

**INTERIM**

**FINANCIAL STATEMENTS**

December 31, 2014 and December 31, 2013

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December 31, 2014

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***FORTRAN***

***CORPORATION***

(A North Carolina Corporation)

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TRADING SYMBOL: FRTN

CUSIP NUMBER: 34960D 108

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

	December 31, 2014 (unaudited)	December 31, 2013 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 231,045	\$ 47,069
Receivables, less allowances	\$ 312,916	\$ 233,859
Inventories	\$ 724,085	\$ 628,573
Prepaid expenses and other current assets	\$ 111,630	\$ 1,014
Total current assets	<b>\$ 1,379,676</b>	<b>\$ 910,515</b>
Property, plant and equipment (net)	<b>\$ 1,242,619</b>	<b>\$ 692,850</b>
Other Assets	\$ 584,672	\$ 43,189
Intangible assets, net of accumulated	\$ 291,378	\$ 55,225
Total assets	<b>\$ 3,498,345</b>	<b>\$ 1,701,779</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 622,043	\$ 191,822
Deferred revenue	\$ 242,881	\$ 83,279
Accrued expenses	\$ 127,373	\$ 71,976
Current portion debt & capital lease obligations, net	\$ 124,224	\$ 351,437
Other current liabilities	\$ 98,652	\$ -
Total current liabilities	<b>\$ 1,215,173</b>	<b>\$ 698,514</b>
Long-term debt and capital lease obligations, net	<b>\$ 1,744,527</b>	<b>\$ 381,158</b>
Total liabilities	<b>\$ 2,959,700</b>	<b>\$ 1,079,672</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, 13,446,351 shares issued, respectively	\$ 460,425	\$ 564,925
Additional paid-in capital	\$ 373,260	\$ 286,721
Treasury stock	\$ (405,000)	\$ -
Accumulated deficit	\$ 109,961	\$ (229,539)
Accumulated other comprehensive income	\$ -	\$ -
Total stockholders' equity	<b>\$ 538,646</b>	<b>\$ 622,107</b>
Total liabilities and stockholders' equity	<b>\$ 3,498,345</b>	<b>\$ 1,701,779</b>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Mos End Dec 31, 2014</b>	<b>Three Mos End Dec 31, 2013</b>	<b>Six Mos End Dec 31, 2014</b>	<b>Six Mos End Dec 31, 2013</b>
<b>Revenue:</b>				
Managed Services	\$ 490,798	\$ 493,609	\$ 1,236,698	\$ 1,090,410
Equipment Sales & Services	\$ 565,141	\$ 276,283	\$ 1,339,485	\$ 556,566
Total revenue	<b>\$ 1,055,939</b>	<b>\$ 769,892</b>	<b>\$ 2,576,183</b>	<b>\$ 1,646,976</b>
<b>Costs and expenses (a):</b>				
Operating (exclusive of depreciation, and accretion shown separately below)	\$ 785,583	\$ 359,314	\$ 1,461,255	\$ 711,694
Selling, general and administrative	\$ 279,603	\$ 353,072	\$ 788,363	\$ 755,312
Depreciation, amortization and accretion	\$ 51,781	\$ 28,454	\$ 139,393	\$ 47,333
Total costs and expenses	<b>\$ 1,116,967</b>	<b>\$ 740,840</b>	<b>\$ 2,389,011</b>	<b>\$ 1,514,339</b>
Operating income	<b>\$ (61,028)</b>	<b>\$ 29,052</b>	<b>\$ 187,171</b>	<b>\$ 132,637</b>
Other Income	\$ 6,552	\$ 18,286	\$ 28,778	\$ 29,962
Interest expense	\$ (54,907)	\$ (17,597)	\$ (130,756)	\$ (45,732)
Income before income taxes	\$ (109,383)	\$ 29,741	\$ 85,193	\$ 116,867
Income tax expense	\$ -	\$ (1,784)	\$ -	\$ (7,012)
Net income	<b>\$ (109,383)</b>	<b>\$ 27,957</b>	<b>\$ 85,193</b>	<b>\$ 109,855</b>
<b>Earnings per share:</b>				
Basic	\$ (0.01)	\$ (0.00)	\$ 0.01	\$ 0.00
Diluted	\$ (0.01)	\$ 0.00	\$ 0.01	\$ 0.00
<b>Weighted average shares outstanding:</b>				
Basic	13,446,351	11,742,851	13,446,351	11,742,851
Diluted	13,446,351	11,742,851	13,446,351	11,742,851

