

INTERIM

FINANCIAL STATEMENTS

March 31, 2017 and March 31, 2016

March 31, 2017

FORT⁺TRAN
CORPORATION

(A North Carolina Corporation)

TRADING SYMBOL: FRTN

CUSIP NUMBER: 34960D 108

Table of Contents

	Page
Condensed Consolidated Balance Sheets	1
Condensed Consolidated Statement of Operations	2
Condensed Consolidated Statement of Operations	3
Notes to Financial Statements	4 - 19
Issuer Certification	20

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

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 226,151	\$ 487,698
Receivables, less allowances	\$ 1,795,094	\$ 2,544,367
Inventories	\$ 667,903	\$ 741,751
Prepaid expenses and other current assets	\$ 50,126	\$ 80,525
Total current assets	<u>\$ 2,739,274</u>	<u>\$ 3,854,341</u>
Property, plant and equipment (net)	<u>\$ 720,801</u>	<u>\$ 498,604</u>
Other Assets	\$ 189,930	\$ 941,577
Intangible assets, net of accumulated	\$ -	\$ 37,006
Total assets	<u>\$ 3,650,004</u>	<u>\$ 5,331,528</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,148,552	\$ 1,424,147
Deferred revenue	\$ 267,730	\$ 433,984
Accrued expenses	\$ 40,389	\$ 123,326
Current portion debt & capital lease obligations, net	\$ 485,875	\$ 34,675
Other current liabilities	<u>\$ 109,028</u>	<u>\$ 23,351</u>
Total current liabilities	<u>\$ 2,051,574</u>	<u>\$ 2,039,484</u>
Long-term debt and capital lease obligations, net	<u>\$ 2,320,638</u>	<u>\$ 3,195,235</u>
Total liabilities	<u>\$ 4,372,213</u>	<u>\$ 5,234,719</u>
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, 24,612,351 shares issued, respectively	\$ 130,500	\$ 460,325
Additional paid-in capital	\$ 164,887	\$ 980,598
Treasury stock / Dividends Paid	\$ (904,866)	\$ (327,733)
Accumulated deficit	\$ (112,729)	\$ (1,016,380)
Accumulated other comprehensive income	\$ -	\$ -
Total stockholders' equity	<u>\$ (722,209)</u>	<u>\$ 96,809</u>
Total liabilities and stockholders' equity	<u>\$ 3,650,004</u>	<u>\$ 5,331,528</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	2016	2017	2016
Revenue:				
Managed Services	\$ 121,680	\$ 223,097	\$ 709,767	\$ 1,153,834
Equipment Sales & Services	\$ 2,717,599	\$ 3,392,906	\$ 7,926,880	\$ 5,369,270
Total revenue	\$ 2,839,280	\$ 3,616,002	\$ 8,636,646	\$ 6,523,104
Costs and expenses (a):				
Operating (exclusive of depreciation, and accretion shown separately below)	\$ 2,079,942	\$ 2,914,816	\$ 6,755,367	\$ 5,345,068
Selling, general and administrative	\$ 836,194	\$ 514,244	\$ 1,975,531	\$ 912,659
Depreciation, amortization and accretion	\$ 26,370	\$ 39,170	\$ 74,115	\$ 108,088
Total costs and expenses	\$ 2,942,506	\$ 3,468,229	\$ 8,805,014	\$ 6,365,816
Operating income	\$ (103,226)	\$ 147,773	\$ (168,367)	\$ 157,289
Other Income	\$ 1,176	\$ 12,709	\$ (192,587)	\$ 87,098
Interest expense	\$ (49,703)	\$ (20,211)	\$ (120,703)	\$ (59,106)
Income before income taxes	\$ (151,753)	\$ 140,271	\$ (481,658)	\$ 185,280
Income tax expense	\$ -	\$ -	\$ -	\$ -
Net income	\$ (151,753)	\$ 140,271	\$ (481,658)	\$ 185,280
Earnings per share:				
Basic	\$ (0.006)	\$ 0.006	\$ (0.020)	\$ 0.008
Diluted	\$ (0.006)	\$ 0.006	\$ (0.020)	\$ 0.008
Weighted average shares outstanding:				
Basic	24,612,351	23,812,351	24,612,351	23,812,351
Diluted	24,612,351	23,812,351	24,612,351	23,812,351

