

INTERIM

FINANCIAL STATEMENTS

December 31, 2016 and December 31, 2015

December 31, 2016

FORTRAN

CORPORATION

(A North Carolina Corporation)

TRADING SYMBOL: FRTN

CUSIP NUMBER: 34960D 108

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FORTTRAN CORPORATION, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 204,137	\$ 403,473
Receivables, less allowances	\$ 2,195,146	\$ 1,427,416
Inventories	\$ 607,569	\$ 665,801
Prepaid expenses and other current assets	\$ 55,382	\$ 74,236
Total current assets	<u>\$ 3,062,233</u>	<u>\$ 2,570,926</u>
Property, plant and equipment (net)	\$ 344,019	\$ 605,401
Other Assets	\$ 566,474	\$ 994,602
Intangible assets, net of accumulated amortization	\$ -	\$ 60,411
Total assets	<u>\$ 3,972,726</u>	<u>\$ 4,231,340</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,117,616	\$ 841,999
Deferred revenue	\$ 180,940	\$ 276,204
Accrued expenses	\$ 43,621	\$ 153,640
Current portion debt & capital lease obligations, net	\$ 517,675	\$ 279,927
Other current liabilities	\$ 53,315	\$ 794,496
Total current liabilities	<u>\$ 2,430,842</u>	<u>\$ 2,346,266</u>
Long-term debt and capital lease obligations, net	\$ 1,307,118	\$ 1,891,552
Total liabilities	<u>\$ 3,737,960</u>	<u>\$ 4,237,818</u>
Commitments and contingencies Stockholders' equity:		
Stockholders' equity:		
Preferred stock, no par value, 50,000,000 shares authorized, 1,000,000 shares issued and outstanding		
Common stock, no par value, 50,000,000 shares authorized, 24,612,321 shares issued, respectively	\$ 130,500	\$ 460,325
Additional paid-in capital	\$ 970,108	\$ 183,012
Treasury stock	\$ (904,866)	\$ (476,866)
Accumulated deficit	\$ 39,024	\$ (172,948)
Accumulated other comprehensive income		
Total stockholders' equity	<u>\$ 234,767</u>	<u>\$ (6,478)</u>
Total liabilities and stockholders' equity	<u>\$ 3,972,727</u>	<u>\$ 4,231,340</u>

See accompanying notes to condensed consolidated financial statements

FORTTRAN CORPORATION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Revenue:				
Managed Services	\$ 325,599	\$ 512,657	\$ 588,086	\$ 930,737
Equipment Sales & Services	<u>\$ 3,278,941</u>	<u>\$ 1,704,252</u>	<u>\$ 5,209,280</u>	<u>\$ 1,976,365</u>
Total revenue	<u>\$ 3,604,540</u>	<u>\$ 2,216,909</u>	<u>\$ 5,797,366</u>	<u>\$ 2,907,102</u>
Costs and expenses (a):				
Operating (exclusive of depreciation, and accretion shown separately below)	\$ 2,448,825	\$ 2,019,041	\$ 4,675,425	\$ 2,430,253
Selling, general and administrative	<u>\$ 826,135</u>	<u>\$ 139,497</u>	<u>\$ 1,139,337</u>	<u>\$ 398,416</u>
Depreciation, amortization and accretion	<u>\$ 35,789</u>	<u>\$ 44,059</u>	<u>\$ 47,745</u>	<u>\$ 68,918</u>
Total costs and expenses	<u>\$ 3,310,749</u>	<u>\$ 2,202,596</u>	<u>\$ 5,862,507</u>	<u>\$ 2,897,586</u>
Operating income	<u>\$ 293,790</u>	<u>\$ 14,313</u>	<u>\$ (65,141)</u>	<u>\$ 9,516</u>
Other Income	<u>\$ (194,619)</u>	<u>\$ 57,436</u>	<u>\$ (193,763)</u>	<u>\$ 74,388</u>
Interest expense	<u>\$ (21,633)</u>	<u>\$ (24,094)</u>	<u>\$ (71,000)</u>	<u>\$ (38,895)</u>
Income before income taxes	<u>\$ 77,539</u>	<u>\$ 47,656</u>	<u>\$ (329,904)</u>	<u>\$ 45,010</u>
Income tax expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net income	<u>\$ 77,539</u>	<u>\$ 47,656</u>	<u>\$ (329,904)</u>	<u>\$ 45,010</u>
Earnings per share:				
Basic	\$ 0.003	\$ 0.002	\$ (0.013)	\$ 0.002
Diluted	\$ 0.003	\$ 0.002	\$ (0.013)	\$ 0.002
Weighted average shares outstanding:				
Basic	24,612,321	23,812,351	24,612,321	23,812,351
Diluted	<u>24,612,321</u>	<u>23,812,351</u>	<u>24,612,321</u>	<u>23,812,351</u>

See accompanying notes to condensed consolidated financial statements.

