ANNUAL

FINANCIAL STATEMENTS

June 30, 2017 and June 30, 2016

June 30, 2017

FORTRAN

CORPORATION

(A North Carolina Corporation)

TRADING SYMBOL: FRTN CUSIP NUMBER: 34960D 108

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

	June 30, 2017	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 749,093	$ 138,900
Receivables, less allowances	$ 1,440,086	$ 2,193,395
Inventories	$ 533,357	$ 610,602
Prepaid expenses and other current assets	$ 49,669	$ 197,774
Total current assets	**$ 2,772,205**	**$ 3,140,671**
Property, plant and equipment (net)	**$ 678,422**	**$ 466,262**
Other Assets	$ 699,505	$ 3,308,519
Intangible assets, net of accumulated	$ -	$ -
Total assets	**$ 4,150,132**	**$ 6,915,452**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 857,708	$ 1,596,525
Deferred revenue	$ 67,959	$ 192,430
Accrued expenses	$ 96,493	$ 151,872
Current portion debt & capital lease obiligations, net	$ 458,435	$ 34,675
Other current liabilities	$ 358,830	$ 29,941
Total current liabilities	**$ 1,839,424**	**$ 2,005,442**
Long-term debt and capital lease obligations, net	$ 1,750,254	$ 1,893,699
Total liabilities	**$ 3,589,678**	**$ 3,899,141**
Commitments and contingencies Stockholders' equity:		
Stockholders' equity:		
Preferred stock, no par value, 50,000,000 shares authorized, 1,000,000 shares issued and outstanding		
Common stock, no par value, 50,000,000 shares authorized, 24,612,351 shares issued, respectively	$ 460,325	$ 460,325
Additional paid-in capital	$ 877,524	$ 852,361
Treasury stock / Dividends Paid	$ (648,999)	$ (904,866)
Accumulated deficit	$ (128,397)	$ 2,608,491
Accumulated other comprehensive income		
Total stockholders' equity	$ 560,454	$ 3,016,311
Total liabilities and stockholders' equity	**$ 4,150,132**	**$ 6,915,452**

See accompanying notes to condensed consolidated financial statements.

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

	Full Fiscal Yr Jun 30, 2017	Full Fiscal Yr Jun 30, 2016
Revenue:		
Managed Services	$ 843,264	$ 1,301,966
Equipment Sales & Services	$ 11,873,305	$ 8,815,426
Total revenue	**$ 12,716,569**	**$ 10,117,393**
Costs and expenses (a):		
Operating (exclusive of depreciation, and accretion shown separately below)	$ 9,047,499	$ 7,374,582
Selling, general and administrative	$ 3,634,718	$ 2,381,275
Depreciation, amortization and accretion	$ 73,752	$ 151,907
Total costs and expenses	**$ 12,755,969**	**$ 9,907,764**
Operating income	**$ (39,400)**	**$ 209,629**
Other Income	$ (194,396)	$ 167,475
Interest expense	$ (102,623)	$ (72,939)
Income before income taxes	$ (336,419)	$ 304,165
Income tax expense	$ -	$ (44,016)
Net income	**$ (336,419)**	**$ 260,149**
Earnings per share:		
Basic	$ (0.01)	$ 0.01
Diluted	$ (0.01)	$ 0.01
Weighted average shares outstanding:		
Basic	26,112,351	26,112.351
Diluted	26,112,351	26,112.351

See accompanying notes to condensed consolidated financial statements.