See accompanying notes to condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Six Months Ended December 31,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Net income	\$ 85,193	\$ 109,855
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation, amortization and accretion	\$ 118,531	\$ 47,333
<b>Changes in operating assets and liabilities:</b>		
Receivables, prepaid expenses and other assets	\$ 248,880	\$ 164,284
Inventories	\$ 61,205	\$ 35,854
Accounts payable, deferred revenue and other liabilities	(55,649)	(379,349)
Net cash provided by operating activities	458,160	(22,023)
<b>Cash flows from investing activities:</b>		
Capital expenditures	-	(4,102)
Purchases of investments	-	-
Other investing activities, net	-	-
Net cash used in investing activities	-	(4,102)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock (repurchase Treasury Stock)	-	-
Payment of fees related to debt	(91,000)	-
Payment of debt and capital lease obligations	(139,249)	(52,457)
Net cash used in financing activities	(230,249)	(52,457)
(Decrease) increase in cash and cash equivalents	227,911	(78,582)
Cash and cash equivalents at beginning of period	3,134	125,651
Cash and cash equivalents at end of period	231,045	47,069
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	54,907	45,732
Cash paid for income taxes, net of refunds	-	-

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 30, 2014 AND 2013**

**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 Hickory, 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 increase in income tax expense resulted from higher income before income taxes and use of most of the Company's NOL carry forwards in the prior period. The Company expects to see a higher effective tax rate as a result of higher revenues and lower costs throughout the fiscal year. Additionally, the Company does not expect to see significant acquisition charges as experienced in the previous fiscal year end. The effective tax rate for the year ended June 30, 2014 was 0%.

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

Cash and cash equivalents were \$231,045 and \$47,069 as of December 31, 2014 and 2013, respectively. The change in cash and cash equivalents during the periods presented was as follows:

	Six Months Ended December 31,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Net income	\$ 85,193	\$ 109,855
Net cash provided by operating activities	458,160	(22,023)
Net cash used in investing activities	-	(4,102)
Net cash used in financing activities	(230,249)	(52,457)
(Decrease) increase in cash and cash equivalents	227,911	(78,582)
Cash and cash equivalents at beginning of period	3,134	125,651
Cash and cash equivalents at end of period	231,045	47,069
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	54,907	45,732
Cash paid for financing fees	91,000	-

Cash paid for loans and related financing fees were \$145,907 for the six month period ending December 31, 2014 and \$45,732 for the respective period ending December 31, 2013. The Company expects to restructure the current financing agreement by the end of Q3 2015.

### ***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***

There were no significant transactions during this current reporting cycle.

### ***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. 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 December 31, 2014. 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**

We are a leading provider of managed network services, specializing in business Ethernet, data networking, converged, IP VPN, Internet access, voice, including VoIP, and network security services to organizations, including public sector entities, and carriers throughout the S.E. USA. Our revenue is derived from business communication services, including data, high-speed Internet access, network and voice services. Our customers include, 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.

As our revenues are currently derived from business communications services, including data, high-speed Internet access, and voice and network services. We are exploring potentially new service arenas and recurring revenue streams as our business is centrally managed and able to extend reach across multiple regions.