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	2016	2017	2016
Cash flows from operating activities:				
Net income	\$ (151,753)	\$ 140,271	\$ (481,658)	\$ 185,280
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, amortization and accretion	\$ 26,370	\$ 52,970	\$ 74,115	\$ 121,888
Changes in operating assets and liabilities:				
Receivables, prepaid expenses and other assets	\$ (445,139)	\$ (800,173)	\$ (1,031,895)	\$ (744,904)
Inventories	(141,513)	25,189	(70,174)	(101,168)
Accounts payable, deferred revenue and other liabilities	740,645	637,803	918,738	208,412
Net cash provided by operating activities	28,609	56,060	(590,874)	(330,491)
Cash flows from investing activities:				
Capital expenditures	9,963	6,348	22,668	57,088
Purchases of investments	-	167,000	-	1,281,165
Net cash used in investing activities	9,963	173,348	22,668	1,338,253
Cash flows from financing activities:				
Payment of debt and capital lease obligations	(16,558)	(145,183)	633,442	(523,199)
Net cash used in financing activities	(16,558)	(145,183)	633,442	(523,199)
(Decrease) increase in cash and cash equivalents	22,014	84,225	65,237	484,564
Cash and cash equivalents at beginning of period	204,137	403,473	138,900	3,134
Cash and cash equivalents at end of period	226,151	487,698	204,137	487,698
Supplemental disclosures of cash flow information:				
Cash paid for interest	49,703	20,211	120,703	59,106
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

MARCH 31, 2017 AND 2016

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.

Impairment Charges - Management assessed the performance of one of its reporting entities during Q3 2017 and the related management agreement in place regarding assets, liabilities, revenues and expenses. In Q3 2017, management approved a plan to remove this segment from the group of reporting entities, resulting in a charge-off. As a result, in accordance with the guidance for accounting for the impairment or disposal of long-lived assets, because the nominal cash flows from the entity and the loss in value of the assets, we recorded a pre-tax non-cash impairment charge of \$6,7141 in Q3 2017 in the "Other Income/Other Expense" portion of our income statement.

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 estimated effective tax rate for the year ended June 30, 2017 is 0%.

Cash Flow Activity

Cash and cash equivalents were \$226,151 and \$487,698 as of March 31, 2017 and 2016, respectively. The change in cash and cash equivalents during the periods presented was as follows:

	Nine Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net Income	\$ (481,658)	\$ 185,280
Net cash provided by operating activities	(590,874)	(330,491)
Net cash used in investing activities	22,668	1,338,253
Net cash used in financing activities	633,442	(523,199)
(Decrease)/Increase in cash and cash equivalents	65,237	484,564
Cash and cash equivalents at beginning of period	160,914	3,134
Cash and cash equivalents at end of period	226,151	487,698
Supplemental disclosures of cash flow information:		
Cash paid for interest	120,703	59,106
Cash paid for loan/financing fees	-	-

Cash paid for loans and related financing fees were \$120,703 for the Nine month period ending March 31, 2017 and \$59,106 for the respective period ending March 31, 2016. 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

No significant activity or corporate restructuring took place during Q3 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 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

Management recognizes a need to strengthen our execution infrastructure by investing in safe bets. Our infrastructure must be up to a standard that supports successful execution. An on-going commitment to creating such an infrastructure is a 'safe bet'. Achieving this requires eliminating departmental or regional silos, utilizing leading indicators and performance drivers that align with the strategy and growing leaders at all levels – managerial and non-managerial. We are developing a plan and will initiate a process to identify strategies with a high probability for success. This plan covers three customer growth strategies: (1) Growing the core business; (2) Growing by sub-segmenting customers; (3) Growing adjacent opportunities. As we consider the growth potential within the present core business and/or the opportunities and growth potential associated with creating innovative value propositions for underserved customer groups, we look to the cooling tower sector for growth opportunities. As the senior leadership group moves through this process, it will become clear if and when adjacent growth options should be considered.

Customer-Focused Growth Strategies: The process of identifying profitable growth opportunities begins with the Core Business—the products, services, customers, channels and geographic areas that generate the largest proportion of revenue and profits. Our core business has shifted to cooling tower services and our future strategies will focus on that segment as we begin divesting of other less profitable segments. Upon review of our existing customer base, we reviewed potential High Impact Value Propositions for potential new customer sub-segments.

Underpinning this strategy was a willingness to view customers through a different set of lenses and using a process to help management gain fresh insights into customer needs and preferences. This was a necessary step to discover underserved customer groups and hidden growth opportunities. Results revealed that there are many opportunities within the cooling tower segment that warrant research, discovery and critical analysis. A third strategy was also implemented (customer-focused) to identify potential markets that have strong strategic links to our core business. Management sees potential to leverage present positions into attractive growth opportunities and will be exploring those possibilities in future periods.

