

# INTERIM

## FINANCIAL STATEMENTS

September 30, 2016 and September 30, 2015

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September 30, 2016

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***FORT<sup>+</sup>TRAN***  
***CORPORATION***

(A North Carolina Corporation)

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TRADING SYMBOL: FRTN

CUSIP NUMBER: 34960D 108

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

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 463,945	\$ 146,788
Receivables, less allowances	\$ 1,543,135	\$ 239,474
Inventories	\$ 788,398	\$ 671,757
Prepaid expenses and other current assets	\$ 14,513	\$ 64,291
Total current assets	<b>\$ 2,809,991</b>	<b>\$ 1,122,310</b>
Property, plant and equipment (net)	<b>\$ 448,952</b>	<b>\$ 535,004</b>
Other Assets	\$ 2,130,491	\$ 572,026
Intangible assets, net of accumulated	\$ -	\$ 48,877
Total assets	<b>\$ 5,389,433</b>	<b>\$ 2,278,217</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 858,244	\$ 271,444
Deferred revenue	\$ 390,404	\$ 504,818
Accrued expenses	\$ 111,933	\$ 101,707
Current portion debt & capital lease obligations, net	\$ 469,683	\$ 44,970
Other current liabilities	\$ 136,152	\$ 5,023
Total current liabilities	<b>\$ 1,966,417</b>	<b>\$ 927,962</b>
Long-term debt and capital lease obligations, net	<b>\$ 1,906,828</b>	<b>\$ 994,373</b>
Total liabilities	<b>\$ 3,873,245</b>	<b>\$ 1,922,335</b>
Commitments and contingencies		
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	\$ 460,325	\$ 455,425
Additional paid-in capital	\$ 980,598	\$ 172,522
Treasury stock	\$ (904,866)	\$ (405,000)
Accumulated deficit	\$ 980,131	\$ 132,935
Accumulated other comprehensive income		
Total stockholders' equity	<b>\$ 1,516,187</b>	<b>\$ 355,882</b>
Total liabilities and stockholders' equity	<b>\$ 5,389,433</b>	<b>\$ 2,278,217</b>

See accompanying notes to condensed consolidated financial statements

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

	<b>Three Mos End Sep 30, 2016</b>	<b>Three Mos End Sep 30, 2015</b>
Revenue:		
Managed Services	\$ 262,488	\$ 418,080
Equipment Sales & Services	\$ 1,930,339	\$ 272,113
Total revenue	<b>\$ 2,192,827</b>	<b>\$ 690,193</b>
Costs and expenses (a):		
Operating (exclusive of depreciation, and accretion shown separately below)	\$ 2,226,599	\$ 411,212
Selling, general and administrative	\$ 313,202	\$ 258,919
Depreciation, amortization and accretion	\$ 11,956	\$ 24,859
Total costs and expenses	<b>\$ 2,551,758</b>	<b>\$ 694,990</b>
Operating income	<b>\$ (358,931)</b>	<b>\$ (4,797)</b>
Other Income	\$ 855	\$ 16,952
Interest expense	\$ (49,366)	\$ (14,801)
Income before income taxes	\$ (407,442)	\$ (2,646)
Income tax expense	\$ -	\$ -
Net income	<b>\$ (407,442)</b>	<b>\$ (2,646)</b>
Earnings per share:		
Basic		\$ 0.00
Diluted		\$ 0.00
Weighted average shares outstanding:		
Basic		13,781,851
Diluted		13,781,851

**See accompanying notes to condensed consolidated financial statements.**

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

	<b>Three Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Net income	\$ -	\$ (2,646)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	\$ -	\$ 24,859
Changes in operating assets and liabilities:		
Receivables, prepaid expenses and other assets	\$ -	\$ 29,025
Inventories	-	(74,823)
Accounts payable, deferred revenue and other liabilities	-	201,043
Net cash provided by operating activities	-	177,458
Cash flows from investing activities:		
Capital expenditures	-	25,370
Purchases of investments	-	21,651
Net cash used in investing activities	-	47,021
Cash flows from financing activities:		
Payment of debt and capital lease obligations	-	(101,212)
Net cash used in financing activities	-	(101,212)
(Decrease) increase in cash and cash equivalents	-	123,266
Cash and cash equivalents at beginning of period	-	23,522
Cash and cash equivalents at end of period	-	146,789
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	-	14,801
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 ENDED**

**SEPTEMBER 30, 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 as well as the cooling tower business sector. The Company is headquartered in Hickory, North Carolina and provides these services to businesses and institutions throughout North and South Carolina, Texas and New Jersey.