FORTRAN CORPORATION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ (329,904)	\$ 45,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	\$ 47,745	\$ 68,918
Changes in operating assets and liabilities:		
Receivables, prepaid expenses and other assets	\$ (586,756)	\$ 34,882
Inventories	71,339	(126,357)
Accounts payable, deferred revenue and other liabilities	200,108	(429,391)
Net cash provided by operating activities	(597,468)	(406,938)
Cash flows from investing activities:		
Capital expenditures	12,706	50,740
Purchases of investments	-	1,114,165
Net cash used in investing activities	12,706	1,164,905
Cash flows from financing activities:		
Payment of debt and capital lease obligations	650,000	(378,016)
Net cash used in financing activities	650,000	(378,016)
(Decrease) increase in cash and cash equivalents	65,238	379,952
Cash and cash equivalents at beginning of period	138,899	23,522
Cash and cash equivalents at end of period	204,137	403,473
Supplemental disclosures of cash flow information:		
Cash paid for interest	71,000	38,895
Cash paid for Loan/Financing Fees	-	-

See accompanying notes to condensed consolidated financial statements

FORTTRAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND SIX MONTHS ENDED

DECEMBER 31, 2016 AND 2015

Basis of Presentation and Description of Business

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the unaudited condensed financial statements contain all adjustments consisting only of normal recurring accruals considered necessary to present fairly the Company's financial position for all periods presented.

Description of Business

The Company is primarily engaged in the telecom sales and services business. The Company is headquartered in Conover, North Carolina and provides these services to businesses and institutions throughout North and South Carolina.

ITEM 1: Summary of Significant Accounting Policies

The accompanying financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

The Company considers cash equivalents to be those investments which are highly liquid and readily convertible to cash with a maturity date within three months of the date of purchase.

Earnings (loss) per Share

The Company reports earnings (loss) per share in accordance with Statement of Financial Accounting Standard (SFAS) No.128. This statement requires dual presentation of basic and diluted earnings per share amounts are based on the weighted average share of common outstanding. If applicable, diluted earnings per share assume the conversion, exercise or issuance of all common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. Accordingly,

this presentation has been adopted for the periods presented. There were no adjustments required to net income for the period presented in the computation of diluted earnings per share. There were no common stock equivalents (CSE) necessary for the computation of diluted loss per share.

Fixed Assets

Office Equipment, vehicles and computer software are carried at cost, net of accumulated depreciation and amortization. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the assets or the terms (including renewal periods, as appropriate) of the related leases, whichever is shorter.

When fixed assets are sold or retired, their costs and accumulated depreciation or amortization are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of operations.

The Company incurs repair and maintenance expenses on its vehicles and equipment. These expenses are recognized when incurred, unless such repairs significantly extend the life of the asset, in which case the cost of the repairs is amortized over the remaining useful life of the asset utilizing the straight-line method.

Impairment of Long-lived Assets

In accordance with SFAS NO.144, "Accounting for the Impairment or Disposal of Long-lived Assets", the Company reviews long-lived assets, such rental equipment and fixed assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be fully recoverable. Recoverability of asset groups to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount exceeds its estimate future cash flows, an impairment charge is recognized as the amount by which the carrying amount of an asset group exceeds the fair value of the asset group. The Company evaluated its long-lived assets and no impairment charges were recorded for any of the periods presented.

Income Taxes

Income taxes are accounted for in accordance with SFAS No.109, "Accounting for Income Taxes." A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting and for net operating loss carry forwards.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

The Company expects to see a higher effective tax rate as a result of higher revenues and lower costs throughout the fiscal year. The effective tax rate for the year ended June 30, 2016 was 8%.