## **Business Strategy**

Our objective is to be the leading provider of high quality, business services generating recurring revenue streams including but not limited to network solutions leveraging our integrated networks, operational capabilities, dedicated people, local presence, personalized customer experience and advanced support systems to meet the complex and evolving needs of our customers and increase stockholder value. The key elements of our current business strategy include:

- Focusing our service offerings on meeting our customers' complex evolving needs, emphasizing business Ethernet and IP VPN, managed services and maintenance contracts (which we refer to as strategic services), Internet-based services and converged service offerings, developing our advanced service capabilities, which we refer to as the "Intelligent Network," and traditional sales of voice/data equipment;
- Enabling enterprise cloud computing and other developing customer information technology ("IT") and business strategies by leveraging fiber networks, data services portfolios, Intelligent Network capabilities and the numerous third party and customer data centers connected to our network;
- Delivering a differentiated customer care strategy by engaging all of our employees and continually incorporating customer feedback and increasing automation to provide the best possible customer service;
- Leveraging local fiber assets and national IP backbones and integrating other carriers' facilities to enable our customers to connect any of their locations with our network solutions, and using our local presence and local sales, sales engineering, customer support and operational resources, to provide personalized service and customized solutions for our customers;
- Enhancing our multi-channel sales strategy through expanding our sales personnel for

both our direct and indirect channels;

- Employing a capital allocation strategy that includes 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.

### **Modified EBITDA Trends and Growth Initiatives**

We have implemented initiatives to expand our revenue growth, margins and cash flow that require both capital and operating investments. During the two years ending June 30, 2013 and June 30, 2014, these operating investments included expansion of our sales and sales support staff as well as IT and technical personnel and contract labor to support our growing customer base and new service and technology investments to provide future capabilities that differentiate our services from the competition. Our capital spending investments during these periods consisted of incremental expenditures linked to acquisitions made during FYE 2014. These acquisitions resulting in increased sales, including sales to wireless providers, new service portfolio enhancement and strategic market expansion to extend our network reach and corporate and IT initiatives that support the evolution of our services, enable our customer experience and drive increased scale and efficiency. We believe that these initiatives resulted in expansion of our revenue growth, margins and cash flows during the two years ended June 30, 2014.

The initiatives that we are implementing in 2015 are designed to reverse the recent trend of higher quarterly year-over-year operating expense rates and include further increasing investments in our sales and support staff to expand our market penetration. We believe that increasing our sales and support staff to leverage our service offerings and support our increasingly complex solutions will enable us to attract new customers, sell more services to existing customers and retain customers. We are also considering capital investments in new technologies to deliver new innovative capabilities to further drive sales of our strategic data and managed services, in further automation of network functionality to enable more dynamic customer network capacity and connections and in continuing the expansion of our network in existing and adjacent markets to reach more customers.

In the three and six months ended December 31, 2014, our Modified EBITDA margin was impacted by costs associated with our growth initiatives. We expect that we can achieve higher service installations and an expansion in our rate of revenue growth that will absorb the cost of the growth initiatives. While these initiatives are designed to increase sales in the longer term to enable us to accelerate our future revenue growth rate, we cannot assure that these and other initiatives will be sufficient to achieve our objectives of increased revenue growth, margins and cash flow or the timing of such anticipated benefits.

We believe that future margin expansion will come from higher service installations, further leveraging our on-network facilities and increasing the network density of our less mature markets, since over the long term we have generally experienced margin improvement and increased cash flow from our less dense markets as those markets are expanded through on-net building additions and other network expansions. Our continued cost efficiency efforts are also intended to contribute to our overall margins. The expected reductions in inter-carrier

compensation revenue discussed above under "Revenue Trends" are also expected to pressure our margins because of the relatively high margins associated with that revenue. Our revenue and margins may also be impacted by, among other risks, competitive pressures, higher special access costs, fuel and energy costs, fluctuations in certain taxes and fees and any future inflationary pressures.