**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 period ending September 30, 2016 was 0%. As we expected to arrive at positive net income and taxable income for FYE 2017, we may elect to record a provision for income taxes and make adjustments to the income tax provision in future periods. Currently, we did not record entries for income taxes.

### ***Cash Flow Activity***

Cash and cash equivalents were \$0 and \$0 as of September 30, 2016 and 2015, respectively. The change in cash and cash equivalents during the periods presented was as follows:

	<b>Three Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net Income	\$ (407,442)	\$ (2,646)
Net cash provided by operating activities	-	177,458
Net cash used in investing activities	-	47,021
Net cash used in financing activities	-	(101,212)
(Decrease)/Increase in cash and cash equivalents	-	123,266
Cash and cash equivalents at beginning of period	-	23,522
Cash and cash equivalents at end of period	-	146,789
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	-	14,801
Cash paid for loan/financing fees	-	-

Cash paid for loans and related financing fees were \$0 for the three month period ending September 30, 2016 and \$0 for the respective period ending September 30, 2015 (includes interest and fees). The Company completed a debt restructuring in Q4 2016.

### ***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 June 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***

There were no Significant Transactions in Q1 2017.

### ***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 Board of Director approval before consummation.

Contingent liabilities represent items that, at September 30, 2016, are not recognized in the Statement of Financial Position because there is significant uncertainty at that date as to the

necessity for the entity to make payments in respect of them. Presently, the Company is in litigation with one or more entities; however, in general, there is no explicit assessment of the likelihood of any of these contingent liabilities being converted into actual liabilities in the future. While the Company views these as possible obligations, payment is not probable and the amount cannot be measured reliably.

## **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. Certain important factors that could cause actual results to differ materially from the expectations described in this report are in our Quarterly Report for the period ended June 30, 2015. In addition, 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 many 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, and 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.

We expanded our footprint in FYE 2016 to include cooling tower services via acquisition of a new subsidiary. Our objective continues to be that we will invest in long-term, 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:

## **Business Strategy**

Our objective is to invest in long-term, 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 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 Corporate restructure in Q4 2015 returned the Company to profitability in terms of better margins and higher Net Income when reviewing trend analysis between previous periods. We believe that future growth and expansion will come from different sectors and different types of mergers and acquisitions as demonstrated by the most recent acquisition in Q2 2016, which enhanced profitability and our corporate balance sheet. 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 September 30, 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 annual condensed consolidated financial statements, including the

notes thereto, appearing elsewhere in this report:

	Three Months Ended Sep 30,		\$ Change	% Change
	2016	2015		
Revenue (1):				
Data and Internet Services	\$ 237,472	\$ 46,079	\$ 191,393	415.4%
Equipment Sales & Services	327,137	1,930,339	(1,603,202)	-83.1%
Carrier/Contract Revenues	\$ 125,584	\$ 216,408	(90,824)	-42.0%
Total revenue	\$ 690,193	\$ 2,192,827	\$ (1,502,634)	290%

- (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 \$0.2 million and \$0.4 million for the twelve months ended September 30, 2016 and 2015, respectively. This has no impact on Modified EBITDA or net income but is dilutive to Modified EBITDA margin.

The primary driver in the increase of revenue growth relates to the Q2 acquisition of a new business segment; cooling tower revenues. Said revenues continued an upward trend through Q4. The carrier/contract related to enterprise customers in the Data/Internet and telephone/voice services sectors is down as we projected due to the release of subsidiary investments in Q1 and resulting asset impairments realized in the P&L during Q1 and Q2. The remaining strategic services include maintenance contracts, Data/Ethernet and IP VPN services and comprised 13% of total revenue for the twelve months ended June 30, 2016, whereas for period ending June 30, 2015 they comprised 54% of total revenues. This comparison reveals a major shift in revenue segments for the Company. We expect this shift to continue in future periods until we normalize in Q2 FYE 2017 when reviewing comparative statements.

