 29,618	\$ 19,253	\$ (31,373)	\$ -	\$ 18,685	
Issuance of 142,117 shares of common stock for compensation	14	-	-	81	-	-	95	-
Purchase of 48,263 shares of common stock for treasury at cost	5	(186)	-	181	-	-	-	-
Net income	-	-	-	-	1,421	-	1,421	1,421
Preferred stock dividends	-	-	-	-	(592)	-	(592)	-
BALANCE AT JUNE 30, 2010	\$ 1,206	\$ (186)	\$ 29,618	\$ 19,515	\$ (30,544)	\$ -	\$ 19,609	\$ 1,421

See Accompanying Notes to Consolidated Financial Statements

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

	<u>Year Ended</u> <u>June 30,</u> <u>2010</u>	<u>Ten Months</u> <u>Ended</u> <u>June 30,</u> <u>2009</u>	<u>Year Ended</u> <u>August 31,</u> <u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss)	\$ 1,421	\$ 1,384	\$ (19,035)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	770	1,033	3,675
Provision for gains (losses) on accounts receivable	(111)	(155)	325
Loss on disposal of assets	-	20	350
Stock based compensation	95	195	59
Extinguishment of debt	(250)	-	(135)
Minority interest in variable interest entity income	-	-	1,095
Deferred income taxes	(250)	(1,011)	-
Impairment on intangible assets	-	-	8,740
Changes in certain operating assets and liabilities:			
Restricted cash	322	2,228	(279)
Accounts receivable	486	914	3,627
Costs and estimated earnings in excess of billings on uncompleted contracts	-	-	(1,506)
Inventory, net	-	92	2,289
Prepaid assets and other current assets	553	(98)	577
Assets of discontinued operations	106	410	-
Other long-term assets	(9)	5	73
Accounts payable	(128)	332	(3,618)
Health and workers' compensation reserves	(1,993)	(1,125)	307
Accrued expenses and other current liabilities	(256)	(3,680)	2,200
Billings in excess of costs and estimated earnings on uncompleted contracts	-	-	(546)
Liabilities of discontinued operations	-	214	-
Net Cash Provided by (Used in) Operating Activities	<u>756</u>	<u>758</u>	<u>(1,802)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(55)	(121)	(1,333)
Variable interest entity proceeds from sale of assets	-	-	390
Proceeds from sale of assets	-	12	20
Net Cash Used in Investing Activities	<u>(55)</u>	<u>(109)</u>	<u>(923)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net borrowings (payments) under line of credit	-	-	(11,750)
Borrowings (payments) on long-term debt majority shareholder	-	(300)	32,300
Proceeds from short and long-term debt	1,000	250	-
Payments on short and long-term debt	(108)	(50)	(18,282)
Variable interest entity payments on long-term debt	-	-	(829)
Payments on convertible debentures	-	(3,405)	(2,272)
Repurchases of common stock for treasury	(557)	-	-
Dividends paid on preferred stock	(398)	(198)	(546)
Proceeds from variable interest entity member contributions	-	-	160
Distributions to variable interest entity members	-	-	(1,078)
Net Cash Provided by (Used in) Financing Activities	<u>(63)</u>	<u>(3,703)</u>	<u>(2,297)</u>
Effect of exchange rate changes on cash	-	-	(68)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	638	(3,054)	(5,090)
CASH AND EQUIVALENTS			
Beginning of Period	<u>1,686</u>	<u>4,740</u>	<u>9,830</u>
End of Period	<u>\$ 2,324</u>	<u>\$ 1,686</u>	<u>\$ 4,740</u>

See Accompanying Notes to Consolidated Financial Statements.

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

	<u>Year Ended</u>	<u>Ten Months Ended</u>	<u>Year Ended</u>
	<u>June 30,</u>	<u>June 30,</u>	<u>August 31,</u>
	<u>2010</u>	<u>2009</u>	<u>2008</u>
SUPPLEMENTAL DISCLOSURES			
Interest paid	\$ 17	\$ 80	\$ 2,735
Income taxes paid	\$ 49	\$ 67	\$ 256
Non-cash investing and financing activities:			
Stock distribution to variable interest entity members	\$ -	\$ -	\$ 1,846
Retirement of series A preferred stock as exchange for series B	-	-	(6,618)
Issuance of series B preferred stock for debt extinguishment	-	-	7,918
Retirement of series B preferred stock in exchange for series C	-	(7,918)	-
Issuance of series C preferred stock in exchange for series B	-	7,918	-
Issuance of series C preferred stock for debt extinguishment	-	21,700	-
Term note receivable for disposition of assets	-	(3,240)	-
Reduction in term loan in exchange for disposition of assets	-	(10,000)	-
Reduction in accrued dividend in exchange for term note receivable offset	-	740	-
Reduction in term note receivable with accrued dividend offset	-	(740)	-
	<u>\$ -</u>	<u>\$ 8,460</u>	<u>\$ 3,146</u>

See Accompanying Notes to Consolidated Financial Statements.

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

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

General

Fortune Industries, Inc. (formerly known as Fortune Diversified Industries, Inc.) is an Indiana 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. As a holding company, the Company has historically invested in businesses that are undervalued, underperforming, or in operations that are poised for significant growth. Management's strategic focus is to support the revenue and earnings growth of its operations by creating synergies that can be leveraged to enhance the performance of the Company's entities and by investing capital to fund expansion. Effective November 30, 2008, the Company sold its subsidiaries in its Wireless Infrastructure, Transportation Infrastructure, Ultraviolet Technologies, and Electronics Integration business segments to a related party. Refer to Note 2 for further details. As of this date, management will focus all its financial and human capital resources on its subsidiaries in the Business Solutions segment. The effect of this sale will impact the comparability of the Company's financial information in future filings.

On April 13, 2009, our Board of Directors approved a change in the Company's fiscal year end from August 31st to June 30th commencing with our fiscal year 2009. This resulted in our fiscal year 2009 being shortened from 12 months to 10 months and ending on June 30, 2009.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Fortune Industries, Inc., its wholly owned subsidiaries, and a variable interest entity as described in Note 4. Nor-Cote International, Inc., a wholly-owned subsidiary until November 30, 2008, contains foreign subsidiaries from the United Kingdom, China, and Singapore, which have been eliminated in consolidation at the Nor-Cote subsidiary level (Collectively, "Nor-Cote"). Refer to Note 2 for further details. As of November 30, 2008, the Company did not consolidate the VIE. Refer to Note 4 for further details. All significant inter-company accounts and transactions of the Company have been eliminated.

Foreign Currency Translation: Assets and liabilities of the foreign subsidiaries of Nor-Cote are translated into U.S. dollars at the exchange rate in effect during the three months ending November 30, 2008. Translation adjustments that arise from translating the subsidiaries' financial statements from local currency to U.S. dollars are accumulated and presented, net of tax, as a separate component of shareholders' equity (deficit).

Comprehensive Income (Loss): Comprehensive income (loss) refers to the change in an entity's equity during a period resulting from all transactions and events other than capital contributed by and distributions to the entity's owners. For the Company, comprehensive income (loss) is equal to net income plus the change in unrealized gains or losses on investments and the change in foreign currency translation adjustments. The Company reports comprehensive income (loss) in the consolidated statement of shareholders' equity (deficit).

Estimates: Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States. 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.

Significant estimates used in preparing these consolidated financial statements include those assumed in computing profit percentages under the percentage-of-completion revenue recognition method. It is reasonably possible that the significant estimates used will change within the next year.

Revenue and Cost Recognition: In the Business Solutions segment, Professional Staff Management, Inc. and related entities ("PSM"); CSM, Inc. and subsidiaries ("CSM"); Precision Employee Management, LLC ("PEM"); and Employer Solutions Group, Inc. and related entities ("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 (formerly EITF 99-19), “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 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.

In the Wireless Infrastructure segment, Fortune Wireless, Inc. (“Fortune Wireless”) enters into contracts principally on the basis of competitive bids, the final terms and prices of which are frequently negotiated with the customer. Although the terms of its contracts vary considerably, most are made on a unit price basis in which Fortune Wireless agrees to do the work for units of work performed. Fortune Wireless also performs services on a cost-plus or time and material basis. Fortune Wireless completes most projects within twelve months. Fortune Wireless generally recognizes revenue utilizing output measures, such as when services are performed, units are delivered or when contract milestones are reached or under the percentage of completion method as appropriate. Cornerstone Wireless Construction Services, Inc. recognizes revenue solely using the percentage of completion method on contracts in process. Under this method, the portion of the contract price recognized as revenue is based on the ratio of costs incurred to the total estimated cost of the contract. The estimated total cost of a contract is based upon management’s best estimate of the remaining costs that will be required to complete a project. The actual costs required to complete a project and, therefore, the profit eventually realized, could differ materially in the near term. Costs and estimated earnings in excess of billings on uncompleted contracts are shown as a current asset. Billings in excess of costs and estimated earnings on uncompleted contracts are shown as a current liability. Anticipated losses on contracts, if any, are recognized when they become evident.

In the Transportation Infrastructure segment, James H Drew Corporation and its subsidiaries (“JH Drew”) recognize revenue using the percentage of completion method on contracts in process. Under this method, the portion of the contract price recognized as revenue is based on the ratio of costs incurred to the total estimated cost of the contract. The estimated total cost of a contract is based upon management’s best estimate of the remaining costs that will be required to complete a project. The actual costs required to complete a project and, therefore, the profit eventually realized, could differ materially in the near term. Costs and estimated earnings in excess of billings on uncompleted contracts are shown as a current asset. Billings in excess of costs and estimated earnings on uncompleted contracts are shown as a current liability. Anticipated losses on contracts, if any, are recognized when they become evident.

In the Ultraviolet Technologies segment, revenue from the sale of products at Nor-Cote is recognized according to the terms of the sales arrangement, which is generally upon shipment. Revenues are recognized, net of estimated costs of returns, allowances and sales incentives, when title and principal ownership transfers to the customer, which is generally when products are shipped to customers. Products are generally sold on open account under credit terms customary to the geographic region of distribution. Ongoing credit evaluations are performed on customers and Nor-Cote does not generally require collateral to secure accounts receivable.

In the Electronics Integration segment, revenue from the sale of products at Kingston Sales Corporation (“Kingston”) and Commercial Solutions, Inc. (“Commercial Solutions”) is recognized according to the terms of the sales arrangement, which is generally upon shipment. Revenue is recognized when title and principal ownership transfers to the customer, which is generally when products are shipped to customers. Products are generally sold on open account under credit terms customary to the geographic region of distribution. Ongoing credit evaluations are performed on customers and Kingston and Commercial Solutions do not generally require collateral to secure accounts receivable.

Revenue is reduced by appropriate allowances, estimated returns, price concessions, and similar adjustments, as applicable.

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 and letters of credit issued to collateralize its obligations under its workers' compensation program and certain general insurance coverage related to the Company's Business Solutions segment. At June 30, 2010, the Company had \$2.8 million in total restricted cash. Of this, \$2.5 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 credits in accordance with various state regulations.

Accounts Receivable: Accounts receivable is stated at the amount billable to customers. Accounts receivable are ordinarily due 30-60 days after the issuance of the invoice. The Company provides allowances for estimated doubtful accounts and for returns and sales allowances, 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. 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.

Inventories: Inventories are recorded at the lower of cost or market value. Costs are determined primarily under the first-in, first-out method (FIFO) method of accounting.

Shipping and Handling: Costs incurred for shipping and handling are included in the Company's consolidated financial statements as a component of costs of revenue.

Property, Plant, Equipment, and Depreciation: Property, plant 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 30 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 or in the cost of the replacement asset.

Goodwill and Other Indefinite-Lived Intangible Assets: The Company accounts for goodwill and other indefinite-lived intangible assets under FASB ASC 350 (formerly SFAS 142), "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.

As described in Note 7, the Company recognized impairment charges amounting to \$8,740 during fiscal 2008 as a result of triggering events primarily within its Business Solutions, Ultraviolet Technologies and Electronics Integration segments. Triggering events include a) violation of non-compete agreements with certain terminated employees within the Business Solutions segment, b) a substantial change in the customer mix and number of worksite employees within the Business Solutions segment, c) losses incurred within certain operating units, d) significant downsizing of personnel and operations, e) restructuring of management.