Cash Flow Activity

Cash and cash equivalents were \$204,137 and \$403,473 as of December 31, 2016 and 2015, respectively. The change in cash and cash equivalents during the periods presented was as follows:

	Six Months Ended	
	December 31,	
	2016	2015
Cash flows from operating activities:		
Net Income	\$ (329,904)	\$ 45,010
Net cash provided by operating activities	(597,468)	(406,938)
Net cash used in investing activities	12,706	1,164,905
Net cash used in financing activities	650,000	(378,016)
(Decrease)/Increase in cash and cash equivalents	65,238	379,952
Cash and cash equivalents at beginning of period	138,899	23,522
Cash and cash equivalents at end of period	204,137	403,473
Supplemental disclosures of cash flow information:		
Cash paid for interest	71,000	38,895
Cash paid for loan/financing fees	-	-

Cash paid for loans and related financing fees were \$71,000 for the six month period ending December 31, 2016 and \$38,895 for the respective period ending December 31, 2015. The Company completed a debt restructuring in Q2 2017.

Comprehensive Income (Loss)

There were no items of comprehensive income (loss) applicable to the Company during the periods presented in the accompanying financial statements. Accordingly, net income (loss) equals comprehensive income (loss) for all periods.

Fair Value of Financial Instruments

Financial instruments consist principally of cash, accounts and related party receivables, trade and related party payables, accrued liabilities and short-term obligations. The carrying amounts of such financial instruments in the accompanying consolidated balance sheets approximate their fair values due to their relatively short-term nature.

The carrying value of the Company's long-term debt approximates fair value based on current market conditions for similar debt instruments.

Use of Estimates

The preparation of the accompanying financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities, disclosure of

contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting periods. Actual results may differ from those estimates and assumptions.

Impact of Newly Issued Accounting Standards

In September 2006, The FASB issued SFAS No.157 and No.158. Statement No.157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice.

Statement No.158 is an amendment of FASB Statements No.87, 88,106 and 132 (R). It improves financial reporting by requiring an employer to recognize the over funded or underfunded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

The Company does not expect application of SFAS No.156, 157 and 158 to have a material effect on its financial statements. On February 2007, the FASB issued SFAS No.159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS No. 159”). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. Companies should report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This Statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The Company does not plan to measure any of its existing financial assets or liabilities at fair value under the provisions of SFAS No. 159 and, therefore, does not anticipate any material impact to its results of operations or financial position related to the adoption of this standard.

In December 2007, the FASB issued SFAS No.141 (revised 2007), “Business Combinations” (“SFAS No. 141R”). SFAS No.141 (R) requires an acquiring entity in a business combination to: (i) recognize all (and only) the assets acquired and the liabilities assumed in the transaction, (ii) establish an acquisition-date fair value as the measurement objective for all assets acquired and the liabilities assumed, and (iii) disclose to investors and other users all of the information they will need to evaluate and understand the nature of, and the financial effect of, the business combination, and, (iv) recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase. SFAS No.141 (R) is effective for, and will be applied by the Company to, business combinations occurring after January 12, 2009.

In December 2007, the FASB issued SFAS No.16, “Non-controlling Interests in Consolidated Financial Statements”. SFAS No.160 requires: (i) non-controlling (minority) interests in subsidiaries to be reported in the same manner as equity, but separate from the parent’s equity, in

consolidated financial statements; (ii) net income attributable to the parent and the non-controlling interest to be clearly identified and presented on the face of the consolidated statement of income; and (iii) any changes in the parent's ownership interest, while the parent retains the controlling financial interest in its subsidiary, to be accounted for consistently, SFAS No.160 is effective for fiscal years beginning after January 12, 2009. The Company does not currently have investments in other unconsolidated companies and, therefore, currently does not expect SFAs No.160 to have a material impact on its financial statements.

In March 2008, the FASB released SFAS No.161, "*Disclosures about Derivative Instruments and Hedging Activities.*" SFAS No.161 requires additional disclosures related to the use of derivative instruments, the accounting for derivatives and the financial statement impact of derivatives. SFAS No.161 is effective for fiscal years beginning after November 15, 2008. The Company is currently assessing the impact the adoption of SFAS No.161 will have on the Company's financial statements.

In May 2008, the FASB released SFAS No.162 "*The Hierarchy of Generally Accepted Accounting Principles.*" SFAS No.162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that presented in conformity with generally accepted accounting principles in the United States of America. SFAS No.162 will be effective 60 days following the SEC's approval of the PCAOB amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* The company does not believe SFAS 161 will have a significant impact on the Company's financial statements.