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

	Twelve Months Ended June 30,	
	2017	**2016**
Cash flows from operating activities:		
Net income	**$ (336,419)**	**$ 260,149**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	$ 73,752	$ 151,907
Changes in operating assets and liabilities:		
Receivables, prepaid expenses and other assets	$ 725,434	$ (912,458)
Inventories	218,629	334,833
Accounts payable, deferred revenue and other liabilities	41,509	(328,327)
Net cash provided by operating activities	722,904	(493,896)
Cash flows from investing activities:		
Capital expenditures	(319,842)	(6,616)
Purchases of investments	310,994	(1,141,972)
Net cash used in investing activities	(8,848)	(1,148,588)
Cash flows from financing activities:		
Purchases of treasury stock	-	(833,000)
Debt acquired and issued	327,545	1,850,995
Payment of fees related to debt	(103,538)	133,608
Payment of debt and capital lease obligations	(327,870)	606,258
Net cash used in financing activities	(103,863)	1,757,861
(Decrease) increase in cash and cash equivalents	610,193	115,377
Cash and cash equivalents at beginning of period	138,899	23,522
Cash and cash equivalents at end of period	749,092	138,899
Supplemental disclosures of cash flow information:		
Cash paid for interest	102,623	72,939
Cash paid for Loan/Financing Fees	70,810	133,608

See accompanying notes to condensed consolidated financial statements

FORTRAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED

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

ITEM 1: Summary of Significant Accounting Policies

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

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

Earnings (loss) per Share

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

securities, unless the effect is to reduce a loss or increase earnings per share. Accordingly, this presentation has been adopted for the periods presented. There were no adjustments required to net income for the period presented in the computation of diluted earnings per share. There were no common stock equivalents (CSE) necessary for the computation of diluted loss per share.

Fixed Assets

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

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

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

Impairment of Long-lived Assets

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

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 $749,092 and $138,899 as of June 30, 2017 and 2016, respectively. The change in cash and cash equivalents during the periods presented was as follows:

	Twelve Months Ended June 30,	
	2017	**2016**
Cash flows from operating activities:		
Net Income	$ (336,419)	$ 260,149
Net cash provided by operating activities	722,904	(493,896)
Net cash used in investing activities	(8,848)	(1,148,588)
Net cash used in financing activites	(103,863)	1,757,861
(Decrease)/Increase in cash and cash equivalents	610,193	115,377
Cash and cash equivalents at beginning of period	138,899	23,522
Cash and cash equivalents at end of period	749,092	138,899
Supplemental disclosures of cash flow information:		
Cash paid for interest	102,623	72,939
Cash paid for loan/financing fees	65,295	133,608

Cash paid for loans and related financing fees were $102,623 for the twelve month period ending June 30, 2017 and $72,939 for the respective period ending June 30, 2016 (includes interest and fees). The Company completed a debt restructure curing 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 June 2008, the FASB released SFAS No.161, "*Disclosures about Derivative Instruments and Hedging Activities*." SFAS No.161 requires additional disclosures related to the use of derivative instruments, the accounting for derivatives and the financial statement impact of derivatives. SFAS No.161 is effective for fiscal years beginning after November 15, 2008. The Company is currently assessing the impact the adoption of SFAS No.161 will have on the Company's financial statements.

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

Significant Transactions

Impairment

We review other long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group. During FYE 2017, management determined that one of its business segments within the

Consolidated group was impaired and was subsequently shut down and removed from the consolidated group.

Debt Restructure Footnote

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

Commitments and Contingencies

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

Contingent liabilities represent items that, at June 30, 2016, are not recognized in the Statement of Financial Position because there is significant uncertainty at that date as to the necessity for the entity to make payments in respect of them. Presently, the Company is in litigation with one or more entities; however, in general, there is no explicit assessment of the likelihood of any of these contingent liabilities being converted into actual liabilities in the future. While the Company views these as possible obligations, payment is not probable and the amount cannot be measured reliably.

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

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

Cautions Concerning Forward-Looking Statements

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

Actual results may differ materially from those expressed or implied by such forward-looking statements.

The words “believe,” “plan,” “target,” “expect,” “intend,” and “anticipate,” and expressions of similar substance identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that those expectations will prove to be correct. Certain important factors that could cause actual results to differ materially from the expectations described in this report are in our Quarterly Report for the period ended June 30, 2015. In addition, actual results may differ from our expectations due to, among other things, the timing of disconnections and service installations which may affect the extent to which those factors impact our results in a particular period, an acceleration of customer disconnections, increased competition and pricing pressures, inability to obtain rights to install networks into commercial buildings, economic downturns, which may adversely affect our revenue growth, net income or Modified EBITDA, delays in launching new products that our customers desire, growth initiatives that may not result in the intended revenue growth acceleration, decreased demand for our products, industry consolidation and other industry conditions, significant increases or decreases in the market prices of our common stock, an ownership change that results in limitations on our use of net operating loss carry-forwards ("NOLs") under Section 382 of the Internal Revenue Code, increases in the prices we pay for use of facilities of ILECs, increased costs from healthcare reform and higher taxes or further deregulation of the ILECs or other factors that may adversely affect the cost and availability of ILEC facilities that we use to reach certain customer locations, and adverse regulatory rulings or legislative developments. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