The Company has elected to perform the annual impairment test of recorded goodwill and other indefinite-lived intangible assets as required by ASC 350 as of the end of fiscal first quarter of 2011. The required annual impairment test may result in future periodic write-downs.

Long-lived Assets: The Company evaluates the carrying value of long-lived assets, primarily property, plant 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.

Fair Value of Financial Instruments: The fair value of financial instruments is estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, prepayments, and other factors. Changes in assumptions or market conditions could significantly affect these estimates. The amounts reported in the consolidated balance sheets for cash and equivalents, receivables, and payables approximate fair value.

Stock-based Compensation: The Company accounts for stock-based compensation under the provisions of FASB ASC 718 (formerly SFAS 123R), "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.

Earnings per Common Share: Income per common share has been computed in accordance with FASB ASC 260 (formerly SFAS 128), "Earnings per Share" basic income per common share is computed based on net income applicable to common stock divided by the weighted average number of common shares outstanding for the period. Diluted income per common share is computed based on net income applicable to common stock divided by the weighted average number of shares of common stock outstanding during the period after giving effect to securities considered to be dilutive common stock equivalents.

Income Taxes: The Company accounts for income taxes under the provisions of FASB ASC 740 (formerly SFAS 109), "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 that are associated with components of other comprehensive income, primarily unrealized investment gains, are charged or credited directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense. Prior to fiscal year end 2010 the Company filed separate United States, United Kingdom, Mexico and Singapore income tax returns. Effective with the current fiscal year, the Company will only be required to file a United States tax return.

Research and Development Costs: Research and development costs are expensed as incurred and totaled \$0, \$131, and \$573 for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008, respectively. Research and development expense was incurred and recorded in the Company's Ultraviolet Technologies business segment in prior years.

Advertising Costs: Advertising costs including marketing, advertising, publicity, promotion and other distribution costs, are expensed as incurred and totaled \$99, \$213 and \$573, for the fiscal periods ended June 30, 2010 and 2009, and August 31, 2008, respectively.

Warrants: The Company has issued and anticipates issuing warrants along with debt and equity instruments to third parties. These issuances are recorded based on the fair value of these instruments. Warrants and equity instruments require valuation 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.

In conjunction with the disposition of assets (see Note 2), the Company issued 2,200,000 warrants to the Chairman of the Board. The warrants have a ten-year term and an exercise price of \$.40 per share during the year ended June 30, 2009. Upon utilization of the valuation models described above, it was determined that the warrants had no value at the time of issuance.

The Company also has 286,363 warrants outstanding in conjunction with convertible debt issued prior to the August 31, 2008 fiscal year end.

Debt and equity issuances may have features which allow the holder to convert at beneficial conversion terms, which are then measured using similar valuation techniques and amortized to interest expense in the case of debt or recorded as dividends in the case of preferred stock instruments. No issuances have beneficial conversion terms for any of the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008.

Self Insurance: The Company's PSM subsidiary maintains a loss-sensitive worksite employees' health and accident benefit program. Under the insurance policy, PSM's self-funded liability is limited to \$225 per employee, with an aggregate liability limit of approximately \$7.6 million. The aggregate liability limits are adjusted annually, based on the number of participants.

Workers' Compensation: The Company's PSM and CSM subsidiaries maintain partially self-funded workers' compensation insurance programs. Under the insurance policies established at each company, PSM and CSM's deductible liability is limited to \$250 per incident, with an aggregate liability limit of approximately \$2,000. Under the insurance policy established at ESG, the deductible liability is limited to \$350 per incident, with no aggregate annual liability limit.

New Accounting Pronouncements:

In September 2006, the FASB ASC 820-10 (formerly SFAS 157), "Fair Value Measurements" was issued. ASC 820-10 establishes a framework for measuring fair value by providing a standard definition of fair value as it applies to assets and liabilities. ASC 820-10, which does not require any new fair value measurements, clarifies the application of other accounting pronouncements that require or permit fair value measurements. The standard was effective for fiscal years beginning after November 15, 2007. However, the FASB delayed the effective date of ASC 820-10 for all non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008. Accordingly, we adopted ASC 820-10 for our financial assets and liabilities on September 1, 2008 and adopted ASC 820-10 for our non-financial assets and liabilities on July 1, 2009. The adoption did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued ASC No. 805-10 (formerly SFAS No. 141R) "Business Combinations". ASC No.805-10 establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statements also provides guidance for recognizing and measuring the goodwill acquired in the business combination and specifies what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC No. 805-10 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Our effective date for ASC 805-10 was July 1, 2009. The adoption of ASC No. 805-10 did not have a material impact on our consolidated financial statements.

In June 2008, the FASB issued ASC 260-10 (formerly FASB Staff Position No. EITF 03-6-1), "*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*". ASC 260-10 concludes that unvested restricted share awards that pay nonforfeitable cash dividends are participating securities and are subject to the two-class method of computing earnings per share. Our effective date for ASC 260-10 was July 1, 2009. The adoption of ASC 260-10 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued ASC No. 825-10-65-1 (formerly FAS 107-1 and APB 28-1), "*Interim Disclosures about Fair Value of Financial Instruments*". This ASC essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the ASC requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. These additional disclosures will be required beginning with the quarter ending September 30, 2009. The adoption of ASC No. 825-10-65-1 did not have a material impact on our consolidated financial statements.

In May 2009, FASB ASC 855-10 (formerly SFAS No. 165), "*Subsequent Events*" was issued. ASC 855-10 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date ("subsequent events"), but before the financial statements are issued or available to be issued and requires disclosure of the date through which the entity has evaluated subsequent events and the basis for that date. ASC 855-10 is effective for interim and annual periods ending after June 15, 2009; the Company adopted ASC 855-10 for the quarter ended June 30, 2009. This guidance was amended by ASU 2010-09 "Amendments to Certain Recognition and Disclosure Requirements." The Company evaluated events occurring subsequent to the balance sheet date and found that during this period it did not have any subsequent events impacting the Company's consolidated financial statements.

In June 2009, FASB ASC 105-10 (formerly SFAS 168), "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*" was issued. ASC 105-10 is the single official source of authoritative U.S. GAAP, superseding all other accounting literature except that issued by the Securities and Exchange Commission. As of July 2009, only one level of authoritative U.S. GAAP exists. All other literature will be considered non-authoritative. The Codification does not change U.S. GAAP; instead, it introduces a new referencing system that is designed to be an easily accessible, user-friendly online research system. ASC 105-10 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted ASC 105-10 for the quarter ended September 30, 2009. The adoption did not have a material impact on our consolidated financial statements.

In June 2009, the FASB also issued an amendment to the accounting and disclosure requirements for the consolidation of VIEs. FASB ASC 810-10 (formerly FIN46R), "*Consolidation - Variable Interest Entities*" requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE. The amendment also requires an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, the amendment requires enhanced disclosures about an enterprise's involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise's financial statements. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment is effective for financial statements issued for fiscal years beginning after November 15, 2009. Earlier application is prohibited. The Company is currently evaluating the impact, if any, that this amendment may have on its financial statements once adopted.

In January 2010, the FASB issued an amendment to the disclosure requirement related to fair value measurements. The amendment, FASB ASC 820-10-65 requires new disclosures related to transfers in and out of Levels 1 and 2 and activity in Level 3 fair value measurements. A reporting entity is required to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. Additionally, in the reconciliation for fair value measurements in Level 3, a reporting entity must present separately information about purchases, sales, issuances and settlements (on a gross basis rather than a net number). The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company does not anticipate that our adoption of this amendment will have a material effect on its financial position, results of operations or cash flows.

Other new pronouncements issued but not effective until after June 30, 2010, are not expected to have a significant effect on the company's consolidated financial statements.

NOTE 2 – DISPOSITION OF ASSETS AND PRO FORMA RESULTS

On December 11, 2008, the Company completed a transaction with an effective date as of November 30, 2008 to sell all of the outstanding shares of common stock of the following wholly-owned subsidiaries: James H Drew Corporation; Nor-Cote International, Inc.; Fortune Wireless, Inc.; and Commercial Solutions, Inc. The subsidiaries were sold to related party entities owned by the Company's two majority shareholders, the Chairman of the Board of Directors ("Chairman") and the Chief Executive Officer ("CEO"). The shares were sold in exchange for a \$10,000 reduction in the outstanding balance of the Term Loan Note due to the Chairman, and a three year Promissory Note receivable in the amount of \$3,240 with a maturity date of November 30, 2011. The Promissory Note bears interest at the prime rate plus 1% and is interest-only for the first twelve months, with \$50,000 and \$100,000 monthly principal payments due beginning December 30, 2009 and December 30, 2010, respectively. The unpaid balance at maturity is due in a lump sum payment.

Effective June 30, 2009, the Company entered into an agreement with the Chairman to amend the terms of the Promissory Note receivable. In exchange for offsetting \$740 of accrued dividends due and owing to the Chairman against the outstanding principal balance of the Promissory Note receivable the Company extended the maturity date of the Note to June 30, 2012 and reset the payment schedule to interest only for the first twelve months beginning July 1, 2009, with \$50,000 and \$100,000 monthly principal payments due beginning July 1, 2010 and July 1 2011, respectively. All other terms of the original note remained unchanged.

As part of the terms of the sales transaction, the Chairman received 217,000 shares of Series C Preferred Stock as consideration for cancellation of the Term Note Balance of \$21,700. In addition, the Company converted 79,180 shares of Series B Preferred Stock previously issued to and held by the Chairman to 79,180 shares of Series C Preferred Stock. The Series C Preferred Stock with a par value of \$0.10 per share is non-redeemable, non-voting cumulative preferred and bears annual dividends of \$5 per share in years one and two subsequent to the transaction date, \$6 per share in year three subsequent to the transaction date and \$7 per share thereafter. The dividends will be paid on a pro-rata basis monthly. Additionally, as part of the terms of the sales transaction, the Company issued the Chairman 2,200,000 warrants with a ten-year term and an exercise price of \$.40 per share.

On September 25, 2009, the Company reached agreement with the Chairman to amend the dividend rates on the Series C Preferred Stock with an effective date of July 1, 2009. From the effective date forward the Series C Preferred Stock will bear annual dividends of \$2 per share in years one and two subsequent to the effective date, \$5 per share in year three subsequent to the effective date, \$6 per share in year four subsequent to the effective date and \$7 per share thereafter. All other terms of the Series C Preferred Shares remained unchanged.

At the request of the independent Directors, the Company received a fairness opinion from an independent financial advisor concluding that the consideration received by the Company in connection with the transaction is fair to the Company's shareholders as a group from a financial point of view.

The transaction was approved by the Company's Board of Directors on December 10, 2008.

The following is a condensed balance sheet disclosing the amount assigned to each major asset and liability caption of the sold subsidiaries at the disposition date:

Assets	
Cash and equivalents	\$ 556
Accounts receivable, net	12,927
Costs and estimated earnings in excess of billings on uncompleted contracts	3,292
Inventory, net	4,073
Deferred tax asset	46
Prepaid expenses and other current assets	790
Property, plant & equipment, net	3,527
Goodwill	152
Other long term assets	13
Total Assets	25,376
Liabilities	
Accounts payable	4,248
Accrued expenses	1,510
Billings in excess of costs and estimated earnings on uncompleted contracts	402
Line of credit	5,500
Other liabilities	476
Total Liabilities	12,136
Net Assets	\$ 13,240
Cash consideration - related party term note offset	\$ 10,000
Term note receivable - three year	3,240
Total consideration	\$ 13,240

Pro Forma Financial Statements

The accompanying unaudited pro forma consolidated statements of operations for the ten months ended June 30, 2009 and year ended August 31, 2008 is presented as if the sale had been completed as of the beginning of the periods presented. The unaudited pro forma consolidated statements of operations is presented for illustrative purposes only and is not necessarily indicative of the results of operations for the ten months ended June 30, 2009 that would have actually been reported had the sales transaction occurred at the dates indicated, nor is it indicative of future financial position or results of operations. The unaudited pro forma condensed consolidated statements of operations are based upon the respective historical financial statements of the Company and the subsidiaries. The pro forma data give effect to actual operating results as if the previous acquisitions occurred as of the beginning of the period presented. The pro forma data give effect to actual operating results prior to the dispositions and adjustments for the following:

- To eliminate the impact of consolidating Fisbeck-Fortune Development, LLC (“FFD”), which prior to completion of the sales transaction, was considered a variable interest entity in conjunction with FASB ASC 810-10 (formerly FIN46R), “Consolidation - Variable Interest Entities.” With the sale of the subsidiaries described in Note 2 and the cancellation of the lease agreement between Fortune Industries, Inc. and FFD, the primary beneficiary relationship between the entities ceased to exist.
- To eliminate the results of operations of the subsidiaries sold.
- To adjust the dividends to the terms of the Series C Preferred shares that was issued in conjunction with the sales transaction.