The three Customer-Focused Growth Strategies described above require a supporting infrastructure to increase the chances of successful implementation. Lack of an adequate infrastructure is a concern, but one that can be overcome quickly. A supportive infrastructure includes organization capabilities that are valued by customers, management-performance systems and scorecards that focus on leading indicators and growth drivers, and strong leadership practices at every level of the organization. We are reviewing plans to successfully enter new markets, create excellent new products and services which appeal to customers and provide an outstanding level of customer service—especially in areas where competitors have vacated the market.

As a result of our research, the Company is considering entry into the variable interest-entity market given the current and likely near-term positive economic growth outlook. A variable interest-entity (VIE), as reported by the U.S. Financial Accounting Standards Board (FASB), is an entity that an investor has a controlling interest in, but one that is not based on a majority of voting rights. VIEs are subject to consolidation under certain conditions. A VIE has a primary beneficiary, the party that holds the majority of variable interests; if the primary beneficiary is a company, all holdings must be listed on the company's balance sheet. Consolidation is used in technical analysis to describe the movement of a stock's price within a well-defined pattern of trading levels. Consolidation is generally regarded as a period of indecision, which ends when the price of the asset moves above or below the prices in the trading pattern. Consolidation is also defined as a set of financial statements that presents a parent and a subsidiary company as one company. Periods of consolidation can be found in price charts for any time interval, and these periods can last for days or months.

VIEs are most common among financial institutions for use with their subprime mortgage-backed securities (MBS). VIEs can be utilized as special-purpose vehicles (SPVs) to let the firms avoid having to list the assets on their balance sheets. A variable interest entity references how a financial firm's exposure to SPVs can change, which is pivotal to whether it can be eliminated from the balance sheet. Corporations make use of a vehicle such as a VIE to provide an investment with financing without putting the entirety of the firm in jeopardy. The major issue with VIEs, similar to an issue that has arisen with SPVs in previous years, is that they are frequently a go-to method for hiding certain factors, like subprime exposure.

FIN 46 is the FASB's interpretation of the Accounting Research Bulletin (ARB) 51 that deals with the consolidation of variable interest entities. Federal securities laws require all publicly traded companies to report financial and operating information. Relationships with VIEs must be disclosed on the 10-K forms that these companies file. FIN 46 outlines the accounting rules that apply to such businesses. Companies typically establish VIEs to maintain financial assets, including those that are actively involved – such as those that conduct research and development

(R&D) operations – as well as entities that fill more passive roles. Should the Company pursue full upload status along with audited financials including use of VIEs and other related financial instruments, certain disclosure requirements must be met. These include but are not limited to FIN 46 requirements, along with the 10-K form – falling under the control of the Securities and Exchange Commission (SEC) – and other specific requirements that corporations must follow. The rules that these documents specify include the listing of holdings on the company's balance sheet if it is the VIE's primary beneficiary. Also, if the company is the primary beneficiary, consolidation is not mandatory, but information regarding entities in which the corporation has substantial interest must be disclosed. This information includes how the entity operates, how much and what kind of financial support it receives, contractual commitments, and any losses the VIE has the potential to incur.

Management will continue to research the potential use of VIEs as a new and emerging market throughout the next quarter.

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 March 31, 2017, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

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:

Revenues

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016
Revenue

Revenue by line of business was as follows:

	Three Months Ended March 31,		\$ Change	% Change
	2017	2016		
Revenue (¥):				
Data and Internet Services	\$ 30,420	\$ 74,161	\$ (43,741)	-59.0%
Equipment Sales & Services	2,717,599	3,306,487	(588,887)	-17.8%
Carrier/Contract Revenues	\$ 91,260	\$ 235,354	(144,094)	-61.2%
Total revenue	\$ 2,839,280	\$ 3,616,002	\$ (776,722)	-138%

- (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 \$0.1 million and \$0.1 million for the three months ended March 31, 2017 and 2016, respectively. This has no impact on Modified EBITDA or net income but is dilutive to Modified EBITDA margin.

The decrease in Telecom revenues was attributable to the impairment and subsequent charge off of one of the subsidiaries resulting in \$0.2M of lost revenues. The decrease in cooling tower

revenues (\$0.3M vs 2016) was attributable to one main driver--contracts at the beginning of the period were slow to appear for reasons unknown, but thought to be related to the uncertain course the economy would take as a result of the recent national elections. Telecom equipment sales and services account for the bulk of the decrease (\$0.4M) as that market segment continues to drop in revenues period over period. 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 4% of total revenue for the three months ended March 31, 2017 (9% same period 2016).