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

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

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.

Actions, Trends and Growth Initiatives

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

Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, see Item 1 in our Quarterly Report for the period ended June 30, 2017, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Revenues

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

Twelve Months Ended June 30, 2017 Compared to Twelve Months Ended June 30, 2016

Revenue

Revenue by line of business was as follows:

	Twelve Months Ended Jun 30, 2017	Twelve Months Ended Jun 30, 2016	$ Change	% Change
Revenue (1):				
Data and Internet services	$ 112,589	$ 846,278	$ (733,689)	-86.7%
Equipment Sales & Services	1,193,198	983,458	209,740	21.3%
Carrier/Contract Revenues	115,962	455,688	(339,726)	-74.6%
Other Equipment Sales & Services	11,294,820	7,831,968	3,462,852	44.2%
Total revenue	$ 12,716,569	$ 10,117,392	$ 2,599,177	25.7%

(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 $0.0 million for the twelve months ended June 30, 2017 and 2016, respectively. This has no impact on Modified EBITDA or net income but is dilutive to Modified EBITDA margin.

The primary driver in the increase of revenue growth relates to the acquisition of a new business segment; cooling tower revenues in FYE 2016—that period included 8 months of cooling tower revenues ($7.8M) while FYE 2017 includes 12 months of revenues ($11.3M) where each month accounts for ~$0.9M in top-line revenues. The drop in both data/internet services and carrier/contract revenues reflects the same trend witnessed over the past 6 quarters due to segment impairment realized throughout FYE 2017 (~80% drop in revenues YoY). This comparison reveals a major shift in revenue segments for the Company as explained and expected in previous quarter-end reports. We believe the shift is complete and future periods will align to similar revenues reported FYE 2017 regarding Data/Internet and Carrier/Contract revenues.

Costs and Expenses

The major components of costs and expenses were as follows:

	Twelve Months Ended Jun 30, 2017	2016	$ Change	% Change
Costs and expenses:				
Operating (exclusive of depreciation, amortization and accretion shown separately below) (1)	$ 9,047,499	$ 7,374,582	$ 1,672,917	22.7%
Operating expenses as percentage of total revenue	71.1%	72.9%		
Selling, general and administrative (1)	3,634,718	2,381,275	1,253,443	52.6%
Selling, general and administrative expenses as percentage of total revenue	28.6%	23.5%		
Depreciation, amortization and accretion	73,752	151,907	(78,155)	-51.4%
Total costs and expenses	$ 12,755,969	$ 9,907,764	$ 2,848,205	28.7%
(1) Includes the following non-cash stock-based employee compensation expense:				
Operating	$ -	$ -	$ -	0.0%
Selling, general and administrative	$ -	$ -	$ -	0.0%

Operating Expenses. Telecom Sector operating expenses totaled $1.0M on $1.4M of Revenues (29% GM in 2017 vs 32% in 2016). 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 Sector operating expenses totaled $8.1M on $11.3M of Revenues (29% GM in 2017 vs 27% in 2016). The primary increase in operating expenses are due to a full 12 months of Cooling Tower Sector costs vs 8 months of costs in the prior year.

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 costs. The increase in these expenses related directly to the acquisition of a new business segment in Q2 2016—same note as above, a full 12 months of costs versus 8 months of costs in FYE 2016. SG&A costs for the Cooling Tower segment amount to ~$2.9M in 2017 vs ~$1.7M in 2016—the incrementals are reasonable in this instance. Telecom segment costs of $0.7M in FYE 2017 align with FYE 2016 of $0.7M. However, given that Telecom revenues dropped by $1M YoY, there was not an incremental decrease in SG&A expenses.