	For the Ten Months Ended June 30, 2009	For the Year Ended August 31, 2008
Revenues	\$ 53,477	\$ 74,894
Cost of Revenues	43,313	61,459
Gross Profit	10,164	13,435
Operating Expenses		
Selling, general and administrative expenses	9,408	14,667
Depreciation and amortization	612	1,267
Impairment	-	2,296
Total Operating Expenses	10,020	18,230
Operating Income (Loss)	144	(4,795)
Other Income	62	194
Income Before Provision for Income Taxes	206	(4,601)
Provision for income taxes	(947)	(45)
Net Income (Loss)	1,153	(4,556)
Preferred stock dividends	1,233	1,481
Net Income (Loss) available to common shareholder	\$ (80)	\$ (6,037)
Basic income (loss) per common share	\$ (0.01)	\$ (0.53)
Diluted income (loss) per common share	\$ (0.01)	\$ (0.53)

NOTE 3 – MEASUREMENT OF FAIR VALUE

Effective September 1, 2008, the Company adopted ASC 820, which provides a framework for measuring fair value under GAAP. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). In determining fair value in accordance with ASC 820, we utilize market data or assumptions that we believe market participants would use in pricing the asset or liability that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, including assumptions about risk and the risks inherent in the inputs to the valuation technique. Classification of the financial asset or liability within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

- Level 1** Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2** Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

As of June 30, 2010 and 2009, we did not have any financial assets utilizing Level 1. Financial assets utilizing Level 2 inputs consist of cash held in certificates of deposit with various financial institutions. The fair value measurement of these items is determined by using prices for recently traded CD's with similar interest rates. The fair value for the Level 2 financial instruments was \$1,745 and \$1,485 as of June 30, 2010 and 2009, respectively. Financial liabilities utilizing Level 3 inputs included put options related to common stock issued in conjunction with the purchase of ESG (See Note 5 for further detail). The fair value measurement of this Level 3 item has been estimated using the stated contractual put price of \$3.75 per share. The fair value for the Level 3 financial instruments was \$247 and \$814 as of June 30, 2010 and 2009, respectively.

NOTE 4 – VARIABLE INTEREST ENTITY

In December 2003, the FASB issued ASC 810-10. ASC 810-10 requires a variable interest entity (VIE) to be consolidated by a company, if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns, or both. ASC 810-10 also requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest.

Effective November 30, 2008, the Company terminated its building lease for its corporate facilities with Fisbeck-Fortune Development, LLC. No early termination penalties were incurred by the Company. In addition, the Company sold its JH Drew and Nor-Cote subsidiaries which were leasing the remainder of the facilities from Fisbeck-Fortune Development, LLC. Refer to Note 2 for further details. The termination of the lease and the sale of the subsidiaries provided for a triggering event under ASC 810-10. As a result, effective November 30, 2008, the Company is no longer considered the primary beneficiary of the variable interest entity and is not required to consolidate Fisbeck-Fortune Development as of this date.

For the year ended August 31, 2008, the consolidation of the VIE included income of \$1,095 comprising of \$1,725 in rental income, offset by a \$354 charge to interest expense, a \$193 charge to depreciation expense, \$36 in administrative and other miscellaneous expenses, and a \$47 loss on disposal of property, plant and equipment. For the year ended August 31, 2007, the consolidation of the VIE included income of \$724 comprising of \$1,493 in rental income, offset by a \$522 charge to interest expense, a \$198 charge to depreciation expense, and \$49 in administrative and other miscellaneous expenses.

NOTE 5 - ACCOUNTS RECEIVABLE AND CONTRACTS RECEIVABLE

Accounts receivable and contracts receivable are summarized as follows:

	June 30, 2010	June 30, 2009
Accounts receivable	\$ 2,276	\$ 2,759
Less allowance for doubtful accounts and sales returns	(29)	(137)
	<u>\$ 2,247</u>	<u>\$ 2,622</u>

NOTE 6 - PROPERTY AND EQUIPMENT

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

	June 30, 2010	June 30, 2009
Office equipment	\$ 2,520	\$ 2,565
Vehicles	190	292
Leasehold improvements	98	100
	<u>2,808</u>	<u>2,957</u>
Less accumulated depreciation	(2,353)	(2,193)
	<u>\$ 455</u>	<u>\$ 764</u>

The provision for depreciation expense was \$364 for the year ended June 30, 2010. The provision for depreciation amounted to \$616, of which \$167 is included in cost of revenues, and \$2,053, of which \$894 is included in cost of revenues the fiscal periods ended June 30, 2009 and August 31, 2008, respectively. The Company did not recognize any gain or loss on the disposal of assets during the year ended June 30, 2010. Losses on disposal of assets totaling \$20 and \$350 was recorded for the fiscal periods ended June 30, 2009 and August 31, 2008, respectively, related to various building, office equipment, and vehicle disposals.

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill, as recorded under ASC 350, are summarized as follows:

	Business Solutions	Transportation Infrastructure	Ultraviolet Technologies	Electronics Integration	Segment Totals
Goodwill at August 31, 2008	\$ 12,339	\$ 152	\$ 0	\$ 0	\$ 12,491
Goodwill disposition – due to sale	-	(152)	-	-	(152)
Goodwill at June 30, 2009	\$ 12,339	\$ -	\$ -	\$ -	\$ 12,339
Goodwill disposition - due to sale	-	-	-	-	-
Goodwill at June 30, 2010	<u>\$ 12,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,339</u>

The total amount of goodwill that is deductible for tax purposes is \$6,918 and \$7,667 at June 30, 2010 and 2009.

The Company recognized impairment on certain goodwill within its Ultraviolet Technologies segment of \$4,694 and its Electronics Integration segment of \$1,276 for the year ended August 31, 2008 based upon losses incurred within operating units and significant downsizing of personnel and operations

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

	Gross Carrying Amount	June 30, 2010		Amortization Period (in years)
		Accumulated Amortization	Net Book Value	
Customer relationships	\$ 4,063	\$ 1,796	\$ 2,267	10
Tradename (not subject to amortization)	590	-	590	
Total	<u>\$ 4,653</u>	<u>\$ 1,796</u>	<u>\$ 2,857</u>	

	Gross Carrying Amount	June 30, 2009		Amortization Period (in years)
		Accumulated Amortization	Net Book Value	
Customer relationships	\$ 4,063	\$ 1,390	\$ 2,673	10
Tradename (not subject to amortization)	590	-	590	
Total	<u>\$ 4,653</u>	<u>\$ 1,390</u>	<u>\$ 3,263</u>	

Intangible asset amortization expense is \$406, \$417, and \$1,662, for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008, respectively. These amounts include loan origination fee amortization of \$0, \$78, and \$542 for the fiscal years ended June 30, 2010 and 2009 and August 31, 2008.

In fiscal year 2008, the Company recognized impairment on certain other intangible assets in its Business Solutions segment of \$2,297. Management determined the assets were impaired based upon (a) violation of non-compete agreements with certain terminated employees and (b) substantial change in the customer mix and number of worksite employees within the Business Solutions segment. The Company also recognized impairment on other intangible assets in its Ultraviolet Technologies segment of \$473. Management determined the assets were impaired based upon the annual impairment testing performed as of August 31, 2008.

Amortization expense on intangible assets currently owned by the Company at June 30, 2010 for each of the next five fiscal years is as follows:

2011	\$ 406
2012	406
2013	406
2014	380
2015	340
2016 and thereafter	329
Total	<u>\$ 2,267</u>

NOTE 8 - DEBT ARRANGEMENTS

The Company's debt obligations consisted of the following:

	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
<u>Notes payable</u>		
Term note due October 28, 2009. Interest is at Prime Rate plus 2%. The note is secured by assets owned by the shareholders.	\$ -	\$ 250
Term note due in monthly principal installments of \$42, plus interest at 4.5% through April 2010. The loan is secured by all of the assets of the Company and is personally guaranteed by the Company's chairman and majority shareholder.	917	-
<u>Capital leases</u>		
Note due in monthly installments of \$2 including interest at 5.0% through November 2010. The loan is secured by equipment.	<u>11</u>	<u>36</u>
Total debt obligations	928	286
Less current maturities	<u>(511)</u>	<u>(275)</u>
Long-term portion of outstanding debt	<u>\$ 417</u>	<u>\$ 11</u>

Principal payments due on long-term debt outstanding at June 30, 2010 are approximately as follows:

2011	\$ 511
2012	417
	<u>\$ 928</u>

Term Notes

Effective May 29, 2009, the Company entered into a \$250 term loan note with a bank. The term loan note matured on October 28, 2009 and incurred interest at the Prime Rate plus 2.0%. The note was collateralized by certain assets of the Company's majority shareholders. The loan required the Company to maintain a minimum debt service coverage ratio of 1.25 to 1.0 among other covenants. In January 2010, the Company was held harmless on the note and was released from the obligation by the bank. The amount forgiven of \$250 is included in the Company's Consolidated Statement of Operations as other income for the year ended June 30, 2010.

In May 2010, the Company entered into a \$1.0 million term note with a bank. The term loan matures on April 30, 2012 and bears interest at the fixed rate of 4.5%. The note is amortized equally over a 24 month period and therefore requires monthly principal payments of \$42. The note is collateralized by substantially all the assets of the Company and is personally guaranteed by the Company's chairman and majority shareholder. The loan requires the Company to maintain a minimum cash flow coverage ratio of 1.2 to 1.0 and minimum a current ratio of 1.0 at June 30, 2010, escalating to 1.15 and 1.20 at December 31, 2010 and June 30, 2011, respectively.

NOTE 9 - RETIREMENT PLAN

The Company maintains a profit-sharing plan that covers all employees who meet the eligibility requirements set forth in the plan. Company contributions are made at management's discretion and are allocated based upon each participant's eligible compensation. The plan includes 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 10 - INCOME TAXES

The reconciliation for the 2010, 2009 and 2008 income tax expense (benefit) computed at the U.S. Federal statutory tax rate to the Company's effective income rate is as follows (in percentages):

	June 30, 2010	June 30, 2009	August 31, 2008
Tax at U.S. Federal statutory rate	0	34.0	34.0
State and local taxes, net of federal benefit	5.6	5.6	5.6
Change in valuation allowance	(27.6)	(223.6)	(39.6)
	<u>(22.0)</u>	<u>(184.0)</u>	<u>(0.00)</u>

Significant components of the provision for income tax expense (benefit) from continuing operations are as follows:

	Year Ended June 30, 2010	Ten Months Ended June 30, 2009	Year Ended August 31, 2008
Current:			
Federal	\$ 0	\$ 119	\$ (3,116)
State	68	19	(514)
	68	138	(3,630)
Deferred:			
Federal	270	(155)	(378)
State	(23)	(23)	(109)
	247	(178)	(487)
Increase (decrease) in valuation allowance	(577)	(904)	4,196
Net income tax (benefit)	<u>\$ (262)</u>	<u>\$ (944)</u>	<u>\$ 79</u>

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 asset are as follows:

	June 30, 2010	June 30, 2009
Current:		
Allowances for doubtful accounts and inventory	\$ 10	\$ 189
Amortization of intangible assets	317	317
Accrued liabilities and other	1,423	1,244
Noncurrent:		
Amortization of intangible assets	3,244	3,575
Depreciation	(75)	(33)
Net operating losses and other carryforwards	4,850	4,803
	9,769	10,095
Valuation allowance	(7,019)	(7,596)
Total deferred tax assets	<u>\$ 2,750</u>	<u>\$ 2,500</u>

ASC 740 requires a valuation allowance to reduce the deferred tax assets reported if, at June 30, 2010, the Company had federal tax operating loss 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. After consideration of the evidence, both positive and negative, management has determined that a \$7,019 and \$7,596 valuation allowance at June 30, 2010 and 2009 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 \$577 and \$904 for the fiscal years ended June 30, 2010 and 2009, respectively. The Company has federal net operating loss carryforwards of approximately \$13.9 and \$12.1 million at June 30, 2010 and 2009 which expire between 2020 and 2024. The state tax operating loss carryforwards are approximately \$11.3 and \$9.9 million as of June 30, 2010 and 2009, respectively. The difference between federal and state net operating loss carryforwards represents a change in business venue in a prior period. The Company's capital loss carryforward is approximately \$55, which expires during the fiscal year ending June 30, 2011 and 2013.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2010 and 2009, the Company made no provisions for interest or penalties related to uncertain tax positions. The tax years 2006 through 2009 remain open to examination by the Internal Revenue Service of the United States.