Significant Transactions

Debt Restructure Footnote

In Q2 2017, the corporate headquarters moved into a different building and in doing so, was able to reduce the total corporate debt as part of a restructuring agreement by ~\$0.4M. Proceeds from the sale of the building housing the corporate headquarters were applied directly to long-term debt.

Commitments and Contingencies

Management routinely reviews the Company's exposure to liabilities incurred in the normal course of its business operations. Where a probable contingency exists and the amount of the loss can be reasonably estimated, the Company records the estimated liability. Considerable judgment is required in analyzing and recording such liabilities and actual results may vary from the estimates. As part of its expansion plans, the Company negotiates several potential transactions which could have a material impact on the financial statements. Any such transactions would require both Board of Director and Shareholder approval before consummation.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information regarding the results of operations and financial condition of the Company and should be read in conjunction with the accompanying condensed consolidated financial statements and notes thereto.

Cautions Concerning Forward-Looking Statements

This document contains certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, including statements regarding, among other items, our expected financial position, expected capital expenditures, business trends and fluctuations, expected revenue mix, expected revenue changes, the impact of regulatory changes, future tax benefits and expense, expense trends, growth initiatives, future liquidity and capital resources, product plans, share repurchases, debt retirement, future cash balances, growth or stability from particular customer segments, anticipated customer disconnections and customer and revenue churn, Modified EBITDA and margin trends, expected network expansion and business and financing plans. These forward-looking statements are based on management’s current expectations and are naturally subject to risks, uncertainties, and changes in circumstances, certain of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements.

The words “believe,” “plan,” “target,” “expect,” “intend,” and “anticipate,” and expressions of similar substance identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that those expectations will prove to be correct. Actual results may differ from our expectations due to, among other things, the timing of disconnections and service installations which may affect the extent to which those factors impact our results in a particular period, an acceleration of customer disconnections, increased competition and pricing pressures, inability to obtain rights to install networks into commercial buildings, economic downturns, which may adversely affect our revenue growth, net income or Modified EBITDA, delays in launching new products that our customers desire, growth initiatives that may not result in the intended revenue growth acceleration, decreased demand for our products, industry consolidation and other industry conditions, significant increases or decreases in the market prices of our common stock, an ownership change that results in limitations on our use of net operating loss carry-forwards (“NOLs”) under Section 382 of the Internal Revenue Code, increases in the prices we pay for use of facilities of ILECs, increased costs from healthcare reform and higher taxes or further deregulation of the ILECs or other factors that may adversely affect the cost and availability of ILEC facilities that we use to reach certain customer locations, and adverse regulatory rulings or legislative developments. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

The Company's core business is to create value for our shareholders. We invest in different types of companies. Initially, the Company invested in the telecom sector by purchasing assets capable of providing managed network services, business Ethernet services, data network services, internet access, voice services (including VoIP and network security services to organizations) throughout the S.E. USA. Revenue has been derived from business communication services, including data, high-speed Internet access, network and voice services. Our customers have included, among others, organizations in the financial services, technology and scientific, distribution, manufacturing and professional services industries, system integrators and communications service providers, including ILECs, CLECs, wireless communications companies and cable companies.

During Q2 of FYE 2016, we expanded our footprint and service offerings to include cooling tower services via acquisition of a new subsidiary. As our objective is to invest in long-term, we seek profitable assets that will help us meet the complex and evolving needs of our customers and increase stockholder value in the process. The key elements of our current business strategy include but are not limited to the following items:

Business Strategy

The key elements of our current business strategy include employing a capital allocation strategies that include investments for growth in our business in the near and long term, maintenance of a strong balance sheet and returning value to stockholders through share repurchases or other means; and investing in our people to drive the execution of our strategies.

Actions, Trends and Growth Initiatives

The debt restructure in Q2 FYE 2017 has assisted the Company with its cash flow. Although cash flow is not positive, nor is there free-cash flow by the end of Q2, the Company returned to profitability in terms of better margins and higher Net Income in the tower cooling segment and Communications segment in South Carolina in the second quarter. We affirm that that future growth and expansion will come from the cooling tower sector. Meanwhile, our continued cost efficiency efforts will help improve our overall margins and cash flow.

Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, see Item 1 in our Quarterly Report for the period ended December 31, 2016, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Revenues

The following discussion provides analysis of our results of operations and should be read together with our unaudited interim condensed consolidated financial statements, including the notes thereto, appearing elsewhere in this report:

Three Months Ended December 31, 2016 Compared to Three Months Ended December 31, 2015
Revenue

Revenue by line of business was as follows:

	Three Months Ended December 31,		\$ Change	% Change
	2016	2015		
Revenue (1):				
Data and Internet Services	\$ 49,045	\$ 98,236	\$ (49,191)	-50.1%
Equipment Sales & Services	3,278,941	1,702,344	1,576,597	92.6%
Carrier/Contract Revenues	\$ 276,554	\$ 416,329	(139,776)	-33.6%
Total revenue	<u>\$ 3,604,540</u>	<u>\$ 2,216,909</u>	<u>\$ 1,387,631</u>	<u>9%</u>

- (1) We classify certain taxes and fees billed to customers and remitted to government authorities on a gross versus net basis in revenue and expense. The total amounts classified as revenue, primarily included in services, associated with such taxes and fees were approximately \$0.4 million and \$0.3 million for the three months ended December 31, 2016 and 2015, respectively. This has no impact on Modified EBITDA or net income but is dilutive to Modified EBITDA margin.

The primary drivers in the increase of revenue growth was an increase in cooling tower revenues. While this period view includes 2 months of cooling tower revenues in 2015 and 3 months in 2016, the performance of the cooling tower entity is still +10% YoY when factoring in an additional month. Carrier/contract revenues relate to enterprise customers in the Data/Internet and telephone/voice services sectors. These strategic services include maintenance contracts, Data/Ethernet and IP VPN services and comprised 7% of total revenue for the three months ended December 31, 2016 (23% same period 2015). This comparison reveals a major shift in revenue segments for the Company. We expect this shift to continue in future periods.

Operating Expenses

The major components of costs and expenses were as follows:

	Three Months Ended December 31,		\$ Change	% Change
	2016	2015		
Costs and expenses:				
Operating (exclusive of depreciation, amortization and accretion shown separately below) (1)	\$ 2,448,825	\$ 2,019,041	\$ 429,785	21.3%
Operating expenses as percentage of total revenue	67.9%	59.6%		
Selling, general and administrative (1)	826,135	\$ 139,497	686,639	492.2%
Selling, general and administrative expenses as percentage of total revenue	22.9%	37.5%		
Depreciation, amortization and accretion	35,789	44,059	(8,270)	-18.8%
Total costs and expenses	<u>\$ 3,310,749</u>	<u>\$ 2,202,596</u>	<u>\$ 1,108,153</u>	<u>50.3%</u>
(1) Includes the following non-cash stock-based employee compensation expense:				
Operating	\$ -	\$ -	\$ -	0.0%
Selling, general and administrative	\$ -	\$ -	\$ -	0.0%

Operating Expenses. Our operating expenses consist of costs directly related to the operation and maintenance of our services. These costs, which are net of capitalized labor and overhead costs on capital projects, include the salaries and related expenses of customer care, provisioning, network maintenance, technical field and network operations and engineering

personnel, costs to repair and maintain our network, and costs paid to other carriers for access to their facilities, interconnection and facilities leased and associated utilities. We carry a significant portion of our traffic on our own fiber infrastructure, which enhances our ability to minimize and control access costs, which are the costs to purchase network services from other carriers. Additional costs include \$2.2M of cooling tower costs to operate the business (~70% of total cooling tower revenues).

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist of salaries, network costs and the provisioning of related costs for employees and other expenses related to sales and marketing, bad debt, IT, billing, regulatory, administrative and legal functions. The increase in these expenses primarily related to the cooling tower segment (~85% of the total SG&A expenses).

Depreciation, Amortization and Accretion Expense. The decrease in depreciation, amortization and accretion expense was attributable to property, plant and equipment and related intangible assets rolling off the fixed asset ledger during FYE 2016 and related impairment of a business segment in that period. There were minimal fixed asset additions in quarter ending December 31, 2016.