Depreciation, Amortization and Accretion Expense. The decrease in depreciation, amortization and accretion expense resulted from the net impact of removing a business segment from our reporting in late FYE 2016 along with another impairment of a business segment in FYE 2017. Associated property, plant and equipment and related intangible assets rolling off the fixed asset ledger during Q4 2016 and again in Q4 2017, combined with minimal fixed asset additions YTD through Q4 2017 account for $78,000 of less depreciation/amortization in the year-end results.

Operating Income and Net Income

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

	Twelve Months Ended Jun 30, 2017	2016	$ Change	% Change
Operating income	$ (39,400)	$ 209,629	$ (249,029)	-118.8%
Interest expense	$ (102,623)	$ (72,939)	$ (29,685)	-40.7%
Debt extinguishment costs	-	-	-	NM
Interest/Other income	(194,396)	167,475	(361,870)	-216.1%
Income before income taxes	(336,419)	304,165	(640,584)	-210.6%
Income tax expense	-	(44,016)	44,016	-100.0%
Net income	$ (336,419)	$ 260,149	$ (596,568)	-229.3%
Basic income per common share	$ (0.01)	$ 0.01	$ (0.02)	-229.3%
Diluted income per common share	$ (0.01)	$ 0.01	$ (0.02)	-229.3%
Modified EBITDA (1)(2)	$ 34,352	$ 361,536	$ (327,184)	-90.5%
Modified EBITDA margin (1)(2)(3)	0.3%	3.6%		

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:

	Twelve Months Ended Jun 30,	
	2017	2016
Net income	$ (336,419)	$ 260,149
Income tax expense	-	44,016
Interest/Other income	194,396	(167,475)
Interest expense	102,623	72,939
Debt extinguishment costs	-	-
Depreciation, amortization and accretion	73,752	151,907
Non-cash stock-based compensation	-	-
Modified EBITDA	$ 34,352	$ 361,536

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

The increase in interest expense primarily relates to the full year payments on the Cooling Tower business segment, additional interest charges incurred in restructuring notes and refinancing existing short and long-term debt.

Debt Extinguishment Costs. No debt extinguishment costs exist for the twelve months ended June 30, 2017, nor were there any such costs for the twelve months ended June 30, 2016.

Income before Income Taxes. There are three drivers that result in a decrease in income before income taxes; Higher interest expense, the non-repeat of a gain triggered by the write off of assets related to a subsidiary that was disposed of in Q1 2016 and less Telecom Revenues as discussed above without an incremental reduction in SG&A costs. The Cooling Tower segment generated ~$0.2M of Net Income and ~$0.5M of free cash flow on an annualized basis.

Income Tax Expense. An income tax provision is in place as the Company currently expects to utilize most of its Net Operating Loss carry-forward. We will continue to review the need for adjustments to the provision for income taxes throughout FYE 2018.

Net Income and Modified EBITDA. While revenues increased YoY, net income and modified EBITDA did not. The decrease in net income resulted from an increase in income before income taxes, as well as lower interest expense, as discussed above. The increase in Modified EBITDA was the result of an increase in interest expense, the non-repeat of a gain triggered by the write off of assets related to a subsidiary that was disposed of in Q1 2016, and the loss of $1M of Telecom revenues YoY without an offsetting and matching amount of SG&A expenses in the same period. For the twelve months ended June 30, 2017 and 2016, Modified EBITDA, together with cash, cash equivalents and investments, has been sufficient to cover most of our capital expenditures and service our debt, and we expect to generate sufficient Modified EBITDA in the foreseeable future to cover our expected capital expenditures and debt service requirements, together with cash, cash equivalents and investments, and borrowing capacity under our existing Revolver.

Issuer Certification

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

1. We have reviewed the annual financial statements for the periods of June 30, 2017 and June 30, 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.

August 15, 2017

/s/ Doug W. Rink, CEO

/s/ Rich Wilson, CFO