NOTE 11 - DISCONTINUED OPERATIONS

Effective November 30, 2008, the Company ceased its operations in Kingston Sales Corporation and Telecom Technology Corporation, which were part of the Electronics Integration segment. The results of the above are reported in discontinued operations in the accompanying consolidated balance sheets, statements of operations, and statements of cash flows as of, and for the year and ten months ending June 30, 2010 and 2009. The segment results in Note 22 for the ten months ending June 30, 2009 reflect the reclassification of the discontinued operations. Revenues from discontinued operations were \$30 and \$992 for the year ended and ten months ended June 30, 2010 and 2009. The net losses from discontinued operations were \$19 and \$74 for the year ended June 30, 2010 and ten months ended June 30, 2009.

NOTE 12 – EQUITY INCENTIVE PLANS AND OTHER STOCK COMPENSATION

Restricted Share Units

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. During the fiscal periods ended June 30, 2010 and 2009 142,117 and 708,800 restricted share units, respectively, were issued under this plan.

NOTE 13 - SHAREHOLDERS' EQUITY

Common Stock

The following are the details of the Company's common stock as of June 30, 2010 and 2009:

	Number of Shares			Amount
	Authorized	Issued	Outstanding	
June 30, 2010				
Common stock, \$0.10 par value	150,000,000	12,300,486	12,224,290	\$ 1,206
June 30, 2009				
Common stock, \$0.10 par value	150,000,000	12,158,369	12,082,173	\$ 1,187

There were 142,117 shares issued during the year ended June 30, 2010. These shares were issued upon board approval as compensation during the current fiscal year.

At June 30, 2010 the Company had 286,363 outstanding warrants issued as part of the Laurus transaction and 2,200,000 warrants outstanding to the Chairman of the Company as a result of the Disposition of assets described in Note 2.

Preferred Stock

The following are the details of the Company's non-voting preferred stock as of June 30, 2010 and 2009:

	Number of Shares			Amount
	Authorized	Issued	Outstanding	
June 30, 2010				
Preferred stock, Series A \$0.10 par value	1,000,000	66,180	-	\$ -
Preferred stock, Series B \$0.10 par value	1,000,000	79,180	-	-
Preferred stock, Series C \$0.10 par value	1,000,000	296,180	296,180	\$ 29,618
June 30, 2009				
Preferred stock, Series A \$0.10 par value	1,000,000	66,180	-	\$ -
Preferred stock, Series B \$0.10 par value	1,000,000	79,180	-	-
Preferred stock, Series C \$0.10 par value	1,000,000	296,180	296,180	\$ 29,618

The shares issued are single class and pay on a monthly basis an annual cash dividend of \$5 per share in years ending November 30, 2009 and 2010, \$6 per share in the year ending November 30, 2011 and \$7 per share thereafter. Dividends of \$398, \$198 and \$546 were paid for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008, respectively.

Effective July 1, 2009, the Series C Preferred Stock annual dividend was modified to \$2 per share in the years ending June 30, 2010 and 2011, \$5 per share in the year ending June 30, 2012, \$6 per share in the year ending June 30, 2013 and \$7 per share thereafter.

Treasury Stock

During the fiscal year ended June 30, 2010, the Company purchased 48,263 shares of its common stock at a cost of \$3.75 per share as contractually obligated pursuant to put options outstanding from the purchase of ESG (and related entities) in March 2007. There were a total of 217,143 shares eligible to be put to the Company per the terms of the purchase agreement. Substantially, all of the shares were put to the Company on March 1, 2010. The Company negotiated with the two of the put holders which held an aggregate of 168,880 of the puts for extended payment terms on the contractual obligation. The remaining contractual obligation of \$248 is included in current liabilities at June 30, 2010. This contractual obligation will be paid out in monthly payments through December 31, 2010. These shares are held as collateral by the put holders until the final payment is made on December 31, 2010, and therefore have not been included in treasury stock at the current fiscal year end.

NOTE 14 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Significant components of accumulated other comprehensive income is as follows:

	Foreign Currency Adjustments	Accumulated Other Comprehensive Income
Balance at August 31, 2008	192	192
Period change	<u>(192)</u>	<u>(192)</u>
Balance at June 30, 2009	-	-
Period change	<u>-</u>	<u>-</u>
Balance at June 30, 2010	<u>\$ -</u>	<u>\$ -</u>

The net tax effect of the unrealized gain (loss) after consideration of the valuation allowance is insignificant and is not included in deferred tax assets or accumulated other comprehensive income (loss).

NOTE 15 - PER SHARE DATA

The following presents the computation of basic income (loss) per share and diluted income (loss) per share:

	Year Ended June 30, 2010	Ten Months Ended June 30, 2009	Year Ended August 31, 2008
Net Income (Loss) Available to Common Shareholders	\$ 828	\$ 446	\$ (19,581)
Basic Income (Loss) from Continuing Operations	\$ 0.07	\$ 0.05	\$ (1.72)
Basic Income (Loss) from Discontinued Operations	-	\$ (0.01)	\$ 0.00
Basic Income (Loss) per Common Share	\$ 0.07	\$ 0.04	\$ (1.72)
Basic Weighted Average Shares Outstanding	12,177,741	11,853.96	11,391,130
Diluted Income (Loss) from Continuing Operations	\$ 0.06	\$ 0.04	\$ (.72)
Diluted Income (Loss) from Discontinued Operations	-	\$ (0.01)	\$ 0.00
Diluted Income (Loss) per Common Share	\$ 0.06	\$ 0.03	\$ (1.72)
Diluted Weighted Average Shares Outstanding	14,687,904	13,824,520	11,719,806

NOTE 16 - OPERATING LEASE COMMITMENTS

Property Lease Commitments

<u>Segment</u>	<u>Location(s)</u>	<u>Description</u>
Business Solutions	Richmond, IN (1); Brentwood, TN (2); Provo, UT (3); Tucson, AZ (4); Loveland, CO (5)	Offices
Corporate	Indianapolis, IN (6)	Offices

- (1) The lease on this property is with the former Chief Operating Officer of the Company. The operating lease agreement provides for monthly base rent of \$2 through August 31, 2010, with nominal annual increases. This lease was renewed for a one-year period through August 2011.
- (2) The Company maintains an operating lease agreement that provides for monthly base rent of \$12 through January 31, 2014. 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.
- (3) The Company maintains an operating lease agreement that provides for monthly base rent of \$26 through January 31, 2012 and is increased 5% annually. The lessee pays most expenses related to repairs, maintenance, property taxes, and insurance. The lessor is required to carry minimal amounts of insurance. The Company's ESG subsidiary is entered into a lease agreement for an office building in Provo, Utah which is leased from a limited liability company in which ESG's former President is a member of the limited liability company.
- (4) The Company maintains an operating lease agreement that provides for monthly base rent of \$4 through February 2015 and is increased 4% annually. 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.
- (5) The Company maintains an operating lease agreement that provides for monthly base rent of \$2 through January 31, 2014. The lessee pays most expenses related to repairs, maintenance, property taxes, and insurance. The lessor is required to carry minimal amounts of insurance.
- (6) The Company maintains an operating lease agreement with a limited liability Company that is owned by the majority shareholders. The operating lease agreement provides for monthly base rent of \$10 through August 2013, adjusted annually to fair market value. The agreement also includes a one-year renewal option.

Rent expense under these agreements amounted to \$740, \$793 and \$2,643 for the fiscal periods ending June 30, 2010, June 30, 2009 and August 31, 2008.

Future minimum commitments under these agreements at June 30, 2010 are approximately as follows:

	<u>Facilities</u>	<u>Equipment</u>
2011	\$ 733	\$ 9
2012	610	5
2013	370	5
2014	144	1
2015	36	-
	<u>\$ 1,893</u>	<u>\$ 20</u>

NOTE 17 - RELATED PARTY TRANSACTIONS

The following is a summary of related party amounts included in the consolidated balance sheets at June 30, 2010 and 2009, respectively:

	June 30, 2010	June 30, 2009
Assets:		
Long-term note receivable	<u>\$ 2,536</u>	<u>\$ 2,546</u>

The note receivable represents a loan with a business owned by the Company's majority shareholders in connection with the disposition of the assets. Refer to Note 2 for further details. The loan expires on November 30, 2011 and bears interest at the Prime Rate plus 1%. Beginning on December 30, 2008 and each month thereafter, interest will be paid. Commencing on December 30, 2009, monthly principal payments of \$50 are due and commencing on December 30, 2010, monthly principal payments of \$100 are due. Effective June 30, 2009, the Company entered into an agreement with the Chairman/majority shareholders to amend the terms of the Promissory Note receivable. In exchange for offsetting \$740 of accrued dividends due and owing to the Chairman against the outstanding principal balance of the Promissory Note receivable the Company extended the maturity date of the Note to June 30, 2012 and reset the payment schedule to interest only for the first twelve months beginning July 1, 2009, with \$50,000 and \$100,000 monthly principal payments due beginning July 1, 2010 and July 1 2011, respectively. All other terms of the original note remained unchanged.

The following is a summary of related party amounts included in the consolidated statements of operations for the fiscal periods ending June 30, 2010 and 2009, August 31, 2008, respectively:

	June 30, 2010	June 30, 2009	August 31, 2008
Revenues:			
Business Solutions (1)	\$ 720	\$ 461	\$ -
Electronics Integration (10)	30	5	15
Total	<u>\$ 750</u>	<u>\$ 466</u>	<u>\$ 15</u>
Expenses:			
Business Solutions (2)	\$ 394	\$ 356	\$ 412
Wireless Infrastructure (3) (4)	-	39	204
Transportation Infrastructure (5)	-	75	300
Ultraviolet Technologies (6)	-	21	84
Electronics Integration (3)	-	44	156
Holding Company (7) (8) (9) (11)	120	410	1,564
Total	<u>\$ 514</u>	<u>\$ 945</u>	<u>\$ 2,720</u>

- (1) During the fiscal years ended June 30, 2010 and 2009, the Company's CSM and PSM subsidiaries performed \$720 and \$461 worth of services for businesses owned by the Company's majority shareholder.
- (2) The Company's PSM subsidiary holds a lease for an office building in Richmond, IN from a former Chief Operating Officer of the Company. The lease is for a period of five years and expires in August 2010. The lease was renewed for a one year period ending August 2011. The agreement provides for base rent of \$2 per month with nominal annual increases. Rent and related expense of \$29, \$39, and \$45 were recognized for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008, respectively. The Company's ESG subsidiary is entered into a lease agreement for an office building in Provo, Utah which is leased from a limited liability company in which ESG's former President is a member of the limited liability company. The lease is due to expire January 31, 2012. Rent and related expense of \$340, \$267 and \$307 were recognized for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008, respectively. The Company's ESG subsidiary held a lease for an office building in Tucson, AZ from a Company owned by a former employee. Rent and related expenses of \$25, \$50, and \$60 were recognized for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008, respectively. The lease expired in January 2010.
- (3) The Company maintained an operating lease agreement for the rental of a building with a limited liability company owned by the Company's two majority shareholders. A majority of the Company's subsidiaries maintain offices and or warehouse space in the facility. The lease agreement includes a ten-year term with one option to extend the lease term for a one-year period. The agreement provides for a monthly base rent of \$28 per month. The base rent shall be adjusted annually to fair market value. In addition, the Company shall pay certain expenses including taxes, assessments, maintenance and repairs. Rent and related expenses of \$0, \$83, and \$348 were recognized for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008, respectively. The lease was terminated on November 30, 2008.
- (4) The Company's Fortune Wireless subsidiary maintains an operating lease agreement for rental of a building with a limited liability company consolidated by the Company as a variable interest entity and owned by the Company's two majority shareholders. The operating lease agreement provides for monthly base rent of \$4 through April 30, 2011, adjusted annually to fair market value. Rent and related expenses of \$11 and \$46 were recognized for the years ended August 31, 2008 and 2007, respectively. The lease was terminated on November 30, 2008.