	Three Months Ended Sep 30,		\$ Change	% Change
	2016	2015		
Costs and expenses:				
Operating (exclusive of depreciation, amortization and accretion shown separately below) (1)	\$ 2,226,599	\$ 411,212	\$ 1,815,387	441.5%
Operating expenses as percentage of total revenue	322.6%	59.6%		
Selling, general and administrative (1)	313,202	\$ 258,919	54,283	21.0%
Selling, general and administrative expenses as percentage of total revenue	45.4%	37.5%		
Depreciation, amortization and accretion	11,956	24,859	(12,903)	-51.9%
Total costs and expenses	\$ 2,551,758	\$ 694,990	\$ 1,856,768	267.2%
(1) Includes the following non-cash stock-based employee compensation expense:				
Operating	\$ -	\$ -	\$ -	0.0%
Selling, general and administrative	\$ -	\$ -	\$ -	0.0%

**Operating Expenses.** Telecom Sector 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. The primary increase in operating expenses are a result of the acquisition of a key target in Q2 2016—accounting for approximately \$6M of total operating costs (58% of total operating expenses incurred in the period).

***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 acquisition of a new business segment in Q2 2016. Additional cost cutting Reduction in Force (RIF) programs implemented in Q1 2016 in order to align costs with revenues went into effect and produced favorable results to SG&A expenses. Additional changes in headcount within our direct and indirect sales channels and G&A cost centers were necessary in Q3 2016 in order to align costs with revenues as well as maintain sales and customer service support personnel and IT personnel associated both with revenue growth and our growth initiatives, as well as annual merit-based salary increases.

***Depreciation, Amortization and Accretion Expense.*** The increase in depreciation, amortization and accretion expense resulted from the net impact of property, plant and equipment and related intangible assets rolling off the fixed asset ledger during Q4 2015 and the removal of a business segment in late FYE 2015, combined with minimal fixed asset additions YTD through Q4 2016, and the newly acquired business segment from Q2 2016 which accounted for \$35,000 of depreciation in the year-end results.

## 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 Sep 30,		\$ Change	% Change
	2016	2015		
Operating income	\$ (358,931)	\$ (4,797)	\$ (354,134)	-7382.4%
Interest expense	(49,366)	(14,801)	\$ (34,565)	-233.5%
Debt extinguishment costs	-	-	-	NM
Interest/Other income	855	16,952	(16,097)	-95.0%
Income before income taxes	(407,442)	(2,646)	(404,796)	-15298.4%
Income tax expense	-	-	-	0.0%
Net income	\$ (407,442)	\$ (2,646)	\$ (404,796)	-15298.4%
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)	\$ (346,975)	\$ 20,062	\$ (367,037)	-1829.5%
Modified EBITDA margin (1)(2)(3)	-50.3%	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:

	<b>Three Months Ended Sep 30,</b>	
	<b>2016</b>	<b>2015</b>
Net income	\$ (407,442)	\$ (2,646)
Income tax expense	-	-
Interest/Other income	(855)	(16,952)
Interest expense	49,366	14,801
Debt extinguishment costs	-	-
Depreciation, amortization and accretion	11,956	24,859
Non-cash stock-based compensation	-	-
<b>Modified EBITDA</b>	<b>\$ (346,975)</b>	<b>\$ 20,062</b>

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

	<b>Three Months Ended Sep 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>(dollars in thousands)</b>		
Net cash provided by operations	\$ -	\$ 177,458
Income tax expense	-	-
Deferred income taxes	-	-
Interest income	-	(16,952)
Interest expense	-	14,801
Discount on debt, amortization of deferred debt issue costs and other	-	-
Changes in operating assets and liabilities	-	-
<b>Modified EBITDA</b>	<b>\$ -</b>	<b>\$ 175,307</b>

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

The decrease in interest expense primarily related to the restructuring of a note in Q4 2015 and traditional financing acquired in Q4 2015.

***Debt Extinguishment Costs.*** No debt extinguishment costs exist for the twelve months ended June 30, 2016, nor were there any such costs for the twelve months ended June 30, 2015.

***Income before Income Taxes.*** The increase in income before income taxes resulted primarily from lower interest expense and the margins generated from the subsidiary acquired in Q2 2016, partially offset by higher Modified EBITDA as discussed below.

***Income Tax Expense.*** An income tax provision is in place as the Company currently expects to utilize most of its Net Operating Loss carry-forward. We will continue to review the need for adjustments to the provision for income taxes throughout FYE 2017.

***Net Income and Modified EBITDA.*** The increase in net income resulted from an increase in income before income taxes, as well as lower interest expense, as discussed above. The increase in Modified EBITDA was the result of a reduction in interest expense and a gain triggered by the write off of assets related to a subsidiary that was disposed of in Q1 2016. For the twelve months ended June 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.

### ***Issuer Certification***

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

1. We have reviewed the annual financial statements for the periods of June 30, 2016 and June 30, 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.

September 21, 2016

/s/ Doug W. Rink, CEO

/s/ Rich Wilson, CFO