Operating Income and Net Income

The following table provides the components from operating income to net income for purposes of the discussions that follow:

Operating Income and Net Income

The following table provides the components from operating income to net income for purposes of the discussions that follow:

	Three Months Ended				
	December 31,		\$ Change	% Change	
	2016	2015			
Operating income	\$ 293,790	\$ 14,313	\$ 279,477	-1952.6%	
Interest expense	(21,633)	(24,094)	\$ 2,461	10.2%	
Debt extinguishment costs	(45,116)	-	(45,116)	NM	
Interest/Other income	(149,503)	57,436	(206,939)	-360.3%	
Income before income taxes	77,539	47,656	29,883	-62.7%	
Income tax expense	-	-	-	0.0%	
Net income	\$ 77,539	\$ 47,656	\$ 29,883	-62.7%	
Basic income per common share	-	\$ 0.01	\$ (0.01)	100.0%	
Diluted income per common share	-	\$ 0.01	\$ (0.01)	100.0%	
Modified EBITDA (1)(2)	\$ 329,579	\$ 20,062	\$ 309,517	1542.8%	
Modified EBITDA margin (1)(2)(3)	9.1%	2.9%			

NM - Not meaningful

- (1) See Note 1 under "Revenue" above.
- (2) Modified EBITDA" is a non-GAAP financial measure and is defined by us as net income (loss) before depreciation, amortization and accretion expense, interest expense, interest income, debt extinguishment costs, other income (loss), impairment charges, income tax expense (benefit), cumulative effect of change in accounting principle, and non-cash stock-based employee compensation expense. Not all of the aforementioned items occur in each reporting period, but have been included in the definition based on historical activity. Modified EBITDA is not intended to replace operating income (loss), net income (loss), cash flow and other measures of financial performance and liquidity reported in accordance with accounting principles generally accepted in the United States. Rather, Modified EBITDA is a measure of operating performance and liquidity that investors may consider in addition to such measures. Our management believes that Modified EBITDA is a standard measure of operating performance and liquidity that is commonly reported and widely used by analysts, investors, and other interested parties in the telecommunications industry because it eliminates many differences in financial, capitalization, and tax structures, as well as non-cash and non-operating charges to earnings. We believe that

Modified EBITDA trends are a valuable indicator of whether our operations are able to produce sufficient operating cash flow to fund working capital needs, service debt obligations and fund capital expenditures. We currently use EBITDA for these purposes. Modified EBITDA also is used internally by our management to assess ongoing operations and is a measure used to test compliance with certain covenants of our senior notes, our Revolver and our Term Loan. The definition of EBITDA under our Revolver, our Term Loan and our senior notes differs, but not materially, from the definition of Modified EBITDA used in this table. Modified EBITDA as used in this document may not be comparable to similarly titled measures reported by other companies due to differences in accounting and disclosure policies. The reconciliation between net income and Modified EBITDA, as a performance measure, is as follows:

	Three Months Ended Dec 31,	
	2016	2015
Net income	\$ 77,539	\$ 47,656
Income tax expense	-	-
Interest/Other income	149,503	(57,436)
Interest expense	21,633	24,094
Debt extinguishment costs	45,116	-
Depreciation, amortization and accretion	35,789	44,059
Non-cash stock-based compensation	-	-
Modified EBITDA	\$ 329,579	\$ 20,062

(3) Modified EBITDA margin represents Modified EBITDA as a percentage of revenue.

Interest Expense. Interest expense was flat YoY as the new business segment acquired in Q2 FYE 2016 carried a steady interest rate of ~3.25% for both comparative periods. We do not anticipate any material fluctuations in interest expense in the near future.

Debt Extinguishment Costs. Debt extinguishment costs in Q2 FYE 2017 related to multiple restructure agreements within both operating segments. Long-Term Debt has been retired and/or restructured by ~50% over the past two quarters. Debt extinguishment costs for the three months ended December 31, 2015 did not exist.

Income before Income Taxes. The increase in income before income taxes resulted from the cooling tower business segment.

Income Tax Expense. There is not a material income tax provision currently in place as the Company currently has a Net Operating Loss carry-forward in place.

Net Income and Modified EBITDA. Part of the increase in net income resulted from a charge off in other income before income taxes as discussed above in a previous period. Another increase in Modified EBITDA resulted from revenue growth via the new business segment, a reduction in Sales expenses and General/Administrative costs, including lower network maintenance costs and employee-related expenses. Modified EBITDA margin increased largely due to an extra-ordinary gain of \$0.1M related to retirement of debt and an operating entity. For the three months ended December 30, 2016 and 2015, Modified EBITDA, together with cash,

cash equivalents and investments, has been sufficient to cover our capital expenditures and service our debt, and we expect to generate sufficient Modified EBITDA in the foreseeable future to cover our expected capital expenditures and debt service requirements, together with cash, cash equivalents and investments, and borrowing capacity under our existing Revolver.