- (5) The Company's JH Drew subsidiary maintains an operating lease agreement for rental of three buildings located in Indiana, Tennessee and Missouri with a limited liability company owned by the Company's two majority shareholders. The lease agreement includes a five year term with one option to extend the lease term for a one year period and provides for base rent of \$25 per month. The base rent shall be adjusted annually to fair market value. In addition the Company shall pay certain expenses including taxes, assessments, maintenance and repairs. Rent and related expenses of \$0, \$75, and \$300 were recognized for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008, respectively. The lease was terminated on November 30, 2008.
- (6) The Company's Nor-Cote subsidiary maintains an operating lease agreement for rental of a building with a limited liability company owned by the Company's two majority shareholders. The agreement provides for monthly base rent of \$7 and expires in August 2009. The base rent shall be adjusted annually to fair market value. The Agreement also includes one renewal option, which allows the Company to extend the lease term for an additional year. Rent and related expenses of \$0, \$21 and \$84 were recognized for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008, respectively. The lease was terminated on November 30, 2008.
- (7) The Company maintains an operating lease agreement for the rental of a building with a limited liability company owned by the Company's majority shareholder. The lease agreement includes a ten year term with one option to extend the lease term for a one year period. The agreement provides for a monthly base rent of \$88 per month. The base rent shall be adjusted annually to fair market value. In addition the Company shall pay certain expenses including taxes, assessments, maintenance and repairs. Rent and related expenses of \$0, \$263, and \$976 were recognized for the fiscal periods ended June 30, 2010 and 2009 and August 31, 2008, respectively. The lease was terminated on November 30, 2008.
- (8) The Company entered into various unsecured line of credit agreements with its majority shareholder. Interest expense recognized on these agreements amounted to \$0, \$7 and \$438 for the fiscal periods ending June 30, 2010 and 2009 and August 31, 2008, respectively. There were no outstanding credit agreements in place as of June 30, 2010.
- (9) Guarantee fees approved by the Company's Board of Directors were paid during the fiscal periods ending June 30, 2009 and August 31, 2008 to the Company's Chief Executive Officer in the amount of \$100 and \$150. The fees were associated with the Chief Executive Officer providing personal guarantees for a substantial portion of the Company's debt obligations. The Guarantee fees were discontinued during the 2009 fiscal year and therefore there were no such fees incurred or paid in the fiscal year ended June 30, 2010.
- (10) The Company's discontinued electronics integration operations sold inventory as part of its liquidation of the discontinued operations to a company owned by the majority shareholder.
- (11) The Company maintains an operating lease agreement for the rental of a building with a limited liability company owned by the Company's majority shareholder. The lease agreement runs through August 2013. The agreement provides for a monthly base rent of \$10 per month. The base rent shall be adjusted annually to fair market value. Rent and related expenses of \$120, \$40 and \$0 were recognized for the fiscal periods ending June 30, 2010 and 2009 and August 31, 2008, respectively.

Other Related Party Transactions

Over the last several fiscal years, the Company's majority shareholders entered into various put/call option agreements ("option agreements") with the Company's common stock. Option agreements with these shareholders were included in the acquisitions of Nor-Cote, PSM, and CSM. The put/ call options ranged in price from \$1 to \$4 per common share. During fiscal year 2008, the majority shareholders acquired 102,843 shares of the Company's common stock related to option agreements with CSM for approximately \$1,062. During fiscal 2007, the majority shareholders acquired 2,489,000 shares of the Company's common stock related to option agreements with Nor-Cote and PSM for approximately \$12,050.

In conjunction with the acquisition of PEM, the Company's majority shareholder individually entered into an agreement in which the sellers may put 258,824 shares issued at closing to the majority shareholders during the thirty (30) day period that began on February 1, 2009.

On September 25, 2009, the Board of Directors approved the Chairman's request to utilize approximately \$8.15 million of the Company's capital loss carryforward for individual tax purposes related to the Chairman's personal loss on indebtedness associated with the sales transaction as described in Note 2. The transaction had no effect on assets, liabilities, shareholders' equity and net income as the Company had established that the capital loss carryforwards presented no material value to the Company and therefore have not been included in the calculation of deferred tax assets.

NOTE 18 - 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 increase (decrease) in the valuation allowance for deferred income tax assets was \$(577), \$(904) and \$4,196 for the fiscal years ended June 30, 2010 and 2009 and August 31, 2008, 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, 2010, management believes it is more likely than not that a significant portion of net deferred income tax assets will not be realized in the next few years.

Company subsidiaries in the Business Solutions Segment establish reserves for workers' compensation and health insurance 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.

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. These policies contain aggregate limits of indemnification, so the risks of additional claims 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 19 - CONCENTRATION OF CREDIT RISK

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, including marketable securities, and accounts receivables. The Company places its cash and cash equivalents 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.

The Company has one customer that accounted for approximately 12% of net revenues for the year ended June 30, 2010.

NOTE 20 - 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, 2010 and 2009, the Company had approximately \$2.8 and \$3.1 million in restricted cash primarily to secure obligations under its workers compensation contracts in the Business Solutions segment.

NOTE 21 – QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents the unaudited consolidated operating results by quarter for the fiscal periods ended June 30, 2010 and 2009:

	For the Three Months Ended			
	September 30,	December 31,	March 31,	June 30,
2010:				
Revenues	\$ 14,829	\$ 14,985	\$ 15,319	\$ 15,561
Gross Profit	3,401	3,186	2,635	3,404
Net income (loss) available to common shareholders	660	186	(176)	158
Basic earnings (loss) per share – continuing operations	0.05	0.02	(0.01)	0.01
Basic earnings (loss) per share – discontinued operations	-	-	-	-
Basic earnings (loss) per share	0.05	0.02	(0.01)	0.01
Diluted earnings (loss) per share – continuing operations	0.05	0.01	(0.01)	0.01
Diluted earnings per share – discontinued operations	-	-	-	-
Diluted earnings (loss) per share	0.05	0.01	(0.01)	0.01
	For the Three Months Ended			For the One Month Ended*
	November 30,	February 28,	May 31,	June 30,
2009:				
Revenues	\$ 36,165	\$ 16,428	\$ 15,393	\$ 4,920
Gross Profit	7,112	3,309	3,093	362
Net income available to common shareholders	44	15	10	377
Basic earnings per share – continuing operations	0.01	0.00	0.00	0.04
Basic earnings per share – discontinued operations	(0.01)	0.00	0.00	0.00
Basic earnings per share	0.00	0.00	0.00	0.04
Diluted earnings per share – continuing operations	0.00	0.00	0.00	0.03
Diluted earnings per share – discontinued operations	0.00	0.00	0.00	0.00
Diluted earnings per share	0.00	0.00	0.00	0.03

* Fourth quarter ending June 30, 2009 was a one month quarter due to the Company changing its fiscal year end from August 31 to June 30.

NOTE 22 - SEGMENT INFORMATION

As of November 30, 2008, Management determined that the Company operates in only one business segment and therefore no segment information is presented for the fiscal year ended June 30, 2010.

Effective November 30, 2008, the Company sold or discontinued operations in its Wireless Infrastructure, Transportation Infrastructure, Ultraviolet Technologies, and Electronics Integration segments. As a result, the Company currently has one reportable business segment, Business Solutions. Prior to December 1, 2008, the Company was organized into five reportable business segments; Business Solutions, Wireless Infrastructure, Transportation Infrastructure, Ultraviolet Technologies, and Electronics Integration. The Company's reportable business segments are organized in a manner that reflects how management reviews and evaluates those business activities. Certain businesses have been grouped together for segment reporting based upon similar products or product lines, marketing, selling and distribution characteristics. The segments are organized as follows:

Segment & Entity**Business Activity****Business Solutions**

Professional Staff Management, Inc. and related entities; CSM, Inc. and subsidiaries; Precision Employee Management, LLC; and Employer Solutions Group, Inc. and related entities

Provider of outsourced human resource services

Wireless Infrastructure

Fortune Wireless, Inc.; Magtech Services, Inc.; Cornerstone Wireless Construction Services, Inc.; James Westbrook & Associates, LLC

Provider of turnkey development services for deployment of wireless networks

Transportation Infrastructure

James H. Drew Corp. and subsidiaries

Installer of fiber optic, smart highway systems, traffic signals, street signs, high mast and ornamental lighting, guardrail, wireless communications, and fabrications of structural steel

Ultraviolet Technologies

Nor-Cote International, Inc. and subsidiaries

Manufacturer of UV curable screen printing ink products

Electronics Integration

Kingston Sales Corporation; Commercial Solutions, Inc.; Telecom Technology Corp.

Distributor and installer of home and commercial electronics

The following tables report data by segment and exclude revenues from transactions with other operating segments:

	Business Solutions (1)	Wireless Infrastructure	Transportation Infrastructure	Ultraviolet Technologies	Electronics Integration	Holding Company	Totals
Ten months ended June 30, 2009							
Revenue	\$ 53,482	\$ 3,312	\$ 12,090	\$ 2,771	\$ 1,251	\$ -	\$ 72,906
Cost of revenue	43,317	2,458	10,747	1,596	912	-	59,030
Gross profit	10,165	854	1,343	1,175	339	-	13,876
Operating expenses							
Selling, general and administrative	9,251	650	781	1,320	238	358	12,598
Depreciation and amortization	548	11	5	59	1	242	866
Total operating expenses	9,799	661	786	1,379	239	600	13,464
Segment operating income (loss)	\$ 366	\$ 193	\$ 557	\$ (204)	\$ 100	\$ (600)	\$ 412

(1) Gross billings of \$456,813 less worksite employee payroll costs of \$403,331.

	Business Solutions (1)	Wireless Infrastructure	Transportation Infrastructure	Ultraviolet Technologies	Electronics Integration	Operating Total
Year ended August 31, 2008						
Revenue	\$ 74,894	\$ 15,683	\$ 43,757	\$ 11,965	\$ 12,094	\$ 158,393
Cost of revenue	61,459	11,991	39,005	6,904	11,119	130,478
Gross profit	13,435	3,692	4,752	5,061	975	27,915
Operating expenses						
Selling, general and administrative	14,079	4,177	3,861	4,956	2,300	29,373
Depreciation and amortization	1,267	153	24	322	47	1,813
Impairment	2,296	-	-	5,168	1,276	8,740
Total operating expenses	17,642	4,330	3,885	10,446	3,623	39,926
Segment operating income (loss)	\$ (4,207)	\$ (638)	\$ 867	\$ (5,385)	\$ (2,648)	\$ (12,011)

	Holding Company	Consolidated VIE	VIE Elimination	Totals
Year ended August 31, 2008 (Continued)				
Revenue	\$ -	\$ 1,725	\$ (1,719)	\$ 158,399
Cost of revenue	-	-	-	130,478
Gross profit	-	1,725	(1,719)	27,921
Operating expenses				
Selling, general and administrative	3,411	37	(1,719)	31,102
Depreciation and amortization	776	193	-	2,782
Impairment	-	-	-	8,740
Total operating expenses	4,187	230	(1,719)	42,624
Segment operating income (loss)	\$ (4,187)	\$ 1,495	\$ -	\$ (14,703)

(1) Gross billings of \$610,453 less worksite employee payroll costs of \$535,559.