Operating Expenses

The major components of costs and expenses were as follows:

	Three Months Ended March 31,		\$ Change	% Change
	2017	2016		
Costs and expenses:				
Operating (exclusive of depreciation, amortization and	\$ 2,079,942	\$ 2,914,816	\$ (834,873)	-28.6%
Operating expenses as	73.3%	59.6%		
Selling, general and administrative (1)	836,194	\$ 514,244	321,950	62.6%
Selling, general and administrative expenses as	29.5%	37.5%		
Depreciation, amortization and	26,370	39,170	(12,800)	-32.7%
Total costs and expenses	\$ 2,942,506	\$ 3,468,229	\$ (525,723)	-15.2%
(1) Includes the following non-cash stock-based employee				
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. Cooling Tower segment costs include \$1.8M of direct cost of goods to operate the business (~72% 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 at \$0.7M).

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 Q4 2016 and related impairment of a business segment during Q3 2017. There were minimal fixed asset additions in quarter ending March 31, 2017.

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			
		March 31,		\$ Change	% Change
		2017	2016		
Operating income		\$ (103,226)	\$ 147,773	\$ (250,999)	169.9%
Interest expense		(49,703)	(20,211)	\$ (29,492)	-145.9%
Debt extinguishment costs		-	-	-	NM
Interest/Other income		1,176	12,709	(11,533)	-90.7%
Income before income taxes		(151,753)	140,271	(292,024)	208.2%
Income tax expense		-	-	-	0.0%
Net income		\$ (151,753)	\$ 140,271	\$ (292,024)	208.2%
Basic income per common share		\$ -	\$ -	\$ -	#DIV/0!
Diluted income per common share		\$ -	\$ -	\$ -	#DIV/0!
Modified EBITDA (1)(2)		\$ (76,856)	\$ 186,943	\$ (263,799)	-141.1%
Modified EBITDA margin (1)(2)(3)		-2.7%	5.2%		

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 Mar 31,	
	2017	2016
Net income	\$ (151,753)	\$ 140,271
Income tax expense	-	-
Interest/Other income	(1,176)	(12,709)
Interest expense	49,703	20,211
Debt extinguishment costs	-	-
Depreciation, amortization and accretion	26,370	39,170
Non-cash stock-based compensation	-	-
Modified EBITDA	\$ (76,856)	\$ 186,943

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

Interest Expense. Interest expense increased YoY as the new business segment acquired in Q2 FYE 2016 incurred debt and accounts for 71% of total interest expense.

Debt Extinguishment Costs. Debt extinguishment costs for the three months ended March 31, 2017 and March 31, 2016 did not exist.

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 decrease in net income resulted from a charge off in other income before income taxes as discussed above. Another decrease in Modified EBITDA resulted from a drop in revenues across both segments, an increase in Sales expenses and General/Administrative costs, including fixed costs that did not scale with the loss of revenues during the quarter. For the three months ended March 31, 2017 and 2016, Modified EBITDA, together with cash, cash equivalents and investments, has been sufficient to cover most expenditures and service most debts. 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 as we secure additional financing in Q4 2017.

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 Mar 31,	
	2017	2016
Net cash provided by operations	\$ 28,609	\$ 56,060
Income tax expense	-	-
Deferred income taxes	-	-
Interest income	(1,176)	(12,709)
Interest expense	49,703.05	20,211.46
Discount on debt, amortization of deferred debt issue costs and other	-	-
Changes in operating assets and liabilities	(280)	123,381
Modified EBITDA	\$ 76,856	\$ 186,943

Nine Months Ended March 31, 2017 Compared to Nine Months Ended March 31, 2016

Revenue

Revenue by line of business was as follows:

	Nine Months Ended March 31,		\$ Change	% Change
	2017	2016		
Revenue (1):				
Data and Internet services	\$ 177,442	\$ 409,869	\$ (232,428)	-56.7%
Equipment Sales & Services	7,926,880	5,335,968	2,590,912	48.6%
Carrier/Contract Revenues	532,325	777,267	(244,942)	-31.5%
Total revenue	\$ 8,636,646	\$ 6,523,104	\$ 2,113,542	32.4%

- (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 \$0.3 million and \$0.5 million for the nine months ended March 31, 2017 and 2016, 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. The Q3 2016 period only carries 5 months of cooling tower reporting (Nov – Mar). The Telecom segment revenues dropped 40% period over period. This decrease is a result of the impairment discussed earlier and shifts in the telecom customer market. The drop in telecom equipment sales and services and carrier/contract revenues in the data and internet services sector continues to struggle--strategic services, which includes

Ethernet and IP VPN services (Data, internet, carrier, and contract), comprised 2% of total revenues for the nine months ended March 31, 2017 (was 10% in Q2 reporting) compared to 18% for the nine months ended March 31, 2016. The revenue trend has continued since Q2 FYE 2016 and we expect similar results in future periods as we transition the focus of the Corporation to the cooling tower segment.