The reconciliation between net cash provided by operations and Modified EBITDA, as a measure of liquidity, is as follows:

(dollars in thousands)	Three Months Ended Dec 31,	
	2016	2015
Net cash provided by operations	\$ (103,572)	\$ 177,458
Income tax expense	-	-
Deferred income taxes	-	-
Interest income	149,503	(57,436)
Interest expense	21,633	24,094
Discount on debt, amortization of deferred debt issue costs and other	45,116	-
Changes in operating assets and liabilities	216,900	-124,053
Modified EBITDA	\$ 329,579	\$ 20,062

Six Months Ended December 31, 2016 Compared to Six Months Ended December 31, 2015

Revenue

Revenue by line of business was as follows:

Revenue (1):	December 31,		\$ Change	% Change
	2016	2015		
Data and Internet services	\$ 95,124	\$ 335,708	\$ (240,584)	-71.7%
Equipment Sales & Services	5,209,280	2,029,481	3,179,799	156.7%
Carrier/Contract Revenues	492,962	541,913	(48,951)	-9.0%
Total revenue	\$ 5,797,366	\$ 2,907,102	\$ 2,890,264	99.4%

- (1) We classify certain taxes and fees billed to customers and remitted to government authorities on a gross versus net basis in revenue and expense. The total amounts classified as revenue, primarily included in services, associated with such taxes and fees were approximately \$5.0 million and \$2.5 million for the six months ended December 31, 2016 and 2015, respectively. This has no impact on Modified EBITDA or net income but is dilutive to Modified EBITDA margin.

As shown above, the primary driver of total revenue growth was increased Equipment Sales and Services from the cooling tower sector. This increase offsets the drop in telecom equipment sales and services and carrier/contract revenues in the data and internet services sector that continues to struggle. Strategic services, which includes Ethernet and IP VPN services (Data, internet, carrier, and contract), comprised 10% of total revenues for the six months ended

December 31, 2016 compared to 30% for the six months ended December 31, 2015. The revenue trend has continued since Q2 FYE 2016 and we expect similar results in future periods.

Costs and Expenses

The major components of costs and expenses were as follows:

	Six Months Ended December 31,		\$ Change	% Change
	2016	2015		
Costs and expenses:				
Operating (exclusive of depreciation, amortization and accretion shown separately below) (1)	\$ 4,675,425	\$ 2,430,253	\$ 2,245,172	92.4%
Operating expenses as percentage of total revenue	80.6%	83.6%		
Selling, general and administrative (1)	\$ 1,139,337	\$ 398,416	740,922	186.0%
Selling, general and administrative expenses as percentage of total revenue	19.7%	13.7%		
Depreciation, amortization and accretion	47,745	68,918	2,986,094	-30.7%
Total costs and expenses	<u>\$ 5,862,507</u>	<u>\$ 2,897,586</u>	<u>\$ 2,964,921</u>	<u>102.3%</u>
(1) Includes the following non-cash stock-based employee compensation expense:				
Operating	\$ -	\$ -	\$ -	0.0%
Selling, general and administrative	\$ -	\$ -	\$ -	0.0%

Operating Expenses. The increase in operating expenses related directly to increase in cooling tower revenues. In period ending 2016 ~70% of all operating costs were directly attributed to the cooling tower sector vs 55% of total operating expenses incurred in the comparative period.

Selling, General and Administrative Expenses. The increase in these expenses primarily related to the shift in revenue. The SG&A expenses in both periods for the cooling tower segment were similar (2016 was 5% higher than 2015), but period 2015 shown above includes a significant one-timer in the telecom sector of ~\$0.4M that did not repeat in period 2016.

Depreciation, Amortization and Accretion Expense. The decrease in depreciation, amortization and accretion expense was attributable to the final removal of property, plant and equipment from the corporate books in Q1 FYE 2016 related to the impairment and subsequent charge off of a subsidiary in Q1 FYE 2016.