	Business Solutions	Electronics Integration	Holding Company	Totals
As of June 30, 2009 (Audited)				
Current Assets				
Cash and equivalents	\$ 1,472	\$ -	\$ 64	\$ 1,536
Restricted cash	3,292	-	-	3,292
Accounts receivable, net	2,619	-	3	2,622
Inventory, net	13	-	-	13
Deferred tax asset	1,250	-	-	1,250
Prepaid expenses and other current assets	1,493	-	(10)	1,483
Assets of discontinued operations, net	-	112	-	112
Total Current Assets	10,139	112	57	10,308
Other Assets				
Property, plant & equipment, net	489	-	275	764
Deferred tax asset	1,250	-	-	1,250
Goodwill	12,339	-	-	12,339
Other intangible assets, net	3,263	-	-	3,263
Term note receivable-related party	-	-	2,546	2,546
Other long term assets	22	-	21	43
Total Other Assets	17,363	-	2,842	20,205
Total Assets	\$ 27,502	\$ 112	2,899	30,513

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports the Company file pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure. The Company's management, including the Chief Executive Officer and Chief Financial Officer recognizes that, because the design of any system of controls is based in part upon certain assumptions about the likelihood of future events and also is subject to other inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance of achieving the desired objectives.

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer the Company has evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2010. Based on this evaluation, the Chief Executive Officer, Chief Financial Officer conclude that as of June 30, 2010 the Company's Disclosure Controls are effective to provide reasonable assurance that information relating to the Company that is required to be disclosed by us in the reports we file or submit, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

It should be noted that any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

Item 9B. Other Information

None

PART III

Item 10. Directors and Executive Officers of the Company and Corporate Governance

Directors of the Company

The following table sets forth the name and age of each Director, indicating all positions and offices with us currently held by each Director.

<u>Name</u>	<u>Principle Position and Role (Age)</u>	<u>Director Since</u>
Carter M. Fortune	Treasurer, Chairman of the Board (69)	2002
P. Andy Rayl	Director, Chief Operating Officer (38)	2005
David A. Berry	Independent Director, Audit Committee Member (57)	2002
Patrick Ludwig	Independent Director (45)	2008

Set forth below are descriptions of the backgrounds and principal occupations of each of our Directors, and the period during which each has served as a Director. Each Director serves for a term of one year or until such time as that director is replaced pursuant to the Company's By-Laws.

Carter M. Fortune was appointed Chief Executive Officer and Chairman of the Board of the Company as of January 2002. Mr. Fortune resigned as Chief Executive Officer on May 27, 2005 and was appointed Treasurer and remained Chairman of the Board. Mr. Fortune has a Bachelor of Business Administration degree in marketing from the University of Cincinnati. He began his professional career at a leading national food brands company where after five years he had ascended to the position of Regional Marketing Manager. Mr. Fortune was then hired as Director of Marketing for a leading insurance and actuarial services provider where he served for three years. Mr. Fortune then began a period of about fifteen years where he was the owner and operator of a chain of retail stores. Concurrently Mr. Fortune began investing in, owning and operating numerous commercial and residential real estate developments; he continues to pursue such ventures.

P. Andy Rayl was elected to the Company's Board on May 17, 2005. Mr. Rayl also served as Chairman of the Company's Audit Committee until May 8, 2008 when he was appointed as Chief Operating Officer. Mr. Rayl has served as the Chief Financial Officer and Director of Operations for Technuity, Inc. ("Technuity") since October 2002 through May 2008. From October 2000 to October 2002, he served as Controller and Vice President of Finance of Technuity. Technuity was a virtual manufacturer of battery products and related accessories. From 1999 through November 2007, Technuity experienced significant growth in the consumer electronics retail channel and along with winning distinction as an Ernst & Young Entrepreneur of the Year in 2002, was also named one of the ten fastest growing private companies in Indiana in both 2002 and 2004. Mr. Rayl also served as Chief Financial Officer of Batteries.com, LLC ("Batteries.com") from December 2004 through November 2007. Batteries.com was a retailer of battery products and accessories to the general public via the internet. Prior to joining Technuity, Mr. Rayl was employed as a Certified Public Accountant by Ernst & Young, LLP where he specialized in providing auditing and assurance services for fast growing private and public start-up companies. Mr. Rayl graduated with honors with a Bachelor of Science degree in accounting from Indiana University.

David A. Berry was elected to the Fortune Industries Board of Directors on November 1, 2002. He serves as head of the company's Audit Committee. Mr. Berry began his professional career by starting his own underground and aerial utility construction company in 1978, which he had grown into a national company with operations from Maine to California. He sold the company in 1984. Mr. Berry then started OSP Engineering (OSP), an outside and inside plant telecommunications engineering company, designing telephone, cable TV and electrical systems for AT&T, Indiana Bell Telephone and Indiana Bell Communications. Mr. Berry again grew the OSP into a regional company, with customers throughout the Midwest, which he sold in 1990. Mr. Berry was one of the founding members of Citimark Communications, a shared tenant services telephone company; he sold his interest to his partners and formed Shared Telcom Services (STS) in 1995. Mr. Berry grew STS (via acquisition) into the third largest regional Competitive Local Exchange Carrier (CLEC) behind Ameritech and AT&T. He then sold the company in 2000 to a large national Utility. Mr. Berry has been retired since 2001 and is currently an independent consultant pursuing multiple business ventures.

Patrick Ludwig was appointed to the Company's Board on November 17, 2008. Mr. Ludwig retired as President of Kenra, LTD, an Indianapolis-based hair care products company, in 2009. He had been with Kenra since 1995. Prior to Kenra, Mr. Ludwig worked for a Minnesota-based hair care distributor. Mr. Ludwig graduated from Arizona State University with a Bachelor of Science degree in History.

Executive Officers of the Company

The executive officers of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Tena Mayberry	46	Chief Executive Officer and President
P. Andy Rayl	38	Chief Operating Officer
Randy Butler	50	Chief Financial Officer

Each executive officer serves, in accordance with the by-laws of the Company, until the annual meeting of the Board of Directors.

Tena Mayberry was elected President of the Company on April 13, 2009, and Chief Executive Officer of the Company on January 15, 2010, replacing John F. Fisbeck who resigned and the Company's Chief Executive Officer on January 15, 2010. Ms. Mayberry was named president of Century II, a subsidiary of the Company, in 2007, after serving four years as Chief Operating Officer, two years as a senior vice president, and four years as vice president. Prior to joining Century II, Ms. Mayberry served in management positions with Contract Sales Managers, Kroger Co. and Norrell Temporary Services. Ms. Mayberry graduated from Tennessee Technological University with a Bachelor of Science degree in marketing and business management.

P. Andy Rayl became Chief Operating Officer on May 8, 2008. Mr. Rayl's biographical information is set forth above.

Randy Butler became Chief Financial Officer on April 2, 2009, replacing Garth Allred who resigned as the Company's Chief Financial Officer on April 2, 2009. Prior to his election as the Company's Chief Financial Officer, Mr. Butler joined Century II, a subsidiary of the Company on May 1, 2006 as the Controller, and assumed responsibility for all the financial functions of PSM, Inc. another subsidiary of the Company in May 2008. Prior to Century II, Mr. Butler was the Controller for PFIC Corporation, a broker-dealer for Union Planters Bank, where he was responsible for all the accounting and financial operations for the Financial Services Division of Union Planters Bank. Mr. Butler graduated with honors from the University of Tennessee with a Bachelor of Science degree in accounting.

SECTION 16(a) BENEFICIAL OWNERSHIP COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's officers and Directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file an initial report of ownership of such securities on Form 3 and changes in ownership of such securities on Form 4 or 5 with the SEC. Such officers, Directors and ten percent shareholders are required to furnish the Company with copies of all Section 16(a) forms they file with the SEC.

Based solely on its review of the copies of such forms received by it, or written representations from certain such reporting persons that no Form 5's were required for such persons, the Company believes that, for the fiscal period ended June 30, 2010, its officers, Directors and ten percent shareholders complied with all applicable Section 16(a) filing requirements.

CODE OF ETHICS

The Company has adopted a code of ethics (the "Code of Ethics") that applies to the Company's principal executive officer, principal financial officer, and employees. A copy of the Company's Code of Ethics can be viewed on the Company's website at www.ffi.net or obtained free of charge by sending a written request to the attention of the Company's Chief Financial Officer, Randy Butler, at 6402 Corporate Drive, Indianapolis, Indiana 46278.

SHAREHOLDER PROPOSALS

Any of our shareholders wishing to have a proposal considered for inclusion in our 2011 proxy solicitation materials must set forth such proposal in writing to be received at our corporate office no later than December 1, 2010. In addition, any shareholder wishing to nominate a candidate for Director or propose other business at the Annual Meeting must generally give us written notice on or before December 1, 2010, and the notice must provide certain specific information as pursuant to Rule 14a-8 of the rules promulgated under the Exchange Act must comply with the advance notice provisions and other requirements of our bylaws, which are on file with the SEC and may be obtained from our corporate office upon request. Our Board will review any shareholder proposals that are filed as required and will determine whether such proposals meet applicable criteria for inclusion in our 2011 proxy solicitation materials or consideration at the 2011 Annual Meeting. In addition, we retain discretion to vote proxies on matters of which we are not properly notified at our principal executive offices on or before the close of business on January 2, 2011, and also retain that authority under certain other circumstances. These procedures remain unchanged from those last reported in the Company's Schedule 14A, except for the notice dates set forth above.

THE AUDIT COMMITTEE

The Company maintains an Audit Committee that is currently composed of one member, David A. Berry, who is not an officer or employee of the Company or any parent or subsidiary of the Company. Further, Mr. Berry does not have any other material relationship with the Company that would interfere with his exercise of independent judgment. The Board has determined that Mr. Berry is "independent" and "financially sophisticated" as such terms are defined by the NYSE Amex.

The Company's Board has determined that David Berry qualifies as an "audit committee financial expert" as defined by Item 401(h) of Regulation S-K adopted pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Mr. Berry has years of experience in reading, interpreting and analyzing financial statements in his roles as more fully described in the above biographical information. Mr. Berry also qualifies as "independent" as that term is used in Item 7(d) (3) (IV) of Schedule 14A of the Exchange Act.

Effective December 2009, Mr. Rick Snow resigned from the Company's Board of Directors and Audit Committee. Mr. Snow's resignation was not due to a disagreement with the Company on any matter relating to the Company's operations, policies or practices.

Effective May 2010, Ms. Julia Reed resigned from the Company's Board of Directors and Audit Committee. Ms. Reed's resignation was not due to a disagreement with the Company on any matter relating to the Company's operations, policies or practices. As a result of Ms. Reed's resignation, the Company does not meet the minimum audit committee requirements of the NYSE Amex guidelines. Therefore by letter dated July 2, 2010 the Company was notified by the NYSE Amex that it is not in compliance with Section 803(B)(2)(c) of the NYSE Amex Company Guide, in that the Company's audit committee is not comprised of at least two independent directors. Pursuant to Section 803(B)(6) of the Company Guide, the Company has until the earlier of its next annual shareholders' meeting or one year from the occurrence of the event that caused the failure to comply with the requirement to regain compliance. The Company is currently interviewing potential candidates for the position of independent director and audit committee member and expects to have this position filled by the required timeframe.

Item 11. Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The Company's Board of Directors believes that the success of the Company is largely based on the performance and skills of its executive officers. Therefore, when determining executive compensation, the Company's Board of Directors focuses on the concepts of rewarding executive performance and retaining and attracting top executive talent. The Company's principal objectives with respect to executive compensation are to encourage strong executive leadership and on providing value to the Company's stockholders.

