

## **Audit Committee Charter of Fortune Industries, Inc.**

### **A. Organization**

1. *Appointment.* The board of directors will appoint an audit committee, which will be composed of at least two directors. The board of directors also will appoint a chairman of the audit committee.
2. *Qualifications.* Each member of the audit committee must satisfy applicable law relating to independence, expertise and experience.

### **B. Statement of Purpose**

1. *Oversight Responsibility.* The purpose of the audit committee is to oversee the accounting and financial reporting processes of the Company and the audits of the Company's financial statements. This oversight responsibility includes oversight relating to (1) the integrity of the Company's financial statements and financial reporting process and the Company's systems of internal accounting and financial controls, (2) the annual independent audit of the Company's financial statements, the engagement of the independent auditors and the evaluation of the qualifications, independence and performance of the independent auditors, (3) the Company's compliance with legal and regulatory requirements, including the Company's disclosure controls and procedures, and (4) the fulfillment of the other responsibilities set forth in this charter. The audit committee also will prepare the report of the audit committee required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.
2. *Other Matters.* It is not the role of the audit committee to plan or conduct audits, to guarantee the accuracy or quality of the Company's financial statements or to determine that the financial statements are in accordance with generally accepted accounting principles and applicable laws and regulations. These are the responsibilities of management and the independent auditors.

### **C. Operation**

1. *Open Communication.* The audit committee will maintain regular and open communication among the directors, the independent auditors, and management.
2. *Reports to the Board of Directors.* The audit committee will review with the board of directors any issues that arise within the scope of the oversight responsibility of the audit committee as described above, will report committee actions to the board of directors, and may make appropriate recommendations for action by the board of directors.

3. *Meetings.* The audit committee will establish a schedule of meetings to be held each year and may schedule additional meetings as required. In planning the annual schedule of meetings, the audit committee will ensure that sufficient opportunities exist for its members to meet separately, periodically, with the independent auditors, without management present and to meet separately with management, without the independent auditors present.
4. *Procedures.* The audit committee may adopt such procedures relating to the conduct of its proceedings as it deems appropriate.
5. *Access to Records, Advisors and Others.* The audit committee will have full authority (1) to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company, (2) to retain independent legal, accounting or other advisors, as it determines to be necessary to carry out its duties, to advise the audit committee and (3) to request any officer or employee of the Company, the Company's external counsel, the internal auditors or the independent auditors to attend meetings of the audit committee or to meet with any members of, or advisors to, the audit committee. The audit committee may retain advisors without seeking approval of such retention by the board of directors. The Company will provide appropriate funding, as determined by the audit committee, for payment of the compensation of the independent auditors and of any independent advisors retained by the audit committee, as well as ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.
6. *Performance Evaluation.* The audit committee will establish criteria for evaluating its performance and will conduct such an evaluation on an annual basis.

#### **D. Responsibilities**

The following will be the principal responsibilities of the audit committee:

1. *Engagement of Independent Auditors.* The independent auditors are accountable to the audit committee. The audit committee will directly engage the independent auditors and directly oversee, evaluate and, where appropriate, replace the independent auditors. The independent auditors will report directly to the audit committee. Any engagement of the independent auditors by the audit committee may be subject to stockholder approval or ratification, as determined by the board of directors.
2. *Pre-Approval of Audit and Non-Audit Services.* The audit committee will approve in advance (1) all audit, review and attest services and all non-audit services provided to the Company by the independent auditors and (2) all fees payable by the Company to the independent auditors for such services, all as required by applicable law or listing standards.

3. *Independence of Independent Auditors.* The audit committee will consider matters relating to the independence of the independent auditors. The audit committee will ensure that the independent auditors submit, on a periodic basis, to the audit committee formal written statements delineating all relationships between the independent auditors and the Company, as required by the Independence Standards Board (or any successor body), will discuss with the independent auditors any such disclosed relationships and their impact on the independent auditors' independence and will take appropriate action in response to the independent auditors' statements to satisfy itself of the independent auditors' independence.
4. *Performance of Independent Auditors.* The audit committee will review the performance of the independent auditors annually. In connection with this evaluation, the audit committee will consult with management and will obtain and review a report by the independent auditors describing their internal control procedures, issues raised by their most recent internal quality control review or peer review (if applicable) or by any inquiry or investigation by governmental or professional authorities for the preceding five years, and the response of the independent auditors to any such review, inquiry or investigation, including any steps taken to deal with any such issues. The audit committee will consider whether it is appropriate to adopt a policy of rotating independent auditors on a periodic basis.
5. *Audits.* The audit committee will discuss with the independent auditors the overall scope and plans for their respective audits, including the adequacy of staffing and other factors that may affect the effectiveness and timeliness of such audits. In this connection, the audit committee will discuss with management and the independent auditors the Company's major risk exposures (whether financial, operating or otherwise), the adequacy and effectiveness of the accounting and financial controls, and the steps management has taken to monitor and control such exposures and manage legal compliance programs, among other considerations that may be relevant to their respective audits. The audit committee will review with management and the independent auditors management's annual internal control report, including any attestation of such internal control report by the independent auditors. The audit committee will obtain and review periodic reviews from management regarding any significant deficiencies in the design or operation of the Company's internal controls, material weaknesses in internal controls and any fraud (regardless of materiality) involving persons having a significant role in the internal controls, as well as any significant changes in internal controls implemented by management during the most recent reporting period of the Company.
6. *Review of Disclosure Controls and Procedures.* The audit committee will review with the chief executive officer, the chief financial officer and the disclosure committee the Company's disclosure controls and procedures and will review periodically, but no less frequently than quarterly, management's conclusions about the efficacy of such disclosure controls and procedures, including any