Operating Income and Net Income

The following table provides the components from operating income to net income for purposes of the discussions that follow:

	Six Months Ended December 31,		\$ Change	% Change
	2016	2015		
Operating income	\$ (65,141)	\$ 9,516	\$ (74,657)	-784.6%
Interest expense	(70,999)	(38,895)	\$ (32,104)	-82.5%
Debt extinguishment costs	(45,116)	-	(45,116)	NM
Interest/Other income	(148,648)	74,388	(223,036)	-299.8%
Income before income taxes	(329,904)	45,010	(374,913)	-833.0%
Income tax expense	-	-	-	NM
Net income	\$ (329,904)	\$ 45,010	\$ (374,913)	-833.0%
Basic income per common share	\$ -	\$ 0.01	\$ (0.01)	-100.0%
Diluted income per common share	\$ -	\$ 0.01	\$ (0.01)	-100.0%
Modified EBITDA (1)(2)	\$ (17,396)	\$ 78,434	\$ (95,830)	-122.2%
Modified EBITDA margin (1)(2)(3)	-0.3%	2.7%		

NM - Not meaningful

- (1) See Note 1 under "Revenue" above.
- (2) See Note 2 above under "Six Months Ended December 31, 2016 Compared to Six Months Ended December 31, 2015— Operating income and Net Income" for a definition of Modified EBITDA. See below for reconciliations of Modified EBITDA to net income, which is the most comparable GAAP measure for operating performance, and Modified EBITDA to net cash provided by operations (the most comparable GAAP measure for liquidity). Reconciliation between NI and Modified EBITDA is as follows:

	Six Months Ended December 31,	
	2016	2015
Net income	\$ (329,904)	\$ 45,010
Income tax expense	-	-
Interest/Other income	148,648	(74,388)
Interest expense	70,999	38,895
Debt extinguishment costs	45,116	-
Depreciation, amortization and accretion	47,745	68,918
Non-cash stock-based compensation	-	-
Modified EBITDA	\$ (17,396)	\$ 78,434

- (3) Modified EBITDA margin represents Modified EBITDA as a percentage of revenue.

Interest Expense. While the three months ending December 31, 2016 shows a solid trend in interest expense vs prior year, the six month period does not. The increase in interest expense primarily related some additional one-time events that rolled off shortly before Q2 FYE 2017 began.

Debt Extinguishment Costs. Debt extinguishment costs for the six months ended December 31, 2016 related to restructuring events that took place during the quarter that resulting in a significant decrease in long-term debt. There were there any such costs for the six months ended December 31, 2015.

Income before Income Taxes. The decrease in income before income taxes resulted primarily from higher period interest expense, and less revenues and related profitability in both industry sectors during the first three months of FYE 2017.

Income Tax Expense. There is not a material income tax provision currently in place as the Company currently has a Net Operating Loss carry-forward in place.

Net Income and Modified EBITDA. The decrease in net income resulted from an decrease in income before income taxes, as well as a one time spike in interest expense, as discussed above. The decrease in Modified EBITDA was the result of higher interest expense, one time events such as debt restructuring and a comparatively weak first three months of FYE 2017. For the six months ended December 31, 2016 and 2015, Modified EBITDA, together with cash, cash equivalents and investments, has been sufficient to cover our capital expenditures and service our debt, and we expect to generate sufficient Modified EBITDA in the foreseeable future to cover our expected capital expenditures and debt service requirements, together with cash, cash equivalents and investments, and borrowing capacity under our existing Revolver. See Note 2 to the table under “Three Months Ended December 31, 2016 Compared to Three Months Ended December 31, 2015 "Operating Income and Net Income” for a definition of Modified EBITDA and reconciliations of Modified EBITDA to net income, which is the most comparable GAAP measure for operating performance, and Modified EBITDA to net cash provided by operations, which is the most comparable GAAP measure for liquidity.

Issuer Certification

We, Doug W. Rink, Chief Executive Officer and Rich Wilson, Chief Financial Officer certify that:

1. We have reviewed the interim financial statements for the periods of December 31, 2016 and December 31, 2015 pertaining to Fortran Corporation and Subsidiaries.
2. Based on our knowledge, the disclosure statement 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 periods covered by this disclosure statement, and
3. Based on our knowledge, the financial statements, and other financial included or incorporated by reference in the disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

February 10, 2016

/s/ Doug W. Rink, CEO

/s/ Rich Wilson, CFO