The Company, due to its status as a "Controlled Company" under the regulations of the NYSE Amex, is not required to have separate nominating or compensation committees and does not have such committees. The Company's full Board of Directors regularly meets to analyze whether the compensation for the Company's executive officers is aligned with the Company's objectives for executive compensation. In the event the compensation of Ms. Mayberry and Mr. Rayl are under consideration then, because Mr. Rayl is also a Company Director as well as Chief Operating Officer, they are excluded from those discussions. Currently, the Company's only executive officers are its Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer.

Determination of Compensation

The Company's Board of Directors relies on its independent judgment in determining the compensation to be paid to the Company's executive officers. In reaching its decisions with respect to executive compensation, the Board of Directors evaluates the executive's past performance, the executive's inherent value to the Company and takes into account the compensation paid to executive officers by comparable companies. The Board of Directors' goal is to align executive officer compensation with the value that those executive officers provide to the Company.

Elements of Compensation

The Company's compensation program consists of base salary, cash bonuses, discretionary stock awards and other benefits.

The base salary for the Company's Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer is determined based upon the responsibilities of the executive officer, the executive officer's general contributions to the Company, and the skills, expertise and leadership qualities that the executive officer brings to the Company. As noted above, the base salaries for the Company's Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer are reviewed on a regular basis.

The Company's Board of Directors maintains the discretion to pay cash bonuses to the Company's named executive officers based on their evaluation of the executive officer. However, the Company prefers to pay executive compensation through an annual salary rather than through bonuses.

The Company's Board of Directors also maintains the discretion to award stock to executive officers based upon the Company's compensation strategy. Although the Company has made stock awards to executive officers in the past and may do so in the future, because the Company prefers to pay executive officers through salary, such stock awards are not common.

Chief Executive Officer Compensation

The Company's Board of Directors considered a variety of factors when determining the compensation to be paid to the Company's Chief Executive Officer, Mr. Fisbeck, during the fiscal period ended June 30, 2010. Among the factors considered by the Board of Directors was Mr. Fisbeck's performance, the scope of his responsibilities to the Company, and his leadership value and skills. At the start of fiscal year 2010, Mr. Fisbeck was paid a base salary of \$300,000. Effective January 15, 2010, the Board of Director's accepted Mr. Fisbeck's resignation as Chief Executive Officer of the Company.

Tena Mayberry who accepted the position as Chief Executive Officer of the Company on January 15, 2010 in addition to her role as President. Ms. Mayberry was paid \$180,000 in salary during the fiscal year ended June 30, 2010 pursuant to her employment contract. The Board of Directors based Ms. Mayberry's compensation on her record of performance for other companies and for the skills and expertise that she offered the Company. The Board of Directors also considered salaries paid to comparable executives by peer companies.

Chief Financial Officer Compensation

Randy Butler was paid \$130,000 in salary during the fiscal period ended June 30, 2010 pursuant to his employment agreement. The Board of Directors based Mr. Butler's compensation on his record of performance for other companies and for the skills and expertise that he offered the Company. The Board of Directors also considered salaries paid to comparable executives by peer companies.

Chief Operating Officer Compensation

P. Andy Rayl was paid \$105,000 in salary during the fiscal period ended June 30, 2010. The Board of Directors based Mr. Rayl's compensation on his record of performance for other companies and for the skills and expertise that he offered the Company. The Board of Directors also considered salaries paid to comparable executives by peer companies.

Compensation for Named Executives

The following table sets forth certain information concerning the compensation paid or accrued by the Company for services rendered during the Company's past three fiscal periods ended June 30, 2010 and 2009 and August 31, 2008 by our Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer. The Company had no other executive officers during fiscal 2010.

EXECUTIVE COMPENSATION TABLE

Name and Principal Position	Fiscal Period Ended June 30, 2010 and 2009 and August 31, 2008	Annual Salary Compensation	Annual Bonus Compensation	Stock Awards	Other Compensation	Total
John F. Fisbeck, CEO (1)	2010	\$ 180,000	\$ -	\$ -	\$ -	\$ 180,000
	2009	\$ 300,000	\$ -	\$ 50,000	\$ 150,400(2)	\$ 500,400
	2008	\$ 600,000	\$ -	\$ -	\$ 150,400(2)	\$ 750,400
P. Andy Rayl, COO (3)	2010	\$ 105,000	\$ -	\$ -	\$ -	\$ 105,000
	2009	\$ 95,000	\$ -	\$ 50,000	\$ -	\$ 145,000
	2008	\$ 58,731	\$ -	\$ -	\$ -	\$ 58,731
Garth D. Allred, CFO (4)	2010	\$ -	\$ -	\$ -	\$ -	\$ -
	2009	\$ 102,974	\$ -	\$ -	\$ -	\$ 102,974
	2008	\$ 170,000	\$ 65,000	\$ -	\$ -	\$ 235,000
Tena Mayberry, CEO (5)	2010	\$ 180,000	\$ 20,000	\$ -	\$ -	\$ 200,000
	2009	\$ 41,538	\$ -	\$ -	\$ -	\$ 41,538
	2008	\$ -	\$ -	\$ -	\$ -	\$ -
Randy Butler, CFO (6)	2010	\$ 130,000	\$ -	\$ -	\$ -	\$ 130,000
	2009	\$ 30,000	\$ -	\$ -	\$ -	\$ 30,000
	2008	\$ -	\$ -	\$ -	\$ -	\$ -

- (1) John Fisbeck's term as the Company's CEO ended on January 15, 2010, when he resigned from the Company.
- (2) Mr. Fisbeck received guarantee fees in connection with his personal guarantees for Company debt benefiting the Company.
- (3) P. Andy Rayl began his term as the Company's COO on May 8, 2008.
- (4) Garth Allred was employed as the Company's CFO from September 14, 2007 to April 2, 2009.
- (5) Tena Mayberry began her term as the Company's President on April 13, 2009 and as the Company's CEO on January 1, 2010.

(6) Randy Butler began his term as the Company's Chief Financial Officer on April 2, 2009.

Grant of Plan Based Awards

In exchange for modifying their employment agreements and agreeing to salary reductions effective January 2009, the Company issued 200,000 shares of common stock each to the CEO and COO. No other plan-based awards were made to the named executive officers during the fiscal period ended June 30, 2010 and 2009.

Outstanding Equity Awards

There was no outstanding equity awards for the named executive officers as of the end of the fiscal period ended June 30, 2010.

Option Exercises and Vested Stock

There were no option/SAR exercises during the fiscal period ended June 30, 2010 by any of the named executive officers and there are currently no outstanding unexercised options or SARs held by any of the named executive officers.

Pension Benefits

None of the named executive officers held any pension benefits as of the end of the fiscal period ended June 30, 2010.

Non-Qualified Deferred Compensation Plans

None of the named executive officers was the beneficiary of any non-qualified deferred compensation plan during the fiscal period ended June 30, 2010.

Compensation of Directors

The following table sets forth the compensation paid to all Directors of the Company during the fiscal period ended June 30, 2010. The table does not include compensation paid to John Fisbeck in his role as CEO or P. Andy Rayl in his role as COO. This compensation is set forth above in the Executive Compensation Table:

DIRECTOR COMPENSATION TABLE

<u>Name</u>	<u>Fees Earned or paid in Cash</u>	<u>All Other Compensation</u>	<u>Total</u>
Carter M. Fortune	\$ -	\$ -	\$ -
P. Andy Rayl	\$ -	\$ -	\$ -
David A. Berry	\$ 12,000	\$ -	\$ 12,000
John F. Fisbeck	\$ -	\$ -	\$ -
Rick Snow	\$ 4,000	\$ -	\$ 4,000
Julia Reed	\$ -	\$ -	\$ -
Patrick Ludwig	\$ -	\$ -	\$ -

Pursuant to the Company's policies, Directors who are also employees of the Company receive no compensation for their service as directors. The Company determines the compensation paid to its directors based upon its goals of maintaining active and well-qualified directors and based upon its evaluation of the reasonable compensation for the services rendered by its non-employee directors.

Compensation Committee Interlocks and Insider Participation

There were no compensation committee interlocks or insider participation during the fiscal period ended June 30, 2010.

Compensation Committee Report

The Board of Directors has reviewed and discussed the Compensation Discussion and Analysis set forth above and based upon this review and discussions the Board of Directors has recommended inclusion of that Compensation Discussion and Analysis in this Annual Report on Form 10-K.

Carter M. Fortune
P. Andy Rayl

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Shares Authorized for Issuance under Equity Compensation Plans

The following information presents a summary of the Company's equity compensation plans as of June 30, 2010:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity Compensation Plan Approved by Shareholders (1)	965,567	\$ 0.00	34,433
Total	<u>965,567</u>	<u>\$ 0.00</u>	<u>34,433</u>

(1) Includes the 2006 Equity Incentive Plan

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Security Ownership of Certain Beneficial Owners

The following table sets forth information as of June 30, 2010 with respect to the only persons or groups known to the Company who may be deemed to beneficially own more than five percent of the Company's voting securities (i.e. Common Stock).

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Common Stock	Carter M. Fortune 6402 Corporate Drive Indianapolis, IN 46278	7,344,687(2)	60%
Common Stock	John F. Fisbeck 6402 Corporate Drive Indianapolis, IN 46278	1,128,700	9%

- (1) As used in this table, "beneficial ownership" of securities means the sole or shared power to vote, or to direct the voting of, such securities, or the sole or shared investment power with respect to such securities, including the power to dispose of, or to direct the disposition of, such securities. In addition, for purposes of this table, a person is deemed to have "beneficial ownership" of any security that such person had the right to acquire within 60 days after June 30, 2010. "Beneficial ownership" also includes that ownership of shares that may be imputed to any control group of the Company.
- (2) As the sole member of 14 West, LLC, Carter M. Fortune has sole voting and dispositive power over 1,259,834 (10.3%) shares of the Company's Common Stock held by that entity, therefore 1,259,834 shares are included within the beneficial holdings of Mr. Fortune in the above table.

Security Ownership of Management

The following table sets forth information as of June 30, 2010 with respect to (i) each current Director, (ii) all individuals currently serving as the Company's executive officers (as defined in Item 402(a)(3) of Regulation S-K) as of the above date, and (iii) all current Directors and all such executive officers as a group. Unless otherwise noted, each holder has sole voting and investment power with respect to the shares of the listed securities. An asterisk (*) indicates beneficial ownership of less than one percent.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership (1)</u>	<u>Percent of Class</u>
Common Stock	Carter M. Fortune 6402 Corporate Drive Indianapolis, IN 46278	7,344,687(2)	60%
Common Stock	David A. Berry 6402 Corporate Drive Indianapolis, IN 46278	10,000	*
Common Stock	Tena Mayberry 6402 Corporate Drive Indianapolis, IN 46278	20,000	*
Common Stock	Randy Butler 6402 Corporate Drive Indianapolis, IN 46278	10,000	*
Common Stock	P. Andy Rayl 6402 Corporate Drive Indianapolis, IN 46278	173,295	1%
Common Stock	Patrick Ludwig 6402 Corporate Drive Indianapolis, IN 46278	20,000	*
Common Stock	All current executive officers and Directors as a group	7,577,982	62%

- (1) As used in this table, "beneficial ownership" of securities means the sole or shared power to vote, or to direct the voting of, such securities, or the sole or shared investment power with respect to such securities, including the power to dispose of, or to direct the disposition of, such securities. In addition, for purposes of this table, a person is deemed to have "beneficial ownership" of any security that such person had the right to acquire within 60 days after June 30, 2010.
- (2) As the sole member of 14 West, LLC, Carter M. Fortune has sole voting and dispositive power over 1,259,834 (10.3%) shares of the Company's Common Stock held by that entity, therefore 1,259,834 shares are included within the beneficial holdings of Mr. Fortune in the above table.

CHANGES IN CONTROL

The Company knows of no arrangements the operation of which may at a subsequent date result in a change of control.

Our majority shareholder has pledged his ownership holdings in the Company up as collateral on certain personal debt obligations. If our majority shareholder were to default on these debt obligations and the collateral is called upon by the lending institution, it could result in a potential change in control of the Company if the default may not be cured by the majority shareholder through some other means.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The Company holds various operating leases for the rental of properties with Fisbeck-Fortune Development, LLC, a Company owned by its majority shareholder, the Chairman of the Board. The Company pays certain expenses including taxes, assessments, maintenance and repairs under terms of the leases. Rent expense of \$120 was recognized in fiscal period 2010 under these agreements.