- significant deficiencies in, or material non-compliance with, such controls and procedures.
7. *Consultation with Independent Auditors.* The audit committee will review with the independent auditors any problems or difficulties the auditors may have encountered in connection with the annual audit or otherwise and any management letter provided by the auditors and the Company's response to that letter. This review will address any difficulties encountered by the independent auditors in the course of the audit work, including any restrictions on the scope of activities or access to required information, any disagreements with management regarding generally accepted accounting principles and other matters, and any material adjustments to the financial statements recommended by the independent auditors, regardless of materiality.
  8. *Review of Regulatory and Accounting Initiatives.* The audit committee will review with management and the independent auditors the effect of new or proposed regulatory and accounting initiatives on the Company's financial statements and other public disclosures.
  9. *Review of Annual SEC Filings.* The audit committee will review and discuss with management and the independent auditors the audited financial statements and the other financial information, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," to be included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. The audit committee also will discuss the results of the annual audit and any other matters required to be communicated to the audit committee by the independent auditors under generally accepted auditing standards, applicable law or listing standards, including matters required to be discussed by Statement on Auditing Standards No. 61, as amended by Statement on Auditing Standards No. 90. Based on such review and discussion, the audit committee will make a determination whether to recommend to the board of directors that the audited financial statements be included in the Company's Annual Report on Form 10-KSB.
  10. *Review of Quarterly SEC Filings and Other Communications.* The audit committee will review and discuss with management and the independent auditors the quarterly financial information, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," to be included in the Company's Quarterly Reports on Form 10-QSB filed with the Securities and Exchange Commission. In connection with this review, the audit committee will discuss the results of the independent auditors' review of the Company's quarterly financial information conducted in accordance with Statement on Auditing Standards No. 71. The audit committee also will discuss any other matters required to be communicated to the audit committee by the independent auditors under generally accepted auditing standards, applicable law or listing standards. The audit committee will discuss the Company's earnings press releases, as well as financial information and earnings guidance provided to

analysts and ratings agencies, to the extent required by applicable law or listing standards.

11. *Proxy Statement Report.* The audit committee will prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.
12. *Related Party Transactions.* The audit committee will conduct an appropriate review of all related party transactions for potential conflict of interest situations on an ongoing basis and approve all such transactions. The related party transactions subject to audit committee review and approval are transactions required to be disclosed pursuant to Item 404 of Regulation S-K of the Securities and Exchange Commission.
13. *Hiring Guidelines.* The audit committee will approve guidelines for the Company's hiring of former employees of the independent auditors, which will meet the requirements of applicable law and listing standards.
14. *Establishment of Whistleblowing Procedures.* The audit committee will establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
15. *Review of Legal and Regulatory Compliance.* The audit committee will periodically review with management, including the internal general counsel (if any), and the independent auditors any correspondence with, or other action by, regulators or governmental agencies and any employee complaints or published reports that raise concerns regarding the Company's financial statements, accounting or auditing matters or compliance with the Company's code of conduct and ethics. The Committee also will meet periodically and separately with the Company's internal general counsel (if any) to review material legal affairs of the Company and the Company's compliance with applicable law and listing standards.
16. *Code of Business Conduct and Ethics.* The audit committee will consider and act upon any amendments to the Company's Code of Business Conduct and Ethics and upon any request by executive officers for waivers under the Code of Business Conduct and Ethics.
17. *Other Responsibilities.* The audit committee also will carry out such other duties that may be delegated to it by the board of directors from time to time.

**E. Charter**

1. *Annual Review.* The audit committee will review and reassess the adequacy of this charter on an annual basis.
2. *Inclusion in Proxy Statement.* The audit committee will cause a copy of the charter to be included in the Company's annual proxy statement filed with the Securities and Exchange Commission as required by applicable law or regulation. Adopted by the board of directors on October 20, 2003 and last amended on February 9, 2004.

Adopted by the board of directors on May 16, 2005.