Costs and Expenses

The major components of costs and expenses were as follows:

		Nine Months Ended March 31,			
		2017	2016	\$ Change	% Change
Costs and expenses:					
Operating (exclusive of depreciation, amortization and accretion shown separately below) (1)	\$	6,755,367	\$ 5,345,068	\$ 1,410,299	26.4%
Operating expenses as percentage of total revenue		78.2%	81.9%		
Selling, general and administrative (1)	\$	1,975,531	\$ 912,659	1,062,872	116.5%
Selling, general and administrative expenses as percentage of total revenue		22.9%	14.0%		8.9%
Depreciation, amortization and accretion	\$	74,115	108,088	2,473,171	-31.4%
Total costs and expenses	\$	8,805,014	\$ 6,365,816	\$ 2,439,198	38.3%
(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 the increase in cooling tower revenues. In the nine-month period ending 2017 ~78% of all operating costs were directly attributed to the cooling tower sector vs 65% 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 as well. The SG&A expenses in both periods for the cooling tower segment were similar (2017 was 10% higher than 2016). Cooling tower segment SG&A costs represent 83% of total SGA costs, but comparison to period 2016 shown above includes a significant one-timer in the telecom sector of ~\$0.4M that did not repeat in period 2017. Normal telecom SG&A costs average between \$0.1M and \$0.2M per quarter.

Depreciation, Amortization and Accretion Expense. The decrease in depreciation, amortization and accretion expense was mainly attributable to the impairment and subsequent charge off of a subsidiary in Q3 2017.

Operating Income and Net Income

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

	Nine Months Ended March 31,		\$ Change	% Change
	2017	2016		
Operating income	\$ (168,367)	\$ 157,289	\$ (325,656)	-207.0%
Interest expense	(120,703)	(59,106)	\$ (61,597)	-104.2%
Debt extinguishment costs	-	-	-	NM
Interest/Other income	(192,587)	87,098	(279,685)	-321.1%
Income before income taxes	(481,658)	185,280	(666,938)	-360.0%
Income tax expense	-	-	-	NM
Net income	\$ (481,658)	\$ 185,280	\$ (666,938)	-360.0%
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)	\$ (242,483)	\$ 265,377	\$ (507,860)	-191.4%
Modified EBITDA margin (1)(2)(3)	-2.8%	4.1%		

NM - Not meaningful

(1) See Note 1 under "Revenue" above.

(2) See Note 2 above under "Nine Months Ended March 31, 2017 Compared to Nine Months Ended March 31, 2016—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:

	Nine Months Ended March 31,	
	2017	2016
Net income	\$ (481,658)	\$ 185,280
Income tax expense	-	-
Interest/Other income	192,587	(87,098)
Interest expense	120,703	59,106
Debt extinguishment costs	-	-
Depreciation, amortization and accretio	(74,115)	108,088
Non-cash stock-based compensation	-	-
Modified EBITDA	\$ (242,483)	\$ 265,377

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

Interest Expense. The increase in interest expense is due to multiple finance arrangements put in place during Q1, Q2 and Q3 2017.

Debt Extinguishment Costs. There were no such costs for the nine months ended March 31, 2017 or nine months ended March 31, 2016.

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 nine 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 a decrease in telecom sector revenues as discussed above, as well as a one-time spike in interest expense, also discussed above. The decrease in Modified EBITDA was the result of higher interest expense, a drop in depreciation expense related to one business segment in the telecom sector and a comparatively weak first three months of FYE 2017. For the nine months ended March 31, 2017 and 2016, Modified EBITDA, together with cash, cash equivalents and investments, has been sufficient to cover most of our capital expenditures and service most of our debt. 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 and upcoming debt restructuring agreement. See Note 2 to the table under “Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016 "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 March 31, 2017 and March 31, 2016 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.

May 12, 2017

/s/ Doug W. Rink, CEO

/s/ Rich Wilson, CFO