The Company's PSM subsidiary holds one lease for the rental of a property in Richmond, IN from Harlan M. Schafir, the Company's former COO and Director. The lease is for five-year terms with options to extend terms. The leases provide for base rent of \$2,000 per month with nominal annual increases. Rent and related expense of \$29 was recognized in fiscal period 2010 under these agreements.

The Company's ESG subsidiary holds a lease for an office building in Utah with a limited liability company in which ESG's former President is a member.

Effective November 30, 2008, the Company approved a transaction to sell all of the outstanding shares of common stock of its wholly owned subsidiaries, James H Drew Corporation, Nor-Cote International, Inc., Fortune Wireless, Inc. and Commercial Solutions, Inc. The subsidiaries were sold to related party entities owned by the Company's majority shareholders in exchange for a \$10,000,000 reduction in the outstanding balance of the term loan note due to the majority shareholder and a three year Term Loan Receivable in the amount of \$3,500,000. The Term Loan Receivable bears interest at prime plus 1% and is interest only for the first twelve months, with \$50,000 and \$100,000 monthly principal payments due in years two and three, respectively. The unpaid balance at maturity is due in lump sum payment.

As part of the terms of the sales transaction, the majority shareholder received 217,000 shares of Series C Preferred Stock in consideration for cancellation of the outstanding principal balance of the term note payable of \$21.7 million. In addition, the Company converted 79,180 shares of Series B Preferred Stock previously issued to and held by the majority shareholder to 79,180 shares of Series C Preferred Stock. The Series C Preferred Stock is non-redeemable, non-voting cumulative preferred and bears annual dividends of \$5 per share in years one and two subsequent to the transaction date, \$6 per share in year three subsequent to the transaction date and \$7 per share thereafter. Effective July 1, 2009, the Series C Preferred Stock annual dividend was modified to \$2 per share in the years ending June 30, 2010 and 2011, \$5 per share in the year ending June 30, 2012, \$6 per share in the year ending June 30, 2013 and \$7 per share thereafter.

As part of the terms of the sales transaction, the Company issued the majority shareholder 2.2 million warrants with a ten year term and an exercise price of \$.40 per share.

Item 14. Principal Accountant Fees and Services.

Our financial statements for the fiscal period ended June 30, 2010 were certified by Somerset CPA's, P.C. ("Somerset"). The following table sets forth the aggregate fees billed to the Company by Somerset:

	<u>Fiscal 2010</u>	<u>Fiscal 2009</u>
Audit Fees	\$ 285,000	\$ 400,000
Audit Related Fees	105,000	100,000
Tax Fees	260,000	195,000
All Other Fees	-	-
	<u>\$ 650,000</u>	<u>\$ 695,000</u>

Audit Fees: The aggregate fees billed in each of the fiscal periods ended June 30, 2010 and 2009 2008 for professional services rendered by the principal accountant for the audit of the Company's annual financial statements and review of the financial statements included in the Company's Forms 10-K and 10-Q or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal periods. These fees also include five statutory audits for certain wholly owned subsidiaries of the Company.

Audit Related Fees: The aggregate fees billed in each of the fiscal periods ended June 30, 2010 and 2009 for professional services rendered by the principal accountant for audit related fees including, primarily, consultations on various accounting and reporting matters.

Tax Fees: The aggregate fees billed in each of the fiscal periods ended June 30, 2010 and 2009 for professional services rendered by the principal accountant for tax compliance Federal and State advice.

All Other Fees: For the fiscal periods ended June 30, 2010 and 2009, the Company was not billed any additional fees for services by Somerset other than the services covered under the captions "Audit Fees", "Audit Related Fees" and "Tax Fees" above.

All services listed were pre-approved by the Audit Committee and all auditing services were performed by Somerset employees. The Audit Committee has considered whether the services described above are compatible with maintaining the independent accountant's independence and has determined that such services have not adversely affected Somerset's independence.

POLICIES RELATED TO PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee has pre-approval policies and procedures, pursuant to which the Audit Committee approves the audit and permissible non-audit services provided by Somerset. The Audit Committee's pre-approval policy is as follows: consistent with the Audit Committee's responsibility for engaging our independent auditors, all audit and permitted non-audit services require pre-approval by the Audit Committee, some such services require specific approvals, whereas other services are granted general pre-approval. All requests or applications for services to be provided by the independent registered public accounting firm that do not require specific approval by the Audit Committee will be submitted to the Chief Financial Officer and must include a detailed description of the services to be rendered. The Chief Financial Officer will determine whether such services are included within the list of services that have received the general pre-approval of the Audit Committee. The Audit Committee will be informed on a timely basis of any such services rendered by the independent auditor. Requests or applications to provide services that require specific approval by the Audit Committee will be submitted to the Audit Committee by both the independent auditor and the Chief Financial Officer, and must include a joint statement as to whether, in their view, the request or application is consistent with the Securities and Exchange Commission's ("SEC's") rules on auditor independence. The Chief Financial Officer will immediately report any breach of this policy that comes to the attention of the Chief Financial Officer or any member of management to the chairman of the Audit Committee. Pursuant to these procedures, the Audit Committee approved the foregoing audit and permissible non-audit services provided by Somerset in fiscal 2010.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

The following financial statements, schedules and exhibits are filed as part of this Report:

- (1) Financial Statements. Reference is made to the Index to Consolidated Financial Statements on page 26 of this Report.
- (2) All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes to the financial statements.
- (3) List of Exhibits.

Exhibit No.	Description
2.1	Agreement and Plan of Share Exchange entered into April 13, 2007 (1)
3.1	Second Amended and Restated Articles of Incorporation (2)
3.2	Second Amended and Restated Code of Bylaws (3)
10.1	Term Loan Note (4)
21.1	List of subsidiaries (5)
23.1	Consent of Independent Registered Public Accounting Firm (5)
31.1	Certificate Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Tena Mayberry. (5)
31.2	Certificate Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Randy Butler. (5)
32.1	Certificate Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Tena Mayberry. (5)
32.2	Certificate Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Randy Butler. (5)

Notes to Exhibits:

1. This exhibit is incorporated by reference from the Company's Current Report on Form 8-K, dated April 19, 2007.
2. This exhibit is incorporated by reference from the Company's Annual Report on Form 10-K, dated September 28, 2009.
3. This exhibit is incorporated by reference from the Company's Current Report on Form 8-K, dated December 27, 2006.
4. This exhibit is incorporated by reference from the Company's Current Report on Form 8-K, dated June 5, 2008.
5. Attached hereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FORTUNE INDUSTRIES, INC.

Date: September 28, 2010

By: /s/ Tena Mayberry
Tena Mayberry,
Chief Executive Officer

Date: September 28, 2010

By: /s/ Randy Butler
Randy Butler
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: September 28, 2010

/s/ Carter M. Fortune
Carter M. Fortune, Chairman of the Board

Date: September 28, 2010

/s/ P. Andy Rayl
P. Andy Rayl, Director, Chief Operating Officer

Date: September 28, 2010

/s/ David A. Berry
David A. Berry, Director

Date: September 28, 2010

/s/ Patrick Ludwig
Patrick Ludwig, Director

FORTUNE INDUSTRIES, INC.
SUBSIDIARIES

Subsidiary Name**State of Incorporation/Organization**

Century II ASO, Inc.	Tennessee Corporation (a subsidiary of CSM, Inc.)
Century II Services, Inc.	Tennessee Corporation (a subsidiary of CSM, Inc.)
Century II Staffing, Inc.	Tennessee Corporation (a subsidiary of CSM, Inc.)
Century II Staffing TN, Inc.	Tennessee Corporation (a subsidiary of Century II Staffing, Inc.)
Century II Staffing USA, Inc.	Tennessee Corporation (a subsidiary of Century II Staffing, Inc.)
CSM, Inc.	Tennessee Corporation
Employer Solutions Group, Inc.	Utah Corporation
Employer Solutions Group of Idaho, Inc.	Idaho Corporation
Employer Solutions Group of SLC, Inc.	Utah Corporation
Employer Solutions Group of Utah, Inc.	Utah Corporation
Employer Staffing Group, Inc.	Utah Corporation
ESG Achievement, Inc.	Utah Corporation
ESG Administration, Inc.	Utah Corporation
ESG Assistance, Inc.	Utah Corporation
ESG Consulting, Inc.	Utah Corporation
ESG Direction, Inc.	Utah Corporation
ESG Entities, Inc.	Utah Corporation
ESG Fulfillment, Inc.	Utah Corporation
ESG Insurance, Inc.	Utah Corporation
ESG Management, Inc.	Utah Corporation
ESG Offerings, Inc.	Utah Corporation
ESG Services, Inc.	Utah Corporation
ESG Success, Inc.	Utah Corporation
ESG Supervision, Inc.	Utah Corporation
Fortune Staffing, Inc.	Indiana Corporation
Kingston Sales Corporation	Indiana Corporation
Precision Employee Management, L.L.C.	Arizona Limited Liability Company
Professional Staff Management, Inc.	Indiana Corporation
Professional Staff Management, Inc. II	Indiana Corporation
Pro Staff, Inc.	Indiana Corporation
PSM Financial Services, LLC	Indiana Limited Liability Company (a subsidiary of Professional Staff Management, Inc.)
Sageland Flagging, Inc.	Utah Corporation
Telecom Technology, Corp.	Indiana Corporation

Consent of Registered Independent Public Accounting Firm

Fortune Industries, Inc.
Indianapolis, Indiana

We consent the use of our audit report dated September 28, 2010, with respect to the consolidated balances sheets of Fortune Industries, Inc. and subsidiaries as of June 30, 2010 and 2009 and the related consolidated statements of operations, changes in shareholders' equity (deficit), and cash flows for each of the fiscal periods ended June 30, 2010, 2009 and August 31, 2008.

/s/ SOMERSET CPAs, P.C.

Indianapolis, Indiana
September 28, 2010

CERTIFICATION

I, Tena Mayberry, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Fortune Industries, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Fortune Industries, Inc. as of, and for, the period presented in this annual report;
4. Fortune Industries, Inc.'s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) for Fortune Industries, Inc. and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Fortune Industries, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of Fortune Industries, Inc.'s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d) disclosed in this report any change in Fortune Industries, Inc.'s internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, Fortune Industries, Inc.'s internal control over financial reporting; and
5. Fortune Industries, Inc.'s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Fortune Industries, Inc.'s auditors and the audit committee of Fortune Industries, Inc.'s board of directors (or others performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Fortune Industries, Inc.'s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in Fortune Industries, Inc.'s internal control over financial reporting.

Date: September 28, 2010

By: /s/ Tena Mayberry
Tena Mayberry
Chief Executive Officer

CERTIFICATION

I, Randy Butler, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Fortune Industries, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Fortune Industries, Inc. as of, and for, the period presented in this annual report;
4. Fortune Industries, Inc.'s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) for Fortune Industries, Inc. and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Fortune Industries, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of Fortune Industries, Inc.'s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d) disclosed in this report any change in Fortune Industries, Inc.'s internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, Fortune Industries, Inc.'s internal control over financial reporting; and
5. Fortune Industries, Inc.'s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Fortune Industries, Inc.'s auditors and the audit committee of Fortune Industries, Inc.'s board of directors (or others performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Fortune Industries, Inc.'s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in Fortune Industries, Inc.'s internal control over financial reporting.

Date: September 28, 2010

By: /s/ Randy Butler
Randy Butler
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Fortune Industries, Inc., an Indiana corporation, (the "Company") on Form 10-K for the period ending June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tena Mayberry, Chief Executive Officer of the Company, certify the following pursuant to Section 18, U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 28, 2010

By: /s/ Tena Mayberry
Tena Mayberry
Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Fortune Industries, Inc., an Indiana corporation, (the "Company") on Form 10-K for the period ending June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randy Butler, Chief Financial Officer of the Company, certify the following pursuant to Section 18, U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 28, 2010

By: /s/ Randy Butler
Randy Butler
Chief Financial Officer