### Seasonality and Fluctuations

We continue to expect business fluctuations to impact sequential quarterly trends in revenue, margins and cash flow. This includes the timing, as well as any seasonality of sales and service installations, usage, rate changes, disputes, settlements, re-pricing for contract renewals and fluctuations in revenue churn, expenses, capital expenditures and certain taxes and fees. Historically, our revenues in the first quarter have been favorable due to the resetting of maintenance contracts and service agreements, especially with regard to governments and school systems. Because we generally do not recognize revenue subject to billing disputes until the dispute is resolved, the timing of dispute resolutions and settlements may positively or negatively affect our revenue in a particular quarter. The timing of disconnections may also impact our results in a particular quarter, with disconnections early in the quarter generally having a greater impact. The timing of capital and other expenditures may affect our margins or cash flow. The convergence of any of these or other factors such as fluctuations in usage, increases or decreases in certain taxes and fees or pricing declines upon contract renewals in a particular quarter may result in our revenue growing more or less than previous trends, may impact our margins and other financial results and may not be indicative of future financial performance.

### 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, 2014, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### Results of Operations

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, 2014 Compared to Three Months Ended December 31, 2013**  
**Revenue**

Revenue by line of business was as follows:

Revenue (\$)	Three Months Ended December 31,		\$ Change	% Change
	2014	2013		
Data and Internet Services	\$ 199,181	\$ 296,165	\$ (96,985)	-32.7%
Equipment Sales & Services	661,840	276,283	385,557	-139.6%
Carrier/Contract Revenues	194,809	197,444	(2,635)	-1.3%
Total revenue	<u>\$ 1,055,829</u>	<u>\$ 769,892</u>	<u>\$ 285,937</u>	<u>\$ (2)</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 \$0.3 million and \$0.1 million for the three months ended December 31, 2014 and 2013, respectively. This has no impact on Modified EBITDA or net income but is dilutive to Modified EBITDA margin.

The primary driver of total revenue growth was increased equipment and service revenues related to the operating activities of an entity acquired in Q3 2014 and increased demand from government and educational outlets. A corresponding increase in demand from traditional enterprise customers helped boost revenues as well. Strategic services, which include maintenance contracts, data/ethernet and IP VPN services, comprised 37.9% of total revenue for the three months ended December 31, 2014. Notably, the comparison between Equipment Sales & Services demonstrates the accretive nature of strategic acquisitions completed during the prior year.

The major components of costs and expenses were as follows:

	Three Months Ended December 31,		\$ Change	% Change
	2014	2013		
Costs and expenses:				
Operating (exclusive of depreciation, amortization and accretion shown separately below) (1)	\$ 785,583	\$ 359,314	\$ 426,269	118.6%
Operating expenses as percentage of total revenue	74.4%	46.7%		
Selling, general and administrative (1)	279,603	\$ 353,072	(73,469)	-20.8%
Selling, general and administrative expenses as percentage of total revenue	26.5%	45.9%		
Depreciation, amortization and accretion	51,781	28,454	23,327	82.0%
Total costs and expenses	<u>\$ 1,116,967</u>	<u>\$ 740,840</u>	<u>\$ 376,127</u>	<u>50.8%</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. The increase in operating expenses primarily related to the additional entity acquired in Q3 2014 and its respective operating costs as the entity was not part of the Consolidated group for period ending December 31, 2013 (as discussed under Modified EBITDA Trends and Growth Initiatives).

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses consist of salaries and network 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 higher employee-related costs resulting from the acquisition in Q3 2014. This expansion brought with it incentive-based compensation through direct and indirect sales channels, increased customer installations of service, expansion of our sales and sales 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 was attributable to property, plant and equipment additions and related intangible assets acquired as part of the Q3 2014 acquisition.

## 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
	2014	2013		
Operating income	\$ (61,028)	\$ 29,052	\$ (90,080)	310.1%
Interest expense	(54,907)	(17,597)	\$ (37,310)	212.0%
Debt extinguishment costs	-	-	-	NM
Interest/Other income	6,552	18,286	(11,734)	-64.2%
Income before income taxes	(109,383)	29,741	(139,124)	-467.8%
Income tax expense	-	(1,784)	1,784	-100.0%
Net income	\$ (109,383)	\$ 27,957	\$ (137,340)	-491.3%
Basic income per common share	\$ (0.01)	\$ (0.00)	\$ (0.01)	306.7%
Diluted income per common share	\$ (0.01)	\$ 0.00	\$ (0.01)	-506.7%
Modified EBITDA (1)(2)	\$ (2,695)	\$ 75,792	\$ (78,487)	-103.6%
Modified EBITDA margin (1)(2)(3)	-0.3%	0.0%		

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 December 31,	
	2014	2013
Net income	\$ (109,383)	\$ 27,957
Income tax expense	-	1,784
Interest income	-	-
Interest expense	54,907	17,597
Debt extinguishment costs	-	-
Depreciation, amortization and accretion	51,781	28,454
Non-cash stock-based compensation	-	-
Modified EBITDA	\$ (2,695)	\$ 75,792



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

**Interest Expense.** The increase in interest expense primarily related to the implementation of a senior note in Q3 2014 to fund acquisitions that did not exist in the previous periods. We expect our interest expense to decrease substantially over the next periods as we secure more traditional financing.

**Debt Extinguishment Costs.** Debt extinguishment costs for the three months ended December 31, 2014 did not exist. However, we expect to pay minimal commissions on the repurchase of Convertible Debentures in the next period. There were no such costs for the three months ended December 31, 2013.

**Income before Income Taxes.** The decrease in income before income taxes resulted primarily from higher depreciation, amortization and accretion expense and interest expense, partially offset by higher Modified EBITDA as discussed below.

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

**Net Income and Modified EBITDA.** The decrease in net income resulted from a decrease in income before income taxes, as well as a higher interest expense, as discussed above. The increase in Modified EBITDA was primarily the result of revenue growth, partially offset by costs associated both with revenue growth and our growth initiatives, including increased network maintenance costs and employee-related expenses. Modified EBITDA margin decreased largely due to costs associated with our growth initiatives incurred in advance of the expected future revenue growth. For the three months ended December 31, 2014 and 2013, 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, 2014 Compared to Three Months Ended December 31, 2013 "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.

## Six Months Ended December 31, 2014 Compared to Six Months Ended December 31, 2013

### Revenue

Revenue by line of business was as follows:

Revenue (1):	Six Months Ended December 31,		\$ Change	% Change
	2014	2013		
Data and Internet services	\$ 371,009	\$ 294,411	\$ 76,599	26.0%
Equipment Sales & Services	1,339,485	556,566	782,919	140.7%
Carrier/Contract Revenues	865,688	795,999	69,689	8.8%
Total revenue	\$ 2,576,183	\$ 1,646,976	\$ 929,207	56.4%

- (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 \$0.5 million and \$0.2 million for the six months ended December 31, 2014 and 2013, respectively. This has no impact on Modified EBITDA or net income but is dilutive to Modified EBITDA margin.

The primary driver of total revenue growth was increased equipment sales and services revenue from installed services. The increase in data and Internet services revenue primarily resulted from installations of strategic Ethernet and VPN-based services and other services to customers, partially offset by revenue churn and re-pricing of renewed customer contracts at flat rates. Strategic services, which includes Ethernet and IP VPN services, represented 47.9% of total revenues for the six months ended December 31, 2014 compared to 66% for the six months ended December 31, 2013. The integration of newly acquired subsidiaries accounted for 65% of the increase in equipment sales and services revenues.

### Costs and Expenses

The major components of costs and expenses were as follows:

Costs and expenses:	Six Months Ended December 31,		\$ Change	% Change
	2014	2013		
Operating (exclusive of depreciation, amortization and accretion shown separately below) (1)	\$ 1,461,255	\$ 711,694	\$ 749,561	105.3%
Operating expenses as percentage of total revenue	56.7%	43.2%		
Selling, general and administrative (1)	788,363	755,312	33,051	4.4%
Selling, general and administrative expenses as percentage of total revenue	30.6%	45.9%		
Depreciation, amortization and accretion	139,393	47,333	782,612	194.5%
Total costs and expenses	\$ 2,389,011	\$ 1,514,339	\$ 874,672	57.8%
(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 largely related to access costs primarily as a result of revenue growth as well as higher network maintenance and employee-related costs associated both with revenue growth and our growth initiatives--all a result of the acquisition of key targets throughout FYE 2014.

**Selling, General and Administrative Expenses.** The increase in these expenses primarily related to higher employee costs resulting from the acquisition in Q3 2014 (personnel), expansion of our indirect sales channel and increased customer installations of service, expansion of our sales and sales support personnel and IT personnel associated both with revenue growth and our growth initiatives, and annual merit-based salary increases.

**Depreciation, Amortization and Accretion Expense.** The increase in depreciation, amortization and accretion expense was attributable to property, plant and equipment additions and related intangible asset acquired as part of the key acquisitions.

## 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
	2014	2013		
Operating income	\$ 187,171	\$ 132,637	\$ 54,534	-41.1%
Interest expense	(130,756)	(45,732)	\$ (85,024)	-185.9%
Debt extinguishment costs	-	-	-	NM
Interest/Other income	28,778	29,962	(1,184)	-4.0%
Income before income taxes	85,193	116,867	(31,674)	-27.1%
Income tax expense	-	(7,012)	7,012	-100.0%
Net income	\$ 85,193	\$ 109,855	\$ (24,662)	-22.4%
Basic income per common share	\$ 0.01	\$ 0.00	\$ 0.01	604.0%
Diluted income per common share	\$ 0.01	\$ 0.00	\$ 0.01	604.0%
Modified EBITDA (1)(2)	\$ 326,564	\$ 179,970	\$ 146,594	81.5%
Modified EBITDA margin (1)(2)(3)	12.7%	10.9%		

NM - Not meaningful

- (1) See Note 1 under "Revenue" above.
- (2) See Note 2 above under "Three Months Ended December 31, 2014 Compared to Three Months Ended December 31, 2013—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,	
	2014	2013
Net income	\$ 85,193	\$ 109,855
Income tax expense	-	7,012
Interest/Other income	(28,778)	(29,962)
Interest expense	130,756	45,732
Debt extinguishment costs	-	-
Depreciation, amortization and accretion	139,393	47,333
Non-cash stock-based compensation	-	-
Modified EBITDA	\$ 326,564	\$ 179,970

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

**Interest Expense.** The increase in interest expense primarily related to the issuance of a note in Q3 2014 to acquire the stock of target companies (Interest expense \$54,907, fees \$91,000). The outstanding balance on the debt used to acquire targets is \$741k as of December 31, 2014.

**Debt Extinguishment Costs.** No debt extinguishment costs exist for the six months ended December 31, 2014, nor were there any such costs for the six months ended December 31, 2013.

**Income before Income Taxes.** The decrease in income before income taxes resulted primarily from higher depreciation, amortization and accretion expense and interest expense, partially offset by higher Modified EBITDA as discussed below.

**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 a decrease in income before income taxes, as well as a higher interest expense, as discussed above. The increase in Modified EBITDA was primarily the result of revenue growth, partially offset by costs associated both with revenue growth and our growth initiatives, including increased network maintenance costs and employee-related expenses. Modified EBITDA margin remained flat largely due to costs associated with our growth initiatives incurred in advance of the expected future revenue growth. For the six months ended December 31, 2014 and 2013, 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, 2014 Compared to Three Months Ended December 31, 2013 "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, 2014 and December 31, 2013 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 9, 2015

/s/ Doug W. Rink, CEO

/s/ Rich Wilson, CFO